AS FILED WITH SECURITIES AND EXCHANGE COMMISSION ON JULY 8, 1997.

REGISTRATION NO. 333-28001

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

---

GENERAL COMMUNICATION, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| ALASKA | 92-0072737 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

2550 DENALI ST., SUITE 1000, ANCHORAGE, ALASKA 99503
(907) 265-5600

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

JOHN M. LOWBER
GENERAL COMMUNICATION, INC.
2550 DENALI STREET, SUITE 1000
ANCHORAGE, ALASKA 99503-2781
(907) 265-5600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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COPIES TO:

| | |
|---|---|
| CHARLES Y. TANABE, ESQ. | JOEL M. SIMON, ESQ. |
| Sherman & Howard L.L.C. | Paul, Hastings, Janofsky & Walker LLP |
| First Interstate Tower North | 399 Park Avenue |
| 633 Seventeenth Street, Suite 3000 | 31st Floor |
| Denver, Colorado 80202 | New York, New York 10022 |
| (303) 299-8108 | (212) 318-6200 |

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

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If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. /X/

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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SUBJECT TO COMPLETION

JULY 7, 1997

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PROSPECTUS

13,800,000 SHARES

GENERAL COMMUNICATION, INC.

[LOGO]

CLASS A COMMON STOCK
(NO PAR VALUE)

Of the 13,800,000 shares of Class A common stock, no par value per share (the "Class A Common Stock"), offered hereby (the "Stock Offering"), 7,000,000 shares are being sold by General Communication, Inc. (the "Company") and 6,800,000 shares are being sold by certain shareholders of the Company (the "Selling Shareholders"). See "Principal and Selling Shareholders." The Company will not receive any of the proceeds from the sale of shares of Class A Common Stock by the Selling Shareholders.

Concurrently with the Stock Offering, $150,000,000 of   % Senior Notes Due 2007 will be offered to the public by GCI, Inc., a wholly owned subsidiary of the Company (the "Debt Offering" and, together with the Stock Offering, the "Offerings"). Consummation of one Offering is not contingent upon consummation of the other Offering, and there can be no assurance that the Debt Offering will be consummated.

The Company has two classes of common stock, the Class A Common Stock and the Class B common stock, no par value per share (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock"). The rights of the Class A Common Stock and the Class B Common Stock are substantially identical, except that holders of the Class A Common Stock are entitled to one vote per share and holders of the Class B Common Stock are entitled to 10 votes per share. The Class B Common Stock is fully convertible at any time into Class A Common Stock, at the option of the holder, on a one-for-one basis. Both classes of Common Stock vote together as one class on all matters generally submitted to a vote of shareholders, including the election of directors. See "Description of Capital Stock."

The Class A Common Stock is quoted on the Nasdaq National Market ("Nasdaq") under the symbol "GNCMA." On July 2, 1997, the last reported sale price of the Class A Common Stock on Nasdaq was $8.00 per share. See "Price Range of Common Stock and Dividend Policy."

SEE "RISK FACTORS" BEGINNING ON PAGE 13 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY POTENTIAL INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
<CAPTION>

| <S> | <C> PRICE TO PUBLIC | <C> UNDERWRITING DISCOUNT | <C> PROCEEDS TO COMPANY (1) | <C> PROCEEDS TO SELLING SHAREHOLDERS |
|---|---|---|---|---|
| Per Share...................... | $ | $ | $ | $ |
| Total(2)....................... | $ | $ | $ | $ |

</TABLE>

(1) Before deducting offering expenses payable by the Company, estimated at $ .

(2) Certain Selling Shareholders have granted to the Underwriters a 30-day option to purchase up to an aggregate of 2,070,000 additional shares of Class A Common Stock at the Price to Public, less Underwriting Discount, solely to cover over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount and Proceeds to Selling Shareholders will be $ , $ and $ , respectively. See "Underwriting."

The shares of Class A Common Stock are offered subject to receipt and acceptance by the Underwriters, to prior sale and to the Underwriters' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the shares of Class A Common Stock offered hereby will be made at the office of Salomon Brothers Inc, Seven World Trade Center, New York, New York or through the facilities of The Depository Trust Company, on or about , 1997.

SALOMON BROTHERS INC

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

SCHRODER & CO. INC.

The date of this Prospectus is , 1997.

[LOGO]

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CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE CLASS A COMMON STOCK, INCLUDING PURCHASES OF THE CLASS A COMMON STOCK TO COVER SOME OR ALL OF A SHORT POSITION IN THE CLASS A COMMON STOCK MAINTAINED BY THE UNDERWRITERS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

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IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS (AND SELLING GROUP MEMBERS) MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE CLASS A COMMON STOCK ON NASDAQ IN ACCORDANCE WITH RULE 103 OF REGULATION M. SEE "UNDERWRITING."

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It is expected that delivery of the Class A Common Stock will be made against payment therefor on or about the date which is the fifth business day following the date of this Prospectus (such settlement cycle being herein referred to as "T+5"). Purchasers of shares of the Class A Common Stock should be aware that trading of the Class A Common Stock on the date of this Prospectus and the next succeeding business day may be affected by the T+5 settlement. See "Underwriting."

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," including statements regarding the anticipated development and expansion of the Company's business, the markets in which the Company's services are offered, anticipated capital expenditures and regulatory reform, the intent, belief or current expectations of the Company, its directors or its officers, primarily with respect to the future operating performance of the Company, and other statements contained in this Prospectus regarding matters that are not historical facts, are "forward-looking" statements. Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, the factors set forth in "Risk Factors" and "Business."

MAP OF ALASKA SHOWING (1) THE CITIES AND AREAS SERVICED BY THE COMPANY AND NATURE OF SERVICE, E.G., LONG DISTANCE, CABLE, PROPOSED LOCAL EXCHANGE AND PCS, (2) A STYLIZED LINK TO AND OUTLINE OF THE LOWER 48 STATES, (3) FIBER OPTIC OCEAN CABLE ROUTE, AND (4) USE OF SATELLITES FOR COMMUNICATIONS.



PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS (INCLUDING THE NOTES THERETO) APPEARING ELSEWHERE IN, OR INCORPORATED BY REFERENCE INTO, THIS PROSPECTUS. UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY" REFERS TO GENERAL COMMUNICATION, INC. AND, WHERE APPLICABLE, ITS DIRECT AND INDIRECT SUBSIDIARIES. SEE "GLOSSARY" FOR DEFINITIONS OF CERTAIN OTHER TERMS USED IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS ASSUMES NO EXERCISE OF THE OVER-ALLOTMENT OPTION OFFERED TO THE UNDERWRITERS IN THE STOCK OFFERING. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FACTORS SET FORTH UNDER THE CAPTION "RISK FACTORS."

THE COMPANY

The Company is a diversified telecommunications provider with a leading position in facilities-based long distance service in the State of Alaska and, as a result of recent acquisitions, has become Alaska's leading cable television service provider. The Company seeks to become the first significant provider in Alaska of an integrated package of telecommunications and cable television services. Complementing its long distance, cable and cellular resale operations, the Company has announced plans to provide facilities-based competitive local exchange and wireless communications services in Alaska's major population centers. The Company expects to launch local exchange services in the second half of 1997 initially in Anchorage where it has received a local exchange certificate of authority and entered into an interconnection agreement with the incumbent local exchange carrier ("LEC") which has been approved by the Alaska Public Utilities Commission (the "APUC"). The Company also acquired a state-wide 30 MHz B-block personal communication service ("PCS") license in June 1995 for approximately $1.65 million (or about $3.00 per population equivalent or "pop") and is currently evaluating various technologies for a proposed wireless PCS network.

The Alaskan voice, video and data markets are unique within the United States. Alaska is physically distant from the rest of the United States and is characterized by large geographical size and relatively small, dense population clusters (with the exception of major population centers such as Anchorage, Fairbanks and Juneau). It lacks a well-developed terrestrial transportation infrastructure, and the majority of Alaska's communities are accessible only by air or water. As a result, Alaska's telecommunications networks are different from those found in the lower 49 states. Alaska today relies extensively on satellite-based transmission for intrastate calling between remote communities where investment in a terrestrial network would be uneconomic or impractical. Also, given the remoteness of Alaska's communities and, in many cases, the lack of major civic institutions such as hospitals, libraries and universities, Alaskans are dependent on telecommunications to access the resources and information of large metropolitan areas in the rest of the U.S. and elsewhere.

The Company believes that historical distinctions between telephony, wireless communications and cable television services are disappearing as a result of regulatory and technological changes. Upon becoming the first significant integrated provider of such services in Alaska, the Company believes that it will benefit from a number of advantages that would be difficult and costly for a competitor to replicate. By providing multiple telecommunications and cable services, the Company will be able to (i) expand the Company's addressable market in Alaska and increase the Company's share of its customers' voice, video and data expenditures, (ii) leverage the Company's existing customer base by cross-selling its services, (iii) attract new customers and improve customer retention rates by offering its customers a package of services, a single bill and a single point-of-contact for customer service, (iv) reduce capital spending requirements by sharing facilities, equipment and rights-of-way, (v) contain administrative and personnel costs by combining functional areas and (vi) reduce local access costs by bypassing some or all of the incumbent LECs' facilities.

The Company began providing interstate long distance service in 1982 and began providing intrastate long distance service in 1991. The Company provides a full range of long distance services,



including direct dial, 800, message toll, private line, private network, operator and calling and debit card services, to residential, commercial and governmental customers and to other common carriers. In addition, the Company sells data communication equipment and offers technical services.

The Company operates a state-of-the-art, competitive telecommunications network employing the latest digital transmission technology based upon fiber optic and digital microwave facilities within and between Anchorage, Fairbanks and Juneau, a digital fiber optic cable linking Alaska to the contiguous 48 states and providing access to other carriers' networks for communication around the world, and the use of satellite transmission to remote areas of Alaska (and for certain interstate traffic as well). As of March 31, 1997, the Company's long distance services were available, through the Company's network, to approximately 90% of total Alaskan access lines. As of March 31, 1997, the Company's residential customers were served by approximately 81,150 access lines, representing approximately 41% of all Alaskan residential presubscribed access lines. In addition, the Company had over 11,000 commercial, governmental and other common carrier customers who were served by approximately 57,600 access lines, representing approximately 48% of all non-residential presubscribed access lines in the State. The Company believes its network costs are significantly lower than those of its principal competitor, AT&T Alascom (the other leading long distance provider in Alaska), which, until it was acquired by AT&T Corp. ("AT&T") in August 1995, had benefitted from an annual direct subsidy from AT&T of approximately $80 million.

In 1993, the Company entered into a significant business relationship with MCI Telecommunications Corp., a subsidiary of MCI Communications Corporation (together with its subsidiaries, "MCI"), pursuant to which, among other things, the Company agreed to provide transmission services for substantially all Alaska-bound MCI long distance traffic and MCI agreed to provide transmission services for substantially all of the Company's long distance traffic terminating in the lower 49 states (excluding Washington, Oregon and Hawaii). As of June 30, 1997, MCI owned 22.6% of the total combined outstanding Common Stock, and 19.4% after giving effect to the Stock Offering, the majority of which was acquired concurrently with entering into the 1993 agreements. MCI presently controls nominations to two seats on the Company's board of directors (the "Board") pursuant to a voting agreement among MCI and certain other shareholders (the "Voting Agreement") that was entered into in connection with the Company's acquisition of cable television systems (the "Cable Systems") from several unrelated sellers. In 1993, the Company also entered into an agreement with an affiliate of Sprint Corp. ("Sprint"), pursuant to which the Company agreed to provide transmission services for all Alaska-bound Sprint long distance traffic and Sprint agreed to handle substantially all of the Company's international traffic.

The Company's telecommunications services revenues for the three months ended March 31, 1997 were $39.2 million and operating cash flow or EBITDA (as defined below) was $3.4 million (including $0.6 million of start-up losses from the Company's local exchange and PCS operations), or approximately 8.7% of telecommunications services revenues for the period. The Company's telecommunications services revenues for the year ended December 31, 1996 were $155.4 million and EBITDA was $21.4 million (including $0.9 million of start-up losses from the Company's local exchange and PCS operations), or approximately 13.8% of telecommunications services revenues for the period. In the five-year period ended December 31, 1996, the Company's telecommunications services revenues grew at a compounded annual rate of approximately 15.5%.

Effective October 31, 1996, the Company became the leading cable television services provider in Alaska upon its acquisition of the Cable Systems for total consideration of approximately $280.1 million. The Cable Systems serve 21 communities and areas in Alaska, including the state's three largest urban areas, Anchorage, Fairbanks and Juneau. As of March 31, 1997, the Cable Systems passed 162,711 homes or approximately 70% of all households in Alaska and served approximately 104,400 subscribers (92,940 equivalent basic subscribers), representing 64% of households passed by the Cable Systems. As of March 31, 1997, the Cable Systems consisted of approximately 1,765 miles of installed cable plant having between 300 and 450 MHz of channel capacity. See "Business--Cable Television." On a pro forma basis, assuming the Cable Systems had been acquired by the Company as of January 1, 1996, the Cable Systems generated pro forma revenues for the year ended December 31, 1996 of $55.3 million and pro forma EBITDA before management fees of $27.0 million, or 48.8% of cable revenues. Pro forma revenues and EBITDA from cable services would have represented 26.3% and 54.9%, respectively, of the Company's pro forma consolidated revenues and EBITDA for 1996.

In connection with its acquisition of the Cable Systems, the Company entered into a management agreement (the "Prime Management Agreement") with Prime II Management, L.P. ("Prime Management"), a Delaware limited partnership affiliated with certain sellers of the Cable Systems serving Anchorage and other areas (the "Prime Sellers") to manage the Cable Systems. Under the Prime Management Agreement, the Company will pay to Prime Management a net annualized fee for managing the Cable Systems in the amount of $1,000,000 for the year ending October 31, 1997, $750,000 for the year ending October 31, 1998, and $500,000 for each year ending October 31 thereafter that the Prime Management Agreement is in effect. The Prime Management Agreement has a term of nine years but either party may terminate the agreement in its discretion after October 31, 1998. Certain of the Prime Sellers, which are parties to the Voting Agreement (the "Voting Prime Sellers"), have the right to nominate two Board members pursuant to the Voting Agreement and will own approximately 18.0% of the total outstanding Common Stock after giving effect to the Stock Offering.

In providing cable service, the Company competes principally with traditional television broadcasters, direct broadcast satellite television ("DBS") and wireless cable or multichannel, multipoint distribution service ("MMDS") providers. The receipt of DBS signals in Alaska currently has the disadvantage of requiring subscribers to install larger satellite dishes (generally three to six feet in diameter) than are generally required in the lower 48 states because of the weaker satellite signals available in northern latitudes. In addition, existing satellites (situated over the equator) have a relatively low altitude above the horizon when viewed from Alaska, making their signals subject to interference from mountains, buildings and other structures. MMDS also requires that customers' receiving antennas have line-of-sight access to transmitting radio towers, and both MMDS and DBS signals are subject to interference from rain, snow, and wind.

## BUSINESS STRATEGY

The Company's goal is to become the first significant provider of integrated voice, video and data services in Alaska while maximizing growth in its revenues and net income. The Company's strategies to achieve this objective fall generally into four broad categories: (i) integrate the Company's telecommunications and cable operations, (ii) expand the scope of the Alaskan voice, video and data markets that the Company will address, (iii) increase the Company's penetration of these markets, and (iv) improve the Company's consolidated operating margins and utilization of the Company's capital resources. These broad strategies are discussed below. The Company's strategic focus over the next several years will be on Alaska. On a longer term basis, the Company may consider growth opportunities outside Alaska, especially in areas of the world with demographics and infrastructure characteristics similar to those of Alaska.

### INTEGRATE TELECOMMUNICATIONS AND CABLE OPERATIONS

The Company has begun integrating the Cable Systems into its preexisting operations. As part of this integration, the Company plans to combine the marketing and sales organizations, the billing systems, management information systems ("MIS") and customer service organizations of the Cable Systems with those of the Company's historical operations. This integration will enable the Company to coordinate the marketing of its telecommunications and cable services to the full range of the Company's customers, promote introduction of new products and services, leverage consumer awareness of the GCI brand name and provide its customers with a single bill and point-of-contact for customer



service. The Company estimates that the essential elements of this integration will be completed by late 1997.

### EXPAND ADDRESSABLE MARKET

As a result of its acquisition of the Cable Systems, the Company has expanded its addressable market in Alaska to include both long distance and cable services, which markets generated approximately $450 million in revenues in 1996 for all providers of such services in Alaska. Following its introduction of local exchange and wireless services, the Company's addressable market will expand to approximately $800 million in total.

The Company intends to offer local exchange services in Anchorage and other major Alaskan population centers principally using its own network facilities. The Company expects to provide local exchange services initially in Anchorage in the second half of 1997. The Company has installed 38 miles of a planned 130-mile fiber optic network in Anchorage, has installed a Lucent 5ESS switch with both local and long distance capabilities and has entered into an agreement with the incumbent LEC, Anchorage Telephone Utility ("ATU"), to interconnect the Company's network with that of ATU and to purchase unbundled local loops necessary to provide local service. The Alaskan local service market generated approximately $320 million in revenues in 1996, approximately 34% of which were attributable to Anchorage. The Company anticipates expanding its local service to the Fairbanks and Juneau markets during 1998 and to other markets during 1999, subject to negotiating acceptable interconnection arrangements with the LECs serving those markets and to obtaining the necessary regulatory approvals.

The Company plans to enter the facilities-based wireless communications market through development of a PCS network. The Company believes that PCS technology, if successfully implemented, will offer advantages over existing analog cellular technology, such as superior audio quality, additional features, better compatibility with wireline services, and longer battery life. PCS technology is particularly suited for use in Alaska, which has relatively small, dense population clusters in many geographically remote areas. The Company estimates that the Alaskan cellular services market generated approximately $35 million in total revenues in 1996.

INCREASE PENETRATION OF ALL MARKET SEGMENTS

The Company believes that by offering a variety of branded telecommunications and cable services, by increasing consumer awareness and leveraging brand equity, and by emphasizing customer service and rewarding consumer loyalty, it will be well-positioned to improve customer retention rates and to increase market share in all service categories. The Company believes that substantially all of its long distance and cable television customers are potential wireless and local service customers. Cross-selling opportunities also exist between the Company's long distance customers and its cable customers. The Company estimates that, as of March 31, 1997, approximately 59% of the Company's residential cable subscribers did not obtain long distance service from the Company and that approximately 23% of the Company's total long distance customers and 27% of the Company's residential long distance customers were passed by the Cable Systems but did not buy cable service.

The Company plans significant upgrades to the existing cable plant in order to expand channel capacity, add new services, improve network quality and reliability and reduce theft. The Company expects that, by expanding customers' service options, it will attract new customers, increase average revenue per subscriber and reduce customer attrition rates. Currently, the Cable Systems have between 300 and 450 MHz of channel capacity, or enough capacity to carry between 36 and 60 channels. Over the next two years, the Company plans to increase the capacity of the Cable Systems to between 450 and 550/750 MHz of channel capacity, or enough capacity to carry between 60 and 76 channels.



The Company plans to begin offering cable modems in the fourth quarter of 1997. Cable modems represent a new technology which offers significantly faster access to the Internet and other on-line data services than other currently available technologies. The Company believes that Alaskans have a greater propensity to access the Internet than consumers in other states for a variety of reasons. Alaskans on average have completed more years of formal education and have a higher per capita income and mean household income than the U.S. average. Purchasing power is also enhanced by the lack of a state income tax and the annual Permanent Fund dividend that each resident, regardless of age, receives from the State (over $1,100 per person in 1996). In markets outside of Anchorage, Fairbanks and Juneau, the limited availability of traditional sources of information such as libraries, universities and museums contribute to heavy use of the Internet as an information, education and communication resource. In addition to offering cable modems, the Company plans to offer certain specialized telecommunications services to support distance education and telemedicine in rural areas of the State. Rural Alaskans often do not have access to medical professionals within their community and the use of a communication network to deliver a wide range of telemedical services (voice, video and data) enhances the quality and timeliness of the services delivered while concurrently reducing the overall cost of delivery. Likewise, the educational infrastructure is limited in many areas of rural Alaska and distance education services are being deployed to provide specialized curricula to smaller village schools. Like telemedical services, distance education services both improve the quality of education and reduce the cost of delivery.

IMPROVE CONSOLIDATED OPERATING MARGINS AND CAPITAL UTILIZATION

The Company believes that the combination of its long distance, local, wireless communications and cable operations will enable it to achieve better overall operating margins than would be possible if these operations were managed as stand-alone enterprises. The Company expects to achieve certain efficiencies by combining the marketing, sales, customer service, MIS and administrative organizations of the Cable Systems with each other and with those of the Company's preexisting operations. The Company also expects that its planned provision of local services, while a potentially significant source of revenues, will coincidentally result in a significant reduction in the Company's local access fees paid to Alaskan LECs. Access fees charged to the Company by incumbent Alaskan LECs for the use of their local networks to originate or terminate long distance calls totaled $36.4 million in 1996, or approximately 28.2% of the Company's long distance revenues for this period. The Company estimates that the average access charge payable by it to Alaskan LECs for originating or terminating interstate access is approximately $0.043 per minute of traffic and for originating or terminating intrastate access is approximately $0.07 per minute of traffic (or a total of $0.14 for both originating and terminating access).

In addition, the Company expects to leverage its investment in existing cable plant and rights-of-way by, in some cases, overlaying (or using existing) fiber optic cable for telephony or PCS applications. The incremental cost of such network enhancements, especially when combined with planned upgrades to the existing cable plant, is significantly less than the cost of building entirely new network facilities.



THE OFFERING

<TABLE>

| <S> | <C> |
|---|---|
| Class A Common Stock offered by the Company.................... | 7,000,000 shares |
| Class A Common Stock offered by the Selling Shareholders........ | 6,800,000 shares |
| Total Class A Common Stock offered hereby......................... | 13,800,000 shares |
| Common Stock outstanding after the Offering (1) .................. | 45,157,109 shares of Class A Common Stock; 4,068,934 shares of Class B Common Stock. |
| Use of Proceeds................... | The net proceeds of the Stock Offering to the Company will be used to reduce borrowings outstanding under the Company's credit facilities. The Company expects to reborrow funds under its credit facilities in the future to fund capital expenditures and for other general corporate purposes. The Company will not receive any of the proceeds from the sale of shares by the Selling Shareholders. See "Use of Proceeds" and "Description of Credit Facilities." |
| Nasdaq Symbol..................... | GNCMA |
| Concurrent Offerings............. | Concurrently with the Stock Offering, GCI, Inc., a wholly owned subsidiary of the Company, is offering $150,000,000 aggregate principal amount of its % Senior Notes due 2007 (the "Notes"). The Debt Offering and the Stock Offering are not conditioned upon one another and, therefore, one Offering may be consummated without the other Offering being consummated. See "Risk Factors--Significant Capital Requirements; Concurrent Offerings" and "Use of Proceeds." |

</TABLE>

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(1) Based on the number of shares of Class A Common Stock and Class B Common Stock outstanding as of June 30, 1997 plus the number of shares offered in the Stock Offering. Excludes the following: 2,593,790 shares of Class A Common Stock issuable upon the exercise of stock options granted to directors, officers and employees of the Company; and 202,768 shares of Class A Common Stock held as treasury stock. See "Capitalization."

RISK FACTORS

See "Risk Factors" for a discussion of certain factors that should be considered by prospective purchasers of the Class A Common Stock.



SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE, PER MINUTE AND PER SUBSCRIBER DATA)

The following table summarizes certain summary consolidated financial and operating data of the Company and should be read in conjunction with, and is qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements of the Company, the notes thereto and other financial data included elsewhere in this Prospectus. The unaudited pro forma financial information reflects the acquisition of the Cable Systems as if such acquisition had been consummated as of January 1, 1996. See the Unaudited Pro Forma Combined Statement of Operations included elsewhere in this Prospectus. The unaudited pro forma information should be read in conjunction with the financial statements of Prime Cable of Alaska, L.P., Alaska Cablevision, Inc. and Alaskan Cable Network and the notes thereto included elsewhere in this Prospectus. See "Index to Financial Statements."

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | | | | PRO FORMA | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1996 (1) | 1996 | 1997 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| | | | | | | | (UNAUDITED) | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | |
| Revenues | | | | | | | | |
| Telecommunications services....... | $ 96,499 | $ 102,213 | $ 116,981 | $ 129,279 | $ 155,419 | $ 155,419 | $ 37,969 | $ 39,225 |
| Cable services.................... | -- | -- | -- | -- | 9,475 | 55,343 | -- | 13,656 |
| Total revenues...................... | 96,499 | 102,213 | 116,981 | 129,279 | 164,894 | 210,762 | 37,969 | 52,881 |
| Operating income.................... | 5,269 | 8,804 | 12,997 | 13,504 | 16,409 | 26,874 | 3,947 | 3,292 |
| Net earnings (loss) before income taxes............................ | 1,524 | 6,715 | 11,681 | 12,601 | 12,690 | 11,395 | 3,687 | (657) |
| Net earnings (loss)................. | 890 | 3,951 | 7,134 | 7,502 | 7,462 | 6,700 | 2,137 | (525) |
| Net earnings (loss) per share....... | $ 0.02 | $ 0.17 | $ 0.30 | $ 0.31 | $ 0.27 | $ 0.16 | $ .09 | $ (0.01) |
| OTHER FINANCIAL DATA: | | | | | | | | |
| Capital expenditures................ | $ 4,396 | $ 5,744 | $ 10,604 | $ 8,938 | $ 38,642 | $ 45,718 | $ 6,950 | $ 9,529 |
| Depreciation and amortization....... | 7,486 | 6,978 | 6,639 | 5,993 | 9,409 | 20,553 | 1,887 | 6,120 |
| Cable operating income.............. | -- | -- | -- | -- | 2,196 | 12,660 | -- | 2,528 |
| Cable EBITDA (2).................... | -- | -- | -- | -- | 4,416 | 26,025 | -- | 6,025 |
| Consolidated EBITDA (2)............. | 12,755 | 15,782 | 19,636 | 19,497 | 25,818 | 47,427 | 5,834 | 9,412 |
| Consolidated cash flow provided by operating activities............. | 7,469 | 11,710 | 18,519 | 14,278 | 22,371 | 32,193 | 2,359 | 1,840 |
| Consolidated cash flow provided (used) by investing activities.... | (7,531) | (3,312) | (11,359) | (8,683) | (122,646) | -- | (7,123) | (10,059) |
| Consolidated cash flow provided (used) by financing activities.... | 2,155 | (8,749) | (8,134) | (3,227) | 109,607 | -- | 2,816 | (400) |
| Cable cash flow provided by operating activities............. | $ -- | $ -- | $ -- | $ -- | $ 2,778 | $ 12,600 | $ -- | $ 8,278 |

OTHER OPERATING DATA:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Long distance (minutes in thousands) | | | | | | | | |
| Interstate minutes of use......... | 333,009 | 364,906 | 406,751 | 458,131 | 562,084 | 562,084 | 131,621 | 147,568 |
| Intrastate minutes of use......... | 64,387 | 70,107 | 79,641 | 93,370 | 121,208 | 121,208 | 28,910 | 31,537 |
| International minutes of use...... | 4,304 | 4,251 | 5,318 | 6,385 | 7,524 | 7,524 | 1,890 | 1,738 |
| Total minutes of use............. | 401,700 | 439,264 | 491,710 | 557,886 | 690,816 | 690,816 | 162,421 | 180,843 |
| Average revenue per minute........ | $ 0.184 | $ 0.182 | $ 0.186 | $ 0.188 | $ 0.179 | $ 0.179 | $ 0.184 | $ 0.173 |
| Cable (period-end data) | | | | | | | | |
| Homes passed (3).................. | -- | -- | -- | -- | 162,395 | 162,395 | -- | 162,711 |
| Equivalent basic subscribers (4)................. | -- | -- | -- | -- | 93,391 | 93,391 | -- | 92,940 |
| Basic penetration (5)............ | -- | -- | -- | -- | 57.5% | 57.5% | -- | 57.1% |
| Premium service units (6)......... | -- | -- | -- | -- | 77,609 | 77,609 | -- | 75,521 |
| Premium penetration (7)........... | -- | -- | -- | -- | 83.1% | 83.1% | -- | 81.3% |
| Average monthly revenue per equivalent basic subscriber (8).................. | -- | -- | -- | -- | $ 50.73 | $ 50.73 | -- | $ 48.98 |

</TABLE>



<TABLE>
<CAPTION>

| <S> | AS OF MARCH 31, 1997<br>ACTUAL<br><C> | AS ADJUSTED FOR DEBT OFFERING ONLY<br><C> | AS ADJUSTED FOR STOCK OFFERING ONLY<br>(UNAUDITED)<br><C> | AS ADJUSTED FOR BOTH OFFERINGS<br><C> |
|---|---|---|---|---|
| BALANCE SHEET DATA: | | | | |
| Total assets................................. | $442,878 | $ 497,878 | $ 442,878 | $ 497,878 |
| Short-term debt and capital leases (including current maturities)......................... | 32,012 | 1,721 | 1,721 | 1,721 |
| Long-term debt and capital leases (excluding current maturities)......................... | 181,528 | 266,819 | 159,399 | 214,399 |
| Total stockholders' equity.................... | $159,095 | $ 159,095 | $ 211,515 | $ 211,515 |

</TABLE>

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(1) The Cable Systems were acquired effective October 31, 1996. Pro forma data reflect the acquisition of the Cable Systems as if it had occurred on January 1, 1996. See the Unaudited Pro Forma Combined Statement of Operations included elsewhere in this Prospectus.

(2) As used herein, EBITDA consists of earnings before interest (net), income taxes, depreciation, amortization and other income (expense). EBITDA is a measure commonly used in the telecommunications and cable television industries to analyze companies on the basis of operating performance. It is not a measure of financial performance under GAAP and should not be considered as an alternative to net income as a measure of performance nor as an alternative to cash flow as a measure of liquidity.

(3) Dwellings and commercial establishments that are or can be connected to the distribution system of a cable system without further extension of the transmission lines of that cable system.

(4) A number representing the sum of (a) residential customers receiving at least the entry level of cable television service offered by a system ("Basic Service") at the system's standard residential rate for Basic Service plus (b) for customers receiving Basic Service under bulk billing arrangements at a rate less than the system's standard residential rate for Basic Service (including multi-unit residential complexes, hotels, motels

and hospitals), the number derived by dividing the monthly amount billed to all such subscribers for Basic Service by the monthly standard residential rate for Basic Service.

(5) Equivalent basic subscribers divided by homes passed.

(6) Premium programming services selected by and sold to subscribers on an a la carte or packaged basis for monthly fees in addition to the fee for Basic Service. All customers who are listed as "premium service units" are also included in "equivalent basic subscribers."

(7) Premium service units divided by equivalent basic subscribers.

(8) Total subscriber revenues for the year from the sale of cable television services divided by average total equivalent basic subscribers divided by 12.



SUMMARY CABLE COMPANY FINANCIAL DATA
(DOLLARS IN THOUSANDS)

The following tables set forth selected historical financial data separately for the Cable Companies: (i) for, and as of the end of each of the years in the five-year period ended December 31, 1995 and; (ii) for the six-month periods ended June 30, 1995 and June 30, 1996. The data for the six-month periods ended June 30, 1995 and June 30, 1996 have been derived from the unaudited financial statements of the Cable Companies appearing elsewhere in this Prospectus. Such unaudited financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the results for the unaudited periods. The following information is qualified in its entirety by, and should be read in conjunction with, the accompanying financial statements and notes thereto for the corresponding Cable Company and the Company. See "Index to Financial Statements."

PRIME CABLE OF ALASKA, L.P.

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, |
|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 |
| | (UNAUDITED) | | | | | (UNAUDITED) |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | |
| Revenues.............................................. | $ 25,951 | $ 27,677 | $ 29,101 | $ 30,599 | $ 32,594 | $ 16,100 |
| Operating, selling, general and administrative expenses (1)................................................ | 29,871 | 31,373 | 32,615 | 33,561 | 34,425 | 17,175 |
| Operating income (loss) (1)........................... | $ (3,920) | $ (3,696) | $ (3,514) | $ (2,962) | $ (1,831) | $ (1,075) |
| OTHER OPERATING DATA: | | | | | | |
| Total assets (period-end)............................. | $ 120,397 | $ 111,179 | $ 98,322 | $ 85,303 | $ 74,141 | $ 80,061 |
| EBITDA (before management fees) (2).................... | 13,968 | 14,699 | 15,289 | 15,653 | 16,330 | 7,950 |
| Cash flow provided by operating activities (3)......... | $ -- | $ -- | $ 8,055 | $ 8,450 | $ 7,537 | $ 3,652 |

<CAPTION>

1996
---------

<S> <C>

| | |
|---|---|
| STATEMENT OF OPERATIONS DATA: | |
| Revenues............................................. | $ 17,276 |
| Operating, selling, general and administrative expenses (1)................................................ | 18,002 |
| Operating income (loss) (1)........................... | $ (726) |
| OTHER OPERATING DATA: | |
| Total assets (period-end)............................. | $ 61,224 |
| EBITDA (before management fees) (2).................... | 8,608 |
| Cash flow provided by operating activities (3)......... | $ 5,456 |

</TABLE>

ALASKAN CABLE NETWORK (4)

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, |
|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 |
| | (UNAUDITED) | | | | | (UNAUDITED) |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | |
| Revenues............................................. | $ 13,761 | $ 13,914 | $ 14,142 | $ 13,883 | $ 14,515 | $ 7,224 |
| Operating, selling, general and administrative expenses (5)................................................ | 13,221 | 14,013 | 13,775 | 13,367 | 13,883 | 6,858 |
| Operating income (loss) (5)........................... | $ 540 | $ (99) | $ 367 | $ 516 | $ 632 | $ 366 |
| OTHER OPERATING DATA: | | | | | | |
| Total assets (period-end)............................. | $ 38,242 | $ 35,167 | $ 33,115 | $ 33,380 | $ 24,494 | $ 24,106 |
| EBITDA (before management fees) (2).................... | 6,666 | 6,208 | 6,931 | 6,841 | 7,033 | 3,513 |
| Cash flow provided by operating activities (3)......... | $ -- | $ -- | $ 7,327 | $ 6,279 | $ 7,124 | $ 3,643 |

<CAPTION>

| | 1996 |
|---|---|
| <S> | <C> |
| STATEMENT OF OPERATIONS DATA: | |
| Revenues............................................. | $ 7,442 |
| Operating, selling, general and administrative expenses (5)................................................ | 7,113 |
| Operating income (loss) (5)........................... | $ 329 |
| OTHER OPERATING DATA: | |
| Total assets (period-end)............................. | $ 19,209 |
| EBITDA (before management fees) (2).................... | 3,598 |
| Cash flow provided by operating activities (3)......... | $ 3,049 |

</TABLE>

ALASKA CABLEVISION, INC.

<TABLE>
<CAPTION>

SIX

MONTHS

| | YEARS ENDED DECEMBER 31, | | | | | ENDED JUNE 30, |
|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 |
| | (UNAUDITED) | | | | | (UNAUDITED) |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | |
| Revenues............................................ | $ 5,488 | $ 5,626 | $ 5,660 | $ 5,709 | $ 5,920 | $ 2,969 |
| Operating, selling, general and administrative expenses (6)................................................ | 3,624 | 3,603 | 3,845 | 4,064 | 4,157 | 2,037 |
| Operating income (loss) (6).......................... | $ 1,864 | $ 2,023 | $ 1,815 | $ 1,645 | $ 1,763 | $ 932 |
| OTHER OPERATING DATA: | | | | | | |
| Total assets (period-end)............................ | $ 2,212 | $ 2,076 | $ 2,211 | $ 2,663 | $ 3,306 | $ 3,184 |
| EBITDA (before management fees)...................... | 2,836 | 2,981 | 2,817 | 2,530 | 2,583 | 1,359 |
| Cash flow provided by operating activities (3)......... | $ -- | $ -- | $ 1,495 | $ 1,976 | $ 1,776 | $ 964 |

<CAPTION>

| | 1996 |
|---|---|
| <S> | <C> |
| STATEMENT OF OPERATIONS DATA: | |
| Revenues............................................ | $ 3,007 |
| Operating, selling, general and administrative expenses (6)................................................ | 2,119 |
| Operating income (loss) (6).......................... | $ 888 |
| OTHER OPERATING DATA: | |
| Total assets (period-end)............................ | $ 3,446 |
| EBITDA (before management fees)...................... | 1,309 |
| Cash flow provided by operating activities (3)......... | $ 802 |

</TABLE>



(1) Includes management fees paid by Prime in the amounts of $1,542,000, $1,671,000 and $1,674,000 in 1993, 1994 and 1995, respectively, and $817,000 and $924,000 for the six months ended June 30, 1995 and 1996, respectively, under management agreements in existence prior to the Company's acquisition of Prime. These fees will not be relevant to the Company's ongoing cable operating results. See "Business--Cable Television."

(2) As used herein, EBITDA consists of earnings before interest (net), income taxes, depreciation, amortization and other income (expense). EBITDA is a measure commonly used in the telecommunications and cable television industries to analyze companies on the basis of operating performance. It is not a measure of financial performance under GAAP and should not be considered as an alternative to net income as a measure of performance or as an alternative to cash flow as a measure of liquidity. Other income (expense) items are immaterial, except for a $2.7 million loss on disposal of assets for Alaskan Cable Companies in 1993. See page F-56.

(3) Cash flow provided by operating activities for 1991 and 1992 is not available.

(4) Combined for Alaskan Cable/Fairbanks, Alaskan Cable/Juneau, and Alaskan Cable/Ketchikan-Sitka.

(5) Includes management fees paid by Alaskan Cable in the amounts of $202,000, $233,000 and $225,000 in 1993, 1994 and 1995, respectively, and $113,000 and

$156,000 for the six months ended June 30, 1995 and 1996, respectively, under management agreements in existence prior to the Company's acquisition of cable systems from Alaskan Cable. These fees will not be relevant to the Company's ongoing cable operating results. See "Business--Cable Television."

(6) Includes management fees paid by Alaska Cablevision in the amount of $567,000, $571,000 and $400,000 in 1993, 1994 and 1995, respectively, and $217,000 and $184,000 for the six months ended June 30, 1995 and 1996, respectively, under management agreements in existence prior to the Company's acquisition of cable systems from Alaska Cablevision. These fees will not be relevant to the Company's ongoing cable operating results. See "Business--Cable Television."



# RISK FACTORS

IN ADDITION TO THE OTHER INFORMATION AND FINANCIAL DATA SET FORTH ELSEWHERE IN THIS PROSPECTUS, PROSPECTIVE INVESTORS SHOULD CONSIDER THE FOLLOWING RISK FACTORS IN EVALUATING THE COMPANY AND ITS BUSINESS BEFORE PURCHASING THE CLASS A COMMON STOCK OFFERED HEREBY.

## DEVELOPMENT AND EXPANSION RISKS

The Company's ability to become the first significant provider in Alaska of an integrated package of telecommunications and cable television services will depend in large part on its ability to enter into and succeed in the local exchange service market, to establish PCS networks in Alaska, and to upgrade or convert the Cable Systems from their present coaxial distribution system to a hybrid fiber optic/coaxial distribution system so that additional cable and telecommunications services can be offered and can be integrated with the Company's existing telecommunications services. The entry into local exchange service, the implementation of its PCS networks and the upgrade of the Cable Systems are critical to the Company's ability to provide new services and products to its customers. See "Business--Overview," "--Business Strategy" and "--PCS."

The successful implementation of the Company's expansion strategy is subject to a variety of risks, including changes in the competitive climate in which the Company operates, technological changes and compatibility risks, and legal and regulatory risks (including possible delays in the full implementation of deregulation under the federal Telecommunications Act of 1996 (the "1996 Telecom Act")). The Company's expansion plans also depend on factors such as its ability to obtain and maintain required governmental licenses and authorizations, its ability to enter into interconnection agreements with established LECs, and its ability to obtain financing, all in a timely manner, at reasonable costs and on terms and conditions acceptable to the Company. There can be no assurance that the Company's contemplated expansion of services will take place as planned or that the expanded services will become profitable or generate positive cash flows. See "Business--Business Strategy" and "--Competition."

## ABILITY TO MANAGE GROWTH

The Company's aggressive growth in telecommunication services, its acquisition of a state-wide license for development of PCS services, and its acquisition of cable television systems in Alaska have placed, and may continue to place, a significant strain on the Company's administrative, operational and financial resources and have increased demands on the Company's systems and controls. The Company's ability to continue to manage its growth successfully will require the Company to further enhance its operational, management, financial and information systems and controls and to expand, train and manage its employee base. In addition, as the Company increases its service offerings and expands its targeted markets, there will be additional demands on the Company's customer support, sales, marketing, and administrative resources and infrastructure. There can be no assurance that the Company's administrative, operating and financial resources, systems and controls will be adequate to effectively manage the Company's growth. The inability of the Company to manage its growth successfully could have a material adverse effect on the Company's business, results of operations and financial condition. See "Business--Business Strategy."

## SIGNIFICANT CAPITAL REQUIREMENTS; CONCURRENT OFFERINGS

Development and expansion of the Company's telecommunications and cable operations will require substantial capital. The Company estimates that its aggregate capital requirements for the next five years will be approximately $445 to $505 million, including approximately $165 million for the purchase of new satellite transponders and the construction of new undersea fiber optic cable facilities. The Company's estimated capital requirements include, among other things, the estimated costs (i) to continue the expansion of the Company's long distance facilities and services; (ii) to develop and deploy the Company's entry into local exchange services and its PCS network; and (iii) to upgrade, expand and integrate the Cable Systems into its telecommunications services business. The Company expects that the net proceeds from the Offerings, together with internally generated cash flows and borrowings under the Credit Facility (as defined below) and its separate committed financing facility for GCI Transport Company, will provide sufficient funds for the Company to expand its business as currently planned. The amount of the Company's future capital requirements will depend upon many factors, however, including regulatory, technological and competitive developments in the telecommunications and cable television industries, and may differ materially from the Company's estimates.

Concurrently with the Company's offering of the Class A Common Stock, GCI, Inc., a wholly owned subsidiary of the Company is separately offering $150,000,000 aggregate principal amount of its % Senior Notes due 2007. Consummation of one Offering is not contingent upon consummation of the other Offering, and there can be no assurance that the Debt Offering will be consummated and, if so, on what terms. Without the proceeds from the Debt Offering, the Company will have to seek alternative financing for a portion of its business plan. In particular, if the Debt Offering is not consummated, the Company will need to obtain additional financing for its planned construction of the new undersea fiber optic cable facilities and certain elements of its planned local exchange and PCS networks. In addition, the Company may be required to seek additional capital if its actual capital requirements exceed its estimates and it is unable to generate sufficient funds internally or borrow sufficient funds under the Credit Facility. If the Company were to require additional financing, there can be no assurance that additional financing would be available to the Company or, if available, that it would be on terms acceptable to the Company. The Debt Offering is contingent upon the Company refinancing its Existing Credit Facilities. See "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," "Business--Business Strategy" and "Description of Credit Facilities and Notes."

POTENTIAL ADVERSE EFFECT ON THE COMPANY IF FIBER FACILITY IS NOT CONSUMMATED

As described under "Description of Credit Facilities and Notes," subsidiaries of the Company plan to incur up to $75 million in additional indebtedness to finance the construction of an undersea fiber optic cable (the "Fiber Facility"). The Company requires the Fiber Facility in order to construct new undersea fiber optic cable facilities, and although the Company has received executed commitments from lenders to provide the Fiber Facility, there can be no assurance that the Fiber Facility will be consummated.

SUBSTANTIAL LEVERAGE; ABILITY TO SERVICE DEBT

The Company has substantial leverage. As of March 31, 1997, on an as adjusted basis after giving effect to the Offerings and the application of the net proceeds therefrom, the total consolidated indebtedness of the Company would have been $216.1 million (or 50.5% of the total capitalization of the Company). As of March 31, 1997, after giving effect to the Stock Offering only and the application of the net proceeds therefrom, the total consolidated indebtedness of the Company would have been $161.1 million (or 43.2% of the total capitalization of the Company). See "Capitalization." The degree to which the Company is leveraged may adversely affect the Company's ability to finance its future operations, to compete effectively against better capitalized companies and to withstand downturns in its business or the economy generally, and could limit its ability to pursue business opportunities that may be in the best interests of the Company and its security holders. If the Debt Offering is not consummated, the Company will retain its Existing Credit Facilities at least through 1997. If both Offerings are consummated, on or prior to the closing of the Debt Offering, the Company will replace its existing $62.5 million senior credit facility (the "Telephony Credit Facility") and its existing $205 million senior credit facility (the "Cable Credit Facility" and, together with the Telephony Credit Facility, the



"Existing Credit Facilities") with a new and enlarged bank credit facility (the "Credit Facility") under which approximately $216.4 million will be available for borrowing, subject to compliance with restrictive covenants. As of March 31, 1997, the Company had $68.1 million available under the Existing Credit Facilities, subject to compliance with restrictive covenants. In either case, the Company expects to continue to borrow funds and the applicable credit facility will be secured by substantially all of the assets of the Company. See "Description of Credit Facilities and Notes."

The Existing Credit Facilities, the Credit Facility and the Notes impose restrictions on the operations and activities of the Company. Generally, the most significant restrictions relate to debt incurrence, investments, capital expenditures, sales of assets and the use of proceeds therefrom and cash distributions from the Company. These restrictions require the Company to comply with certain financial covenants including financial ratios. The Company is currently in compliance with such covenants and ratios. The restrictions in the indenture to be entered into in connection with the Notes (the "Indenture") will be subject to a number of important qualifications and exceptions. As long as the Company and its subsidiaries comply with specified leverage ratios, the Company and its subsidiaries are permitted to incur an unlimited amount of additional indebtedness to finance the acquisition of telecommunications and cable assets, equipment and inventory and for capital expenditures and working capital for the telecommunications and cable businesses and up to $90.0 million of other indebtedness. The Indenture will also permit the Company to secure any such indebtedness. The Indenture will also permit the Company's Unrestricted Subsidiaries (as defined in the Indenture) to incur an unlimited amount of indebtedness, $75 million of which is currently contemplated to be incurred as project financing to construct an undersea fiber optic cable. The ability of the Company to comply with the restrictions and covenants in the Existing Credit Facilities, the Credit Facility and the Indenture will be dependent upon the Company's future performance and various other factors, including factors beyond its control. If the Company fails to comply with the restrictions and covenants in the Indenture and the Existing Credit Facilities or the Credit Facility, the Company's obligation to repay the Notes and its indebtedness under the Existing Credit Facilities or the Credit Facility may be accelerated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," and "Description of Credit Facilities and Notes."

RELIANCE ON SIGNIFICANT CUSTOMERS

For the year ended December 31, 1996, the Company provided services to MCI and to Sprint resulting in substantial revenues to the Company of approximately 29% of total revenues for 1996. These two customers are free to seek out long distance communication services from competitors of the Company upon expiration of their contracts (in 2001 in the case of MCI and in 1999 in the case of Sprint) or earlier upon a default or the occurrence of a force majeure event or a substantial change in applicable law or regulation under the applicable contract. Loss of one or both of these major customers, or a considerable number of other customers, would have a material adverse effect on the financial condition and results of operations of the Company. See "Business--Long Distance Operations."

RAPID CHANGES IN TECHNOLOGY AND CUSTOMER REQUIREMENTS

The telecommunications and cable television industries have been characterized by rapid technological changes, frequent new service introductions and evolving industry standards. The Company believes that its future success will depend on its ability to anticipate such changes and to offer services that meet these standards on a timely basis. There can be no assurance that the Company will have sufficient resources to make necessary investments or to introduce new services that would satisfy its customers. See "Business--Competition."



GEOGRAPHIC CONCENTRATION AND ALASKAN ECONOMY

The Company offers a variety of voice, video and data services to residential, commercial and governmental customers in the State of Alaska. As a result of this geographic concentration, the Company's growth and operations depend in part upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, 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 demand for telecommunications and cable television services and on the Company's results of operations and financial condition. In addition, the customer base in Alaska is limited. Alaska has a population of approximately 600,000 people, approximately one-half of whom are located in the Anchorage area. No assurance can be given that the Alaskan economy will continue to grow and to generate increased demand for the Company's services. See "Business--Alaskan Voice, Video and Data Markets" and "--Alaskan Economy."

RECENT CABLE SYSTEM ACQUISITIONS

As of October 31, 1996, the Company acquired the Cable Systems for a total purchase price of $280.1 million. On a pro forma basis, giving effect to the acquisition of the Cable Systems as if it had occurred on January 1, 1996, the Cable Systems' revenues and EBITDA before management fees would have comprised 26.3% of the Company's consolidated revenues and 54.9% of the Company's operating cash flow for the year ended December 31, 1996. In acquiring the Cable Systems, the Company obtained a substantial portion of the existing cable television distribution systems in Alaska and gained entry into the cable television business, in which it had no prior operating experience. In connection with the acquisition, the Company entered into the Prime Management Agreement with Prime Management to assist in the management of the Cable Systems. The Company currently relies on Prime Management, which had managed the Prime cable television systems prior to their acquisition by the Company, to assist in the management of the Cable Systems, and there can be no assurance that the Company's cable television business would not be adversely affected should Prime Management's services become unavailable. Either party may terminate the Prime Management Agreement in its discretion after October 31, 1998. In addition, given the Company's lack of experience in the cable television industry, there can be no assurance that the Company will achieve improved operating results, synergies and other benefits expected as a result of the acquisition of the Cable Systems. See "Business--Cable Television."

COMPETITION

The long distance telecommunications industry is highly competitive. Competition in the long distance business is based upon pricing, customer service, billing services and perceived quality. The Company's principal competitor in long distance service, AT&T Alascom (the other leading long distance provider in Alaska), has substantially greater resources than the Company and its interstate rates are integrated with those of a nationwide communications firm, AT&T. While the Company initially competed in long distance services based upon offering substantial discounts, those discounts have been eroded in recent years due to lowering of prices by AT&T Alascom. If competition for long distance services forces the Company to offer its services at greater discounts, the consequent loss of revenues could have a material adverse effect on the Company's financial condition and results of operations.

Recent changes in the regulation of the telecommunications industry may affect the Company's competitive position as a provider of long distance services. The 1996 Telecom Act effectively opened the local and long distance markets to competition. Incumbent local exchange carriers may enter the market for long distance services. In fact, the incumbent LEC in Anchorage has, as of April 1997, begun providing long distance services in the Anchorage area on a non-facilities-based basis. The Company is unable to predict the extent to which this may have an adverse effect on the Company's financial condition and results of operations.



The cable television industry is also highly competitive. In certain areas of the United States, cable television systems face competition from other cable operators offering cable television services in the same areas. Currently, the Company believes it is not subject to competition from other cable operators in the areas served by the Cable Systems. However, applicable law permits cable operators to compete directly with incumbent cable systems. Cable television systems also face competition from alternative methods of receiving and distributing television signals such as traditional broadcast television, direct broadcast satellite systems, satellite master antennae television systems and wireless cable systems, and from other sources of news, information and entertainment. The extent to which a cable television system is competitive depends, in part, upon the cable system's ability to provide quality programming and other services at competitive prices. Recent published reports indicate that there has been a substantial increase in the number of DBS subscribers in the United States in recent years. Thus, although it is difficult to assess the ultimate impact that DBS will have on the cable industry or the Company's financial condition and results of operations, DBS services may pose a significant competitive threat to cable television systems.

Regulatory changes may also make it easier for LECs and others, including utility companies, to provide video services competitive with services provided by cable systems and to provide cable services directly to subscribers. Prior to the 1996 Telecom Act, LECs were statutorily barred from providing video services to subscribers in their service areas, with certain exceptions. The 1996 Telecom Act repealed this statutory telephone/cable cross-ownership prohibition, and recognizes several multiple entry options for telephone companies to provide competitive video programming. LECs, including the Regional Bell Operating Companies ("RBOCs"), generally will be allowed to compete with cable operators both inside and outside the LECs' telephone service areas with certain limitations.

The local exchange services market is also likely to become competitive. AT&T has announced plans to enter the local exchange services market in Alaska on a non-facilities-based basis. The 1996 Telecom Act mandates that states allow local exchange competition and requires LECs, among other things, to take steps to ensure local competition by allowing adequate interconnection and network access to competing carriers. In addition, in the PCS industry, the Company may face competition from other PCS providers as well as other providers offering similar services, such as cellular carriers.

Management of the Company has no control over the possible future entry into the Alaskan telecommunications or cable television markets of other potential competitors, many of whom may be much larger than the Company and have much greater resources than the Company. Aggressive competition for customers in communities served by the Company could also result in increased marketing expenditures by the Company. Resulting reductions in the Company's customer base and rates and increases in the Company's costs could have a material adverse effect on the Company's financial condition and results of operation. Because of the high level of competition, the Company's ability to expand its operations and increase market share is uncertain. Therefore, no assurance can be given that the Company can achieve growth in products or revenues or that the Company will not lose market share due to competitive pricing, greater resources of its competitors or other factors. See "Business--Competition."

REGULATION

The Company is subject to regulation by the Federal Communications Commission ("FCC") and by the APUC as a non-dominant provider of long distance services. Among other regulatory requirements, the Company is required to file tariffs with the FCC for interstate and international service, and with the APUC for intrastate services, but such tariffs routinely become effective without intervention by the FCC, the APUC or other third parties since the Company is a non-dominant carrier. The Company received approval from the APUC in February 1997 to provide local exchange services in and around Anchorage and Hope, Alaska.



Military franchise requirements also affect the Company in its provision of telecommunications and cable television services to military bases. Substantial changes in the federal regulation of the telecommunications and the cable television industries were accomplished through the 1996 Telecom Act which became law in February 1996. Certain provisions of the 1996 Telecom Act could materially affect the growth and operation of the telecommunications and cable television industries and the services provided by the Company. Although the 1996 Telecom Act is expected to reduce regulatory burdens, the telecommunications and cable television industries may be subject to additional competition as a result thereof. There are numerous rulemakings that have been and that will be undertaken by the FCC, which will interpret and implement the 1996 Telecom Act's provisions. In addition, certain provisions of the 1996 Telecom Act are not immediately effective. Furthermore, certain of the 1996 Telecom Act's provisions have been, and are likely to continue to be, judicially challenged. The Company is unable to predict the outcome of such rulemakings or litigation or the substantive effect (financial or otherwise) of the 1996 Telecom Act and the rulemakings on the Company. See "Business--Regulation." The Company is also subject to federal and state regulation as a cable television operator pursuant to the Communications Act of 1934 (the "Communications Act"), the Cable Communications Policy Act of 1984 (the "1984 Cable Act") and the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act" and, together with the 1984 Cable Act, the "Cable Acts"), all as amended by the 1996 Telecom Act. The 1992 Cable Act significantly expanded the scope of cable television regulation on an industry-wide basis by imposing rate regulation, carriage requirements for local broadcast stations, customer service obligations and other requirements. The 1992 Cable Act and the FCC's rules implementing the 1992 Cable Act generally have increased the administrative and operational expenses, and in certain instances required rate reductions for cable television systems, and have resulted in additional regulatory oversight by the FCC and state or local (depending on the regulatory scheme) authorities.

As an authorized local exchange service provider in parts of Alaska, the Company is regulated as a LEC by the APUC. The APUC's February 1997 order requires all Alaskan LECs, including the Company, to comply with several regulatory requirements, including the filing of a local exchange service tariff and the filing of certain annual and quarterly reports. In addition, the Company is subject to other regulatory requirements, including certain obligations imposed by the 1996 Telecom Act on all LECs, which requirements include permitting resale of LEC services, number portability, dialing parity, interconnection and reciprocal compensation. See "Business--Regulation."

As a PCS licensee, the Company is subject to regulation by the FCC and must comply with certain buildout and other conditions of the license, as well as with the FCC's regulations governing the PCS service. On a more limited basis, the Company may be subject to certain regulatory oversight by the APUC (E.G., in the areas of consumer protection and transfer of its license), although states are not permitted to regulate the rates of PCS and other commercial mobile service providers. PCS licensees may also be subject to regulatory requirements of local jurisdictions pertaining to, among other things, the siting of tower facilities. As a cellular reseller, the Company is deemed to be a common carrier and is subject to the requirements of Title II of the Communications Act. In light of the non-dominant market position of resellers, many of the obligations traditionally imposed on common carriers are relaxed with respect to resellers. Resellers are required to contribute to the Telecommunications Relay Services Fund and to remit annual regulatory fees to the FCC. Cellular resellers may also be subject to certain state requirements, although state regulation of mobile service providers is limited in several respects by federal law. See "Business--Regulation."

Other existing federal regulations, including copyright licensing rules, are currently the subject of judicial proceedings, legislative hearings, and administrative proposals which could change, in varying degrees, the manner in which cable television systems operate. Neither the outcome of these proceedings, nor their impact upon the cable television industry in general or the Company's entry into that industry, can be predicted at this time. There can be no assurance that future regulatory actions taken by Congress, the FCC or other federal, state or local governmental authorities will not have an adverse



effect on the business, financial condition or results of operations of the Company. See "Business-- Regulation."

CONCENTRATION OF STOCK OWNERSHIP

As of June 30, 1997, executive officers and directors of the Company and their affiliates owned approximately 59.2% of the combined outstanding Common Stock, representing 67.8% of the combined voting power of the Common Stock (45.3% and 59.1%, respectively, after giving effect to the Stock Offering). Certain of these shareholders are subject to the Voting Agreement pursuant to which eight of the Company's ten directors are currently elected (two nominations by the Voting Prime Sellers, two nominations by MCI, two nominations by TCI-GCI, Inc., a wholly owned subsidiary of Tele-Communications, Inc. (together with its subsidiaries, "TCI") and one nomination by each of Mr. Duncan and Mr. Walp who currently serve as their own nominees). MCI owns 22.6% of the combined outstanding Common Stock as of June 30, 1997, representing 26.6% of the combined voting power of the Common Stock (19.4% and 24.5% after giving effect to the Stock Offering). As of June 30, 1997, the Voting Prime Sellers collectively own 25.7% of the combined outstanding Common Stock,representing 13.8% of the combined voting power of the Common Stock (18.0% and 10.3% after giving effect to the Stock Offering). TCI expects to sell all of its shares of Common Stock in the Stock Offering and, if it does so, it will thereafter no longer be a party to the Voting Agreement. If TCI ceases to be a party to the Voting Agreement, each other party to the Voting Agreement will have the right to withdraw from the Voting Agreement by giving written notice to the other parties, although the Company does not anticipate that any party will exercise that right.

Following the Stock Offering and assuming that TCI is the only shareholder that ceases to be a party to the Voting Agreement, the percentage of the combined outstanding Common Stock subject to the Voting Agreement will decrease from 54.0% to 40.7% (or from 56.3% to 44.6% of the combined voting power of the Common Stock). Notwithstanding the withdrawal of TCI, the shareholders who are party to the Voting Agreement will collectively be able to control the management policy of the Company and all fundamental corporate actions, including mergers, substantial acquisitions and dispositions and election of directors to the Company's Board. This concentration of ownership may have the effect of delaying or preventing a change of control of the Company, although the Voting Agreement does not currently cover any matters other than the election of directors. See "Principal and Selling Shareholders" and "Management--Voting Agreement."

ANTI-TAKEOVER CONSIDERATIONS

The Company has an authorized class of 1,000,000 shares of preferred stock that may be issued by the Board on such terms and with such rights, preferences and designations as the Board may determine. Issuance of such preferred stock, depending upon the rights, preferences and designations thereof, may have the effect of delaying, deterring or preventing a change in control of the Company. In addition, the Company's Restated Articles of Incorporation and revised Bylaws provide that the Board of Directors be divided into three classes, each of which is elected for a term of three years.

Such anti-takeover effects may deter a third party who would propose to acquire the Company or to engage in a similar transaction affecting control of the Company in which the Company's shareholders might receive a premium for their shares over the then current market value. See "Description of Capital Stock--Preferred Stock" and "--Potential Anti-Takeover Effect of the Restated Articles of Incorporation and Bylaws of the Company."

THINLY TRADED STOCK; VOLATILITY OF STOCK PRICE

The Class A Common Stock is traded on Nasdaq. As of June 30, 1997, there were approximately 1,759 shareholders of record of Class A Common Stock. The

Class A Common Stock has historically



experienced moderate levels of trading. As of May 31, 1997, there were 21 market makers in the Class A Common Stock, only three of whom on the average had trading volumes in excess of 100,000 shares per month during the year ended December 31, 1996. During 1996, the average daily trading volume in Class A Common Stock was approximately 38,253 shares per day and there can be no assurance that a broader based market will develop. Even if the market for the Class A Common Stock were to expand, there can be no assurance that the price of the Class A Common Stock will not decline below the price to the public set forth on the cover of this Prospectus. The Class B Common Stock is traded in the over-the-counter market on a more limited basis than the Class A Common Stock. As of June 30, 1997, there were approximately 691 shareholders of record of Class B Common Stock. The market price of the Common Stock has historically fluctuated significantly and may be subject to fluctuations in the future in response to various factors and events, including the liquidity of the market for the Common Stock, variations in the Company's quarterly operating results, regulatory or other changes affecting the telecommunications industry generally or the Company specifically, announcements of business developments by the Company and its competitors, changes in operating results and changes in market conditions. See "--Substantial Leverage; Ability to Service Debt," "--Competition," "--Regulation" and "Price Range of Common Stock and Dividend Policy."

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of a substantial amount of Common Stock, or the perception that such sales may occur, could adversely affect the market price of the Common Stock. Several of the Company's principal shareholders hold a significant portion of Common Stock, and a decision by one or more of these shareholders to sell their shares could adversely affect the market price of the Common Stock.

Upon completion of the Offerings, the Company will have approximately 45,157,109 shares of Class A Common Stock and 4,068,934 shares of Class B Common Stock outstanding. Upon completion of the Stock Offering, all of the Company's outstanding Common Stock will be freely tradeable under the Securities Act of 1933 (the "Securities Act"), except shares of Common Stock held by affiliates of the Company and shares of Common Stock which are "restricted securities" within the meaning of Rule 144 promulgated under the Securities Act ("Rule 144"), which the Company estimates to be as many as 19,338,819 shares, and shares of Common Stock held by former affiliates of the Cable Systems within the meaning of Rule 145 promulgated under the Securities Act ("Rule 145"), which could be as many as 10,770,879 shares (or 8,700,879 shares if the Underwriters' over-allotment option is exercised in full). The Rule 145 restrictions that are applicable to shares of Class A Common Stock received by affiliates of the owners of the Cable Systems in connection with the Company's acquisition of the Cable Systems expire on October 31, 1997. Shares of Common Stock acquired directly or indirectly from the issuer or an affiliate of the issuer in transactions not involving any public offering are "restricted securities" within the meaning of Rule 144. See "Shares Eligible For Future Sale" for a description of the restrictions on resale under Rule 144. Although shares of Common Stock held by MCI, the Prime Sellers and the shareholders of Alaska Cablevision, Inc. may be subject to restrictions on resale under Rule 144 or Rule 145, these parties have been granted registration rights with respect to such shares which, if exercised by them, would permit them to sell those shares free of the restrictions imposed by Rule 144 and Rule 145. See "Principal and Selling Shareholders" and "Certain Transactions--Registration Rights Agreements."

The Company and each of its directors and executive officers and certain Selling Shareholders have entered into "lock-up" agreements with the Underwriters, providing that, subject to certain exceptions, they will not, for a period of 180 days from the date of this Prospectus, without the prior written consent of Salomon Brothers Inc, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Class A Common Stock or any securities convertible into, or exchangeable for, shares of Class A Common Stock, provided that the Company may issue and sell shares of Class A Common Stock pursuant to the Stock Purchase Plan. See "Underwriting."



As of June 30, 1997, there were outstanding options to purchase 2,593,790 shares of Class A Common Stock, 2,408,600 of which were granted under the Stock Option Plan. All of the 2,408,600 shares of Class A Common Stock issuable upon the exercise of options granted under the Stock Option Plan have been registered by the Company under the Securities Act on Form S-8.

DILUTION

Purchasers of Class A Common Stock will incur immediate and substantial dilution in net tangible book value per share of $8.85 (assuming a public offering price of $8.00 per share, the closing sale price per share of the Class A Common Stock as of July 2, 1997). See "Dilution."

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its capital stock and does not anticipate paying cash dividends in the foreseeable future. See "Price Range of Common Stock and Dividend Policy."



# THE COMPANY

## CORPORATE BACKGROUND

The Company was founded in 1979 by Robert M. Walp and the Company's current President and Chief Executive Officer, Ronald A. Duncan. From 1980 to 1987, the Company was a wholly owned subsidiary of WestMarc Communications, Inc. ("WestMarc"). The Company was spun off in 1987 from WestMarc, a subsidiary of TCI that was itself spun off by TCI in 1984. As a result of that spin off from WestMarc, the Company became an independent publicly held company.

TCI acquired its stock in the Company through its ownership of WestMarc, which was reacquired by TCI in 1990. In 1991, WestMarc provided financing to the Company in exchange for convertible preferred stock of the Company on which dividends were paid in shares of Class B Common Stock. That preferred stock and an outstanding warrant were retired in 1993 in exchange for $3.8 million. Certain major shareholders, including TCI and MCI, are parties to the Voting Agreement which permits each of TCI and MCI to nominate two persons to the Board. TCI expects to sell all of its shares of Common Stock in the Stock Offering and, if it does so, it will thereafter no longer be a party to the Voting Agreement. The Company currently expects, however, that TCI's nominees to the Board will continue as directors of the Company following the Stock Offering, notwithstanding that TCI would no longer have the right to nominate two directors. See "Management--Voting Agreement" and "Principal and Selling Shareholders."

The Class A Common Stock is designated as a national market system stock on Nasdaq, and trades under the symbol "GNCMA." The Class B Common Stock is quoted in the over-the-counter market and is traded on a more limited basis. The Debt Offering and the Stock Offering will be the Company's first underwritten offerings of securities. Consummation of the Debt Offering and the Stock Offering are not contingent on each other.

The executive offices of the Company are located at 2550 Denali Street, Suite 1000, Anchorage, Alaska 99503-2781, and its telephone number is (907) 265-5600.



## CORPORATE STRUCTURE

The following chart depicts the corporate structure of the Company:

[CHART]

The Company's telecommunications operations are conducted primarily through GCI Communication Corp., to which the Company transferred substantially all of its assets and liabilities in 1990. The Company's telecommunications operations are also conducted through two other subsidiaries. GCI Communication Services, Inc. provides private network point-to-point data and voice transmission services between Alaska, Hawaii and certain western states, and GCI Leasing Co. Inc. is the owner of the Company's existing undersea fiber optic cable capacity. The Company's cable operations are conducted through GCI Cable, Inc. and its subsidiaries. GCI Transport Company and its subsidiaries were recently formed to finance the acquisition of seven transponders on the Galaxy X satellite that is expected to be launched in mid-1998, and to finance the construction of new undersea fiber optic cable facilities linking Anchorage and Juneau to the lower 48 states at Seattle, Washington, with a terrestrial connection to Fairbanks.

GCI, Inc. was recently formed to be the obligor on the Notes to be issued in the Debt Offering, while GCI Holdings, Inc. was recently formed to be the borrower under the Credit Facility. If the Debt Offering is not consummated, the Company will not refinance the Existing Credit Facilities, under which GCI Communication Corp. and GCI Cable, Inc. are, and will remain, the obligors. See

"Description of Credit Facilities and Notes."



RECAPITALIZATION

During the last several years, the Company has financed the development, construction and expansion of its business principally through internally generated funds and borrowings under bank credit facilities. In order to finance a portion of the improvements to its long distance facilities and cable television systems, as well as its entry into wireless services and local exchange services, and to improve its operating and financial flexibility, the Company (i) concurrently with the Offerings will refinance the Existing Credit Facilities with the Credit Facility (provided, that if the Debt Offering is not consummated, the Existing Credit Facilities will not be refinanced); (ii) is offering pursuant to this Prospectus 13.8 million shares of Class A Common Stock, of which approximately 7.0 million shares will be for the account of the Company and approximately 6.8 million shares will be for the account of the Selling Shareholders; and (iii) concurrently with the Stock Offering, is offering $150,000,000 in aggregate principal amount of the Notes (collectively, the "Recapitalization"). The Company believes that its internally generated cash flow, combined with the net proceeds of the Offerings and borrowings under the Credit Facility and its separate committed financing facility for GCI Transport Company, will provide sufficient funds for the Company to satisfy its working capital requirements and capital expenditures for the foreseeable future. However, consummation of one Offering is not contingent upon consummation of the other Offering and there can be no assurance that the Debt Offering will be consummated. Without the proceeds from the Debt Offering, the Company may have to seek alternative financing for a portion of its business plan. In particular, if the Debt Offering is not consummated, the Company will need to obtain additional financing for its planned construction of the new undersea fiber optic cable facilities and certain elements of its planned local exchange and PCS networks. If the Company were to require additional financing, there can be no assurance that additional financing would be available to the Company or, if available, that it would be on terms acceptable to the Company. The Debt Offering (but not the Stock Offering) is contingent upon the Company refinancing its Existing Credit Facilities. See "Risk Factors--Significant Capital Requirements; Concurrent Offerings," "Business--Business Strategy," "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," "Use of Proceeds" and "Description of Credit Facilities and Notes."

RECENT ACQUISITION OF CABLE SYSTEMS

As of October 31, 1996, the Company acquired the Cable Systems from the following unrelated cable television companies: (i) Prime Cable of Alaska, L.P., a Delaware limited partnership ("Prime"); (ii) three corporations comprising "Alaskan Cable"; Alaskan Cable Network/Fairbanks, Inc.; Alaskan Cable Network/Juneau, Inc.; and Alaskan Cable Network/Ketchikan-Sitka, Inc.; (iii) Alaska Cablevision, Inc., a Delaware corporation; (iv) McCaw/Rock Homer Cable Systems, J.V., an Alaska joint venture; and (v) McCaw/Rock Seward Cable Systems, J.V., an Alaska joint venture.

The total purchase price for the acquisition of the Cable Systems was $280.1 million, which included certain transaction and financing costs. The purchase price included the issuance of approximately 14.7 million shares of Class A Common Stock valued at $86.7 million, $72.8 million of cash, $110.6 million of debt assumption and the issuance of $10.0 million in subordinated convertible notes. The convertible notes were converted in accordance with their terms into approximately 1.5 million shares of Class A Common Stock in January 1997. Financing for the transactions consisted of a new $205 million bank credit facility and additional capital provided by the sale of 2.0 million shares of Class A Common Stock to MCI for $6.50 per share, a 30% premium to the $5.00 per share market price immediately preceding the announcement of the Company's acquisition of the Cable Systems. See "Business--Cable Television."



USE OF PROCEEDS

The net proceeds to the Company from the Stock Offering are estimated to be approximately $52.4 million, assuming an initial public offering price of $8.00 per share (the closing sale price of the Class A Common Stock as of July 2, 1997), and after deducting estimated underwriting discounts and commissions and other estimated offering expenses payable by the Company. The net proceeds from the sale of shares being offered by the Selling Shareholders are estimated to be approximately $51.4 million (approximately $67.1 million if the Underwriters' over-allotment option is exercised in full), after deducting estimated underwriting discounts and commissions payable by the Selling Shareholders. All other expenses of the offering of shares on behalf of the Selling Shareholders will be paid by the Company. The Company will not receive any of the proceeds from the sale of shares of Class A Common Stock by the Selling Shareholders. The net proceeds to the Company from the Debt Offering are estimated to be approximately $145.0 million, after deducting estimated underwriting discounts and commissions and other offering expenses payable by the Company.

Substantially all of the net proceeds of the Offerings will initially be contributed to Holdings and its subsidiaries as equity and used to pay down the outstanding balance under the Existing Credit Facilities, if only the Stock Offering is consummated, or under the Credit Facility, if both Offerings are consummated. In either case, amounts under the applicable credit facilities will be redrawn as needed to implement the Company's five-year business plan. The Existing Credit Facilities consist of the Telephony Credit Facility which matures on July 24, 1997 and bears interest at LIBOR plus 1.75% to 3.00% depending on the leverage ratio (7.33% weighted average at December 31, 1996) and the Cable Credit Facility which matures on September 30, 2005 and bears interest at LIBOR plus 1.125% to 2.875% depending on the leverage ratio. The Credit Facility will mature on June 30, 2005 and will bear interest at either Libor plus 0.75% to 2.5%, depending on the leverage ratio of Holdings and its restricted subsidiaries, or at the greater of the prime rate or the federal funds effective rate (as defined) plus 0.05%, in each case plus an additional 0.0% to 1.375%, depending on the leverage ratio of Holdings and its restricted subsidiaries. As of June 30, 1997, the principal amount outstanding under the Existing Credit Facilities was $214.5 million. If both Offerings are consummated, initial borrowings under the Credit Facility will be used to refinance the Existing Credit Facilities. The Company's ability to reborrow under the Existing Credit Facilities or the Credit Facility will be subject to certain conditions and there can be no assurance that the Company will be able to satisfy such conditions at the time it desires to reborrow. See "Description of Credit Facilities." Under the Company's current five-year business plan, the Company expects to invest between $240 and $260 million to fund expansion of long distance facilities (including approximately $40 million for satellite transponders and approximately $125 million for new undersea fiber optic cable facilities); between $140 and $160 million to fund development, construction and operating costs of its local exchange and PCS networks and businesses; and between $65 and $85 million to upgrade its cable television plant and to purchase equipment for new cable television services. The precise allocation of funds for these purposes will depend on the level and timing of the Company's internally generated cash flow, future technological, regulatory and other developments in or affecting the Company's business, the competitive climate and the emergence of future opportunities.

Consummation of one Offering is not contingent upon consummation of the other Offering and there can be no assurance that the Debt Offering will be consummated. Without the proceeds from the Debt Offering, the Company may have to seek alternative financing for a portion of its business plan. In particular, if the Debt Offering is not consummated, the Company will need to obtain additional financing for its planned construction of the new undersea fiber optic cable facilities and certain elements of its planned local exchange and PCS networks. If the Company were to require additional financing, there can be no assurance that additional financing would be available to the Company or, if available, that it would be on terms acceptable to the Company. The Debt Offering (but not the Stock Offering) is contingent upon the Company refinancing its Existing Credit Facilities. See "Risk Factors-- Significant Capital Requirements; Concurrent Offerings," "Management's Discussion and Analysis of Financial



Condition and Results of Operations--Liquidity and Capital Resources," "Business--Business Strategy" and "Description of Credit Facilities and Notes."

The Company may also evaluate potential joint ventures, strategic alliances and acquisitions. Although the Company is not currently a party to any understandings or agreements regarding any of the foregoing, the Company may use the Credit Facility to finance in whole or in part such joint ventures, strategic alliances or acquisitions should attractive opportunities arise.

## DILUTION

At March 31, 1997, the historical net tangible book value of the Company was a deficit of $90.9 million or $2.38 per share of Class A Common Stock. "Historical net tangible book value per share" represents the Company's net worth less intangible assets of $250.0 million divided by 38,159,000 shares of Class A Common Stock outstanding on March 31, 1997. After giving effect to the sale by the Company of 7,000,000 shares of Class A Common Stock pursuant to the Stock Offering at an assumed public offering price of $8.00 per share (the closing sale price per share as of July 2, 1997) and after deducting the underwriting discount and expenses of the Stock Offering, the pro forma net tangible book value of the Company at March 31, 1997, would have been a deficit of $38.5 million, or $0.85 per share of Class A Common Stock. Such amount represents an immediate increase in pro forma net tangible book value of $1.53 per share of Class A Common Stock to the existing stockholders and an immediate dilution to new investors of $8.85 per share of Class A Common Stock. The following table illustrates the dilution in pro forma net tangible book value per share to new investors.

<TABLE>

| | | |
|---|---|---|
| <S> | <C> | <C> |
| Assumed public offering price.............................. | | $ 8.00 |
| Historical net tangible book value (deficit) at March 31, 1997................................................ | $ (2.38) | |
| Increase in net tangible book value attributable to net proceeds of the Stock Offering........................... | 1.53 | |
| Pro forma net tangible book value (deficit) after the Stock Offering............................................. | | (.85) |
| Dilution to new investors.................................. | | $ 8.85 |

</TABLE>

To the extent that additional shares are issued upon exercise of oustanding stock options, there will be further dilution to new investors. See "Management--Stock Option Plan."



## CAPITALIZATION
(DOLLARS IN THOUSANDS)

The following table sets forth the consolidated capitalization of the Company as of March 31, 1997 and as adjusted to give effect to the Offerings and refinancing of the Company's Existing Credit Facilities (except for the As Adjusted for Stock Offering Only column). This table should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto and the other financial information included elsewhere in this Prospectus. See "Index to Financial Statements."

<TABLE>
<CAPTION>

| | AS OF MARCH 31, 1997 | | | |
|---|---|---|---|---|
| | ACTUAL | AS ADJUSTED FOR DEBT OFFERING ONLY (1) | AS ADJUSTED FOR STOCK OFFERING ONLY | AS ADJUSTED FOR BOTH OFFERINGS (1) |
| <S> | <C> | <C> | <C> | <C> |
| Cash and cash equivalents................................ | $ 4,730 | $ 54,730 | $ 4,730 | $ 54,730 |
| Short-term debt: | | | | |
| Current maturities of Existing Credit Facilities......... | $ 30,291 | $ -- | $ -- | $ -- |
| Current maturities of Credit Facility.................... | -- | -- | -- | -- |
| Current maturities of long-term debt and capital leases................................................ | 1,721 | 1,721 | 1,721 | 1,721 |
| Total short-term debt................................ | 32,012 | 1,721 | 1,721 | 1,721 |
| Long-term debt (excluding current maturities): | | | | |
| Existing Credit Facilities............................... | 175,709 | -- | 153,580 | -- |
| New Credit Facility...................................... | -- | 111,000 | -- | 58,580 |
| Notes.................................................... | -- | 150,000 | -- | 150,000 |
| Obligations under capital leases......................... | 655 | 655 | 655 | 655 |
| Other long-term debt..................................... | 5,164 | 5,164 | 5,164 | 5,164 |
| Total long-term debt (excluding current maturities)........................................ | 181,528 | 266,819 | 159,399 | 214,399 |
| Stockholders' equity: | | | | |
| Class A Common Stock 50,000,000 shares authorized; 38,159,468 shares issued and outstanding; 45,159,468 as adjusted for Stock Offering.......................... | 123,498 | 123,498 | 175,918 | 175,918 |
| Class B Common Stock 10,000,000 shares authorized; 4,071,490 shares issued and outstanding................ | 3,432 | 3,432 | 3,432 | 3,432 |
| Less cost of 202,768 shares of Class A Common Stock held in treasury............................................ | (1,039) | (1,039) | (1,039) | (1,039) |

| | | | | |
|---|---|---|---|---|
| Paid-in capital | 4,247 | 4,247 | 4,247 | 4,247 |
| Retained earnings | 28,957 | 28,957 | 28,957 | 28,957 |
| Total stockholders' equity | 159,095 | 159,095 | 211,515 | 211,515 |
| Total capitalization | $ 372,635 | $ 427,635 | $ 372,635 | $ 427,635 |

</TABLE>

- ------------------------------

(1) Assumes refinancing of the Company's Existing Credit Facilities. See "Description of Credit Facilities and Notes."



## PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Class A Common Stock and the Class B Common Stock were registered under Section 12(g) of the Exchange Act in February 1987. The Class A Common Stock is traded on Nasdaq under the symbol "GNCMA" and the Class B Common Stock is traded on the over-the-counter market. The Class B Common Stock is convertible into Class A Common Stock on a share for share basis at any time at the option of the holder. The following table sets forth high and low sales prices for the Class A Common Stock for the periods indicated as reported by Nasdaq and high and low sales prices for the Class B Common Stock for the periods indicated as reported by IDSI, a service provided by Interactive Data Corp.

<TABLE>
<CAPTION>

| | CLASS A | | CLASS B | |
|---|---|---|---|---|
| | HIGH | LOW | HIGH | LOW |
| <S> | <C> | <C> | <C> | <C> |
| 1995: | | | | |
| First Quarter | 4 5/8 | 3 3/4 | 3 1/4 | 3 |
| Second Quarter | 4 1/4 | 3 7/8 | 3 | 3 |
| Third Quarter | 4 1/8 | 3 1/4 | 4 | 3 |
| Fourth Quarter | 5 1/8 | 3 3/4 | 6 | 3 1/2 |
| 1996: | | | | |
| First Quarter | 6 13/16 | 4 1/2 | 5 | 4 1/4 |
| Second Quarter | 9 1/4 | 5 15/16 | 6 1/2 | 5 1/4 |
| Third Quarter | 8 3/8 | 5 3/4 | 6 1/2 | 5 |
| Fourth Quarter | 8 1/4 | 5 3/4 | 7 1/2 | 5 1/8 |
| 1997: | | | | |
| First Quarter | 8 1/8 | 6 | 6 7/8 | 6 3/4 |
| Second Quarter | 8 5/8 | 6 1/4 | 6 3/4 | 6 5/8 |
| Third Quarter (to July 2, 1997) | 8 1/4 | 7 7/8 | 6 3/4 | 6 5/8 |

</TABLE>

The last reported sale price of the Class A Common Stock as reported by Nasdaq on July 2, 1997 was $8.00 per share and the last reported sale price for the Class B Common Stock as reported by the over-the-counter market on June 19 was $6.25 per share. As of June 30, 1997 there were approximately 1,759 holders of record of Class A Common Stock and approximately 691 holders of record of Class B Common Stock. These amounts do not include the number of shareholders whose shares are held of record by brokers, but do include the brokerage house as one shareholder.

The Company has never declared or paid any cash dividends on its capital stock and does not anticipate paying dividends in the foreseeable future. Future dividends, if any, will be at the discretion of the Board and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restrictions in financing agreements (such as the Credit Facility, the Existing Credit Facilities and the Indenture entered into in connection with the Debt Offering, all of which restrict the ability of the Company's subsidiaries to make upstream payments or loans, including dividend payments) and such other factors as the Board may deem relevant. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Credit Facilities and Notes" and Note 6 to the Company's Consolidated Financial Statements.



## SELECTED CONSOLIDATED FINANCIAL DATA

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected consolidated financial data presented below under the captions "Statement of Operations Data," "Other Financial Data," and "Balance Sheet Data" for, and as of the end of, each of the years in the five-year period ended December 31, 1996, excluding pro forma data, are derived from the Consolidated Financial Statements of the Company, which financial statements have been audited by KPMG Peat Marwick LLP, independent certified public accountants. The Consolidated Financial Statements of the Company as of December 31, 1995 and 1996, and for each of the years in the three-year period ended December 31, 1996, and the report thereon (which is based partially upon the report of other auditors), are included elsewhere in this Prospectus. The selected unaudited data presented below for the three-month periods ended March 31, 1996 and 1997, and as of March 31, 1997, are derived from the unaudited Consolidated Financial Statements of the Company as of March 31, 1997 and for the three-month periods ended March 31, 1996 and 1997, which are included elsewhere in this Prospectus. The pro forma data are derived from the Unaudited Pro Forma Combined Statement of Operations included elsewhere in this Prospectus. See "Index to Financial Statements."

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | | | | PRO FORMA | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1996 (1) | 1996 | 1997 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| | | | | | | | (UNAUDITED) | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | |
| Revenues | | | | | | | | |
| Telecommunications services.......... | $ 96,499 | $ 102,213 | $ 116,981 | $ 129,279 | $ 155,419 | $ 155,419 | $ 37,969 | $ 39,225 |
| Cable services....................... | -- | -- | -- | -- | 9,475 | 55,343 | -- | 13,656 |
| Total revenues........................ | 96,499 | 102,213 | 116,981 | 129,279 | 164,894 | 210,762 | 37,969 | 52,881 |
| Cost of sales and services........... | 55,576 | 56,437 | 63,877 | 72,091 | 92,664 | 104,180 | 21,302 | 27,168 |
| Selling, general and administrative expenses.......................... | 28,168 | 29,994 | 33,468 | 37,691 | 46,412 | 59,155 | 10,833 | 16,301 |
| Depreciation and amortization......... | 7,486 | 6,978 | 6,639 | 5,993 | 9,409 | 20,553 | 1,887 | 6,120 |
| Operating income....................... | 5,269 | 8,804 | 12,997 | 13,504 | 16,409 | 26,873 | 3,947 | 3,292 |
| Interest expense (net)............... | 3,745 | 2,089 | 1,316 | 903 | 3,719 | 15,512 | 260 | 3,949 |
| Net earnings (loss) before income taxes............................... | 1,524 | 6,715 | 11,681 | 12,601 | 12,690 | 11,395 | 3,687 | (657) |
| Income tax expense (benefit)........... | 634 | 2,764 | 4,547 | 5,099 | 5,228 | 4,695 | 1,550 | (132) |
| Net earnings (loss).................... | 890 | 3,951 | 7,134 | 7,502 | 7,462 | 6,700 | 2,137 | (525) |
| Net earnings (loss) per share.......... | $ 0.02 | $ 0.17 | $ 0.30 | $ 0.31 | $ 0.27 | $ 0.16 | $ 0.09 | $ (0.01) |

OTHER FINANCIAL DATA:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Capital expenditures | $ 4,396 | $ 5,744 | $ 10,604 | $ 8,938 | $ 38,642 | $ 45,718 | $ 6,950 | $ 9,529 |
| Cable operating income | -- | -- | -- | -- | 2,196 | 12,660 | -- | 2,528 |
| Cable EBITDA (2) | -- | -- | -- | -- | 4,416 | 26,025 | -- | 6,025 |
| Consolidated EBITDA (2) | 12,755 | 15,782 | 19,636 | 19,497 | 25,818 | 47,426 | 5,834 | 9,412 |
| Consolidated cash flow provided by operating activities | 7,469 | 11,710 | 18,519 | 14,278 | 22,371 | 32,193 | 2,359 | 1,840 |
| Consolidated cash flow provided (used) by investing activities | (7,531) | (3,312) | (11,359) | (8,683) | (122,646) | -- | (7,123) | (10,059) |
| Consolidated cash flow provided (used) by financing activities | 2,155 | (8,749) | (8,134) | (3,227) | 109,607 | -- | 2,816 | (400) |
| Cable cash flow provided by operating activities | $ -- | $ -- | $ -- | $ -- | $ 2,778 | $ 12,600 | $ -- | $ 8,278 |

</TABLE>



<TABLE>
<CAPTION>

| | AS OF DECEMBER 31, | | | | | AS OF MARCH 31, 1997 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 | ACTUAL | AS ADJUSTED FOR THE DEBT OFFERING ONLY | AS ADJUSTED FOR THE STOCK OFFERING ONLY | AS ADJUSTED FOR BOTH OFFERINGS |
| | | | | | | | (UNAUDITED) | | |
| BALANCE SHEET DATA: | | | | | | | | | |
| Total assets | $ 72,351 | $ 71,610 | $ 74,249 | $ 84,765 | $ 447,335 | $ 442,878 | $ 497,878 | $ 442,878 | $ 497,878 |
| Short-term debt and capital leases (including current maturities) | 24,080 | 2,582 | 1,834 | 1,971 | 32,040 | 32,012 | 1,721 | 1,721 | 1,721 |
| Long-term debt and capital leases (excluding current maturities) | 14,875 | 19,763 | 12,017 | 9,056 | 191,948 | 181,528 | 266,819 | 159,399 | 214,399 |
| Total stockholders' equity | $ 13,870 | $ 27,210 | $ 35,093 | $ 43,016 | $ 149,554 | $ 159,095 | $ 159,095 | $ 211,515 | $ 211,515 |

</TABLE>

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(1) The Cable Systems were acquired effective October 31, 1996. Pro forma data reflect the acquisition of the Cable Systems as if the acquisition had

of Operations included elsewhere in this Prospectus.

(2) As used herein, EBITDA consists of earnings before interest (net), income taxes, depreciation, amortization and other income (expense). EBITDA is a measure commonly used in the telecommunications and cable television industries to analyze companies on the basis of operating performance. It is not a measure of financial performance under GAAP and should not be considered as an alternative to net income as a measure of performance nor as an alternative to cash flow as a measure of liquidity.



## SELECTED CABLE COMPANY FINANCIAL DATA
(DOLLARS IN THOUSANDS)

The following tables set forth selected historical financial data separately for the Cable Companies: (i) for, and as of the end of, each of the years in the five-year period ended December 31, 1995 and (ii) for the six-month periods ended June 30, 1995 and June 30, 1996. The data for the six-month periods ended June 30, 1995 and June 30, 1996 have been derived from the unaudited financial statements of the Cable Companies appearing elsewhere in this Prospectus. The unaudited financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the results for the unaudited periods. The following information is qualified in its entirety by, and should be read in conjunction with, the accompanying financial statements and notes thereto for the corresponding Cable Company and the Company. See "Index to Financial Statements."

### PRIME CABLE OF ALASKA, L.P.

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 | 1996 |
| | (UNAUDITED) | | | | | (UNAUDITED) | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Revenues | $ 25,951 | $ 27,677 | $ 29,101 | $ 30,599 | $ 32,594 | $ 16,100 | $ 17,276 |
| Operating, selling, general and administrative expenses (1) | 29,871 | 31,373 | 32,615 | 33,561 | 34,425 | 17,175 | 18,002 |
| Operating income (loss) (1) | $ (3,920) | $ (3,696) | $ (3,514) | $ (2,962) | $ (1,831) | $ (1,075) | $ (726) |
| OTHER OPERATING DATA: | | | | | | | |
| Total assets (period-end) | $ 120,397 | $ 111,179 | $ 98,322 | $ 85,303 | $ 74,141 | $ 80,061 | $ 61,224 |
| EBITDA (before management fees) (2) | 13,968 | 14,699 | 15,289 | 15,653 | 16,330 | 7,950 | 8,608 |
| Cash flow provided by operating activities (3) | $ -- | $ -- | $ 8,055 | $ 8,450 | $ 7,537 | $ 3,652 | $ 5,456 |

### ALASKAN CABLE NETWORK (4)

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 | 1996 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | (UNAUDITED) | | | (UNAUDITED) | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Revenues............................................ | $ 13,761 | $ 13,914 | $ 14,142 | $ 13,883 | $ 14,515 | $ 7,224 | $ 7,442 |
| Operating, selling, general and administrative expenses (5)...................................... | 13,221 | 14,013 | 13,775 | 13,367 | 13,883 | 6,858 | 7,113 |
| Operating income (loss) (5)......................... | $ 540 | $ (99) | $ 367 | $ 516 | $ 632 | $ 366 | $ 329 |
| OTHER OPERATING DATA: | | | | | | | |
| Total assets (period-end)........................... | $ 38,242 | $ 35,167 | $ 33,115 | $ 33,380 | $ 24,494 | $ 24,106 | $ 19,209 |
| EBITDA (before management fees) (2)................ | 6,666 | 6,208 | 6,931 | 6,841 | 7,033 | 3,513 | 3,598 |
| Cash flow provided by operating activities (3)...... | $ -- | $ -- | $ 7,327 | $ 6,279 | $ 7,124 | $ 3,643 | $ 3,049 |

</TABLE>

ALASKA CABLEVISION, INC.

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 | 1996 |
| | | | | | | (UNAUDITED) | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Revenues............................................ | $ 5,488 | $ 5,626 | $ 5,660 | $ 5,709 | $ 5,920 | $ 2,969 | $ 3,007 |
| Operating, selling, general and administrative expenses (6)...................................... | 3,624 | 3,603 | 3,845 | 4,064 | 4,157 | 2,037 | 2,119 |
| Operating income (loss) (6)......................... | $ 1,864 | $ 2,023 | $ 1,815 | $ 1,645 | $ 1,763 | $ 932 | $ 888 |
| OTHER OPERATING DATA: | | | | | | | |
| Total assets (period-end)........................... | $ 2,212 | $ 2,076 | $ 2,211 | $ 2,663 | $ 3,306 | $ 3,184 | $ 3,446 |
| EBITDA (before management fees) (2)................ | 2,836 | 2,981 | 2,817 | 2,530 | 2,583 | 1,359 | 1,309 |
| Cash flow provided by operating activities (3)...... | $ -- | $ -- | $ 1,495 | $ 1,976 | $ 1,776 | $ 964 | $ 802 |

</TABLE>



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(1) Includes management fees paid by Prime in the amounts of $1,542,000, $1,671,000 and $1,674,000 in 1993, 1994 and 1995, respectively, and $817,000 and $924,000 for the six months ended June 30, 1995 and 1996, respectively, under management agreements in existence prior to the Company's acquisition of Prime. These fees will not be relevant to the Company's ongoing cable operating results. See "Business--Cable Television."

(2) As used herein, EBITDA consists of earnings before interest (net), income taxes, depreciation, amortization and other income (expense). EBITDA is a measure commonly used in the telecommunications and cable television industries to analyze companies on the basis of operating performance. It is not a measure of financial performance under GAAP and should not be considered as an alternative to net income as a measure of performance or as an alternative to cash flow as a measure of liquidity. Other income and

(expense) items are immaterial, except for a $2.7 million loss on disposal of assets for Alaskan Cable Companies in 1993. See page F-52.

(3) Cash flow provided by operating activities for 1991 and 1992 is not available.

(4) Combined for Alaskan Cable/Fairbanks, Alaskan Cable/Juneau, and Alaskan Cable/Ketchikan-Sitka.

(5) Includes management fees paid by Alaskan Cable in the amounts of $202,000, $233,000 and $225,000 in 1993, 1994 and 1995, respectively, and $113,000 and $156,000 for the six months ended June 30, 1995 and 1996, respectively, under management agreements in existence prior to the Company's acquisition of cable systems from Alaskan Cable. These fees will not be relevant to the Company's ongoing cable operating results. See "Business--Cable Television."

(6) Includes management fees paid by Alaska Cablevision in the amounts of $567,000, $571,000 and $400,000 in 1993, 1994 and 1995, respectively, and $217,000 and $184,000 for the six months ended June 30, 1995 and 1996, respectively, under management agreements in existence prior to the Company's acquisition of cable systems from Alaska Cablevision. These fees will not be relevant to the Company's ongoing cable operating results. See "Business--Cable Television."



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO AND THE OTHER FINANCIAL DATA APPEARING ELSEWHERE IN THIS PROSPECTUS. AS USED HEREIN, EBITDA CONSISTS OF EARNINGS BEFORE INTEREST (NET), INCOME TAXES, DEPRECIATION, AMORTIZATION AND OTHER INCOME (EXPENSE). EBITDA IS A MEASURE COMMONLY USED IN THE TELECOMMUNICATIONS AND CABLE TELEVISION INDUSTRIES TO ANALYZE COMPANIES ON THE BASIS OF OPERATING PERFORMANCE. IT IS NOT A MEASURE OF FINANCIAL PERFORMANCE UNDER GAAP AND SHOULD NOT BE CONSIDERED AS AN ALTERNATIVE TO NET INCOME AS A MEASURE OF PERFORMANCE NOR AS AN ALTERNATIVE TO CASH FLOW AS A MEASURE OF LIQUIDITY.

### OVERVIEW

The Company has historically reported revenues principally from the provision of interstate and intrastate long distance telecommunications services to residential, commercial and governmental customers and to other common carriers (principally MCI and Sprint). These services accounted for approximately 86.5% of the Company's telecommunications services revenues in 1996 and 92.6% of the Company's telecommunications services revenues during the first quarter of 1997. The balance of telecommunications services revenues have been attributable to corporate network management contracts, telecommunications equipment sales and service and other miscellaneous revenues (including revenues from prepaid and debit calling cards, the installation and leasing of customers' VSAT equipment and fees charged to MCI and Sprint for certain billing services). Factors that have the greatest impact on year-to-year changes in telecommunications services revenues include the rate per minute charged to customers and usage volumes, usually expressed as minutes of use. These factors in turn depend in part upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, in particular oil production, as well as tourism, government and United States military spending. See "Business--Alaskan Economy."

The Company's telecommunications cost of sales and services has consisted principally of the direct costs of providing services, including local access charges paid to LECs for the origination and termination of long distance calls in Alaska, fees paid to other long distance carriers to carry calls that terminate in areas not served by the Company's network (principally the lower 49 states, most of which calls are carried over MCI's network, and international locations, which calls are carried principally over Sprint's network), and the cost of equipment sold to the Company's customers. In 1996, local access charges accounted for 49.8% of telecommunications cost of sales and services, fees paid to other long distance carriers represented 34.7%, satellite transponder lease and undersea fiber maintenance costs represented 9.1%, and telecommunications equipment accounted for 5.2% of telecommunications cost of sales and services. During the three months ended March 31, 1997, local access charges accounted for 45.7% of telecommunications cost of sales and services, fees paid to other long distance carriers represented 32.1%, satellite transponder lease and undersea fiber maintenance costs represented 9.4% and telecommunications equipment accounted for 2.9% of telecommunications cost of sales and services.

The Company's telecommunications selling, general, and administrative expenses have consisted of operating and engineering, service, sales and marketing, general and administrative, legal and regulatory expenses. Most of these expenses consist of salaries, wages and benefits of personnel and certain other indirect costs (such as rent, travel, utilities and certain equipment costs). A significant portion of selling, general, and administrative expenses, 28.6% in 1996 and 17.9% during the three months ended March 31, 1997, represents the cost of the Company's advertising and promotion programs.

Following the acquisition of the Cable Systems effective October 31, 1996, the Company now reports a significant level of revenues and EBITDA from the provision of cable services. During the first



quarter of 1997, cable revenues and EBITDA represented 25.8% and 64.0%, respectively, of consolidated revenues and EBITDA. On a pro forma basis, assuming the Cable Systems had been acquired by the Company as of January 1, 1996, revenues and EBITDA from cable services would have represented 26.3% and 54.9%, respectively, of the Company's consolidated revenues and EBITDA for 1996.

The Cable Systems serve 21 communities and areas in Alaska, including the state's three largest population centers, Anchorage, Fairbanks and Juneau. As of March 31, 1997, the Cable Systems passed 162,711 homes or approximately 70% of all households in Alaska and served approximately 104,400 subscribers (92,940 equivalent basic subscribers), representing 64% of households passed by the Cable Systems.

The Company generates cable services revenues from three primary sources: (i) programming services, including monthly basic or premium subscriptions and pay-per-view movies or other one-time events, such as sporting events; (ii) equipment rentals or installation; and (iii) advertising sales. In 1996, on a pro forma basis, programming services generated 86.0% of total cable services revenues, equipment rental or installation accounted for 8.0% of such revenues, advertising sales accounted for 4.0% of such revenues, and other services accounted for the remaining 2.0% of total cable services revenues. The primary factors that contribute to year-to-year changes in cable services revenues are average monthly subscription and pay-per-view rates, the mix among basic, premium and pay-per-view services, and the average number of subscribers during a given reporting period.

The Cable Systems' operating, selling, general and administrative expenses have consisted principally of programming and copyright expenses, labor, maintenance and repairs, marketing and advertising, rental expense, property taxes and depreciation and amortization. In 1996, on a pro forma basis, programming and copyright expenses represented approximately 31.8% of total cable operating expenses. Marketing and advertising costs represented approximately 2.7% of such total expenses and depreciation and amortization represented 31.3% of such expenses.

The Company expects to commence offering local exchange services initially in Anchorage during the second half of 1997, and expects that local exchange services will represent less than 2.0% of revenues in 1997 and less than 8.0% of revenues in 1998. The Company expects that it may generate moderately negative EBITDA from local exchange services during this time period.

The Company began developing plans for PCS wireless communications service deployment in 1995 and is currently evaluating various technologies for a proposed PCS network. The Company expects to launch PCS service in Anchorage as early as 1999.



RESULTS OF OPERATIONS

The following table sets forth selected financial data of the Company as a percentage of total revenues for the periods indicated and the percentage changes in such data as compared to the corresponding prior year period:
<TABLE>
<CAPTION>

| | THREE MONTHS ENDED | PERCENTAGE CHANGE |
|---|---|---|

| | YEAR ENDED DECEMBER 31, | | | MARCH 31, | | 1995 VS. 1994 | 1996 VS. 1995 |
|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1996 | 1997 | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| STATEMENT OF OPERATIONS DATA: | | | | | | | |
| Revenues | | | | | | | |
| Telecommunications services... | 100.0% | 100.0% | 94.2% | 100.0% | 74.2% | 10.5% | 20.2% |
| Cable services | -- | -- | 5.8 | -- | 25.8 | -- | -- |
| Total revenues.................. | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 10.5% | 27.5% |
| Cost of sales and services.... | 54.6 | 55.8 | 56.2 | 56.1 | 51.4 | 12.9 | 28.5 |
| Selling, general and administrative expenses..... | 28.6 | 29.2 | 28.1 | 28.5 | 30.8 | 12.6 | 23.1 |
| Depreciation and amortization................ | 5.7 | 4.6 | 5.7 | 5.0 | 11.6 | (9.7) | 57.0 |
| Operating income................ | 11.1 | 10.4 | 10.0 | 10.4 | 6.2 | 3.9 | 21.5 |
| Net earnings (loss) before income taxes.................. | 10.0 | 9.7 | 7.7 | 9.7 | (1.2) | 7.9 | 0.7 |
| Net earnings (loss)............ | 6.1% | 5.8% | 4.5% | 5.6% | (1.0%) | 5.2% | (0.5%) |
| OTHER OPERATING DATA: | | | | | | | |
| Cable operating income (1)...... | -- | -- | 23.2% | -- | 18.5% | -- | -- |
| Cable EBITDA (1)(2)............ | -- | -- | 48.4 | -- | 46.1 | -- | -- |
| Consolidated EBITDA............ | 16.8% | 15.1% | 15.7% | 15.4% | 17.8% | (0.7%) | 32.4% |

<CAPTION>

| | THREE MONTHS 1997 VS. THREE MONTHS 1996 |
|---|---|
| <S> | <C> |
| STATEMENT OF OPERATIONS DATA: | |
| Revenues | |
| Telecommunications services... | 3.3% |
| Cable services | -- |
| Total revenues.................. | 39.2% |
| Cost of sales and services.... | 27.5 |
| Selling, general and administrative expenses..... | 50.5 |
| Depreciation and amortization................ | 224.3 |
| Operating income................ | (16.6%) |
| Net earnings (loss) before income taxes.................. | -- |
| Net earnings (loss)............ | -- |
| OTHER OPERATING DATA: | |
| Cable operating income (1)...... | -- |
| Cable EBITDA (1)(2)............ | -- |
| Consolidated EBITDA............ | 61.3% |

</TABLE>

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(1) Computed as a percentage of total cable services revenues.

(2) Computed before deducting management fees. Under the Prime Management Agreement, the Company will pay Prime Management a net annualized fee for managing all of the Cable Systems in the amount of $1,000,000 for the year ending October 31, 1997, $750,000 for the year ending October 31, 1998 and $500,000 for each year ending October 31 thereafter that the Prime Management Agreement is in effect. See "Business--Cable Television."

THREE MONTHS ENDED MARCH 31, 1997 COMPARED TO THREE MONTHS ENDED MARCH 31, 1996

REVENUES. Total revenues increased 39.2% from $38.0 million for the three months ended March 31, 1996 to $52.9 million for the three months ended March 31, 1997. Long distance transmission revenues from commercial, residential, governmental, and other common carrier customers increased 6.5% from $34.1 million for the three months ended March 31, 1996 to $36.3 million for the three months ended March 31, 1997. This increase in revenues resulted in part from a 12% increase in minutes of interstate and international traffic carried, which traffic totaled 149.3 million minutes, and a 9.4% increase in minutes of intrastate traffic, which traffic totaled 31.5 million minutes during the quarter. The increases in traffic resulted from growth in the underlying economy, usage stimulation resulting from reductions in rates, an increase in the number of presubscribed lines assigned to the Company, and an expansion of the Company's service area resulting from the turn-up of a number of new satellite earth station facilities located in rural Alaska. Revenue and minutes growth were also driven by an increase in services provided to other common carriers (principally MCI and Sprint), which other common carrier revenues increased from $10.7 million for the three months ended March 31, 1996 to $13.4 million for the three months ended March 31, 1997. System sales and network service revenues decreased 20.7% from $2.9 million for the three months ended March 31, 1996 to $2.3 million for the three months ended March 31, 1997, principally due to the temporary increase in the level of activity in the prior year related to the provision of services under a new outsourcing contract with National Bank of Alaska. Private line and private network transmission revenues increased 5.9% from $3.4 million for the three months ended March 31, 1996 to $3.6 million for the three months ended March 31, 1997. The Company reported three



months of cable services revenues in 1997 following its acquisition of the Cable Systems effective October 31, 1996. The Company estimates that its facilities passed 162,711 homes in Alaska and that it had approximately 104,400 basic subscribers (92,940 equivalent basic subscribers) as of March 31, 1997. There was little change in the number of subscribers, the rates charged those subscribers, or the number of homes passed by the Cable Systems during the three-month period ended March 31, 1997.

The increases in telecommunication services revenues were offset in part by a 6.0% reduction in the Company's average revenue per minute on long distance traffic from $0.184 per minute for the three months ended March 31, 1996 to $0.173 per minute for the three months ended March 31, 1997. The decrease in the average revenue per minute resulted from the Company's promotion of, and customers' greater than anticipated acceptance of new calling plans offering discounted rates and length of service rebates.

COST OF SALES AND SERVICES. Cost of sales and services totaled $21.3 million for the three months ended March 31, 1996 and $27.2 million for the three months ended March 31, 1997. Of this increase, $3.2 million resulted from cable services programming and copyright charges incurred during the first quarter of 1997. Long distance transmission services costs increased from $19.2 million for the three months ended March 31, 1996 to $21.7 million for the three months ended March 31, 1997. The increase in transmissions costs was approximately proportional to the increase in the number of minutes carried in the first quarter of 1997.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 50.9% from $10.8 million for the three months ended March 31, 1996 to $16.3 million for the three months ended March 31, 1997, and, as a percentage of revenues, increased from 28.5% for the three months ended March 31, 1996 to 30.7% for the three months ended March 31, 1997. Selling, general and administrative expenses increased as a result of increased sales and customer service volumes and bad debt expense totaling $523,000 for the three months ended March 31, 1997 compared to $397,000 for the three months ended March 31, 1996 (directly associated with increased revenues), and was offset by a reduction in sales, advertising and telemarketing costs which totaled $3.1 million for the three months ended March 31, 1996 as compared to $2.9 million for the three months ended March 31, 1997. Selling, general and administrative expenses also increased for the three months ended March 31, 1997 due to increased costs totaling $1.1 million in sales, engineering, operations, accounting, human resources, legal and regulatory, and management information services. Such costs were associated with the development and introduction, or planned introduction, of new products and services including local exchange services, PCS services, and Internet services. Cable services selling, general and administrative costs totaled $4.4 million during the quarter ended March 31, 1997.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased $4.2 million from $1.9 million for the three months ended March 31, 1996 to $6.1 million for the three months ended March 31, 1997. Of this increase, $3.5 million resulted from the Company's acquisition of the Cable Systems effective October 31, 1996, with the balance of the increase attributable to the Company's $38.6 million investment in facilities during 1996.

INTEREST EXPENSE, NET. Interest expense, net of interest income, increased from $260,000 for the three months ended March 31, 1996 to $3.9 million for the three months ended March 31, 1997. This increase resulted primarily from increases in the Company's average outstanding indebtedness incurred in connection with its acquisition of the Cable Systems and investment in new facilities during 1996, offset in part by increases in the amount of interest capitalized during 1997.

INCOME TAX EXPENSE. Income tax expense decreased from $1.6 million for the three months ended March 31, 1996 to a benefit of $132,000 for the three months ended March 31, 1997 due to the Company incurring a net loss before income taxes for the three months ended March 31, 1997 as compared to net earnings for the three months ended March 31, 1996. The Company's effective income tax rate decreased from 42.0% for the three months ended March 31, 1996 to 20.1% for the three months ended March 31, 1997 due to the net loss and the proportional amount of items that are nondeductible for tax purposes.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

REVENUES. Total revenues increased 27.5% from $129.3 million in 1995 to $164.9 million in 1996. Long distance transmission revenues from commercial, residential and governmental customers increased 18.8% from $120.0 million in 1995 to $142.6 million in 1996. This increase reflected a 22.6% increase in interstate and international minutes of use to 570 million minutes and a 29.8% increase in intrastate minutes of use to 121.2 million minutes, principally due to a new marketing program which the Company launched during the third quarter of 1995. This program consisted of the introduction of a new flat-rate calling plan coupled with telemarketing, direct sales, and the promotion of a $1.0 million sweepstakes. Revenue growth in 1996 was also due to a 23.7% increase in revenues from other common carriers (principally MCI and Sprint), from $38.8 million in 1995 to $48.0 million in 1996, and a 23.7% increase in private line and private network transmission services revenues, from $11.4 million in 1995 to $14.1 million in 1996. Systems sales and services revenues also increased 44.4% from $7.2 million in 1995 to $10.4 million in 1996, primarily due to the commencement in the first quarter of 1996 of services provided under a new outsourcing contract with National Bank of Alaska. The Company also reported two months' of cable services revenues in 1996 following its acquisition of the Cable Systems effective October 31, 1996.

The above increases in revenues were offset in part by a 4.8% reduction in the Company's average revenue per minute on long distance traffic from $0.188 per minute in 1995 to $0.179 per minute in 1996. The decrease in revenues resulted from the Company's promotion of and customers' enrollment in new calling plans offering discounted rates and length of service rebates.

COST OF SALES AND SERVICES. Cost of sales and services was $72.1 million in 1995 and $92.7 million in 1996. As a percentage of total revenues, cost of sales and services increased from 55.8% in 1995 to 56.2% in 1996. The increase in cost of sales and services as a percentage of revenues during 1996 as compared to 1995 resulted primarily from the reduced average revenue per minute billed to customers in 1996 as compared to 1995 without an offsetting reduction in the revenue per minute billed to the Company for the local access and interstate termination services it obtains from third parties. These increases were offset in part by refunds in the first two quarters of 1996 aggregating approximately $960,000 from a LEC and the National Exchange Carriers Association in respect of earnings by them which exceeded regulatory requirements.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 23.1% from $37.7 million in 1995 to $46.4 million in 1996. As a percentage of total revenues, selling, general and administrative expenses decreased from 29.2% in 1995 to 28.1% in 1996. Selling, general and administrative expenses increased as a result of increased sales and customer service volumes, additional bad debt expense totaling $1.7 million in 1996 compared to $1.5 million in 1995 (directly associated with increased revenues), and increased sales, advertising and telemarketing costs totaling $13.0 million in 1996 compared to $9.9 million in 1995, due to the introduction of various marketing plans and other proprietary rate plans. Additionally, selling, general and administrative expenses increased in 1996 due to an increase of approximately $2.7 million in sales, engineering, operations, accounting, human resources, legal and regulatory, and management information services expenses. Such costs were associated with the development and introduction, or planned introduction, of new products and services including local services, cable television services, rural message and data telephone services, PCS services, and Internet services.



DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense increased 56.7% from $6.0 million in 1995 to $9.4 million in 1996. This increase resulted primarily from the Company's acquisition of the Cable Systems effective October 31, 1996.

INTEREST EXPENSE, NET. Interest expense, net of interest income, increased 309.7% from $903,000 in 1995 to $3.7 million in 1996. This increase resulted primarily from increases in the Company's average outstanding indebtedness resulting primarily from its acquisition of the Cable Systems and construction of new facilities in rural Alaska, offset in part by increases in the amount of interest capitalized during 1996.

INCOME TAX EXPENSE. Income tax expense increased 2.0% from $5.1 million in 1995 to $5.2 million in 1996 due to an increase in net earnings before income taxes and a slightly higher effective income tax rate from 40.5% in 1995 to 41.2% in 1996.

As a result of its acquisition of the Cable Systems, the Company acquired net operating loss carryforwards ("NOL carryforwards") for income tax purposes totaling $58.5 million which begin to expire in 2004 if not utilized. However, the Company's utilization of these NOL carryforwards is subject to certain limitations pursuant to Section 382 of the Internal Revenue Code. Because of the limitation on the NOL carryforwards, the Company established an $8.1 million valuation allowance to offset the gross amount of the deferred tax asset. The amount of the valuation allowance was based on an estimate of the amount of the NOL carryforwards that will not be utilized, and the effective income tax rate. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforwards period are reduced.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

REVENUES. Total revenues increased 10.5% from $117.0 million in 1994 to $129.3 million in 1995. Revenue growth was primarily attributable to increases in minutes of use and the average revenue per minute for long distance traffic. The Company's average revenue per minute increased 1.1% from $0.186 in 1994 to $0.188 in 1995. Interstate minutes of use increased 12.7% to 464.5 million minutes and intrastate minutes of use increased 17.3% to 93.4 million minutes. Revenue growth was also attributable to a 21.6% increase in revenues derived from other common carriers (principally MCI and Sprint), from $31.9 million in 1994 to $38.8 million in 1995, and a 7.6% increase in private line and private network transmission services revenues, from $10.6 million in 1994 to $11.4 million in 1995.

These increases in revenues were partially offset by a 20.9% decline in system sales and services revenues from $9.1 million in 1994 to $7.2 million in 1995. This decline was due to fewer large-dollar equipment sales orders received during 1995 as well as a temporary reduction in the level of the Company's outsourcing services provided to the oil field services industry.

COST OF SALES AND SERVICES. Cost of sales and services was $63.9 million in 1994 and $72.1 million in 1995. Cost of sales and services as a percentage of total revenues increased from 54.6% of revenues in 1994 to 55.8% in 1995. The increase in cost of sales and services as a percentage of revenues resulted primarily from increases in costs associated with the Company's lease of transponder capacity. 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 cost of the leased capacity contributed to an increase in distribution costs during 1995 as compared to 1994. During 1995 the Company incurred approximately $450,000 for nonrecurring costs related to breaks in the undersea fiber optic cable and costs associated with its new DAMA technology. The Company also experienced reduced margins associated with equipment sales and service contracts.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 12.5% from $33.5 million in 1994 to $37.7 million in 1995. As a percentage of total revenues, selling, general and administrative expenses increased from 28.6% in 1994 to 29.2% in 1995. Increases


in selling, general and administrative expenses for the period were primarily due to increased personnel necessary to support the Company's expansion efforts and the increase in minutes of traffic carried. Additional costs were incurred during the fourth quarter of 1995 attributable to the promotion of the Company's calling plans.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense decreased 9.1% from $6.6 million in 1994 to $6.0 million in 1995. The decrease was attributable primarily to the Company's retirement of two owned wideband transponders in August 1994 that were replaced with leased rather than owned capacity.

INTEREST EXPENSE, NET. Interest expense, net of interest income, decreased 30.5% from $1.3 million in 1994 to $903,000 in 1995. This decrease resulted primarily from a reduction in the Company's average outstanding indebtedness.

INCOME TAX EXPENSE. Income tax expense increased 13.3% from $4.5 million in 1994 to $5.1 million in 1995 due to an increase in net earnings before income taxes and a higher effective income tax rate from 38.9% in 1994 to 40.5% in 1995.


SEASONALITY; FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS

The following chart provides selected unaudited statement of operations data from the Company's quarterly results of operations during 1995 and 1996 and for the three months ended March 31, 1997:
<TABLE>
<CAPTION>

| | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | | |
|---|---|---|---|---|---|
| | FIRST | SECOND | THIRD | FOURTH | |
| 1995 | QUARTER | QUARTER | QUARTER | QUARTER | TOTAL YEAR |

| | | | | | |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Revenues | | | | | |
| Telecommunications services | $ 29,693 | $ 31,860 | $ 33,363 | $ 34,363 | $ 129,279 |
| Cable services | -- | -- | -- | -- | -- |
| Total revenues | 29,693 | 31,860 | 33,363 | 34,363 | 129,279 |
| Operating income | 2,958 | 3,337 | 4,108 | 3,101 | 13,504 |
| Net earnings | 1,607 | 1,836 | 2,252 | 1,807 | 7,502 |
| Net earnings per share | $ 0.07 | $ 0.08 | $ 0.09 | $ 0.07 | $ 0.31 |
| Consolidated EBITDA | $ 4,538 | $ 4,897 | $ 5,716 | $ 4,346 | $ 19,497 |

<CAPTION>

| 1996 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | TOTAL YEAR |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Revenues | | | | | |
| Telecommunications services | $ 37,969 | $ 37,199 | $ 38,664 | $ 41,587 | $ 155,419 |
| Cable services | -- | -- | -- | 9,475 | 9,475 |
| Total revenues | 37,969 | 37,199 | 38,664 | 51,062 | 164,894 |
| Operating income | 3,947 | 3,970 | 4,017 | 4,475 | 16,409 |
| Net earnings | 2,137 | 2,150 | 2,140 | 1,035 | 7,462 |
| Net earnings per share | $ 0.09 | $ 0.09 | $ 0.09 | $ 0.02 | $ 0.27 |
| Cable EBITDA | $ -- | $ -- | $ -- | $ 4,416 | $ 4,416 |
| Consolidated EBITDA | $ 5,834 | $ 5,888 | $ 5,829 | $ 8,267 | $ 25,818 |

<CAPTION>

| 1997 | FIRST QUARTER | | | | |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Revenues | | | | | |
| Telecommunications services | $ 39,225 | | | | |
| Cable services | 13,656 | | | | |
| Total revenues | 52,881 | | | | |
| Operating income | 3,292 | | | | |
| Net earnings (loss) | (525) | | | | |
| Net earnings (loss) per share | $ (0.01) | | | | |
| Cable EBITDA | $ 6,025 | | | | |
| Consolidated EBITDA | $ 9,412 | | | | |

</TABLE>

Total revenues in the quarter ended March 31, 1997 were $52.9 million, representing a 3.6% increase over total revenues in the fourth quarter of 1996 of $51.1 million. This increase in revenues resulted in part from an increase in cable services revenues to $13.7 million in the first quarter of 1997 from $9.5 million in the fourth quarter of 1996 because the Company reported three months of cable services revenues in the first quarter of 1997 and only two months of such revenues during the fourth quarter of 1996. This revenue increase was partially offset by a 5.7% decrease in telecommunications services revenues to $39.2 million in the first quarter of 1997 from $41.6 million during the fourth quarter of 1996. This decrease is attributable in part to a reduction in the average revenues per minute reported



by the Company, which resulted from the Company's promotion of, and customers' greater than anticipated acceptance of, new calling plans offering discounted rates and length of service rebates.

Operating expenses increased during the first quarter of 1997 as compared to the fourth quarter of 1996 principally as a result of (i) turn-up costs, including rent and utilities, of the Company's new rural DAMA satellite earth-station facilities, (ii) personnel, sales, engineering, operations, accounting, human resources, legal and regulatory expenses associated with the development and introduction, or planned introduction, of new products and services including local services, PCS services and Internet services and (iii) increases in cable programming costs and copyright charges effective January 1, 1997.

The Company expects that its EBITDA and EBITDA margins during 1997 may improve due to (i) increasing average long-distance revenues per minute, (ii) cable service rate increases beginning in April 1997 and (iii) revenue generation from the Company's rural telephony expansion and new service and product offerings to offset expenses already generated by these endeavors.

The Company reported a net loss of $0.5 million for the first quarter of 1997 as compared to net earnings of $1.0 million during the fourth quarter of 1996. In addition to the margin compression experienced by the Company in the first quarter of 1997 discussed above, the net loss was attributable to higher depreciation and amortization and interest expenses associated with reporting a full three months of cable services operations in the first quarter of 1997 and only two months of such costs in the fourth quarter of 1996.

Long distance revenues have historically been highest in the summer months as a result of temporary population increases attributable to tourism and increased seasonal economic activity such as construction, commercial fishing, and oil and gas activities. Cable television revenues, on the other hand, are higher in the winter months because consumers tend to watch more television, and spend more time at home, during these months. The Company's ability to implement construction projects is also reduced during the winter months because of cold temperatures, snow and short daylight hours.

ACCOUNTING PRONOUNCEMENT

Financial Accounting Standards No. 128, EARNINGS PER SHARE, supersedes APB Opinion No. 15, EARNINGS PER SHARE, and specifies the computation, presentation, and disclosure requirements for earnings per share ("EPS") for entities with publicly held common stock or common stock equivalents. The statement replaces Primary EPS and Fully Diluted EPS with Basic EPS and Diluted EPS, respectively. Basic EPS, unlike Primary EPS, excludes all dilution while Diluted EPS, like Fully Diluted EPS, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Due to an immaterial difference between Primary and Fully Diluted EPS, the Company has historically only presented a single EPS. The Company in the future will present both Basic and Diluted EPS for income (loss) from continuing operations and net income (loss). The statement is effective for financial statements for both interim and annual periods ending after December 15, 1997. After adoption, all prior period EPS data will be restated. The adoption of the new statement will have minimal effect on the Company's EPS.

In February 1997, the Accounting Standards Board issued SFAS No. 129, DISCLOSURE OF INFORMATION ABOUT CAPITAL STRUCTURE. SFAS No. 129 consolidates the existing guidance in authoritative literature relating to a company's capital structure. SFAS No. 129 is effective for financial statements for periods ending after December 15, 1997. Capital structure disclosures required by this standard include liquidation preferences of preferred stock, information about the pertinent rights and privileges of the outstanding equity securities, and the redemption amounts for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates. Management of the Company does not



expect that adoption of SFAS No. 129 will have a material impact on the Company's financial statement disclosures.

LIQUIDITY AND CAPITAL RESOURCES

The Company reported cash flows from operating activities during the three months ended March 31, 1997 of $1.8 million, net of changes in the components of working capital. Additional sources of cash during the three months ended March 31, 1997 included long-term borrowings of $10.0 million. The Company's expenditures for property and equipment, including construction in progress, totaled $7.0 million and $9.5 million during the three months ended March 31, 1996 and 1997, respectively. Uses of cash during the first quarter of 1997 included repayment of $10.4 million of long-term borrowings and capital lease obligations and an increase in notes receivable of $337,000.

The Company reported cash flows from operating activities in 1996 of $22.4

million, net of changes in the components of working capital. Additional sources of cash in 1996 included long-term borrowings of $208.0 million, sales of additional Common Stock to MCI of $13.0 million, and payments on notes receivable of $288,000. The Company's uses of cash included payment of the cash portion of the consideration for the acquisition of the Cable Systems. The total purchase price for the acquisition of the Cable Systems was $280.1 million and was financed by the Company through the issuance to the sellers of the Cable Systems of approximately 14.7 million shares of Class A Common Stock (valued at $86.7 million), the payment of $72.8 million in cash, the assumption of approximately $110.6 million in existing indebtedness, and the issuance to one seller of $10.0 million in subordinated convertible notes. The notes were converted into approximately 1.5 million shares of Class A Common Stock in January 1997. Other uses of cash during 1996 included payment of a $9.1 million transponder purchase deposit, repayment of $5.0 million of long-term borrowings and capital lease obligations, purchase of $621,000 of Common Stock held by an officer, which stock is held in treasury to satisfy a deferred compensation obligation in lieu of satisfying the obligation in cash, payment of loan fees totaling $764,000, and investment in other assets.

The Company's expenditures for property and equipment, including construction in progress, totaled $38.6 million and $8.9 million during 1996 and 1995, respectively. The Company anticipates that its capital expenditures in 1997 will be between $60 million and $65 million. Planned capital expenditures over the next five years include $240.0 million to $260.0 million to fund expansion of long distance facilities, (including approximately $40.0 million for satellite transponders and approximately $125.0 million for new undersea fiber optic cable facilities which will be financed by GCI Transport Company) between $140.0 million and $160.0 million to fund development, construction and operating costs of its local exchange and PCS networks and businesses; and between $65.0 million and $85.0 million to upgrade its cable television plant and to purchase equipment for new cable television services. Sources of funds for these planned capital expenditures include net proceeds of the Offerings, internally generated cash flows and borrowings under the Company's Credit Facility and its separate committed financing for GCI Transport Company, all of which funds will be necessary to complete the Company's planned capital expenditures. Consummation of one Offering is not contingent upon consummation of the other Offering and there can be no assurance that the Debt Offering will be consummated. The Debt Offering is contingent upon the Company refinancing its Existing Credit Facilities. Without the proceeds from the Debt Offering, the Company may have to seek alternative financing for a portion of its business plan. In particular, if the Debt Offering is not consummated, the Company will need to obtain additional financing for its planned construction of the new undersea fiber optic cable facilities and certain elements of its planned local exchange and PCS networks. See "Risk Factors--Significant Capital Requirements; Concurrent Offerings," "Use of Proceeds" and "Business--Business Strategy."

The Credit Facility and the Notes will impose restrictions on the operations and activities of the Company, including requirements that the Company comply with certain financial covenants and financial ratios. Under the Credit Facility, Holdings may not permit the ratio of senior debt to annualized



operating cash flow of Holdings and its restricted subsidiaries to exceed 3.5 to 1.0, total debt to annualized operating cash flow to exceed 7.0 to 1.0, and annualized operating cash flow to interest expense to exceed 1.5 to 1.0. Each of the foregoing ratios decreases in specified increments during the life of the Credit Facility. The Credit Facility will also require Holdings to maintain a ratio of annualized operating cash flow to debt service of Holdings and its restricted subsidiaries of at least 1.25 to 1.0, and annualized operating cash flow to fixed charges of at least 1.0 to 1.0 (which adjusts to 1.05 to 1.0 in April, 2003 and thereafter). The Credit Facility will also limit capital expenditures of Holdings and its restricted subsidiaries to no more than $55.0 million, $90.0 million, and $65.0 million in 1997, 1998 and 1999, respectively. See "Description of Credit Facilities and Notes." The Notes will impose a requirement that the leverage ratio of GCI, Inc. and its restricted subsidiaries will not exceed 7.5 to 1.0 prior to December 31, 1999 and 6.0 to 1.0 thereafter, subject to the ability of GCI, Inc. and its restricted subsidiaries to incur specified permitted indebtedness without regard to such ratios.

Net receivables increased $7.1 million from December 31, 1995 to December 31, 1996 and $5.0 million from March 31, 1996 to March 31, 1997 resulting from: (i) increased MTS revenues in 1996 as compared to 1995 and in 1997 as compared to 1996; (ii) increased amounts due from other common carriers attributed to growth in their traffic carried by the Company; (iii) increased private line sales activity in 1996 as compared to 1995 and in 1997 as compared to 1996; and (iv) increases in receivables resulting from the Cable Systems acquisition.

The Company reported a working capital deficit of $27.3 million as of March

31, 1997. During April 1997 the Company extended the maturity of its Telephony Credit Facility from April 1997 to July 1997. Since the entire facility matures within the twelve-month period ending March 31, 1998, the outstanding balance as of March 31, 1997 was included in current maturities of long-term debt. Except for the classification of the Company's senior indebtedness as current, working capital at March 31, 1997 totaled $4.6 million, a $4.6 million decrease from working capital similarly recomputed at December 31, 1996.

INFLATION

The Company does not believe that inflation has a significant effect on its operations.



# BUSINESS

OVERVIEW

The Company is a diversified telecommunications provider with a leading position in facilities-based long distance service in the State of Alaska and, as a result of recent acquisitions, has become Alaska's leading cable television service provider. The Company seeks to become the first significant provider in Alaska of an integrated package of telecommunications and cable television services. Complementing its long distance, cable and cellular resale operations, the Company has announced plans to provide facilities-based competitive local exchange and wireless communications services in Alaska's major population centers. The Company expects to launch local exchange services in Anchorage in the second half of 1997. The Company also acquired a state-wide 30 MHz B-block PCS license in June 1995 for approximately $1.65 million (or about $3.00 per pop) and is currently evaluating various technologies for a proposed wireless PCS network.

The Company believes that the size and growth potential of the voice, video and data markets, the increasing deregulation of telecommunications services, and the increased convergence of telephony, wireless and cable services offer the Company considerable opportunities to integrate its telecommunications and cable services and expand into communications markets both within and, over the longer-term, outside of Alaska. The Company expects the rate of growth in industry-wide telecommunications revenues to increase as the historical dominance of monopoly providers is challenged as a result of deregulation. Considerable deregulation has already taken place in the United States as a result of the 1996 Telecom Act, with the barriers to competition among telecommunications, local exchange and cable providers being lowered. The Company believes that its acquisition of the Cable Systems and its development of local exchange service and PCS leave it well-positioned to take advantage of this deregulation process in telecommunications markets.

The Company began providing interstate long distance service in 1982 and began providing intrastate long distance service in 1991. The Company provides a full range of long distance services, including direct dial, 800, message toll, private line, private network, operator and calling and debit card services, to residential, commercial and governmental customers and to other common carriers. In addition, the Company sells data communication equipment and offers technical services.

The Company operates a state-of-the-art, competitive telecommunications network employing the latest digital transmission technology based upon fiber optic and digital microwave facilities within and among Anchorage, Fairbanks and Juneau, a digital fiber optic cable linking Alaska to the contiguous 48 states and providing access to other carriers' networks for communication around the world, and the use of satellite transmission to remote areas of Alaska (and for certain interstate traffic as well). As of March 31, 1997, the Company's long distance services were available, through the Company's network, to approximately 90% of total Alaskan access lines. As of March 31, 1997, the Company's residential customers were served by approximately 81,150 access lines, representing approximately 41% of all Alaskan residential presubscribed access lines. In addition, the Company had over 11,000 commercial, governmental and other common carrier customers who were served by approximately 57,600 access lines, representing approximately 48% of all presubscribed non-residential access lines in the State.

Effective October 31, 1996, the Company became the leading cable television services provider in Alaska upon its acquisition of the Cable Systems from several unrelated sellers for total consideration of approximately $280.1 million. The Cable Systems serve 21 communities and areas in Alaska, including the state's three largest urban areas, Anchorage, Fairbanks and Juneau. As of March 31, 1997, the Cable Systems passed 162,711 homes or approximately 70% of all households in Alaska and served approximately 104,400 subscribers (92,940 equivalent basic subscribers), representing 64% of households passed by the Cable Systems. As of March 31, 1997, the Cable Systems consisted of approximately 1,765 miles of installed cable plant having between 300 and 450 MHz of channel capacity.



BUSINESS STRATEGY

The Company's goal is to become the first significant provider of integrated voice, video and data services in Alaska while maximizing growth in its revenues and net income. The Company's strategies to achieve this objective fall generally into four broad categories: (i) integrate the Company's telecommunications and cable operations, (ii) expand the scope of the Alaskan voice, video and data markets that the Company will address, (iii) increase the Company's penetration of these markets, and (iv) improve the Company's consolidated operating margins and utilization of the Company's capital resources. These broad strategies are discussed below. The Company's strategic focus over the next several years will be on Alaska. On a longer-term basis, the Company may consider growth opportunities outside Alaska, especially in areas of the world with demographics and infrastructure characteristics similar to those of Alaska.

INTEGRATE TELECOMMUNICATIONS AND CABLE OPERATIONS

The Company has begun integrating the Cable Systems into its preexisting operations. As part of this integration, the Company plans to combine the marketing and sales organizations, the billing systems, MIS and customer service organizations of the Cable Systems with those of the Company's historical operations. This integration will enable the Company to coordinate the marketing of its telecommunications and cable services to the full range of the Company's customers, promote introduction of new products and services, leverage consumer awareness of the GCI brand name and provide its customers with a single bill and point-of-contact for customer service. The Company estimates that the essential elements of this integration will be completed by late 1997.

EXPAND ADDRESSABLE MARKET

As a result of its acquisition of the Cable Systems, the Company has expanded its addressable market in Alaska to include both long distance and cable services, which markets generated approximately $450 million in revenues in 1996 for all providers of such services in Alaska. Following its introduction of local exchange and wireless services, the Company's addressable market will expand to approximately $800 million in total.

The Company intends to offer local exchange services in Anchorage and other major Alaskan population centers principally using its own network facilities. The Company expects to provide local exchange services initially in Anchorage in the second half of 1997. The Company has installed 38 miles of a planned 130-mile fiber optic network in Anchorage, installed a Lucent 5ESS switch with both local and long distance capabilities and has entered into an agreement with the encumbent LEC, ATU, to interconnect the Company's network with that of ATU and to purchase unbundled local loops necessary to provide local service. The Company's agreement with ATU has been approved by the APUC. The Alaskan local service market generated approximately $320 million in revenues in 1996, approximately 34% of which were attributable to Anchorage. The Company anticipates expanding its local service to the Fairbanks and Juneau markets during 1998 and to other markets during 1999, subject to negotiating acceptable interconnection arrangements with the LECs serving those markets and to obtaining the necessary regulatory approvals.

The Company plans to enter the facilities-based wireless communications market through development of a PCS network. The Company believes that PCS technology, if successfully implemented, will offer advantages over existing analog cellular technology, such as superior audio quality, additional features, better compatibility with wireline services, and longer battery life. PCS technology is particularly suited for use in Alaska, which has relatively small, dense population clusters in many geographically remote areas. The Company estimates that the Alaskan cellular services market generated approximately $35 million in total revenues in 1996.



INCREASE PENETRATION OF ALL MARKET SEGMENTS

The Company believes that by offering a variety of branded telecommunications and cable services, by increasing consumer awareness and leveraging brand equity, and by emphasizing customer service and rewarding consumer loyalty, it will be well-positioned to improve customer retention rates and to increase its market share in all service categories. The Company believes that substantially all of its long distance and cable television customers are potential wireless and local service customers. Cross-selling opportunities also exist between the Company's long distance customers and its cable customers. The Company estimates that, as of March 31, 1997, approximately 59% of the Company's residential cable subscribers did not obtain long distance service from the Company and that approximately 23% of the Company's total long distance customers and 27% of the Company's residential long distance customers were passed by the Cable Systems but did not buy cable service.

The Company plans significant upgrades to the existing cable plant in order to expand channel capacity, add new services, improve network quality and reliability and reduce theft. The Company expects that, by expanding customers' service options, it will attract new customers, increase average revenue per subscriber and reduce customer attrition rates. Currently, the Cable Systems have between 300 and 450 MHz of channel capacity, or enough capacity to carry between 36 and 60 channels. Over the next two years, the Company plans to increase the capacity of the Cable Systems to between 450 and 550/750 MHz of channel capacity, or enough capacity to carry between 60 and 76 channels.

The Company plans to begin offering cable modems in the fourth quarter of 1997. Cable modems represent a new technology which offers significantly faster access to the Internet and other on-line data services than other currently available technologies. The Company believes that Alaskans have a greater propensity to access the Internet than consumers in other states for a variety of reasons. Alaskans on average have completed more years of formal education and have a higher per capita income and mean household income than the U.S. average. Purchasing power is also enhanced by the lack of a state income tax and the annual Permanent Fund dividend that each resident, regardless of age, receives from the State (over $1,100 per person in 1996). In markets outside of Anchorage, Fairbanks and Juneau, the limited availability of traditional sources of information such as libraries, universities and museums contribute to heavy use of the Internet as an information, education and communication resource. In addition to offering cable modems, the Company plans to offer certain specialized telecommunications services to support distance education and telemedicine in rural areas of the State. Rural Alaskans often do not have access to medical professionals within their community and the use of a communication network to deliver a wide range of telemedical services (voice, video and data) enhances the quality and timeliness of the services delivered while concurrently reducing the overall cost of delivery. Likewise, the educational infrastructure is limited in many areas of rural Alaska and distance education services are being deployed to provide specialized curricula to smaller village schools. Like telemedical services, distance education services both improve the quality of education and reduce the cost of delivery.

IMPROVE CONSOLIDATED OPERATING MARGINS AND CAPITAL UTILIZATION

The Company believes that the combination of its long distance, local, wireless communications and cable operations will enable it to achieve better overall operating margins than would be possible if these operations were managed as stand-alone enterprises. The Company expects to achieve certain efficiencies by combining the marketing, sales, customer service, MIS and administrative organizations of the Cable Systems with each other and with those of the Company's preexisting operations. The Company also expects that its planned provision of local services, while a potentially significant source of revenues, will coincidentally result in a significant reduction in the Company's local access fees paid to Alaskan LECs. Access fees charged to the Company by incumbent Alaskan LECs for the use of their local networks to originate or terminate long distance calls totaled $36.4 million in 1996, or approximately 28.2% of the Company's long distance revenues for this period. The Company estimates that the



average access charge payable by it to Alaskan LECs for originating or terminating interstate access is approximately $0.043 per minute of traffic and for originating or terminating intrastate access is approximately $0.07 per minute of traffic (or a total of approximately $0.14 for originating and terminating access).

In addition, the Company expects to leverage its investment in existing cable plant and rights-of-way by, in some cases, overlaying (or using existing) fiber optic cable for telephony or PCS applications. The incremental cost of such network enhancements, especially when combined with planned upgrades to the existing cable plant, is significantly less than the cost of building entirely new network facilities.

ALASKAN VOICE, VIDEO AND DATA MARKETS

The Alaskan voice, video and data markets are unique within the United States. Alaska is physically distant from the rest of the United States and is characterized by large geographical size and relatively small, dense population clusters (with the exception of major population centers such as Anchorage, Fairbanks and Juneau). It lacks a well-developed terrestrial transportation infrastructure, and the majority of Alaska's communities are accessible only by air or water. As a result, Alaska's telecommunications networks are different from those found in the lower 49 states. Alaska today relies extensively on satellite-based transmission for intrastate calling between remote communities where investment in a terrestrial network would be uneconomic or impractical.

Also, given the remoteness of Alaska's communities and, in many cases, lack of major civic institutions such as hospitals, libraries and universities, Alaskans are dependent on telecommunications to access the resources and information of large metropolitan areas in the rest of the U.S. and elsewhere. In addition to satellite-based communications, the telecommunications infrastructure in Alaska includes traditional copper wire, digital microwave links between Anchorage and Fairbanks and Juneau and fiber optic cable. For interstate and international communication, Alaska is currently connected to the lower 48 states by undersea fiber optic cable with a capacity of nine DS3s and is backed-up by additional satellite capacity. Calls to Hawaii and international calls are routed from the lower 48 states by various means.

Prior to 1982, Alascom, Inc. ("Alascom") was the sole long distance carrier in Alaska. Alascom was required to maintain a number of low bandwidth links and expand service to remote or less-developed areas of the state. Interstate rates initially charged for Alaskan telecommunications services were substantially higher than interstate rates in the contiguous states. In 1972, the FCC established a policy of rate integration intended to equalize all domestic interstate rates based on distances of calls. This policy was used to support a subsidy mechanism to help Alascom cover higher costs associated with rural operations. When the Company began providing interstate long distance service in 1982, AT&T provided almost all of the telecommunications services in the lower 49 states, and Alascom provided almost all of the long distance telecommunications services in Alaska and between Alaska and the lower 49 states and foreign countries. Although Alascom's business was highly subsidized, the Company competed in long distance services against Alascom without the advantage of a subsidy. In 1983, the State of Alaska petitioned the FCC to initiate a rulemaking to determine how to rationalize the policies of rate integration and competition in the Alaskan market in light of the rapid changes in the telecommunications industry brought on by the AT&T divestiture and changing FCC competition policies. This action ultimately led to a negotiated buyout of Alascom from Pacific Telecom, Inc. ("PTI") by AT&T in August 1995 for consideration of approximately $290 million. After the buyout, Alascom changed its name to AT&T Alascom. See "--Competition" and "--Regulation."

The Alaskan telecommunications business today comprises three distinct markets: long distance services (interstate and intrastate), local exchange services and wireless communications services (cellular and, eventually, PCS). In the long distance market, the Company competes against AT&T Alascom and ATU, and may in the future compete against other new market entrants. In the local exchange market, the Company will compete against various incumbent local exchange carriers, including ATU in the Anchorage area and PTI in Juneau. In June 1997, Century Telephone Enterprises,



Inc. announced an agreement to purchase PTI. PTI is also expected to be the local exchange carrier in Fairbanks by the end of 1997. In the wireless communications market, the Company's PCS business expects to compete against the cellular subsidiaries of AT&T and ATU in the Anchorage market and the cellular subsidiaries of PTI and others outside of Anchorage. Other PCS providers may compete against the Company as well, although the Company is unable to determine the extent of this competition at the present time. For calendar year 1996, the aggregate telecommunications market in Alaska generated revenues of approximately $738 million. Of this amount, approximately $383 million was attributable to interstate and intrastate long distance service, approximately $320 million was attributable to local exchange services, and approximately $35 million was attributable to wireless communications services. Over the five-year period ended December 1996, these markets have grown, in aggregate, at a compounded annual rate of approximately 6%. Over the same period, the long distance, local and cellular markets have individually grown at compounded annual rates of approximately 6%, 5% and 22%, respectively.

The market for programmed video services in Alaska includes traditional broadcast television, cable television, wireless cable, and direct broadcast satellite ("DBS") systems. The urban centers in Alaska are served by broadcast television stations including network affiliates and independent stations. Anchorage, Fairbanks and Juneau are served by seven, four and two broadcast stations, respectively. In addition, several smaller communities such as Bethel are served by one local television station. Approximately 240 rural communities receive a single state-sponsored channel of television by a satellite dish and a low power transmitter. Anchorage and Fairbanks are served by a UHF subscription television operator that has been successful in gaining customers, particularly in areas not served by cable. Additionally, Anchorage is served by a MMDS operator that has made minor inroads into the Company's cable customer base.

In Alaska, cable television was introduced in the 1970s to provide television signals to communities with few or no available off-air television signals and to communities with poor reception or other reception difficulties caused by terrain interference. Since that time, as on the national level, the cable television providers in Alaska have added non-broadcast programming, utilized improved technology to increase channel capacity and expanded service markets to include more densely populated areas and those communities in which off-air reception is not problematic.

Recently, both broadcast television and cable operators have had to compete against new entrants to the market including wireless cable and DBS operators. In cities with higher population densities, MMDS or wireless cable operators can now deliver video signals to homes with line-of-sight access to the transmitting location. In both urban and rural locations, DBS operators offer satellite-based programming packages to subscribers. Because of Alaska's high latitude, DBS signals are not as strong as they are in the lower 48 states and currently require the use of receiving dishes that are substantially larger (ranging generally from three feet to six feet in diameter) than those required in the lower 48 states. In addition, the relatively low altitude above the horizon of DBS satellites in the eastern portion of the satellite arc when viewed from Alaska makes their signals subject to blockage from mountains, buildings and other structures. MMDS also requires that customers' receiving antennas have line-of-sight access to transmitting radio towers, and both MMDS and DBS signals are subject to interference from rain, snow and wind. Future satellite launches may provide enhanced service and signal quality to DBS providers operating in Alaska. Recent published reports indicate that there has been a substantial increase in the number of DBS subscribers in the United States in recent years. Thus, although it is difficult to assess the ultimate impact that DBS will have on the cable industry or upon the Company's financial condition and results of operations, DBS services may pose a significant competitive threat to cable television systems.

At present, 21 communities and areas in Alaska, including the state's three largest urban areas (Anchorage, Fairbanks and Juneau) are served by the Cable Systems. As of March 31, 1997, the Cable Systems passed 162,711 homes or approximately 70% of all households in Alaska and served approximately 104,400 subscribers (92,940 equivalent basic subscribers), representing 64% of households



passed by the Cable Systems. It is difficult if not impossible to determine the exact number of homes passed by cable in Alaska because many rural communities served by cable are very small and the cable systems are independently owned and operated. A number of cable operators other than the Company provide cable service in Alaska, although the Company does not believe any cable operators are currently providing service in the areas served by the Cable Systems. All of these companies are relatively small, with the largest having fewer than 6,000 subscribers. Aggregate revenues for all providers in the Alaskan cable television market are estimated to be $62.0 million for 1996, a 4.0% increase over the prior year.

## LONG DISTANCE OPERATIONS

### SERVICES

The Company commenced providing interstate long distance service in November 1982 and commenced providing intrastate long distance service in May 1991. The Company provides a full range of long distance services, including direct dial, 800 message toll, private line, private network, operator, and calling and debit card services, to residential, commercial and government customers and to other common carriers. The Company also sells data communication equipment and offers technical services.

As of March 31, 1997, approximately 90% of total Alaskan access lines were accessible through the Company's satellite, fiber optic or leased digital microwave networks. As of March 31, 1997, the Company's residential customers were served by approximately 81,150 access lines, representing approximately 41% of all Alaskan residential presubscribed access lines. In addition, the Company had over 11,000 commercial, governmental and other common carrier customers who were served by approximately 57,600 access lines, representing approximately 48% of all non-residential presubscribed access lines in the State. All service areas constructed prior to January 1, 1996 in which the Company has facilities have completed the equal access balloting process (which permits customers, by completing a ballot, to designate their preferred long distance carrier). Among these communities, the Company carries 33% to 49% of the southbound interstate message toll service ("MTS") traffic and 21% to 48% of the intrastate MTS traffic originating in these service areas. Among the sites constructed in 1996, the communities of Barrow, Bethel, Nome, Togiak and Unalakleet have completed the equal access balloting process. The communities of Ekwak, New Stuyahok, Kollganek and Levelock also completed the equal access balloting process in 1997. The Company is currently negotiating equal access conversion with the LECs in the remainder of the sites constructed in western Alaska during 1996.

The Company provides interstate and intrastate switched MTS and private line and private network communication services between the major communities in

Alaska, and to and from the lower 49 states and foreign countries. The Company's message toll services include intrastate, interstate and international direct dial, 800, calling and debit card, operator and enhanced conference calling, as well as termination of northbound toll service for MCI, Sprint and several resellers who do not have facilities of their own in Alaska. The Company also provides origination of southbound calling card and 800 toll services for MCI and Sprint customers. Regulated telephone relay services for the deaf, hard-of-hearing and speech-impaired are provided through the Company's operator service center. The Company offers its message toll services to commercial, residential, government and other common carrier customers. Subscribers may generally cancel service at any time. Toll related services accounted for approximately 82.7% of the Company's total telecommunications services revenues in 1996. Private line and private network services utilize voice and data transmission circuits, dedicated to particular subscribers, which link an office in one location to another in a different location. The Company provided private line and private network communication products and services to approximately 769 commercial and government accounts in 1996. Private line and private network communication products and services generated $14.9 million in revenue in 1996 or approximately 9.6% of total telecommunications services revenues.



Although the Company has several agreements to facilitate the origination and termination of international toll traffic, it has neither foreign operations nor export sales. Revenues associated with international toll traffic were $6.3 million in 1996.

The following table summarizes the Company's switched MTS traffic minutes for the periods indicated:

<TABLE>
<CAPTION>

| FOR YEAR ENDED DECEMBER 31, | INTERSTATE MINUTES SOUTHBOUND (TO LOWER 49 STATES) | NORTHBOUND (FROM LOWER 49 STATES) | CALLING CARD | INTRASTATE MINUTES | INTER-NATIONAL MINUTES | TOTAL |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| | | | (AMOUNTS IN THOUSANDS) | | | |
| 1993 | 203,652 | 144,994 | 16,260 | 70,107 | 4,251 | 439,264 |
| 1994 | 231,226 | 158,059 | 17,466 | 79,641 | 5,318 | 491,710 |
| 1995 | 263,023 | 176,893 | 18,215 | 93,370 | 6,385 | 557,886 |
| 1996 | 326,471 | 209,154 | 26,459 | 121,208 | 7,524 | 690,816 |

</TABLE>

In addition to providing communication services, the Company designs, sells, services and operates, on behalf of certain customers, dedicated communication and computer networking equipment and provides field/depot, third party, technical support, consulting and outsourcing services through its systems sales and service business. The Company's equipment sales and services revenue was $9.8 million in the year ended December 31, 1996, or approximately 6.3% of total telecommunications services revenues. The Company has expanded its technical services business to include outsourcing, onsite technical contract services and telecommunications consulting. The Company manages substantially all of the telecommunications and computer networking assets of BP Exploration (Alaska), the largest oil company presently operating in Alaska, pursuant to a contract that expires on December 31, 1997. The Company is currently negotiating a three-year extension of such contract and expects to finalize the extension shortly. The Company was also awarded a six-year contract, effective October 31, 1995, to assume management responsibility for all of the telecommunications and computer networking assets of National Bank of Alaska.

SIGNIFICANT CUSTOMERS

In 1993, the Company entered into a significant business relationship with MCI which includes the following agreements: (i) the Company agreed to terminate all Alaska-bound MCI long distance traffic and MCI agreed to terminate all of the Company's long distance traffic terminating in the lower 49 states, excluding Washington, Oregon and Hawaii (the "MCI Traffic Carriage Agreement"); (ii) MCI licensed certain service marks to the Company for use in Alaska; (iii) MCI, in connection with providing to the Company credit enhancement to permit the Company to purchase a portion of an undersea cable linking Seward, Alaska, with Pacific City, Oregon, leased from the Company all of the capacity owned by the Company on the undersea fiber optic cable and the Company leased such capacity back from MCI; (iv) MCI purchased certain service marks of the Company; and (v) the parties agreed to share some communications network resources and various marketing, engineering and operating resources. The Company also handles MCI's 800 traffic originating in Alaska and terminating in the lower 49 states and handles traffic for MCI's calling card customers when they are in Alaska, while MCI originates calls for the Company's calling card customers when they are in the lower 49 states. Concurrently with entering into the MCI Traffic Carriage Agreement, MCI purchased approximately 31% of the then outstanding Class A Common Stock and approximately 31% of the then outstanding Class B Common Stock and presently controls nominations to two seats on the Board pursuant to the Voting Agreement. Concurrently with the Company's acquisition of the Cable Systems, MCI purchased an additional 2.0 million shares of Class A Common Stock for $13.0 million or $6.50 per share, a 30% premium to the market price of $5.00 per share immediately preceding the announcement of the Company's acquisition of the Cable Systems. As of June 30, 1997, MCI owned 22.6% of the outstanding combined Common Stock, representing 26.6%



of the total voting power of the Common Stock. After giving effect to the Stock Offering, MCI will own 19.4% of the outstanding combined Common Stock, representing 24.5% of the total voting power of the Common Stock. See "--Cable Television" and "Principal and Selling Shareholders."

Revenues attributed to the MCI Traffic Carriage Agreement, which expires in 2001, were approximately $29.2 million in 1996, or approximately 17.7% of total revenues. The contract was amended in 1996 to reduce the rate to be charged by the Company for southbound MCI traffic for the period April 1, 1996 through July 1, 1999 and thereafter. The rate reduction, if applied to the number of southbound minutes carried by the Company in all of 1996, would have been approximately $570,000.

In 1993, the Company entered into a long-term agreement with Sprint pursuant to which the Company agreed to terminate all Alaska-bound Sprint long distance traffic and Sprint agreed to handle substantially all of the Company's international traffic. Services provided to Sprint pursuant to the contract, which expires in 1999, resulted in revenues in 1996 of $18.8 million, or 11.4% of total revenues.

NETWORK

The Company operates a state-of-the-art, competitive telecommunications network employing the latest digital transmission technology based upon fiber optic and digital microwave facilities within and between Anchorage, Fairbanks and Juneau, a digital fiber optic cable linking Alaska to the lower 48 states and providing access to other carriers' networks for communication around the world, and the use of satellite transmission to remote areas of Alaska (and for certain interstate traffic as well).

The Company's C-band satellite network currently uses six leased C-band transponders on the Galaxy IX satellite and will transition to six owned C-band transponders on the Galaxy X satellite that is expected to be launched in mid-1998. The Company's MTS services and private line and network services (excluding VSAT services) are distributed primarily via its C-band satellite network which is also used for transmissions to remote areas of Alaska. In connection with its C-band distribution network, the Company owns and operates five 13-meter earth stations in Anchorage, Fairbanks and Juneau, Alaska, Issaquah, Washington and Dallas, Texas. In addition, the Company owns and operates six 9-meter and three 7-meter earth stations throughout the State. The Company also owns 49% of a 13-meter earth station on Adak Island, providing MTS and private line services. During 1996, the Company installed its six 9-meter earth stations in Barrow, Kotzebue, Nome, Bethel, Dillingham, and King Salmon, Alaska.

The Company also uses its C-band satellite capacity to operate a Demand Assigned Multiple Access ("DAMA") satellite network to serve rural communities in Alaska, which includes features of both a toll switch and a satellite transmission network. Most existing satellite technology relies on fixed channel assignments to a central hub. The Company's DAMA communication technology, developed in 1994, 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. The Company has obtained the necessary APUC and FCC approvals waiving current prohibitions against construction of competitive facilities in rural Alaska. A four-module demonstration system was constructed in 1994 and was integrated into the Company's telecommunications network in 1995. The Company's 56-site DAMA project in rural communities of Alaska is substantially complete, and half of the sites are currently providing service. The DAMA system is currently capable of interfacing with LECs using standard toll to local office signaling protocols. A signaling system number 7 ("SS7") interface to DAMA signaling capabilities is currently under development, as is an integrated services digital network ("ISDN") rate interface capability.

The Company's Ku-band satellite network uses one leased Ku-band transponder on the Hughes SBS5 satellite and will transition to an owned Ku-band transponder on the Galaxy X satellite once that satellite is successfully launched. The Ku-band network is higher power and is used primarily for point-to-point data communications. The Company's Ku-band network comprises an 8.1-meter hub station located in Anchorage and a 7.3-meter hub station located near Seattle, Washington from which the

Company provides services to 98 VSAT earth stations located throughout the state of Alaska and 6 VSAT earth stations in the lower 48 states. Substantially all of these VSAT earth stations are owned by the Company's customers.

The majority of the Company's interstate long distance traffic is carried to and from the contiguous 48 states over the Seward, Alaska branch of the undersea fiber optic cable that connects Pacific City, Oregon to Miura, Japan. Of the nine DS3s of capacity between Seward and Pacific City in this undersea cable, the Company owns one and leases 57% of another DS3 channel.

The Company utilizes leased digital microwave facilities to carry long distance traffic within and between Anchorage, Fairbanks and Juneau. These facilities are leased from AT&T Alascom under agreements that provide for annual lease payments of approximately $2.4 million in 1997, $2.5 million in 1998 and decreasing to approximately $662,000 in 1999. The Company's business plan anticipates a reduction in its use of leased digital microwave facilities from AT&T Alascom as it expands its own facilities.

The Company's switched network consists of three medium capacity Digital Switch Corp. DEX digital toll switches located in Anchorage, Fairbanks and Juneau, the three main urban centers in Alaska. The Company owns and operates these switching centers as well as a fourth digital toll switch in Seattle, Washington. The Company leases switching capacity in Dallas, Texas from GTE Telecom. These switches provide a wide range of toll services including routing of direct dial, calling card, toll free and operator assisted calls.

Since 1990, the Company has utilized SS7 in its main toll switched network to speed call setup and provide enhanced service. In 1993, the Company began SS7 interconnection with other interexchange carriers and local exchange carriers so that approximately 75% of the state's interstate direct dial and toll free (800 and 888) traffic is currently processed using SS7 signaling. The Company leases and operates a toll tandem switch located in Anchorage that provides the Company's first intelligent network service for routing of toll free calls.

The Company's future switched network plans call for consolidating its network on new combined long distance and local switches. Such a switch (a Lucent 5ESS switch) was installed in Anchorage for activation in April 1997 and was interconnected with the incumbent LEC's network in May 1997 for the exchange of local access traffic. Additional 5ESS combined long distance/local switches are planned for installation in Fairbanks and Juneau in 1998 and in Seattle, Washington in 2000. These new switching systems will enable the Company to offer local and long distance traffic, as well as operator assisted calls, via a single switching platform. The switches will be service switching point ("SSP") functional, allowing the removal of the Company's current leased toll tandem switch. In early 1998, the Company plans to add enhanced SS7 signaling capabilities and to introduce advanced intelligent network switched services.

The Company plans to construct a state-of-the-art undersea fiber optic network connecting Anchorage, Alaska to Seattle, Washington, with a spur to Juneau and a terrestrial connection to Fairbanks. The system will use optical amplifiers and is designed to accommodate growth from an initial equipped capacity of OC-48 on each city-pair segment to at least OC-192 by the addition of terminal equipment at the landing stations. The physical configuration will include a cable extending from the Seattle, Washington landing station to the Whittier, Alaska landing station with an offshore branching unit connected to the Juneau landing station. Redundant, ring-protected inland extensions will be constructed from the Whittier and Seattle landing stations to their adjacent primary cities. At Juneau, the Company's existing fiber network will provide the inland extension. The submarine cable portion of the project will be constructed on a turn-key basis by the Company's supplier. The Company has completed the necessary marine survey and expects to enter into a supply contract in time to allow the beginning of commercial service in late 1998. The anticipated service life of the cable is 25 years.



The traffic patterns experienced by the Company in the Alaskan market vary by location. The majority of interstate traffic is carried to and from the lower 49 states by undersea fiber optic cable, with some traffic carried by leased digital microwave facilities and satellite. In Anchorage, 98% of interstate long distance traffic is routed to and from the lower 49 states via undersea fiber and 2% of interstate traffic is routed via satellite. In Fairbanks, interstate traffic is split 45% on a combined route of leased digital microwave facilities and undersea fiber and 55% routed via satellite. Juneau's interstate traffic is routed entirely by satellite. Anchorage's intrastate traffic to Fairbanks is routed via leased digital microwave facilities and intrastate traffic to Juneau is routed 48% by leased digital microwave facilities and 52% by satellite. Intrastate traffic between Juneau and Fairbanks is carried by leased digital microwave facilities. In addition, the Company carries some traffic between Juneau and Ketchikan and Sitka via leased digital microwave facilities. All other intrastate traffic is carried predominantly by satellite.

The Company recently installed a new network monitoring and control center in Anchorage, Alaska. The new control center enables the Company to centralize its network personnel and to remotely monitor and reconfigure the network as needed. This capability will result in more efficient use of the Company's personnel for maintenance of the Company's facilities.

CABLE TELEVISION

The Cable Systems serve 21 communities and areas in Alaska including Anchorage, Fairbanks and Juneau, the state's three largest urban areas. As of March 31, 1997, the Cable Systems passed 162,711 homes or approximately 70% of all households in Alaska and served approximately 104,400 subscribers (92,940 equivalent basic subscribers), representing 64% of households passed by the Cable Systems. As of March 31, 1997, the Cable Systems consisted of approximately 1,765 miles of installed cable plant having between 300 and 450 MHz of channel capacity (or enough capacity to carry between 36 and 60 channels). On a pro forma basis, assuming the Cable Systems had been acquired by the Company as of January 1, 1996, the Cable Systems generated pro forma revenues for the year ended December 31, 1996 of approximately $55.3 million and EBITDA before management fees of approximately $27.0 million, or 48.8% of pro forma cable revenues. Pro forma revenues and EBITDA from cable services would have represented 26.3% and 54.9%, respectively, of the Company's consolidated revenues and EBITDA for 1996.

The following table sets forth selected combined operating data regarding the Cable Systems as of December 31, 1994, 1995 and 1996. All data is approximate and excludes data from two immaterial cable systems.

<TABLE>
<CAPTION>

| | AS OF DECEMBER 31, | | | AS OF MARCH 31, |
|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 |
| Homes passed | 157,278 | 159,486 | 162,395 | 162,711 |
| Equivalent basic subscribers | 92,623 | 94,502 | 93,391 | 92,940 |
| Basic penetration | 58.9% | 59.3% | 57.5% | 57.1% |
| Premium service units | --(1) | --(1) | 77,609 | 75,521 |
| Premium penetration | --(1) | --(1) | 83.1% | 83.1% |
| Average monthly revenue per equivalent basic subscriber | $ 45.16 | $ 46.76 | $ 50.73 | $ 48.98 |

</TABLE>

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(1) Comparable information is not available.

REGIONAL CABLE SYSTEMS

For internal management purposes, the Company has recently divided its cable television systems into five regions, the Anchorage, Arctic, Interior, Southcentral and Southeast regions. Most of the



subscribers of the Cable Systems are located in Anchorage (the largest of the systems), the Interior region (which includes Fairbanks) and the Southeast region, which includes Juneau.

ANCHORAGE REGION. The Anchorage Region includes cable systems serving Anchorage, Eagle River, Chugiak, Fort Richardson and Elmendorf Air Force Base. As of March 31, 1997, the Anchorage cable system passed 100,926 homes and had 62,127 basic subscribers. The Anchorage cable system offers basic service that includes 18 channels. In addition, subscribers can subscribe to a cable programming service tier ("CPST") which includes 26 channels or a new product tier ("NPT") which includes TNT, CNN, Discovery, America's Talking, Outdoor Life and the Sci-/Fi Channel. Each optional tier is available at additional cost. The Anchorage system is fully addressable, with all optional services (other than broadcast basic) scrambled. Average monthly revenues per subscriber in the region for 1996 were $45.60. The Anchorage system currently has 885 miles of 450 MHz plant installed, of which 337 miles are overhead and 548 miles are underground. The Company is upgrading the Anchorage system to a 550/750 MHz hybrid fiber optic and coaxial cable network, including the installation of approximately 130 miles of fiber optic cable. As of March 31, 1997, approximately 38 miles of fiber optic cable had been installed, with completion expected in 1998. The fiber optic plant will originally support a 550 MHz analog platform with 200 MHz reserved for digital services. This fiber network will also be used in conjunction with the Company's planned local exchange and PCS operations in Anchorage.

SOUTHEAST REGION. The Southeast Region includes cable systems serving Juneau, Sitka, Petersburg, Ketchikan and Wrangell. These systems passed 22,676 homes and had 18,416 basic subscribers as of March 31, 1997. The Juneau cable system offers an 11-channel basic service package and two CPSTs, including CPST 1 that includes basic service plus an additional four channels and CPST 2 which includes basic service plus an additional 34 channels. The Ketchikan cable system offers an eight channel basic service and a CPST 1 which includes basic service plus an additional 33 channels and a CPST 2 which includes basic service, CPST 1 and an additional four channels. The Sitka cable system offers an eight channel basic service and an expanded basic service which adds 38 additional channels to the basic service offering. The Petersburg and Wrangell cable systems offer basic service which includes three channels, one of which is a Public Broadcasting System ("PBS") channel. The CPST 1 includes basic service and either 24 or 25 channels, and the CPST 2 adds an additional eight to 14 channels. In addition, both systems offer four to five channels of premium pay service. Average monthly revenues per subscriber in the region for 1996 were $44.97. The Juneau system was recently rebuilt to support a 450 MHz platform using a fiber optic cable backbone. Sitka and Ketchikan are both also at 450 MHz , and Petersburg and Wrangell are expected to be upgraded to 450 MHz in 1997 from their current 300 and 330 MHz levels, respectively. Juneau is the only cable system that is currently subject to rate regulation by the APUC; such regulation extends only to the basic service tier.

INTERIOR REGION. The Interior Region includes cable systems serving Fairbanks, Eielson Air Force Base, Fort Greeley, Fort Wainwright and the community of North Pole. The Fairbanks cable system offers a "limited service" tier which includes 12 channels and no pay-per-view service. In addition, a "satellite service" option is available at additional cost which includes the limited service options plus 24 additional channels. These systems passed 20,605 homes and had 9,901 basic subscribers as of March 31, 1997. Average monthly revenues per subscriber in the region for 1996 were $40.24. Fairbanks will be upgraded to a 450 MHz system in December 1997 and subsequently to 550 MHz, with the four headends in the region slated to be interconnected with fiber optic links and additional fiber optic cable to be deployed to give the primary headend a direct link to local broadcasters. This will substantially improve network feeds, especially for the area's military bases and the community of North Pole.

SOUTHCENTRAL REGION. The Southcentral Region includes cable systems serving Cordova, Homer Kenai, Kodiak, Seward, Soldotna and Valdez. The Kodiak, Valdez and Cordova cable systems generally include basic service which includes three channels, one of which is a PBS channel. The CPST 1 in these markets includes basic service and either 24 or 25 channels and the CPST 2 adds an additional eight to



14 channels. In addition, the Valdez and Cordova systems offer four to five channels of premium pay service and the Kodiak system is capable of eight channels of premium pay services and three channels of pay-per-view programming. In 1994, the Kodiak system was rebuilt to add addressability and the additional channel capacity. The Kenai cable system offers a basic service including 32 channels as well as pay-per-view services. The Seward cable system includes 39 channels packaged into two levels of service. The basic service includes three channels, one of which is a PBS channel. The CPST 1 includes basic service and 30 additional channels and five channels of premium pay services are also offered. All of the channels, with the exception of local origination programming, are received via satellite. In addition, the system provides 12 channels to 300 outlets in a State of Alaska correctional facility through a separate receive and headend site. The Homer cable system offers a basic service consisting of seven channels, including three local translator channels. A CPST, available at additional cost, adds an incremental 29 channels. All of the channels, with the exception of the local translator channels and local origination programming, are received via satellite. The Homer system is fully addressable and five channels of premium pay services are available. These systems passed 14,858 homes and had 10,992 basic subscribers as of March 31, 1997. Average monthly revenues per subscriber in the region for 1996 were $43.01. Bandwidths for cable plant in the region vary from 300 to 450 MHz. The Company plans to upgrade all cable plant in the region to 450 MHz during the second half of 1998.

ARCTIC REGION. The Arctic Region includes cable systems serving Bethel, Kotzebue and Nome. The Bethel cable system offers a basic service package consisting of 14 channels and a CPST which adds 13 channels at an additional cost per month. The Kotzebue and Nome cable systems offer basic service which includes three channels, one of which is a PBS channel. The CPST 1, which includes basic service, also includes either 22 or 24 channels and CPST 2 provides an additional eight or nine channels. In addition, both systems offer four to five channels of premium service. All of the channels, with the exception of one local translator and the local origination programming, are received via satellite. These systems passed 3,646 homes and had 2,987 basic subscribers as of March 31, 1997. Average monthly revenues per subscriber in the region for 1996 were $61.31. Bandwidths for cable plant in the region vary from 300 to 450 MHz. The Company plans to upgrade all cable plant in the region to 450 MHz during the second half of 1998.

INTEGRATION WITH TELECOMMUNICATIONS OPERATIONS

In early 1997, the Company began integrating various telecommunications and cable functions, including sales and marketing, customer service, public relations, MIS, accounting and finance, human resources, and purchasing. In connection with this functional integration, the Company intends to create a billing system which will provide customers the option of receiving a single bill for all services provided by the Company and to provide a single point of contact for customer service. The Company believes that integration of these functions will help maintain consistent policies and procedures within the Company, will increase efficiency by reducing duplicative effort and expense, and will enhance the Company's ability to cooperatively brand, market and promote its telecommunications and cable services. The Company estimates that the essential elements of this integration will be completed by late 1997.

PRIME MANAGEMENT AGREEMENT

In connection with its acquisition of the Cable Systems, the Company entered into the Prime Management Agreement with Prime Management to manage the Cable Systems. Assuming the Stock Offering is completed, the Voting Prime Sellers will own 18.0% of the total outstanding combined Common Stock and will control nominations to two seats on the Board pursuant to the Voting Agreement. See "Management--Voting Agreements" and "Principal Selling Shareholders."

Under the Prime Management Agreement, the Company will pay to Prime Management a net annualized fee for managing the Cable Systems in the amount of $1,000,000 for the year ending October 31, 1997, $750,000 for the year ending October 31, 1998, and $500,000 for each year ending



October 31 thereafter that the Prime Management Agreement is in effect. Any portion of the management fee which is past due shall bear interest at a rate per annum equal to 17.5% until paid. In addition, the Company is required to reimburse Prime Management for any costs and expenses incurred by it in connection with the Cable Systems, including travel and entertainment expenses. The contract states that such costs and expenses are not anticipated to exceed $200,000 on an annualized basis. The Prime Management Agreement has a term of nine years but either party may terminate the agreement in its discretion after October 31, 1998. In addition, the agreement may be terminated earlier under the following circumstances: (i) with respect to the Cable Systems acquired from Prime, by the Company upon the termination or revocation of the Company's cable television certificate of public convenience and necessity or franchise for a cable system; (ii) upon the sale of all or substantially all of the assets of the Cable Systems or the sale of all of the equity interests in the Cable Systems; (iii) upon Prime Management's material breach of the agreement and failure to cure within 30 days; (iv) by Prime Management upon the Company's material breach of the agreement and failure to cure within 30 days; or (v) by either party upon 30 days written notice if the other party shall enter into certain events involving bankruptcy, insolvency or reorganization.

LOCAL EXCHANGE SERVICES

The Company intends to offer local exchange services in Anchorage and other major Alaskan population centers principally over its own network facilities and resold local loops beginning in Anchorage in the second half of 1997. The Company's entry into the local exchange services market will enable it to cross-sell its long distance, wireless communications, cable and Internet services. By offering cross-program discounts, the Company believes it can attract a larger market share and improve customer retention rates. The Company believes it can also save access costs it would otherwise pay to incumbent LECs. The Company intends to provide a full-featured competitive local service, including basic dialtone, custom local access signaling, centrex, voice mail, ISDN, directory listing, directory assistance, inside wire and equipment maintenance, and local private line services. The Company plans to offer local exchange services initially in Anchorage to its existing long distance customers and then to Internet service providers and other businesses, including large business accounts.

The Company estimates that statewide 1996 local exchange service revenues totaled approximately $320 million, inclusive of local access revenues of approximately $174 million. The current local access market in Anchorage comprises over 145,000 access lines. Fairbanks and Juneau have approximately 32,000 and 22,000 access lines, respectively. Total incumbent local exchange revenues in Anchorage for 1995 were in excess of $102 million, including approximately $28.9 million in dialtone, $12.5 million in enhanced services, $25.2 million in access charges, $7.4 million in subscriber line charges, $17.5 million in yellow page revenue, and about $9 million in other revenues.

ATU, the incumbent LEC in Anchorage, and the Company have entered into an interconnection agreement which was arbitrated and approved by the APUC. The APUC, as part of the arbitration and approval process, established an immediate effective date for the interconnection agreement, as of January 14, 1997. While some initial delays have occurred due to differences in interpretation of the agreement and unexpected delays may occur in the future, interconnection implementation with ATU is currently proceeding. The interconnection agreement provides for the interconnection and exchange of local traffic between the Company and ATU under the provisions of the 1996 Telecom Act, and has set rates for wholesale service, unbundled network element resale and colocation.

On May 20, 1997, the Company filed an action requesting preliminary and permanent injunctive relief against ATU in the U.S. District Court at Anchorage. The suit sought immediate implementation of transitional local number portability. The Company believes that the obligation on the part of ATU to provide number portability is explicit in Section 251(b)(2) of the 1996 Telecom Act, and the method for implementation is contained in the interconnection agreement between the parties. The Company alleged that ATU repudiated its obligation to immediately implement local number portability, citing the



need for additional regulatory adjudication on an ancillary issue. The Company contended that the technical solutions for implementing local number portability and interconnections are currently in place and have been tested, and the suit seeks immediate implementation. No damages were sought. The Company has dismissed the suit without prejudice based upon ATU's verbal agreement to honor the implementation schedule.

The Company plans to provide local exchange service through one or more of loop resale, facilities-based service and total system resale. Loop resale would involve the use by the Company of only the incumbent LEC's local loop, the copper wire pair that interconnects the subscriber's telephone equipment to the LEC's central office. In connection with loop resale, the Company would colocate or virtually colocate switching equipment at the LEC's wire center to enable interconnection of these local loops to the Company's switches and transmission network. In this case, with the exception of the use of the passive copper loop, the Company could then offer its own switch and network-based services independently from the incumbent LEC. Facilities-based service would include service provided over the Company's fiber optic metropolitan area network ("MAN") and microwave radio facilities, and potentially through the use of wireless local loop equipment and the coaxial cable television network. Total system resale would involve the purchase of discounted retail end-to-end service from the incumbent LEC, which provides all physical facilities for switching and transmission of the call.

In 1996, the Company commenced construction of its Anchorage MAN. The MAN will enable the Company to provide facilities-based local exchange services to the full range of the Company's customers, as well as local access services to AT&T Alascom or other interexchange carriers. The MAN will also permit the Company to provide high speed data services for large commercial customers. As of March 1997, the Company had installed approximately 38 miles of fiber optic cable and expects to complete construction of the planned 130 mile Anchorage MAN in 1998. The Company has installed a new host local switch, a Lucent Technologies 5ESS, in Anchorage and expects to complete system acceptance testing and interconnection of that switch to the Anchorage MAN during the second quarter of 1997. The Company also plans to install six remote switches at six of ATU's eight end-offices beginning in the second quarter of 1997, and intends to complete these installations in the second half of 1997. At a seventh ATU end-office, the Company intends to install subscriber line carrier (SLC) equipment. As part of the MAN, the Company will extend new fiber optic cable facilities into large multi-tenant commercial buildings and into Anchorage's largest multiple dwelling residential units.

The Anchorage fiber optic MAN will benefit the Company's cable television transmission infrastructure because it can be used to reduce the cascade depth of a portion of the existing coaxial cable trunk plant between the cable headend facilities and various neighborhood distribution feeder networks. This hybrid fiber-coaxial architecture will provide increased bandwidth and improved noise and distortion suppression in the trunk plant through the reduction of coaxial cable trunk amplifier cascade depth. The system is being designed to provide up to 750 MHz of usable bandwidth for a combination of 550 MHz analog and 200 MHz digital cable video services.

The Company is currently planning the initial phase of construction for a Fairbanks MAN, with construction of approximately 35 miles of fiber optic cable expected to commence in late 1997. In connection with the acquisition of the Cable Systems, the Company has also acquired fiber optic networks in Juneau and Kodiak. These comprise an additional 52 miles of fiber optic cable plant. Plans to interconnect long distance/local switches to the Fairbanks and Juneau MANs are currently under development.

PCS

The Company plans to develop a wireless PCS network. PCS allows reception and initiation of calls from any location within the area serviced by the PCS network. The Company's PCS business segment will compete against traditional cellular service providers and may, depending on the technology selected and deployed, become an effective alternative to incumbent LEC facilities for local exchange



services in certain areas. The Company is reviewing various PCS technologies and plans to settle on one technology by the end of 1997. The Company's planned MAN networks will provide the fiber optic cable backbone to link PCS cell sites in major population centers. The Company expects to launch its PCS service in Anchorage in 1999 and in Fairbanks and Juneau in 2000.

In March 1995, the FCC completed a nationwide auction of A- and B-block PCS licenses, each having 30 MHz of radio spectrum in the 1900 MHz band for private development of PCS networks. In the FCC auction, Alaska was assigned two such 30 MHz bandwidths, designated statewide A-block PCS and statewide B-block PCS. The A and B PCS licenses include build-out requirements which require that the licensee provide service to one-third of licensed pops within five years (by June 2000) and to two-thirds of licensed pops within ten years (by June 2005). The FCC subsequently auctioned 30 MHz C-block licenses and 10 MHz D-, E- and F-block licenses. The Company was the successful bidder for a 30 MHz statewide B-block PCS license and paid approximately $1.65 million or about $3.00 per pop.

The small cell architecture of PCS systems and the nature of radio propagation in PCS frequencies mean that PCS users will not be able to roam or use their handsets outside of areas covered by PCS cells unless the PCS units are also able to function as analog cellular handsets or consumers use a separate analog handset when roaming. Although the Company is aware of several suppliers with plans to manufacture such units, none are currently available. In addition, the Company would be required to enter into interconnection agreements with cellular suppliers or obtain licenses for use of cellular spectrum to permit in-state roaming. Although the Company expects to enter into such arrangements, none has as yet been made. The inability of PCS customers to use their handsets outside of the areas covered by PCS cells may reduce the attractiveness of PCS technology to potential customers. However, in Alaska, the Company intends to cover all urban areas with PCS cells, reducing or eliminating roaming for the vast majority of the population.

MARKETING AND SALES

The Company's marketing and sales strategy hinges on its ability to leverage (i) its unique position as an integrated provider of multiple telecommunications and cable services, (ii) its well-recognized and respected brand name in the Alaskan marketplace and (iii) its leading market positions in long distance and cable television services. By pursuing a marketing strategy that takes advantage of these characteristics, the Company believes it can increase its market penetration, improve customer retention rates, increase its share of its customers' aggregate voice, video and data services expenditures and achieve continued growth in revenues and operating cash flow.

The Company's marketing and sales organization is comprised of approximately 295 people. This organization is subdivided into four subsidiary marketing groups, each having responsibility for marketing all relevant telecommunications or cable services to the Company's four principal customer groups, which include consumer, commercial, other common carrier and rural customers. The four customer-group heads and the director, customer operations (customer service and operator services) all report to the Senior Vice President--Sales and Marketing.

The Company's consumer marketing group consists of 24 employees. The marketing team is supported by a customer service group staffed by approximately 129 sales or customer service representatives. The Company historically competed in the residential market primarily on the basis of price. However, as price competition intensified in recent years, the Company has shifted to a strategy that places increased emphasis on strong customer service, that rewards consumers for their loyalty to the Company and that focuses on the development of value-added services. In this regard, the Company has expanded its customer service group, adopted creative promotions that offer rebates to customers on the basis of usage volumes and length of service with the Company, and introduced innovative billing solutions. The Company further intends to provide residential customers with a package of high-quality diversified telecommunications and cable services that will entice consumers to purchase multiple



services from the Company by offering package discounts, and will offer a single bill and point of contact for customer service. The Company's advertising strategy for this segment has relied, and will continue to rely, heavily on television, radio and print media.

The Company's commercial marketing group consists of 71 employees. Commercial customers for telecommunications services have a wide variety of experiences and needs. Many smaller businesses do not have the staff or technical expertise to select from among the many alternatives available to them, and respond well to a consultative approach from telecommunications providers. The Company believes that by offering customers such as these a diversified package of services from a single source, along with the technical expertise to help them evaluate which service combinations will best fit their individual requirements, the Company can provide significant value added resources in implementing their telecommunications decisions. Similarly, large businesses which have the resources and volume of telecommunications usage to justify in house expertise frequently outsource these functions as a means of increasing productivity and reducing expenses. These functions can effectively be addressed by the Company.

The Company's marketing and sales organization has five employees that focus on other common carrier marketing and sales. The group is responsible for managing the Company's business with MCI and Sprint as well as other common carriers and resellers purchasing services from the Company.

The unique characteristics of communities in rural Alaska have led the Company to designate a separate group of eight employees to focus exclusively on marketing to this segment of the Alaskan population, which comprises approximately 23.1% of Alaska's total population. Because the large number of small communities in rural Alaska have relatively little exposure to mass media, and because these communities tend to be very tight-knit, the Company's marketing approach to these communities emphasizes the development of trust between the Company and community members through direct personal involvement by Company employees in local business or community organizations and events.

COMPETITION

TELECOMMUNICATIONS. The telecommunications industry is intensely competitive, rapidly evolving and subject to constant technological change. Competition is based upon pricing, customer service, billing services and perceived quality. Certain of the Company's competitors are substantially larger and have greater financial, technical and marketing resources than the Company. Although the Company believes it has the human and technical resources to pursue its strategy and compete effectively in this competitive environment, its success will depend upon its continued ability to profitably provide high quality, high value services at prices generally competitive with, or lower than, those charged by its competitors.

The Company's principal competitor in long distance services, AT&T Alascom, has substantially greater resources than the Company. This competitor's interstate rates are integrated with those of AT&T Corp. and are regulated in part by the FCC. While the Company initially competed based upon offering substantial discounts, those discounts have been eroded in recent years due to the lowering of prices by AT&T Alascom. Under the terms of AT&T's acquisition of Alascom, AT&T Alascom rates and services must "mirror" those offered by AT&T, so changes in AT&T prices indirectly affect the rates and services of the Company. AT&T's and AT&T Alascom's prices are regulated under a price cap plan whereby their rate of return is no longer directly regulated or restricted. AT&T and AT&T Alascom are allowed to raise and lower prices for three groups of services within pre-established floor and ceiling levels with little regulatory oversight. These services include products offered to the following: (i) small businesses or residential customers; (ii) users of 800 services; and (iii) large business and governmental customers. Price increases by AT&T and AT&T Alascom generally improve the Company's ability to raise its prices while price decreases pressure the Company to follow. The Company has, so far, successfully adjusted its pricing and marketing strategies to respond to AT&T pricing practices. However, if AT&T Alascom significantly lowers its rates, the Company may be forced to reduce its rates, which could have a material adverse effect on the Company's financial condition and results of operations.



In the local exchange market, the Company believes that the 1996 Telecom Act and state legislative regulatory initiatives and developments, as well as a recent series of transactions and proposed transactions between telephone companies, long distance carriers and cable companies, increase the likelihood that barriers to local exchange competition will be substantially reduced or removed. These initiatives include requirements that LECs negotiate with entities such as the Company to provide interconnection to the existing local telephone network, to allow the purchase, at cost-based rates, of access to unbundled network elements, to establish dialing parity, to obtain access to rights-of-way and to resell services offered by the incumbent LECs. Certain pricing provisions of the FCC's decision implementing the interconnection portions of the 1996 Telecom Act (the "Interconnection Decision") have been challenged and are currently stayed by the U.S. Court of Appeals for the Eighth Circuit, on a jurisdictional basis. While the stay may affect the level of prices in the near term, it does not appear that it will limit or delay the development of competition in the Alaskan local exchange switched services market. In addition, the 1996 Telecom Act expressly prohibits any legal barriers to competition in intrastate or interstate communications service under state and local laws. The 1996 Telecom Act further empowers the FCC, after notice and an opportunity for comment, to preempt the enforcement of any statute, regulation or legal requirement that prohibits, or has the effect of prohibiting, the ability of any entity to provide any intrastate or interstate telecommunications service. See "--Regulation."

The 1996 Telecom Act provides incumbent LECs with new competitive opportunities. The 1996 Telecom Act removes previous restrictions concerning the provision of long distance service by LECs and also provides them with increased pricing flexibility. Under the 1996 Telecom Act, the RBOCs will, upon the satisfaction of certain conditions, be able to offer long distance services that would enable them to duplicate the "one-stop" integrated telecommunications approach used by the Company. The Company believes that it has certain advantages over these companies in providing its telecommunications services, including the Company's brand awareness by Alaskan customers, its owned telecommunications network, and management's prior experience in, and knowledge of, the Alaskan market. The 1996 Telecom Act provides that rates charged by incumbent LECs for interconnection to the incumbent carrier's network are to be nondiscriminatory and based upon the cost of providing such interconnection, and may include a "reasonable profit," which terms are subject to interpretation by regulatory authorities. If the incumbent LECs charge alternative providers such as the Company unreasonably high fees for interconnection to the LECs' networks, or significantly lower their retail rates for local exchange services, the Company's local service business could be placed at a significant competitive disadvantage. See "--Regulation."

In May 1996, ATU filed an application with the APUC to provide long distance telecommunications services as a reseller of intrastate telecommunications services throughout the State of Alaska. The application was acted upon favorably in September 1996 and ATU began in April 1997 offering interstate and intrastate long distance services in the Anchorage area on a non-facilities-based basis.

Competition for the Company's PCS services will come primarily from traditional cellular providers and new PCS entrants. Anchorage has mature cellular systems in both the wireline (ATU) and non-wireline (AT&T Wireless) license blocks that together have achieved approximately 20% penetration of potential subscribers based on the number of existing wireline access lines. Cellular service has not penetrated Fairbanks and Juneau to the same degree as Anchorage. Cellular pricing has been high in Alaska compared to the lower 48 states, but rates in Anchorage have become more competitive since the Company entered the cellular resale market two years ago.

Of the five other Alaskan PCS licensees, none have announced plans for service in Alaska. The high cost of a PCS system infrastructure may deter some license owners from building a system. PCS has the potential disadvantage when compared to cellular service of requiring the licensee to enter into interconnection agreements with cellular providers in order to permit PCS subscribers with dual-mode handsets to continue to receive service once they stray from the PCS service area. However, the Company



believes that the portion of the Alaskan population which will need to operate outside the Company's planned PCS service areas is small.

CABLE COMPETITION. Cable television systems face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment such as off-air television broadcast programming, radio, newspapers, movie theaters, live sporting events, interactive computer services and home video products, including videotape cassettes and laser disks. The extent to which a cable television system is competitive depends, in part, upon the cable system's ability to provide quality programming and other services at competitive prices.

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

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

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

The availability of reasonably-priced home satellite dish earth stations ("HSDs") enables individual households to receive many of the satellite-delivered program services formerly available only to cable subscribers. Furthermore, the 1992 Cable Act contains provisions, which the FCC has implemented with regulations, to enhance the ability of cable competitors to purchase and make available to HSD owners certain satellite-delivered cable programs at competitive costs.

In recent years, the FCC and the Congress have adopted policies providing a more favorable operating environment for new and existing technologies that provide, or have the potential to provide, substantial competition to cable systems. These technologies include, among others, DBS services which transmit signals by satellite to receiving facilities located on the premises of subscribers. Programming is currently available to the owners of HSDs through conventional, medium and high-powered satellites. Primestar Partners L.P., a consortium comprised of cable operators and a satellite company, commenced operation in 1990 of a medium-power DBS satellite system using the Ku portion of the frequency spectrum and, as of December 31, 1996, provided service consisting of approximately 95



channels of programming, including broadcast signals and pay-per-view services. DirecTV, which has entered into a marketing alliance with AT&T, began offering nationwide high-power DBS service in 1994 accompanied by extensive marketing efforts. Several other major companies are preparing to develop and operate high-power DBS systems, including MCI and News Corp. DBS systems use video compression technology to increase the channel capacity of their systems to provide movies, broadcast stations and other program services competitive with those of cable systems. The extent to which DBS systems are competitive with the service provided by cable systems depends, among other things, on the availability of reception equipment at reasonable prices and on the ability of DBS operators to provide competitive programming. DBS services generally do not currently provide local programming and DBS signals are subject to degradation from atmospheric conditions such as rain, snow and wind. The receipt of DBS service in Alaska currently has the disadvantage of requiring subscribers to install larger satellite dishes (generally three to six feet in diameter) than are generally required in the lower 48 states because of the weaker satellite signals available in northern latitudes. In addition, existing satellites have a relatively low altitude above the horizon when viewed from Alaska, making their signals subject to interference from mountains, buildings and other structures. Recent published reports indicate that there has been a substantial increase in the number of DBS subscribers in the United States in recent years. Thus, although it is difficult to assess the ultimate impact that DBS will have on the cable industry or the Company's financial condition and results of operations, DBS services may pose a significant competitive threat to cable television systems.

Cable television systems also compete with wireless program distribution services such as MMDS providers which use low-power microwave frequencies to transmit video programming over-the-air to subscribers. There are MMDS operators who are authorized to provide or are providing broadcast and satellite programming to subscribers in areas served by several of the Cable Systems, including Anchorage and Fairbanks. ATU recently purchased a 30% interest in one such wireless operator that operates in the Anchorage and Fairbanks areas. Additionally, the FCC has allocated frequencies in the 28 GHz band for a new multichannel wireless video service similar to MMDS. MMDS operations have the disadvantage of requiring that customers' receiving antennas have line-of-sight access to transmitting radio towers, making their signals subject to interference from mountains, buildings and other structures, and are subject to interference from rain, snow and wind. The Company is unable to predict whether competition from wireless video services will have a material impact on its financial condition or results of operations.

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

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

PROPERTIES

The Company's executive offices and operating facilities for its telecommunications operations are located in leased office space in Anchorage, Fairbanks and Juneau, Alaska, and Seattle, Washington.



The facilities in Fairbanks and Juneau, Alaska, and Seattle, Washington are occupied under short-term operating lease agreements while one of the Anchorage properties is leased pursuant to a 15-year capital lease agreement that expires in September, 2006. The Company also owns or leases various earth station, microwave and distribution sites used in its telecommunications operations and owns or leases various local office, headend and tower sites used in its cable television operations.

The Company's other properties consist mainly of equipment, including a portion of the undersea fiber optic cable linking Alaska and Oregon that is owned subject to an outstanding mortgage, cable television plant, head-end distribution equipment, switches, microwave facilities and other electronic equipment. Substantially all of the Company's properties and equipment are subject to a security interest in favor of the Company's lenders. The Company believes that its properties and equipment are in good condition and are adequate for the Company's present needs.

ALASKAN ECONOMY

The Company offers voice, video and data services to customers primarily throughout Alaska. As a result of this geographic concentration, the Company's growth and operations depend upon economic conditions in Alaska. Alaska has a population of approximately 600,000 people, approximately one-half of whom are located in the Anchorage area. The economy of Alaska is dependent upon the natural resource industries, and in particular oil production, as well as tourism, mining, government, and United States military spending. Any deterioration in these markets could have an adverse impact on the Company's financial condition and results of operations. The oil industry over the past several years has contributed in excess of 75% of unrestricted State government revenues received from all segments of the Alaskan economy and is believed to be directly or indirectly responsible for over one-third of Alaska's economic base. Unrestricted State revenues are available for any legitimate governmental purpose. The volume of oil transported by the TransAlaska Oil Pipeline System over the past 20 years has been as high as 2.0 million barrels per day in 1988. Over the past several years, it has begun to decline and is expected to average approximately 1.4 million barrels per day in 1997. The volume of oil transported by that pipeline is expected to decrease to 1.0 million barrels per day in less than ten years, based upon available data regarding presently developed oil fields using the pipeline for transport. The two largest producers of oil in Alaska independently have taken steps to significantly increase their investments in new oil fields and enhanced recovery projects to slow the decline of existing fields. Both companies have invested large sums of money in developing and implementing enhanced oil recovery techniques at the Prudhoe Bay field and other nearby fields. Effective March 1997, the State of Alaska passed new legislation relaxing state oil royalties with respect to marginal oil fields that the oil companies claim would not be economic to develop otherwise. No assurance can be given that these two oil companies or other oil companies doing business in Alaska will be successful in discovering new fields or further developing existing fields which are economic to develop and produce oil with access to the pipeline or other means of transport to market, even with the reduced level of taxation. Should the oil companies not be successful in these discoveries or developments, the trend of continued decline in oil production from the Prudhoe Bay field area is inevitable with a corresponding adverse impact on the economy of the State, in general, and on demand for telecommunications and cable television services and, therefore, on the Company, in particular.

The growth rate of the Alaskan economy was generally higher during the

11-year period of initial operation of the pipeline (1977-1988) both in the private sector and in government spending as compared to the eight-year period of operations since the downturn in oil throughput began in 1989. While other Alaskan industries have experienced growth since 1988, including mining, tourism, international air freight transportation, and retail sales, and while state and federal government spending remain significant factors in the Alaskan economy, revenues generated from oil production and oil support industry operations have remained the most significant segments of the Alaskan economy. As such, the Alaskan economy is closely tied to the price of oil in the international marketplace.



The Alaskan economy is also supported by the United States armed services and the United States Coast Guard which maintain bases in Anchorage, Fairbanks, Adak, Kodiak, and other communities in Alaska. The military presence in the State of Alaska provides a significant source of revenues to the economy of the State. The Company provides message toll services in a variety of ways to the United States government and its armed forces personnel. The Company also provides private lines for secured point-to-point data and voice transmission services to military personnel. A reduction in federal military spending or closure of a major facility in Alaska could have a substantial adverse impact on the State and would both directly and indirectly affect the Company. Since 1994, several minor military bases have closed or been scheduled for closure or are operating at reduced strength. While troop strength in Alaska and the military's share of the Alaskan labor force are at historically low levels, the military remains one of the most significant contributors to Alaska's economy.

REGULATION

THE FOLLOWING SUMMARY OF REGULATORY DEVELOPMENTS AND LEGISLATION DOES NOT PURPORT TO DESCRIBE ALL PRESENT AND PROPOSED FEDERAL, STATE, AND LOCAL REGULATION AND LEGISLATION AFFECTING THE TELECOMMUNICATIONS AND CABLE TELEVISION INDUSTRIES. OTHER EXISTING FEDERAL AND STATE REGULATIONS ARE CURRENTLY THE SUBJECT OF JUDICIAL PROCEEDINGS, LEGISLATIVE HEARINGS AND ADMINISTRATIVE PROPOSALS WHICH COULD CHANGE, IN VARYING DEGREES, THE MANNER IN WHICH THESE INDUSTRIES OPERATE. NEITHER THE OUTCOME OF THESE PROCEEDINGS NOR THEIR IMPACT UPON THE TELECOMMUNICATIONS AND CABLE TELEVISION INDUSTRIES OR THE COMPANY CAN BE PREDICTED AT THIS TIME. THIS SECTION ALSO SETS FORTH A BRIEF DESCRIPTION OF REGULATORY AND TARIFF ISSUES PERTAINING TO THE OPERATIONS OF THE COMPANY.

The federal government regulates interstate telecommunications through various laws administered by the FCC. The 1996 Telecom Act, the most comprehensive reform of the nation's telecommunications laws since the Communications Act, was signed into law in February 1996. The 1996 Telecom Act will result in changes in the marketplace for cable television, telephone and other telecommunications services. In addition, cable television operators are subject to the 1984 Cable Act, the 1992 Cable Act and the 1996 Telecom Act, as well as the rules and regulations of the FCC, and, where applicable, state and local regulations.

FEDERAL REGULATION OF TELEPHONY. The 1996 Telecom Act promotes local exchange competition as a national policy by eliminating legal barriers to competition in the local telephone business and setting standards to govern the relationships among telecommunications providers. The 1996 Telecom Act expressly prohibits any legal barriers to competition in intrastate or interstate communications service under state and local laws. The 1996 Telecom Act further empowers the FCC, after notice and an opportunity for comment, to preempt the enforcement of any statute, regulation or legal requirement that prohibits, or has the effect of prohibiting, any entity from providing any intrastate or interstate telecommunications service. Subject to this limitation, however, the state and local governments retain a significant amount of their existing regulatory authority. The 1996 Telecom Act imposes a variety of new duties on incumbent local exchange carriers in order to promote competition in local exchange and access services. Certain duties are also imposed on all LECs, including new market entrants such as the Company. Some smaller telephone companies may seek suspension or modification of these duties, and some companies serving rural areas are exempt from these duties. The duties created by the 1996 Telecom Act include the following:

<TABLE>

| <S> | <C> |
|---|---|
| Reciprocal Compensation | Requires all LECs to complete calls originated by competing carriers under reciprocal arrangements at prices based on a reasonable approximation of long-run incremental cost or through mutual exchange of traffic without explicit payment. |

</TABLE>



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| <S> | <C> |
|---|---|
| Resale | Requires all LECs to permit resale of their telecommunications services without unreasonable restrictions or conditions. In addition, incumbent LECs are required to offer wholesale versions of all retail |

| | |
|---|---|
| | services to other telecommunications carriers for resale at discounted rates, based on the costs avoided by the incumbent LEC in the wholesale offering. |
| Interconnection | Requires incumbent LECs to permit all telecommunications carriers including their competitors to interconnect with their facilities. Such interconnection must be provided to competitors at any technically feasible point within their networks, on nondiscriminatory terms, at prices based on cost (which may include a reasonable profit). At the option of the carrier seeking interconnection, physical colocation of the requesting carrier's equipment in the incumbent LEC's premises must be offered, except where the incumbent LEC can demonstrate space limitations or other technical impediments to colocation. |
| Unbundled Access | Requires incumbent LECs to provide nondiscriminatory access to unbundled network elements (including network facilities, equipment, features, functions, and capabilities) at any technically feasible point within their networks, on reasonable, just and nondiscriminatory rates, terms and conditions, at prices based on long-run incremental cost (which may include a reasonable profit). Such access must allow requesting carriers to combine network elements to provide such telecommunications services. |
| Number Portability | Requires all LECs to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching from one telecommunications carrier to another to the extent technically feasible. |
| Dialing Parity | Requires all LECs to provide "1+" equal access to competing providers of local exchange service and toll service, and to provide nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listing, with no unreasonable dialing delays. |
| Access to Rights-of-Way | Requires all LECs to permit competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices. |

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Incumbent LECs are required to negotiate in good faith with telecommunications carriers requesting any or all of the above arrangements. Certain, but not all, FCC rules regarding pricing of interconnection agreements have been stayed by the U.S. Court of Appeals for the Eighth Circuit in a case challenging certain of the FCC's interconnection regulations. However, carriers still may negotiate agreements, and if the negotiating carriers cannot reach agreement within a prescribed time, either carrier may request binding arbitration of the disputed issues by the relevant state regulatory commission.

The 1996 Telecom Act also eliminates previous prohibitions on the provision of InterLATA long distance service by the RBOCs and the GTE Operating Companies ("GTEOCs"). The RBOCs are now permitted to provide InterLATA long distance service outside those states in which they provide local



exchange service ("out-of-region long distance service") upon receipt of any necessary state or federal regulatory approvals that are otherwise applicable to the provision of intrastate or interstate long distance service. Under the 1996 Telecom Act, the RBOCs will be allowed to provide long distance service within the regions in which they also provide local exchange service ("in-region service") upon specific approval of the FCC and satisfaction of other conditions, including compliance with a checklist of regulations and policies, including those pertaining to interconnection, designed to enhance competition in the local marketplace. The GTEOCs are permitted to enter the long distance market without regard to limitations by region, although regulatory approvals otherwise applicable to the provision of long distance service will need to be obtained. The GTEOCs are also subject to the provisions of the 1996 Telecom Act that impose interconnection and other requirements on LECs.

The 1996 Telecom Act imposes certain restrictions on the RBOCs in connection with the RBOCs' entry into long distance services. Among other things, the RBOCs must pursue such activities only through separate subsidiaries with separate books and records, financing, management and employees, and all affiliate transactions must be conducted on an arm's length and nondiscriminatory basis. The RBOCs are also prohibited from jointly marketing local and long distance services, equipment and certain information services unless competitors are permitted to offer similar packages of local and long distance services in their market. Further, RBOCs must obtain in-region long distance authority before jointly marketing local and long distance services in a particular state.

Additionally, AT&T and other major carriers serving more than 5% of the nation's presubscribed long distance access lines are also restricted, under certain conditions, from packaging their long distance services and local services provided over RBOC facilities. These restrictions do not, however, apply to the Company because it does not serve more than 5% of the nation's presubscribed access lines.

Prior to passage of the 1996 Telecom Act, the FCC had already established different levels of regulations for dominant and non-dominant carriers. For purposes of domestic common carrier telecommunications regulation, large LECs and the RBOCs are currently considered dominant carriers for the provision of interstate access services, while other interstate services providers, such as the Company, are considered non-dominant carriers. The FCC has recently proposed that the RBOCs offering out-of-region interstate long distance services be regulated as non-dominant carriers, as long as such services are offered by an affiliate of the RBOC that complies with certain structural separation requirements. The FCC regulates many of the rates, charges and services of dominant carriers to a greater degree than non-dominant carriers.

As a non-dominant long distance carrier, the Company may install and operate facilities for the transmission of domestic interstate communications without prior FCC authorization, although FCC authorization is required for the provision of international telecommunications by non-dominant carriers. Services of non-dominant carriers are subject to relatively limited regulation by the FCC. Non-dominant carriers currently are required to file tariffs listing the rates, terms and conditions of interstate and international services provided by the carrier. Periodic reports concerning the carrier's interstate circuits and deployment of network facilities also are required to be filed. The FCC generally does not exercise direct oversight over cost justification and the level of charges for services of non-dominant carriers, although it has the power to do so. Among other requirements pursuant to the Communications Act, the Company must offer its interstate and international services on a nondiscriminatory basis, at just and reasonable rates, and remains subject to FCC complaint and enforcement procedures and private causes of action.

On October 29, 1996, the FCC adopted an order in which it eliminated the requirement that non-dominant interstate carriers such as the Company maintain tariffs on file with the FCC for domestic interstate services. The FCC's order was issued pursuant to authority granted to the FCC in the 1996 Telecom Act to "forbear" from regulating any telecommunications service provider if the FCC determines that the public interest will be served. Pursuant to the order, following a nine-month transition period, relationships between carriers and their customers were to be set by contract and long distance



companies were no longer to be required to file with the FCC tariffs for interstate interexchange services. Carriers also have the option to immediately cease filing tariffs. The FCC's order, however, has been stayed by a federal court and carriers must currently continue to file interstate tariffs with the FCC.

The FCC also imposes prior approval requirements on transfers of control and assignments of operating authorizations. The FCC has the authority to generally condition, modify, cancel, terminate or revoke operating authority for failure to comply with federal laws or the rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations. There can be no assurance that the FCC or third parties will not raise issues with regard to the Company's compliance with applicable laws and regulations. In addition, the Company is subject to various regulatory fees and assessments, including an obligation to contribute to the Universal Service Fund.

The FCC, through its proceedings implementing the interconnection provisions of the 1996 Telecom Act, has ordered the RBOCs and all but one of the other LECs having in excess of $100 million in gross annual revenue for regulated services to provide expanded interconnection to LEC central offices to any competitive access provider, interexchange carrier or end user seeking such interconnection for the provision of interstate access services. The FCC has imposed mandatory virtual colocation obligations on the LECs. Virtual colocation is a service in which the LEC leases or purchases equipment designated by the interconnector and exerts compete physical control over the equipment, including central office installation, maintenance and repair. As noted above, the 1996 Telecom Act now requires most incumbent LECs to offer physical colocation. As a result, the Company is able to reach most business customers in its metropolitan service areas and can expand its potential customer base. Subsequent to the enactment of the 1996 Telecom Act, the FCC has begun a series of expedited rulemaking proceedings to implement the requirements of the 1996 Telecom Act concerning interconnection with LEC facilities and other essential terms of the relationships between competing LECs. On August 8, 1996, the FCC adopted the Interconnection Decision to implement the interconnection, resale, dialing parity and numbering administration provisions of the 1996 Telecom Act. Certain provisions of these rules have been appealed to various U.S. Courts of Appeals. These appeals have been consolidated into proceedings currently pending before the U.S. Court of Appeals for the Eighth Circuit. Applications for a stay of the proposed rules were rejected by the FCC. However, the U.S. Court of Appeals for the Eighth Circuit has granted a stay of certain provisions of the Interconnection Decision, including the pricing rules and rules that would have permitted telecommunications carriers to "pick and choose" among various provisions of approved interconnection agreements. The FCC applied to the U.S. Supreme Court to vacate the judicial stay, but the U.S. Supreme Court, on November 23, 1996, refused to vacate the stay. All other provisions of the Interconnection Decision remain in effect pending resolution of the consolidated case on the merits. In a separate proceeding, the FCC implemented the number portability requirements of the 1996 Telecom Act. These FCC rules are also the subject of a court appeal.

When ordering interconnection, the FCC granted LECs additional flexibility in pricing their interstate special and switched access services on a central office specific basis. Under this pricing scheme, LECs may establish pricing zones based on access traffic density and charge different prices for central offices in each zone. Although no assurances are possible, the Company anticipates that the FCC will grant LECs increasing pricing flexibility as the number of interconnection agreements and competitors increases. In a concurrent proceeding, the FCC enacted interim pricing rules that restructure LEC switched transport rates in order to facilitate competition for switched access.

As a PCS licensee, the Company is subject to regulation by the FCC, and must comply with certain buildout and other conditions of the license, as well as with the FCC's regulations governing the PCS service. As a cellular reseller, the Company is deemed to be a common carrier and is subject to the requirements of Title II of the Communications Act. In light of the non-dominant market position of resellers, many of the obligations traditionally imposed on common carriers are relaxed with respect to resellers. Resellers are required to contribute to the Telecommunications Relay Services Fund and to



remit annual regulatory fees to the FCC. Cellular resellers may also be subject to certain state requirements.

Pursuant to the Communications Act, the FCC has the authority to license the use of electromagnetic spectrum for radio communication. The Company holds various FCC licenses for its satellite and microwave transmission facilities used in its provision of telecommunication services. These licenses generally have expiration dates and require applications for renewal. Moreover, the Company may require additional licenses in the future.

FEDERAL REGULATION OF CABLE TELEVISION. The operation of cable television systems is extensively regulated by federal legislation, FCC regulations and by Alaska's state government. The discussion below summarizes the 1996 Telecom Act as it affects the cable television industry and reviews prior federal cable television regulation as revised by the 1996 Telecom Act.

Rate regulation of the Company's cable television services is divided between the FCC and the State of Alaska. The FCC's jurisdiction extends to the CPST, which consists largely of satellite-delivered programming (excluding basic tier programming and programming offered on a per-channel or per-program basis). Depending on the regulatory schemes in the relevant states, state and local franchising authorities ("LFAs"), I.E., in Alaska the APUC, are primarily responsible for regulating rates for the basic tier of cable services ("BST"), which will typically contain at least the local broadcast stations and Public Access, Educational and Government ("PEG") channels. Equipment rates are also regulated by LFAs. The FCC retains appeal jurisdiction from LFA decisions. Cable services offered on a per-channel or per-program-only basis generally remain unregulated.

The 1996 Telecom Act eliminates CPST rate regulation for all cable operators as of March 31, 1999. In the interim, CPST rate regulation can be triggered only by an LFA complaint to the FCC. An LFA complaint must be based upon more than one subscriber complaint. Prior to the 1996 Telecom Act, an FCC review of CPST rates could be occasioned by a single subscriber complaint to the FCC. The 1996 Telecom Act does not disturb existing or pending CPST rate settlements between the Company and the FCC. The Company's BST rates remain subject to LFA regulation under the 1996 Telecom Act, although Juneau is the only system that is currently subject to rate regulation by the APUC.

Existing law precludes rate regulation wherever a cable operator faces "effective competition." The 1996 Telecom Act expands the definition of effective competition to include any franchise area where a local exchange carrier (or affiliate) provides video programming services to subscribers by any means other than through direct broadcast satellite. There is no statutory penetration minimum for the LEC to qualify as an effective competitor, but it must provide "comparable" programming services (12 channels including some broadcast channels) in the franchise area. The Company believes it is in compliance with all applicable regulations regarding rates for service, and such regulations will not have a material adverse effect on the Company's cable television operations.

Under the 1996 Telecom Act, the Company and all other cable operators will be allowed to aggregate on a franchise system, regional or company level, its equipment costs into broad categories, such as converter boxes, regardless of the varying levels of functionality of the equipment within each such broad category. The 1996 Telecom Act will allow the Company to average together costs of different types of converters (including non-addressable, addressable, and digital). The statutory changes will also facilitate the rationalizing of equipment rates across jurisdictional boundaries. These cost-aggregation rules do not apply to the limited equipment used by "BST-only" subscribers.

The 1996 Telecom Act immediately relaxes the "uniform rate" requirements of the 1992 Cable Act (which required a cable operator to charge uniform rates throughout its franchise areas) by specifying that such requirements do not apply where the operator faces "effective competition," and by exempting bulk discounts to multiple dwelling units, although complaints about "predatory" pricing may be made



to the FCC. Upon a prima facie showing that there are reasonable grounds to believe that the discounted price is predatory, the cable system operator will have the burden of proving otherwise.

Under the 1996 Telecom Act, investor-owned utilities must make poles and conduits available to cable systems under delineated terms. Electric utilities are given the right to deny access to particular poles on a nondiscriminatory basis for lack of capacity, safety, reliability, and generally accepted engineering purposes. The current method for determining rates charged by telephone and utility companies for cable delivery of cable and non-cable services will continue for five years. However, the FCC will establish a new formula for poles used by cable operators for telecommunications services which will result in higher pole rental rates for cable operators. Any increases pursuant to this formula may not be made for five years and will be phased in equal increments over years five though ten. This new FCC formula does not apply in states which regulate pole rents. Pole owners must impute pole rentals to themselves if they offer telecommunications or cable services. Cable operators need not pay future "make-ready" on poles currently contracted if the make-ready is required to accommodate the attachments of another user, including the pole owner. The Company is still negotiating to obtain the consent to the assignment of certain pole attachment agreements by the sellers of the Cable Systems to the Company. However, the Company has been permitted to continue to use necessary poles in the operation of the Cable Systems.

The 1996 Telecom Act declares that no state or local law or regulation may prohibit or have the effect of prohibiting any entity from providing any interstate or intrastate telecommunications service. States are authorized to impose "competitively neutral" requirements regarding universal service, public safety and welfare, service quality, and consumer protection. The 1996 Telecom Act further provides that cable operators and affiliates providing telecommunications services are not required to obtain a separate franchise from LFAs for such services. The 1996 Telecom Act prohibits LFAs from requiring cable operators to provide telecommunications service or facilities as a condition of a grant of a franchise, franchise renewal, or franchise transfer, except that LFAs can seek "institutional networks" as part of such franchise negotiations.

The 1996 Telecom Act allows telephone companies to compete directly with cable operators by repealing the telephone company-cable cross-ownership ban and the FCC's video dialtone regulations. This will allow LECs, including the RBOCs, to compete with cable operators both inside and outside their telephone service areas, with certain regulatory safeguards. If a LEC provides video via radio waves, it is subject to broadcast jurisdiction. If a LEC provides common carrier channel service it is subject to common carrier jurisdiction. A LEC providing video programming to subscribers is otherwise regulated as a cable operator (including franchising, leased access, and customer service requirements), unless the LEC elects to provide its programming via an "open video system." LEC owned programming services will also be fully subject to program access requirements.

The 1996 Telecom Act replaces the FCC's video dialtone rules with an "open video system" ("OVS") plan by which LECs can provide cable service in their telephone service area. LECs complying with the FCC OVS regulations will receive relaxed oversight. The 1996 Telecom Act requires the FCC to act on any OVS certification within ten days of its filing. Only the program access, negative option billing prohibition, subscriber privacy, Equal Employment Opportunity ("EEO"), PEG, must-carry and retransmission consent provisions of the Communications Act will apply to LECs providing OVS. Franchising, rate regulation, customer service provisions, leased access and equipment compatibility rules will not apply. Cable copyright provisions will apply to programmers using OVS. LFAs may require OVS operators to pay "franchise fees" only to the extent that the OVS provider or its affiliates provide cable services over the OVS. Such fees may not exceed the franchise fees charged to cable operators in the area, and the OVS provider may pass through the fees as a separate subscriber bill item. OVS operators will be subject to LFA general right-of-way management regulations.

The 1996 Telecom Act requires the FCC to adopt, within six months, regulations prohibiting an OVS operator from discriminating among programmers, and ensuring that OVS rates, terms, and conditions for service are reasonable and nondiscriminatory. Further, the FCC is to adopt regulations prohibiting a LEC-OVS operator, or its affiliates, from occupying more than one-third of the system's activated channels when demand for channels exceeds supply, although there are not numeric limits. The 1996 Telecom Act also mandates OVS regulations governing channel sharing, extending the FCC's sports exclusivity, network nonduplication, and syndex regulations, and controlling the positioning of programmers on menus and program guides. The FCC has issued open video system regulations. The 1996 Telecom Act does not require LECs to use separate subsidiaries to provide incidental interLATA video or audio programming services to subscribers or for their own programming ventures.

While there remains a general prohibition on LEC buyouts of cable systems (any ownership interest exceeding 10%) within a LEC's telephone service area, cable operator buyouts of LEC systems within a cable operator's service area, and joint ventures between cable operators and LECs in the same market, the 1996 Telecom Act provides some exceptions. A rural exemption permits buyouts where the purchased system serves an area with fewer than 35,000 inhabitants outside an urban area. Where a LEC purchases a cable system, that system plus any other system in which the LEC has an interest may not serve 10% or more of the LEC's telephone service area. Additional exceptions are also provided for such buyouts. The 1996 Telecom Act also provides the FCC with the power to grant waivers of the buyout provisions in cases where (i) the cable operator or LEC would be subject to undue economic distress, (ii) the system or facilities would not be economically viable, or (iii) the anticompetitive effects of the proposed transaction are clearly outweighed by the effect of the transaction in meeting community needs. The LFA must approve any such waiver.

The 1996 Telecom Act provides that registered utility holding companies and subsidiaries may provide telecommunications services (including cable television) notwithstanding the Public Utilities Holding Company Act. Electric utilities must establish separate subsidiaries known as "exempt telecommunications companies" and must apply to the FCC for operating authority. It is anticipated that large utility holding companies may become significant competitors to both cable television and other telecommunications providers. Several such utilities have been granted broad authority by the FCC to engage in activities which could include the provision of video programming.

The 1996 Telecom Act eliminates broadcast/cable cross-ownership restrictions (including the broadcast network/cable restriction), but leaves in place FCC regulations prohibiting local cross-ownership between television stations and cable systems. The FCC is empowered by the 1996 Telecom Act to adopt rules to ensure carriage, channel positioning and nondiscriminatory treatment of non-affiliated broadcast stations by cable systems affiliated with a broadcast network. The SMATV and MMDS cable cross-ownership restrictions have been eliminated for cable operators subject to effective competition.

The 1996 Telecom Act preserves must carry rights (which are described in greater detail below) for local television broadcasters, and clarifies that the geographic scope of must carry is to be based on commercial publications which delineate television markets based on viewing patterns. The FCC is directed to grant or deny must carry requests within 120 days of a complaint being filed with the FCC.

The 1996 Telecom Act directs an FCC equipment comparability rulemaking emphasizing that (i) narrow technical standards, mandating a minimum degree of common design among televisions, VCRs, and cable systems, and relying heavily on the open marketplace, should be pursued; (ii) competition for all converter features unrelated to security descrambling should be maximized; and (iii) adopted standards should not affect unrelated telephone and computer features. The 1996 Telecom Act directs the FCC to adopt regulations which assure the competitive availability of converters ("navigation devices") from vendors other than cable operators. The 1996 Telecom Act provides that the FCC's rules may not impinge upon signal security concerns of theft of service protections. Waivers will be possible where the cable operator shows the waiver is necessary for the introduction of new services. Once the equipment market becomes competitive, FCC regulations in this area will be terminated.



The 1996 Telecom Act requires cable operators, upon subscriber request, to fully scramble or block at no charge the audio and video portion of any channel not specifically subscribed to by a household. Further, the 1996 Telecom Act provides that sexually explicit programming must be fully scrambled or blocked. If the cable operator cannot fully scramble or block its signal, it must restrict transmission to those hours of the day when children are unlikely to view the programming. On March 24, 1997, the United States Supreme Court let stand a lower court ruling that allows enforcement of this provision pending a constitutional challenge. In response to this ruling, the FCC declared that its rules implementing the scrambling provision would become effective on May 18, 1997. The scrambling provision may increase operating expenses for cable television system operators, including the Company, and provide a competitive advantage to less regulated providers of video programming services.

The 1984 Cable Act regulated to some degree and the 1992 Cable Act more extensively regulated the cable television industry and the vast majority of that regulation remains unchanged by the 1996 Telecom Act. Among other things, the 1984 Cable Act (i) requires cable television systems with 36 or more "activated" channels to reserve a percentage of such channels for commercial use by unaffiliated third parties; (ii) permits franchise authorities to require the cable operator to provide channel capacity, equipment and facilities for public educational and governmental access; and (iii) regulates the renewal of franchises.

The 1992 Cable Act greatly expanded federal and local regulation of the cable television industry. The Company believes that the 1992 Cable Act taken as a whole has had and will continue to have a material adverse impact upon the cable industry in general and upon the Company's cable operations specifically. See related discussion under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." Certain of the more significant areas of regulation imposed by the 1992 Cable Act are discussed below.

The 1992 Cable Act directed the FCC to promulgate regulations regarding the sale and acquisition of cable programming between multichannel video program distributors (including cable operators) and programming services in which a cable operator has an attributable interest. The legislation and the implementation regulations adopted by the FCC preclude most exclusive programming contracts (unless the FCC first determines the contract serves the public interest) and generally prohibit a cable operator which has an attributable interest in a programmer from improperly influencing the terms and conditions of sale to unaffiliated multichannel video program distributors. Further, the 1992 Cable Act requires that such cable affiliated programmers make their programming services available to cable operators and competing video technologies such as MMDS and DBS, and to telephone company providers of video services, on terms and conditions that do not unfairly discriminate among such competitors.

Under the 1992 Cable Act, the FCC adopted regulations prohibiting cable operators from requiring a financial interest in a program service as a condition to carriage of such service, coercing exclusive rights in a programming service or favoring affiliated programmers so as to restrain unreasonably the ability of unaffiliated programmers to compete.

The 1992 Cable Act subjected all cable systems, including the Cable Systems, to rate regulation, except in those cases where they face "effective competition." The FCC was required to establish standards and procedures governing regulation of rates for basic cable service, equipment and installation, which were then to be implemented by the pertinent state and local franchising authorities. The 1992 Cable Act also required the FCC, upon complaint from a franchising authority or a cable subscriber, to review the "reasonableness" of rates for CPSTs. The 1996 Telecom Act circumscribed the review of CPST rates of the Cable Systems by amending the 1992 Cable Act to allow only LFAs to file complaints. Complaints by subscribers of the Cable Systems regarding CPST rates were filed with and accepted by the FCC for certain franchise areas. However, filings were made in response to those complaints relating to the period prior to July 15, 1994, and the disputed rates were approved by the FCC. Potential liability for CPST rate refunds for the Cable Systems is limited to the period after July 15, 1994. Services offered



on an individual basis, such as pay television and pay-per-view services, are not generally subject to rate regulation.

On April 1, 1993, the FCC adopted rate regulations governing virtually all cable systems. Such regulations were revised on February 22, 1994. Under such regulations, existing basic and tier service rates typically are evaluated against "benchmark" rates established by the FCC and are subject to mandatory reductions. Equipment and installation charges are regulated based on "actual costs." As noted above, the 1996 Telecom Act provides that rate regulation of the CPST automatically sunsets on March 31, 1999.

The FCC also allowed cable operators to justify rates under "cost of service" rules, which allow "high cost" systems to establish rates in excess of the benchmark level. The FCC's interim cost of service rules allowed a cable operator to recover through rates for regulated cable services its normal operating expenses plus a rate of return equal to 11.25 percent on the rate base. However, the FCC significantly limited the inclusion in the rate base of acquisition costs in excess of the book value of tangible assets. As a result, the Company's predecessors with respect to the Cable Systems pursued cost of service justifications in only a few cases. On December 15, 1995, the FCC adopted slightly more favorable cost of service rules.

The FCC's rate regulations generally permit cable operators to adjust rates to account for inflation and increases in certain external costs, including programming costs, to the extent such increases exceed the rate of inflation. However, a cable operator may pass through increases in the cost of programming services affiliated with such cable operator to the extent such costs exceed the rate of inflation only if the price charged by the programmer to the affiliated cable operator reflects either prevailing prices offered in the marketplace by the programmer to unaffiliated third parties or the fair market value of the programming. The FCC's revised regulations confirm that increases in pole attachment fees ordinarily will not be accorded external cost treatment. The FCC recently adopted a method for recovering external costs and inflation on an annual basis. The new method minimizes the need for frequent rate adjustments and the regulatory lag problems associated with the previous rate adjustment methodology.

The regulations also provide mechanisms for adjusting rates when regulated tiers are affected by channel additions or deletions. Additional programming costs resulting from channel additions can be accorded the same external treatment as other program costs increases, and cable operators presently are permitted to recover a mark-up on their programming expenses. Under one option, operators were allowed a flat ($.20) fee increase per channel added to an existing CPST, with an aggregate cap of such increases ($1.20) plus a license fee reserve ($.30) through 1996. In 1997, an additional flat ($.20) fee increase is available, and the license fees for additional channels and for increases in existing channels are no longer be subject to the aggregate cap. This optional approach for adding services is scheduled to expire on December 31, 1997.

The FCC adopted additional rules that permit channels of new programming services to be added to cable systems in a separate new product tier which the FCC has determined will not be rate regulated at this time. The FCC has also adopted rules allowing operators to raise rates based on costs incurred in connection with a substantial upgrade of the cable system.

From time to time the Company evaluates its rates in light of market conditions. Past rate changes have not had a material adverse effect on the operating income of the Cable Systems and the changes currently being contemplated are not expected to have such an effect. Certain rate actions previously taken by the Cable Systems are subject to modification or reconsideration during the course of ongoing proceedings before the FCC.



As required by the 1992 Cable Act, the FCC has adopted comprehensive regulations establishing minimum standards for customer service and technical system performance. Franchising authorities are allowed to enforce customer service requirements that are more strict than the FCC standards.

The 1992 Cable Act granted broadcasters a choice of "must carry" rights or "retransmission consent" rights. By October of 1993 and every three years thereafter, cable operations were required to secure permission from broadcasters that elected retransmission consent rights before retransmitting the broadcasters' signals. Local and distant broadcasters can require cable operators to make a payment as a condition to carriage of such broadcasters' station on a cable system. Established "superstations" were not granted such rights.

The 1992 Cable Act also imposed obligations to carry "local" broadcast stations for such stations which chose a "must carry" right, as distinguished from the "retransmission consent" right described above. The rules adopted by the FCC generally provided for mandatory carriage by cable systems of all local full-power commercial television broadcast signals selecting must carry, including the signals of stations carrying home-shopping programming and, depending on a cable system's channel capacity, non-commercial television broadcast signals. The United States Supreme Court recently upheld the must carry regulations on constitutional grounds.

The 1992 Cable Act required the FCC to (i) promulgate rules and regulations establishing reasonable limits on the number of cable subscribers which may be served by a single multiple system cable operator or entities in which it has an attributable interest, (ii) prescribe rules and regulations establishing reasonable limits on the number of channels on a cable system that will be allowed to carry programming in which the owner of such cable system has an attributable interest, and (iii) consider the necessity and appropriateness of imposing limitations on the degree to which multichannel video programming distributors (including cable operators) may engage in the creation or production of video programming.

Under the 1992 Cable Act and the FCC's regulations, a cable operator may not hold a license for a MMDS system within the same geographic area in which it provides cable service. The 1996 Telecom Act allows such ownership if effective competition exists in that geographic area.

The 1992 Cable Act anti-buy-through rules require cable systems to permit subscribers to purchase video programming offered by the operator on a per channel or a per program basis without the necessity of subscribing to any tier of service, other than the basic cable service tier, unless the system's lack of addressable converter boxes or other technological limitations does not permit it to do so. The statutory exemption for cable systems that do not have the technological capability to offer programming in the manner required by the statute is available until a system obtains such capability, but not later than December 2002. The FCC may waive such time periods, if deemed necessary. The majority of the Company's subscribers are served by systems that have the technological capability to comply with the anti-buy-through rules. The contemplated upgrades of the Company's systems will enable all of the Cable Systems to comply with such rules by 2002.

The 1996 Telecom Act and the 1992 Cable Act contain numerous other provisions which, together with the 1984 Cable Act, create a comprehensive regulatory framework. Violation by a cable operator of the statutory provisions or the rules and regulations of the FCC can subject the operator to substantial monetary penalties and other significant sanctions such as suspension of licenses and authorizations, issuance of cease and desist orders, and imposition of penalties that could be of severe consequence to the conduct of a cable operator's business. Many of the specific obligations imposed on the operation of cable television systems under these laws and regulations are complex and burdensome and increase the Company's cost of doing business.

In the normal course of its business, the Company obtains licenses from the FCC for two-way communications stations, and, in certain cases, microwave relay stations and other facilities used in its



cable television operation. Based upon its experience with and knowledge of the renewal process, the Company has no reason to believe that such licenses will not be renewed as they expire.

Pursuant to lease agreements with local public utilities, the cable facilities in the Company's Cable Systems are generally attached to utility poles or are in underground ducts controlled by the utility owners. The rates and conditions imposed on the Company for such attachments or occupation of utility space are generally subject to regulation by the FCC or, in some instances, by state agencies, and are subject to change. As described above, the 1996 Telecom Act significantly revises the regulation of pole attachment rates and access.

STATE REGULATION OF TELEPHONY AND CABLE. The State of Alaska has the authority to regulate telecommunications services that originate and terminate within the State, and it exercises that authority through the APUC. In 1990 the Alaskan legislature introduced intrastate competition in Alaska, and the Company through its subsidiary, GCI Communication Corp., began providing long distance intrastate telecommunications services on May 15, 1991, on its own facilities in the areas where it provided interstate service and through resale of others' services where it had no facilities. The APUC developed regulations that allow for the certification of additional carriers for such intrastate telecommunications services and, to varying degrees, require filing of tariffs and regulation of the rates for such services. Under the APUC's current policy and regulations, all certified carriers are required to file tariffs for the provision of intrastate services. When filing for a rate increase, the dominant carrier is required to file an accompanying rate case. Non-dominant carriers such as the Company are not rate regulated. Tariff revisions filed by non-dominant carriers routinely become effective without intervention by the APUC or third parties. Tariffs can be filed or revised on 30 days notice. The APUC currently restricts the provision of facilities-based interexchange service in certain thinly populated areas. The Company has obtained a limited waiver of this rule to allow deployment of its DAMA facilities in 56 sites in rural Alaska and has filed a petition with the APUC to preempt the rule under the 1996 Telecom Act.

In 1992, GCI Communication Corp. obtained a Certificate of Public Convenience and Necessity from the APUC pursuant to which it provides telephone relay services ("TRS") for the deaf, hard-of-hearing and speech impaired through the Company's operator service center in Wasilla, Alaska. Intrastate TRS operating costs, capital costs and a rate of return are being funded through a universal access surcharge billed by all local telephone companies in Alaska. Under an FCC decision, commencing in 1993, a portion of the TRS operating costs have been recovered through an interstate pool administered by the National Exchange Carrier Association.

The Company received approval from the APUC in February 1997 to provide local exchange service in Anchorage and Hope, Alaska. As an authorized local exchange service provider in parts of Alaska, the Company is regulated as a LEC by the APUC. The APUC's February 1997 Order requires the Company to comply with several regulatory requirements, including the filing of a local exchange service tariff and the filing of certain annual and quarterly reports. The Company intends to file an application with the APUC requesting approval for provision of local exchange services in Fairbanks, Juneau and other areas of Alaska. The Company intends to offer local services through its own facilities or resale of LEC facilities.

As a PCS licensee, the Company is subject to limited regulatory oversight by the APUC (E.G., in the areas of consumer protection and transfer of its licenses), although pursuant to federal law states are not permitted to regulate the rates of PCS and other commercial mobile service providers. PCS licensees may also be subject to regulatory requirements of local jurisdictions pertaining to, among other things, the selling of tower facilities.

Cable television systems generally are constructed and operated under the authority of nonexclusive certificates, permits or "franchises" granted by local or, as in Alaska, state governmental authorities. The Company's franchises consist of 15 certificates of public convenience issued by the APUC for the Cable Systems and several military franchise agreements required to provide cable service on military bases. Operation of the Cable Systems also requires several FCC radio-band frequency licenses.



Federal law limits the power of the franchising authorities to impose obligations on cable television operators as a condition of the granting or renewal of a franchise. Franchises contain varying provisions relating to construction and operation of cable television systems, such as time limitations on commencement or completion of construction; quality of service, including (in certain circumstances) requirements as to the number of channels and broad categories of programming offered to subscribers; rate regulation; provision of service to certain institutions; provision of channels for public access and commercial leased-use; and maintenance of insurance and indemnity bonds. Franchises usually require the consent of the franchising authority prior to a transfer of the franchise or a transfer or change in ownership or operating control of the franchisee.

Subject to applicable law, a cable television franchise may be terminated prior to its expiration date if the operator fails to comply with the material terms and conditions of the franchise. Under the 1984 Cable Act, if a franchise is lawfully terminated, and if the franchising authority acquires ownership of the cable television system or effects a transfer of ownership to a third party, such acquisition or transfer must be at an equitable price or, in the case of a franchise existing on the effective date of the 1984 Cable Act, at a price determined in accordance with the terms of the franchise, if any.

The 1984 Cable Act, as supplemented by the renewal provisions of the 1992 Cable Act, establishes an orderly process for franchise renewal which protects cable operators against unfair denials of renewals when the operator's past performance and proposal for future performance meet the standards established by the 1984 Cable Act. These provisions are not generally relevant in Alaska where the certificates of public convenience granted by the APUC to operate cable systems are perpetual in duration, subject to revocation for cause. Franchises issued by the U.S. government to provide cable television service on military bases are subject to the renewal provisions of the 1992 Cable Act.

In order for the APUC to exercise rate regulation authority over a cable system's basic service rates, 25% of the cable system's subscribers must request such regulation by filing a petition with the APUC. In July 1990, the APUC instituted rate regulation over the Company's Juneau operations pertaining to basic cable service and installation. The State of Alaska does not currently exercise rate regulation authority over the Company's other Cable Systems. Therefore, as of March 31, 1997, there was no refund liability for basic service at those other locations. Since rate regulation over the Company's Juneau operations began in 1990 and through March 31, 1997, no refund liability has existed for this location.

## EMPLOYEES

As of June 30, 1997, the Company employed a total of 861 employees, including employees involved with the operation of the Cable Systems. The Company believes that its future success will depend upon its continued ability to attract and retain highly skilled and qualified employees. The Company believes that its relations with its employees are satisfactory.

## LEGAL PROCEEDINGS

Except as set forth in this section, the Company is not a party to or subject to, and none of its properties are subject to, any material pending legal proceedings. The Company is a party to various claims and pending litigation as part of the normal course of its business. The Company is also involved in several administrative proceedings (including informal complaint proceedings) and filings with the FCC and state regulatory authorities. In the opinion of management, the nature and disposition of these matters are considered routine and arise in the ordinary course of business. Management believes that, even if these matters were to be resolved unfavorably to the Company, they would not have a materially adverse effect on the Company's financial condition or results of operations.



# MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information about the Company's directors and executive officers as of the date of this Prospectus.

<TABLE>
<CAPTION>

| NAME | AGE | POSITION |
|---|---|---|
| Carter F. Page(1)(2) | 65 | Chairman and Director |
| Ronald A. Duncan(1) | 45 | President, Chief Executive Officer and Director |
| Robert M. Walp(1) | 69 | Vice Chairman and Director |
| John M. Lowber(2) | 47 | Senior Vice President, Chief Financial Officer, Secretary and Treasurer |
| G. Wilson Hughes | 51 | Executive Vice President and General Manager |
| William C. Behnke | 39 | Senior Vice President-Marketing and Sales |
| Richard P. Dowling | 53 | Senior Vice President-Corporate Development |
| Dana L. Tindall | 35 | Senior Vice President-Regulatory Affairs |
| Donne F. Fisher(1)(2) | 59 | Director |
| Jeffery C. Garvey(1) | 48 | Director |
| John W. Gerdelman(1) | 44 | Director |
| William P. Glasgow(1) | 39 | Director |
| Donald Lynch(1) | 49 | Director |
| Larry E. Romrell(1) | 57 | Director |
| James M. Schneider(1) | 44 | Director |

</TABLE>

- ------------------------

(1) Member of Audit Committee and Compensation Committee.

(2) Member of Finance Committee.

CARTER F. PAGE. Mr. Page has served as Chairman and a director of the Company since 1980. His term as director expires in 1999. From December 1987 to December 1989, he served as a consultant to WestMarc in matters related to the Company. Mr. Page served as President and director of WestMarc from 1972 to December 1987. Since then and to the present, he has been managing general partner of Semaphore Partners, a general partnership and investment vehicle in the communications industry.

RONALD A. DUNCAN. Mr. Duncan is a co-founder of the Company and has been a director of the Company since 1979. His term as director expires in 1997. Mr. Duncan is his own nominee to the Board pursuant to the Voting Agreement. Mr. Duncan has served as President and Chief Executive Officer of the Company since January 1, 1989. From 1979 through December 1988 he was the Executive Vice President of the Company.

ROBERT M. WALP. Mr. Walp is a co-founder of the Company. He has been a director of the Company since 1979, has served as Vice Chairman of the Company since January 1, 1989 and is also an employee of the Company. Mr. Walp is his own nominee to the Board pursuant to the Voting Agreement. His term as director expires in 1999. From 1979 through 1988, Mr. Walp served as President and Chief Executive Officer of the Company.

JOHN M. LOWBER. Mr. Lowber has served as Chief Financial Officer of the Company since January 1987, as Secretary and Treasurer since July 1988 and as Senior Vice President-Administration since



December 1989. Mr. Lowber was Vice President-Administration for the Company from 1985 to December 1989. Prior to joining the Company, Mr. Lowber was a senior manager at KPMG Peat Marwick.

G. WILSON HUGHES. Mr. Hughes has served as Executive Vice President and General Manager of the Company since June 1991. Mr. Hughes was President and a member of the board of directors of Northern Air Cargo, Inc. from March 1989 to June 1991. From June 1984 to December 1988 he was President and a member of the board of directors of Enserch Alaska Services, Inc.

WILLIAM C. BEHNKE. Mr. Behnke has served as Senior Vice President-Marketing and Sales for the Company since January 1994. Mr. Behnke was Vice President of the Company and President of GCI Network Systems, Inc., a former subsidiary of the Company, from February 1992 to January 1994. From June 1989 to February 1992 he was Vice President of the Company and General Manager of GCI Network Systems, Inc. From August 1984 to June 1989 Mr. Behnke was Senior Vice President for TransAlaska Data Systems, Inc.

RICHARD P. DOWLING. Mr. Dowling has served as Senior Vice President-Corporate Development for the Company since December 1990. Mr. Dowling was Senior Vice President-Operations and Engineering for the Company from December 1989 to December 1990. From 1981 to December 1989 he served as Vice President-Operations and Engineering for the Company.

DANA L. TINDALL. Ms. Tindall has served as Senior Vice President-Regulatory Affairs since January 1994. Ms. Tindall was Vice President-Regulatory Affairs for the Company from January 1991 to January 1994. From October 1989 through December 1990, Ms. Tindall was Director of Regulatory Affairs for the Company and she served as Manager of Regulatory Affairs for the Company from 1985 to October 1989. In addition, Ms. Tindall was an adjunct professor of Telecommunications Economics at Alaska Pacific University from September through December 1995.

DONNE F. FISHER. Mr. Fisher has served as a director of the Company since 1980 and is one of TCI's nominees to the Board pursuant to the Voting Agreement. His term as director expires in 1998. Mr. Fisher has been a consultant to TCI since January 1996 and a director of TCI since 1980. From 1982 until 1996, he held various executive officer positions with TCI and its subsidiaries. Mr. Fisher serves on the boards of directors of most of TCI's subsidiaries and the boards of directors of DMX, Inc. and United Video Satellite Group, Inc. Mr. Fisher also acts as executor of the Estate of Bob Magness, one of the Company's principal shareholders.

JEFFERY C. GARVEY. Mr. Garvey has served as a director of the Company since his appointment by the Board in December 1996 to fill a new seat created in the expansion of the Board from seven to ten members and is one of the Voting Prime Sellers' nominees to the Board pursuant to the Voting Agreement. His term as director expires in 1997. Since June 1989, Mr. Garvey has been General Partner of Austin Ventures, L.P., a shareholder of Alaska Cable, Inc. (one of the entities merged into a subsidiary of the Company as a part of the acquisition of the Cable Systems). Mr. Garvey joined Austin Ventures in 1979, and prior to that he was Senior Vice President in charge of the National and Specialized Lending Divisions of PNC Bank (formerly Provident National Bank) in Philadelphia, Pennsylvania. From 1971 to 1976 he held several positions with Pittsburgh National Bank focusing on broadcast communications.

JOHN W. GERDELMAN. Mr. Gerdelman has served as a director of the Company since July 1994 and is one of MCI's nominees to the Board pursuant to the Voting Agreement. His term as director expires in 1999. Mr. Gerdelman has been President, Network Services, for MCI, a wholly-owned subsidiary of MCI Communications Corporation, since September 1994. He was Senior Vice President for MCI from July 1992 to September 1994. From July 1989 to July 1992 Mr. Gerdelman was President of MCI Services, Inc., a subsidiary of MCI.

WILLIAM P. GLASGOW. Mr. Glasgow has served as a director of the Company since his appointment by the Board in December 1996 to fill a new seat created in the expansion of the Board from seven to ten



members and is one of the Voting Prime Sellers' nominees to the Board pursuant to the Voting Agreement. His term as director expires in 1998. Mr. Glasgow has been President of Prime II Management, Inc., a Delaware corporation, and sole general partner of Prime Management since July 1996. Mr. Glasgow was President of Prime Cable Fund I, Inc., a Delaware corporation and the sole general partner of Prime from July 1996 to the merger of the corporation with a subsidiary of the Company as a part of the acquisition of the Cable Systems. Prior to that he was Senior Vice President-Finance of both corporations from September 1991 and Vice President-Finance of Prime Cable Fund I, Inc. from February 1989 to September 1991. Mr. Glasgow joined Prime Cable Corp. (an affiliate of Prime II Management, Inc.) in 1983 and served in various capacities until that corporation was liquidated in 1987.

DONALD LYNCH. Mr. Lynch has served as a director of the Company since his appointment by the Board in December 1996 to fill a new seat created in the expansion of the Board from seven to ten members and is one of MCI's nominees to the Board pursuant to the Voting Agreement. His term as director expires in 1997. Mr. Lynch is a Senior Vice President of MCI and has been with MCI for over 15 years in various executive positions.

LARRY E. ROMRELL. Mr. Romrell has served as a director of the Company since 1980 and is one of TCI's nominees to the Board pursuant to the Voting Agreement. His term as director expires in 1997. Since 1994, Mr. Romrell has been an Executive Vice President of TCI and the President and a director of TCI Technology Ventures, Inc. From 1991 to 1994, Mr. Romrell was a Senior Vice

President of TCI. Mr. Romrell is also a director of Teleport Communications Group, Inc. and of United Video Satellite Group. He serves on the compensation committee of United Video Satellite Group.

JAMES M. SCHNEIDER. Mr. Schneider has served as a director of the Company since July 1994. His term as director expires in 1998. Mr. Schneider has been the Vice President Finance for Dell Computer Corporation since September 1996. Prior to that he was Senior Vice President Finance for MCI Communications Corporation in Washington, D.C. since September 1993. Mr. Schneider was with the accounting firm of Price Waterhouse from 1973 to September 1993 and was a partner in that firm from October 1983 to September 1993.

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The Company's Board currently consists of ten directors, divided into three classes of directors serving staggered three-year terms. Directors of the Company are elected at the annual meeting of shareholders and serve until they resign or are removed or until their successors are elected and qualified. Executive officers of the Company generally are appointed at the Board's first meeting after each annual meeting of shareholders and serve at the discretion of the Board.

VOTING AGREEMENT

Eight of the ten directors of the Company are nominated by certain shareholders (the "Voting Shareholders") of the Company who are party to the Voting Agreement that was entered into on October 31, 1996, in connection with the Company's acquisition of Prime. Pursuant to the Voting Agreement, each Voting Shareholder will vote its stock and take all actions within its power to maintain the size of the Board at eight or more directors and to cause to be elected to the Board (i) two directors nominated by MCI; (ii) one director nominated by Mr. Duncan; (iii) one director nominated by Mr. Walp; (iv) two directors nominated by TCI; and (v) two directors nominated by the Voting Prime Sellers for so long as (1) the Voting Prime Sellers (and their distributees who agree in writing to be bound by the terms of the agreement) collectively own at least 10% of the then issued and outstanding shares of Class A Common Stock and (2) the Prime Management Agreement is in full force and effect; however, if only one of these two conditions is met, the Voting Prime Sellers are entitled to nominate only one director, and if neither of these conditions is met, the Voting Prime Sellers are not entitled to nominate any directors. The obligation of the Voting Shareholders to vote for the Voting Prime Sellers' nominees and maintain the



Board at eight or more directors exists for so long as the Voting Prime Sellers collectively own 10% of the issued and then-outstanding shares of Class A Common Stock or so long as the Prime Management Agreement is in effect. The Voting Agreement states that the shares subject to it are also to be voted on other matters to which the parties unanimously agree, but, as of the date of this Prospectus, no other matters are subject to the Voting Agreement.

If any Voting Shareholder (other than the Voting Prime Sellers) disposes of more than 25% of the votes represented by its holdings of the Common Stock of the Company, such Voting Shareholder will cease to be subject to the Voting Agreement and such disposition triggers on behalf of each other Voting Shareholder the right to withdraw from the Voting Agreement. Unless earlier terminated, the Voting Agreement will continue until the earlier of completion of the annual shareholder meeting of the Company in June 2001 or until there is only one party to the Voting Agreement.

TCI expects to sell all of its shares of the Company's Common Stock in the Stock Offering. If TCI does so, it will no longer be subject to the Voting Agreement and each other party to the agreement will have the right to withdraw from the Voting Agreement by giving written notice to the other parties. The Company currently expects that TCI's nominees to the Board will continue as directors of the Company and that the other parties will not terminate their rights and obligations under the Voting Agreement.

COMMITTEES OF THE BOARD

The Board currently has three Committees: the Audit Committee, the Compensation Committee, and the Finance Committee. The Audit Committee is composed of all members of the Board. The Audit Committee's duties include (i) making recommendations to the Board on conducting the annual audit of the Company and its subsidiaries, including the selection of an external auditor to conduct the annual audit and such other audits or accounting reviews of those entities as the Audit Committee deems necessary, (ii) reviewing the plan or scope of an audit or review and the results of such audit or review, and (iii) carrying out other duties as delegated in writing by the Board.

The Compensation Committee is composed of all members of the Board. The Compensation Committee establishes compensation policies regarding executive officers and directors and makes recommendations to the Board regarding such compensation, including establishing an overall cap on executive compensation and setting performance standards for executive officer compensation.

The Finance Committee is composed of Messrs. Fisher, Page and Lowber. Its duties are to review Company finance matters from time to time and provide guidance to the Chief Financial Officer regarding these matters.

DIRECTOR COMPENSATION

In December 1996, each person who was then a director of the Company (other than the MCI representatives) received $2,000 in director fees for the period from July 1996 to June 1997. It is MCI's policy that its directors not accept remuneration for serving on a board of directors other than those of MCI and its subsidiaries. The non-MCI directors who joined the Company in December will receive a prorated fee for the July 1996 to July 1997 period. During the year ended December 31, 1996, the directors on the Board received no other direct compensation for serving on the Board, but were reimbursed for travel and out-of-pocket expenses incurred in connection with attendance at meetings of the Board.

During February 1997, the Company made a contingent grant of 25,000 options to each of Messrs. Fisher, Schneider and Page with an exercise price of $7.50 per share, such options to vest in 25% increments for each year that the optionee participates in at least 50% of Board meetings. The options were granted subject, among other things, to the Company obtaining shareholder approval to increase the number of shares of Class A Common Stock that it is authorized to issue.



EXECUTIVE COMPENSATION

SUMMARY COMPENSATION. The following table sets forth certain information concerning the cash and non-cash compensation earned during fiscal years 1994, 1995 and 1996 by the Company's Chief Executive Officer and by each of the four other most highly compensated executive officers of the Company or its subsidiaries whose individual combined salary and bonus exceeded $100,000 during the fiscal year ended December 31, 1996 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

| | | ANNUAL COMPENSATION | | | LONG TERM COMPENSATION AWARDS | |
|---|---|---|---|---|---|---|
| NAME AND PRINCIPAL POSITION | YEAR | SALARY($) | BONUS($) | OTHER ANNUAL COMPENSATION($) | SECURITIES UNDERLYING OPTIONS(#) | ALL OTHER COMPENSATION ($) (1)(2) |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Ronald A. Duncan | 1996 | 120,000(3) | 3,000 | -0- | -0- | 178,633 |
| President and Chief | 1995 | 119,550(4) | -0- | -0- | -0- | 159,206 |
| Executive Officer | 1994 | 89,550(4) | 99,960 | -0- | -0- | 121,747 |
| William C. Behnke | 1996 | 110,000 | 5,363 | -0- | -0- | 22,066 |
| Senior Vice President-- | 1995 | 110,002 | -0- | -0- | 50,000 | 20,066 |
| Marketing and Sales | 1994 | 109,168 | 136,194 | -0- | -0- | 66 |
| G. Wilson Hughes | 1996 | 150,000 | 6,040 | -0- | -0- | 100,920 |
| Executive Vice President | 1995 | 150,002 | -0- | -0- | 260,000 | 91,046 |
| and General Manager | 1994 | 150,003 | 89,698 | -0- | -0- | 75,686 |
| John M. Lowber | 1996 | 125,000 | 5,860 | -0- | -0- | 78,842 |
| Senior Vice President-- | 1995 | 125,000 | -0- | -0- | 100,000 | 80,321 |
| Administration, Chief | 1994 | 125,514 | 117,757 | -0- | -0- | 77,814 |
| Financial Officer, | | | | | | |
| Secretary/Treasurer | | | | | | |
| Dana L. Tindall | 1996 | 110,000 | 34,630 | -0- | -0- | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | 10,203 |
| Senior Vice President-- | 1995 | 103,699 | 24,000 | -0- | -0- | 14,949 |
| Regulatory Affairs | 1994 | 93,555 | 99,082 | -0- | -0- | 63,241(5) |

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(1) The amounts reflected in this column include accruals under deferred compensation agreements between the Company and the named individuals as follows: Mr. Duncan, $161,551, $144,470 and $110,425 in 1996, 1995 and 1994, respectively; Mr. Behnke, $22,000 and $20,000 in 1996 and 1995, respectively; Mr. Hughes, $85,128, $74,741 and $59,843 in 1996, 1995 and 1994, respectively and Mr. Lowber, $65,000 in each of 1996, 1995 and 1994. See "--Employment and Deferred Compensation Agreements."

(2) The amounts reflected in this column also include matching contributions by the Company under the Stock Purchase Plan as follows: Mr. Duncan, $15,000, $10,756, and $9,240 in 1996, 1995 and 1994, respectively; Mr. Hughes, $14,475, $12,750, and $15,000 in 1996, 1995 and 1994, respectively; Mr. Lowber, $12,857, $12,852, and $11,844 in 1996, 1995 and 1994, respectively; and Ms. Tindall, $10,137, $12,802, and $13,190 in 1996, 1995 and 1994, respectively. Amounts shown for Mr. Duncan include premiums of $82 under a term life insurance policy paid in each of 1996, 1995 and 1994; $2,000 paid to Mr. Duncan in each of 1996, 1995 and 1994 for serving on the Board; and $1,898 paid to Mr. Duncan in 1995 in lieu of a contribution by the Company to the Stock Purchase Plan. Amounts shown for Mr. Behnke include premiums of $66 under a term life insurance policy paid in each of 1996, 1995 and 1994. Amounts shown for Mr. Hughes include premiums of $1,317, $1,305 and $843 under life insurance policies paid in each of 1996, 1995 and 1994, respectively; and $2,250 paid to Mr. Hughes in 1995 in lieu of a contribution by the Company to the Stock Purchase Plan. Amounts shown for Mr. Lowber include premiums of $985, $980 and $970 under life insurance policies paid in each of 1996, 1995 and 1994, respectively; and $1,489 paid to Mr. Lowber in 1995 in lieu of a contribution by the Company to the Stock Purchase Plan. Amounts shown for Ms. Tindall include premiums of $66, $54 and $51 under a term life insurance policy paid in 1996, 1995 and 1994, respectively; and $2,093 paid to Ms. Tindall in 1995 in lieu of a contribution by the Company to the Stock Purchase Plan.

(3) Does not include $50,000 of Mr. Duncan's 1997 salary that was paid in advance during 1996.

(4) Mr. Duncan received $30,000 of his 1995 salary as an advance in 1994. The $30,000 advance payment is included in his 1995 salary.



(5) The Company and Ms. Tindall entered into a deferred compensation agreement dated August 15, 1994, which provides that, in the event Ms. Tindall exercises stock options pursuant to the Stock Option Agreement between the Company and Ms. Tindall dated June 2, 1993, the Company will pay to Ms. Tindall $1.00 per share so exercised, up to a maximum of $50,000.

OPTION EXERCISES AND FISCAL YEAR-END VALUES

The following table sets forth information concerning each exercise of stock options during the year ended December 31, 1996 by each of the Named Executive Officers and the fiscal year-end value of unexercised options held by each of the Named Executive Officers.

AGGREGATED OPTION EXERCISES
IN LAST FISCAL YEAR AND FISCAL YEAR END
OPTION VALUES

<TABLE>
<CAPTION>

| NAME | SHARES ACQUIRED ON EXERCISE | VALUE REALIZED | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($)(1) | |
|---|---|---|---|---|---|---|
| | | | EXERCISABLE/UNEXERCISABLE | | EXERCISABLE/UNEXERCISABLE | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Ronald A. Duncan........ | -0- | $ -0- | 140,000 | 60,000 | $ 717,500 | $ 307,500 |
| William C. Behnke....... | -0- | -0- | 185,190 | 50,000 | 1,204,584 | 206,250 |
| G. Wilson Hughes........ | -0- | -0- | 250,000 | 260,000 | 1,593,750 | 1,072,500 |
| John M. Lowber.......... | -0- | -0- | 205,000 | 145,000 | 1,275,625 | 643,125 |
| Dana L. Tindall......... | 9,517(2) | 16,357(2) | 106,400 | 50,000 | 528,100 | 236,250 |

</TABLE>

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(1) Represents the difference between the fair market value of the securities

underlying the options and the exercise price of the options based on the last trading price on December 31, 1996.

(2) The Company paid $16,357 to Ms. Tindall for cancellation of options to purchase 9,517 shares of Class A Common Stock with an exercise price per share of $2.25. The payment amount was calculated by multiplying the number of shares by the difference between the market price of the Class A Common Stock on the date of such cancellation and the exercise price of the options canceled.

EMPLOYMENT AND DEFERRED COMPENSATION AGREEMENTS

The Company entered into a Deferred Bonus Agreement with Mr. Duncan in June 1989 (the "First Duncan Agreement"). Under the First Duncan Agreement, the Company credited $325,000 to Mr. Duncan as of June 12, 1989 as a deferred bonus for Mr. Duncan's past service to the Company. Amounts in the account were to accrue interest at 10% per annum unless there was an irrevocable investment election by Mr. Duncan to have the balance in the account treated as though it were invested in the Common Stock of the Company. In July 1989, Mr. Duncan made such election, and the Company purchased a total of 105,111 shares of Class A Common Stock in its name for the benefit of Mr. Duncan, which are held in treasury and are not voted. The full amount of the deferred bonus, including the distribution of any stock, will be due and payable to Mr. Duncan upon the termination of his employment with the Company.



The Company entered into a Deferred Compensation Agreement with Mr. Duncan in August 1993 (as amended, the "Second Duncan Agreement"), under which the Company will pay to Mr. Duncan deferred compensation in an amount not to exceed $625,000, plus interest at the rate paid by the Company under the Telephony Credit Facility, in addition to his regular compensation. This deferred compensation is to be credited to Mr. Duncan each July 1 that he is employed by the Company in amounts as follows:

| YEAR | AMOUNT |
|---|---|
| 1993 | $ 100,000 |
| 1994 | 100,000 |
| 1995 | 125,000 |
| 1996 | 150,000 |
| 1997 | 150,000 |
| Total | $ 625,000 |

All deferred compensation (including the present value of any uncredited amounts) plus accrued interest will be due and payable in ten equal annual payments to Mr. Duncan upon the termination of his employment with the Company; provided that, should he voluntarily terminate his employment or if his employment is terminated for cause, only that portion (with interest) of the deferred compensation credited as of the December 31 immediately preceding his termination will be due and payable, and the remainder of the deferred compensation will be forfeited. In September 1995, the Company agreed with Mr. Duncan that the vested and unvested portions of his deferred compensation under the Second Duncan Agreement would be payable in shares of Class A Common Stock in lieu of cash. To fund this obligation, the Company bought a total of 13,750 shares in the open market during September 1995 and October 1995 at a weighted average price of $3.48 per share. In July 1996, the Company purchased from Mr. Duncan an additional 76,470 shares of Class A Common Stock at the then market price of $8.125 per share. In lieu of the of the amount to be credited in 1997, Mr. Duncan's deferred compensation account will receive credit for 18,372 shares of Class A Common Stock. Accordingly, the balance owed Mr. Duncan pursuant to the Second Duncan Agreement is denominated in 90,220 shares of Class A Common Stock. The Company is holding the shares in treasury until the shares are distributed to Mr. Duncan. The shares are not voted and may not be disposed of by the Company or Mr. Duncan.

On April 30, 1991, the Company entered into a deferred compensation agreement with Mr. Hughes (as amended in 1996, the "Hughes Agreement"). Under the terms of the Hughes Agreement, Mr. Hughes is entitled to an annual base salary of $150,000 and customary benefits. Pursuant to the agreement, Mr. Hughes was granted stock options in 1991 for 250,000 shares of Class A Common Stock at an exercise price of $1.75 per share, all of which are fully vested and exercisable. The Hughes Agreement also provides for Mr. Hughes to receive deferred compensation, with interest compounded annually at 10%, of $50,000 in each of 1992, 1993 and 1994, $65,000 in 1995 and $75,000 in 1996 and each year thereafter, to accrue on December 31 of each year. Each contribution by the Company is accrued at the end of the year in which the contribution is made. Upon termination, Mr. Hughes may elect to have the full balance of the deferred compensation paid in cash, in a lump sum or in monthly installments for up to ten years. If the monthly installment method is chosen, the unpaid balance will continue to accrue interest at 10%. Interest accrued under the Hughes Agreement in the amounts of $9,843, $9,741 and $10,128 during the years ended December 31, 1994, 1995 and 1996, respectively. In September 1995, the Company bought 3,750 shares of Class A Common Stock in the public market at a purchase price of $3.375 per share to fund certain of the vested portions of Mr. Hughes' deferred compensation. In March 1997, the Company bought 3,687 shares of Class A Common Stock at a purchase price of $7.75 per share, again to fund certain of the vested portions of Mr. Hughes' deferred compensation. The stock is held in treasury by the Company for the benefit of Mr. Hughes, is not voted and may not be disposed of by the Company or Mr. Hughes.



The Company entered into an employment and deferred compensation agreement with Mr. Lowber in July 1992. Under the terms of the agreement, Mr. Lowber is entitled to an annual base salary of $125,000 and customary benefits. In addition, Mr. Lowber is eligible to receive an annual cash bonus of up to $30,000 based upon the Company's and his performance. The agreement also provides for Mr. Lowber to receive deferred compensation of $450,000 ($65,000 per year from July 1992 through July 1999). If Mr. Lowber's employment or position with the Company is terminated, or if he dies, the entire $450,000 will be immediately payable. If Mr. Lowber voluntarily resigns, he will lose the unvested portion of his deferred compensation. The deferred compensation has been used to purchase a life insurance policy which has been collaterally assigned to the Company to the extent of premiums paid by the Company. The Company's deferred compensation contributions will be made each July 1 through 1999 and are fully vested when made. At the earlier of termination of employment or upon election by Mr. Lowber subsequent to the end of the seven year term of the agreement, the collateral assignment of the insurance policy will be terminated.

In February 1995, the Company agreed to pay deferred compensation to Mr. Behnke in the amount of $20,000 per year for each of 1995 and 1996, each contribution by the Company to vest at the end of the calendar year during which the allocation was made, and accruing interest at 10% per annum. The first allocation under the plan was made in December 1995. Effective January 1, 1997, the Company and Mr. Behnke entered into a compensation agreement (the "Behnke Agreement") which provides for compensation through December 31, 2001. The Behnke Agreement provides for base compensation of $150,000 per year, increasing $5,000 annually for the years ending December 31, 1999, 2000 and 2001. The Behnke Agreement provides for target incentive compensation of $45,000 per year of which 78% will be deferred. Pursuant to the Behnke Agreement, the Company agreed to grant Mr. Behnke an option to purchase 100,000 shares of Class A Common Stock at an exercise price of $7.00 per share, which will vest in equal amounts on January 1 of 2000, 2001 and 2002, the grant of such options being contingent on, among other things, the Company obtaining shareholder approval to increase the number of shares of Class A Common Stock that it is authorized to issue. Pursuant to the Behnke Agreement, the Company will create a deferred compensation account for Mr. Behnke in the amount of $285,000, of which $40,000 was vested December 31, 1996 and the rest of which will vest as earned under the incentive compensation provision of the Behnke Agreement. Mr. Behnke may direct the Company to invest the entire $285,000 in the Company's Common Stock. The vested portions of the deferred compensation account will be paid to Mr. Behnke upon termination of his employment with the Company. The Company also agreed to cooperate with Mr. Behnke to sell in the Stock Offering 35,000 shares of Class A Common Stock that he will receive upon exercise of vested stock options.

In February 1995, the Company established a non-qualified, unfunded deferred compensation plan to provide a means by which certain employees of the Company may elect to defer receipt of designated percentages or amounts of their compensation and to provide a means for certain other deferrals of compensation. Employees eligible to participate in the plan are determined by the Board. The Company may, at its discretion, contribute matching deferrals in amounts selected by the Company. Participants immediately vest in all elective deferrals and all income and gain attributable to that participation. Matching contributions and all income and gain attributable to them vest on a case-by-case basis as determined by the Company. Participants may elect to be paid in either a single lump-sum payment or annual installments over a period not to exceed 10 years. Vested balances are payable upon termination of employment, unforeseen emergencies, death or total disability and change of control or insolvency of the Company. Participants are general unsecured creditors of the Company with respect to deferred compensation benefits of the plan. Mr. Lowber participated in the plan with respect to a deferral of $56,000 earned in 1995 which was paid in 1996. As of the date of this Prospectus, Mr. Lowber was the only Named Executive Officer to participate in the plan.



## 1997 STOCK OPTION GRANTS

During February 1997, the Company made a contingent grant under the 1986 Stock Option Plan of options to purchase Class A Common Stock to certain executive officers and non-employee directors of the Company, subject, among other things, to the Company obtaining shareholder approval to increase the number of shares of Class A Common Stock that it is authorized to issue. The approved contingent options include 25,000 options to each of Mr. Fisher, Mr. Schneider and Mr. Page with an exercise price of $7.50 per share, such options to vest in 25% increments for each year that the optionee participates in at least 50% of Board meetings. The contingent grant of 100,000 options at an exercise price of $7.00 per share to each of Mr. Lowber, Mr. Behnke and Ms. Tindall was also approved. Mr. Lowber's options vest ratably over a three-year period beginning in December 1999, Mr. Behnke's options vest ratably over a three-year period beginning in January 2000 and Ms. Tindall's options vest ratably over a three-year period beginning in June 1999.

STOCK OPTION PLAN

Under the Company's 1986 Stock Option Plan, as amended (the "Stock Option Plan"), the Company is authorized to grant non-qualified options to purchase up to 3,200,000 shares of Class A Common Stock to officers, employees, non-employee directors and other key employees of the Company. The number of shares for which options may be granted is subject to adjustment upon the occurrence of stock dividends, stock splits, mergers, consolidations and certain other changes in corporate structure or capitalization. As of May 15, 1997, 2,408,600 shares were subject to outstanding options, 683,062 shares had been issued upon the exercise of options under the Stock Option Plan, and 108,338 shares remained available for additional grants under the Stock Option Plan. Shares of Class A Common Stock issued under the Stock Option Plan have been registered under the Securities Act on Form S-8. The Company intends to seek shareholder approval to increase the number of options available for grant under the Stock Option Plan by 2.5 million.

The Stock Option Plan is administered by the Board or, in certain instances, by a committee of disinterested persons which selects optionees and determines the terms of each option, including the number of shares covered by each option, the exercise price and the option exercise period which, under the Stock Option Plan, may be from six months through up to ten years from the date of grant. Options granted that have not become exercisable terminate upon the termination of the employment or directorship of the optionholder, and exercisable options terminate from one month to one year after such termination, depending on the cause of such termination. If an option expires or terminates, the shares subject to such option become available for additional grants under the Stock Option Plan.

STOCK PURCHASE PLAN

In December 1986, the Company adopted an Employee Stock Purchase Plan (as amended, the "Stock Purchase Plan"), that is qualified under Section 401 of the Internal Revenue Code of 1986, as amended. All employees of the Company have completed at least one year of service are eligible to participate in the Stock Purchase Plan. Eligible employees may elect to reduce their taxable compensation in any even dollar amount up to 10% of such compensation up to a maximum per employee of $9,500 for 1997. Employees may contribute up to an additional 10% of their compensation with after-tax dollars. Subject to certain limitations, the Company may make matching contributions of Common Stock for the benefit of employees, which contributions vest over six years. No more than 10% of any one employee's compensation will be matched in any year. In addition, the combination of salary reductions, after-tax contributions and Company matching contributions for any employee cannot exceed the lesser of $30,000 or 25% of such employee's compensation (determined after salary reduction) for any year.

Prior to July 1, 1995, employee and Company contributions were invested in Common Stock. On and after that date, employees could direct their contributions to be invested in Common Stock, MCI common stock, TCI common stock or various identified mutual funds. Employee contributions invested in Common Stock are eligible to receive up to 100% Company matching contributions in Common Stock



as determined by the Company each year. Employee contributions that are directed into investments other than Common Stock are eligible to receive Company matching contributions of up to 50%, as determined by the Company each year. All contributions are invested in the name of the plan for the benefit of the respective participants in the plan. The participants generally do not have voting or disposition power with respect to the Company shares allocated to their accounts; such shares are voted by the plan committee. However, pursuant to the Stock Purchase Plan, the Company offered all participants the opportunity to include in the Stock Offering up to 50% of the Common Stock allocated to them under the Stock Purchase Plan.

The Stock Purchase Plan is administered through a plan administrator (currently Alfred J. Walker) and a plan committee appointed by the Board. The assets of the plan are invested from time to time by the trustee at the direction of the plan committee, except that participants have the right to direct the investment of their contributions to the Stock Purchase Plan (although an election to invest in Common Stock is generally irrevocable). The plan administrator and members of the plan committee are all employees of the Company or its subsidiaries. The plan committee has broad administrative discretion under the terms of the plan.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee is composed of all members of the Board, and the identity and relationships of the Board. Two Board members, Mr. Walp and Mr. Duncan, are officers of the Company. During the year ended December 31, 1996, Messrs. Walp and Duncan participated in deliberations of the Compensation Committee concerning executive officer compensation other than deliberations concerning their own compensation. No executive officer of the Company served as a member of a compensation committee or board of directors of any other entity, one of whose executive officers served as a director of the Company.

The Company entered into a long-term capital lease agreement (the "Lease") in 1991 with a partnership in which Mr. Duncan, the President, CEO and a director of the Company, held a 50% ownership interest. Mr. Duncan sold his interest in the partnership in 1992 to Dani Bowman, who later became Mr. Duncan's spouse, but remained a guarantor on the note issued by National Bank of Alaska that was used to finance the acquisition of the property subject to the Lease. The property under the Lease consists of a building presently occupied by the Company (the "Property"). The Lease term is 15 years with monthly payments of $14,400, increasing in $800 increments at each two year anniversary of the Lease, beginning in 1993. If the partnership sells the Property prior to the end of the tenth year of the Lease, the partnership will pay to the Company one-half of the net proceeds in excess of $900,000. If the Property is not sold prior to the end of the tenth year of the Lease, the partnership will pay to the Company the greater of (i) one-half of the appreciated value of the Property over $900,000 and (ii) $500,000. The Property was capitalized in 1991 at the partnership's cost of $900,000 and the Lease obligation was recorded in the consolidated financial statements of the Company located elsewhere in this Prospectus.

In July 1996, the Company purchased 76,470 shares of Class A Common Stock from Mr. Duncan at the then market price of $8.125 per share. The shares were purchased for the purpose of funding Mr. Duncan's deferred compensation account under the Second Duncan Agreement, following his election to have the balance owed to him denominated in Class A Common Stock in lieu of cash. The Company is holding the shares in treasury until the shares are distributed to Mr. Duncan. The shares are not voted and may not be disposed of by the Company or Mr. Duncan. See "Management--Executive Compensation" and "--Employment and Deferred Compensation Agreements."

As of June 30, 1997, Mr. Duncan was indebted to the Company in the aggregate principal amount of $700,000 plus accrued interest of $149,453 (the "Outstanding Duncan Loans"). Mr. Duncan borrowed $500,000 of the Outstanding Duncan Loans from the Company in August 1993 to repay a portion of indebtedness to WestMarc that he assumed from others. The $500,000 loan accrues interest at the



Company's variable rate under the Telephony Credit Facility and is secured by 223,000 shares of Class A Common Stock owned by Mr. Duncan pursuant to the Pledge Agreement between Mr. Duncan and the Company dated August 13, 1993. The principal becomes due and payable, together with accrued interest, on the earlier of 90 days after the termination of Mr. Duncan's employment with the Company and July 30, 1998. This note is nonrecourse to Mr. Duncan.

The Company loaned $150,000 of the Outstanding Duncan Loans to Mr. Duncan in December 1996 and an additional $50,000 in January 1997 for his personal requirements. These loans accrue interest at the Company's variable rate under the Telephony Credit Facility, are unsecured and become due and payable, together with accrued interest, on December 31, 2001.

The largest aggregate principal amount of indebtedness owed by Mr. Duncan to the Company at any time since January 1, 1996 was $710,000, $700,000 of which remained outstanding at June 30, 1997. During 1996, Mr. Duncan borrowed from and repaid to the Company the principal amount of $210,000 for his personal requirements. The $210,000 loan accrued interest at the Company's variable rate under the Telephony Credit Facility and was secured by Class A Common Stock owned by Mr. Duncan. During 1996, Mr. Duncan also repaid the Company for $1,638 of payments made by the Company to others on behalf of Mr. Duncan during 1995. Such amounts did not accrue interest and were unsecured.

## CERTAIN TRANSACTIONS

### MCI AGREEMENTS

As of June 30, 1997, MCI owned 22.6% of the outstanding combined Common Stock, representing 26.6% of the total voting power of the Common Stock. After giving effect to the Stock Offering, MCI will own 19.4% of the outstanding combined Common Stock, representing 24.5% of the total voting power. In 1993, MCI entered into a significant business relationship with the Company which includes the following agreements: (i) under the MCI Traffic Carriage Agreement, the Company agreed to terminate all Alaska-bound MCI long distance traffic and MCI agreed to terminate all of the Company's long distance traffic terminating in the lower 49 states, excluding Washington, Oregon and Hawaii; (ii) MCI licensed certain service marks to the Company for use in Alaska; (iii) MCI, in connection with providing to the Company credit enhancement to permit the Company to purchase a portion of an undersea cable linking Seward, Alaska, with Pacific City, Oregon, leased from the Company all of the capacity owned by the Company on the undersea fiber optic cable and the Company leased such capacity back from MCI; (iv) MCI purchased certain service marks of the Company; and (v) the parties agreed to share some communications network resources and various marketing, engineering and operating resources. The Company also handles MCI's 800 traffic originating in Alaska and terminating in the lower 49 states and handles traffic for MCI's calling card customers when they are in Alaska, while MCI originates calls for the Company's calling card customers when they are in the lower 49 states. Revenues attributed to these agreements in 1994, 1995 and 1996 were approximately $19.5 million, $23.9 million and $29.2 million, respectively. Pursuant to these agreements, the Company paid MCI $12.7 million, $13.0 million and $12.8 million in 1994, 1995 and 1996, respectively. The Company believes that the terms of these agreements are at least as favorable to the Company as could be obtained from a non-affilate. Concurrently with entering into the MCI Traffic Carriage Agreement, MCI purchased approximately 31% of the then outstanding Class A Common Stock and approximately 31% of the then outstanding Class B Common Stock and presently controls nominations to two seats on the Board pursuant to the Voting Agreement. MCI's current nominees are Mr. Gerdelman, the President of Network Services for MCI, and Mr. Lynch, a Senior Vice President of MCI. Concurrently with the Company's acquisition of the Cable Systems effective October 31, 1996, MCI purchased an additional 2.0 million shares of Class A Common Stock for $13.0 million or $6.50 per share, a 30% premium to the $5.00 per share market price immediately preceding the announcement of the Company's acquisition of the Cable Systems.



### WESTMARC AGREEMENTS

The Company purchased services and used certain facilities of WestMarc, a wholly-owned subsidiary of TCI, to allow the Company to provide its telecommunications services in certain of the lower 49 states. The total of such purchases from WestMarc by the Company during the years ended December 31, 1995 and 1996 were approximately $245,000 and $244,000, respectively. The Company expects to continue purchasing services from WestMarc at levels comparable to past purchases. TCI controls nominations to two seats on the Board pursuant to the Voting Agreement. Its current nominees are Mr. Fisher and Mr. Romrell. TCI expects to sell all of its shares of Common Stock in the Stock Offering. If it does so, it will no longer be subject to the Voting Agreement and each other party to the agreement will have the right to withdraw from the Voting Agreement by giving written notice to the other parties. The Company currently expects that TCI's nominees to the Board will continue as directors of the Company and that the other parties will not terminate their rights and obligations under the Voting Agreement.

### PRIME MANAGEMENT AGREEMENT

In connection with its acquisition of the Cable Systems, the Company entered into the Prime Management Agreement with Prime Management to manage the Cable Systems. After giving effect to the Stock Offering, the Voting Prime Sellers will own 18.0% of the total outstanding combined Common Stock, representing 10.3% of the total voting power, and will control nominations to two seats on the Board pursuant to the Voting Agreement.

Under the Prime Management Agreement, the Company will pay to Prime Management a net annualized fee for managing the Cable Systems in the amount of $1,000,000 for the year ending October 31, 1997, $750,000 for the year ending October 31, 1998, and $500,000 for each year ending October 31 thereafter that the Prime Management Agreement is in effect. Any portion of the management fee which is past due shall bear interest at a rate per annum equal to 17.5% until paid. In addition, the Company is required to reimburse Prime Management for any costs and expenses incurred by it in connection with the Cable Systems, including travel and entertainment expenses (the contract states that such costs and expenses are not anticipated to exceed $200,000 on an annualized basis). The Prime Management Agreement has a term of nine years but either party may terminate the agreement in its discretion after October 31, 1998.

DUNCAN LEASE

The Company entered into a long-term capital lease agreement in 1991 with a partnership in which Mr. Duncan, the President, Chief Executive Officer and director of the Company, held a 50% ownership interest. See "Management--Compensation Committee Interlocks and Insider Participation."

DUNCAN AND HUGHES STOCK SALES

In July 1996, the Company purchased 76,470 shares of Class A Common Stock from Mr. Duncan at the then market price of $8.125 per share. See "Management--Compensation Committee Interlocks and Insider Participation." In March 1997, the Company purchased 3,687 shares of Class A Common Stock from Mr. Hughes at the then market price of $7.75 per share. The shares were purchased for the purpose of funding Mr. Hughes's deferred compensation account under the Hughes Agreement. The Company is holding the shares in treasury until they are distributed to Mr. Hughes. The shares are not voted and may not be disposed of by the Company or Mr. Hughes. See "Management--Executive Compensation" and "--Employment and Deferred Compensation Agreements."

INDEBTEDNESS OF MANAGEMENT

A significant portion of the compensation paid to executive officers of the Company is in the form of stock options. Because insider sales of capital stock of the Company upon exercise of such options may have a negative impact on the price of the Company's Common Stock, the Board has encouraged executive officers of the Company not to exercise stock options and sell the underlying stock to meet



personal financial requirements, and has instead extended loans to such executive officers secured by their shares or options. Total indebtedness of management at June 30, 1997 was $1,777,941 (including accrued interest of $274,582), $1,073,359 in principal amount of which was secured by shares or options, $185,000 in principal amount of which was otherwise secured by collateral of the borrowers and $20,000 in principal amount of which was unsecured.

As of June 30, 1997, Mr. Duncan was indebted to the Company in the aggregate principal amount of $700,000 plus accrued interest of $149,453. See "Management--Compensation Committee Interlocks and Insider Participation." As of June 30, 1997, Mr. Behnke, Mr. Dowling and Ms. Tindall were indebted to the Company in the respective principal amounts of $148,000, $330,359 and $70,000, plus accrued interest of $26,441, $82,997 and $7,590, respectively. The $148,000 principal amount owed by Mr. Behnke is secured by options to purchase 85,190 shares of Class A Common Stock (the "Behnke Collateral"), is due and payable, together with accrued interest, on June 30, 1997, and consists of (i) $48,000 borrowed in April 1993 for his personal requirements, which amount bears interest at 9% per annum, (ii) $50,000 borrowed in September 1995 for his personal requirements, which amount bears interest at the Company's variable rate under the Telephony Credit Facility and (iii) $50,000 borrowed in January 1997 for his personal requirements, which amount bears interest at the Company's variable rate under the Telephony Credit Facility. The $330,359 principal amount owed by Mr. Dowling bears interest at the rate of 10% per annum, is secured by 160,297 shares of Class A Common Stock and 74,028 shares of Class B Common Stock and consists of $224,359 borrowed in August 1994 and $86,000 borrowed in April 1995, each to pay income taxes due upon exercise of stock options. Mr. Dowling's loans are payable in equal installments of principal and interest each year for ten years beginning in August 1995. Payment has not yet been made on the notes, and Mr. Dowling is currently negotiating extensions of the notes with the Company. An additional $20,000 advanced to Mr. Dowling in June 1997, which amount bears interest at 9% per annum, is unsecured and is payable upon demand. The Company loaned Ms. Tindall $70,000 for her personal requirements in January 1996, which amount bears interest at the Company's variable rate under the Telephony Credit Facility, is secured by options to purchase 156,400 shares of Class A Common Stock and is due and payable, together with accrued interest, on January 16, 1999. Ms. Tindall is required to make prepayments on the note equal to 20% of the gross amount of any incentive compensation earned by her. The largest aggregate principal amount of indebtedness owed by each of Mr. Behnke, Mr. Dowling and Ms. Tindall to the Company at any time since January 1, 1996 was $148,000, $330,359 and $70,000, respectively.

The Company loaned $45,000 to Mr. Hughes in December 1995 for his personal requirements. The principal under the promissory note bears interest at the Company's variable rate under the Telephony Credit Facility, is secured by options to purchase 250,000 shares of Class A Common Stock and by 3,000 shares of Class A Common Stock owned by Mr. Hughes (the "Hughes Collateral") and is due, together with accrued interest, on March 31, 1997. Mr. Hughes is currently negotiating an extension of the note with the Company. Accrued interest under the note totaled $5,371 at June 30, 1997. In August 1996, Mr. Hughes received an advance of $25,000 from the Company. This indebtedness does not bear interest, is secured by the Hughes Collateral and is to be repaid from future incentive compensation payments earned by Mr. Hughes.

The Company loaned $185,000 to Mr. Lowber during April 1997 to purchase real property. The promissory note will be secured by a deed of trust for such property, bears interest at 6.49% and will be due and payable, together with accrued interest, in three equal annual installments beginning June 30, 2000. Accrued interest under the note totaled $2,730 at June 30, 1997.

AGREEMENT NOT TO EXERCISE OPTIONS

The number of authorized but unissued shares of Class A Common Stock as of the date of this Prospectus, net of shares reserved for issuance upon exercise of options and conversion of outstanding shares of Class B Common Stock, is approximately 5.2 million. Upon consummation of the Stock Offering, the Company will be required to issue approximately 7.0 million shares of Class A Common



Stock. In order to make available for issuance an additional 1.8 million shares of Class A Common Stock in addition to the 5.2 million currently available, certain holders of options to acquire an aggregate of approximately 1.8 million shares of Class A Common Stock have agreed not to exercise those options until such time as the Company's shareholders have approved an increase in the amount of authorized but unissued Class A Common Stock. The foregoing agreements require the Company to use its best efforts to obtain shareholder approval to increase its authorized Class A Common Stock as promptly as practicable, but not before its next annual meeting.

REGISTRATION RIGHTS AGREEMENTS

The Company has entered into registration rights agreements (the "Registration Rights Agreements") with TCI, MCI and the former owners of Prime, Alaskan Cable and Alaska Cablevision. Approximately 24,315,082 shares of Class A Common Stock and 1,865,834 shares of Class B Common Stock were subject to the Registration Rights Agreements as of May 15, 1997. After giving effect to the Stock Offering, 19,022,388 shares of Class A Common Stock and 1,275,791 shares of Class B Common Stock will be subject to the Registration Rights Agreements. The terms of the Registration Rights Agreements vary although they generally share several common terms.

If the Company proposes to register any of its securities under the Securities Act for its own account or for the account of other shareholders, the Company must notify all of the holders under the Registration Rights Agreements of the Company's intent to register such common stock and allow the holders an opportunity to include their shares ("Registrable Shares") in the Company's registration. Each holder also has the right under certain circumstances to require the Company to register all or any portion of such holder's Registrable Shares under the Securities Act. The Registration Rights Agreements are subject to certain limitations and restrictions including the right of the Company to limit the number of Registrable Shares included in the registration. Generally, the Company is required to pay all registration expenses in connection with each registration of Registrable Shares pursuant to the Registration Rights Agreements.

The Registration Rights Agreements between the Company and the Prime Sellers and between the Company and Alaskan Cable require the Company to effect no more than two registrations at the request of each holder; provided that each registration request by the Prime Sellers or Alaskan Cable must include Registrable Shares having an aggregate market value of not less than $2.5 million. The first demand registration under the Prime and Alaskan Cable Registration Rights Agreements may be requested only by the holders of a minimum of 25% of the Registrable Shares.

The Registration Rights Agreement between the Company and the shareholders of Alaska Cablevision requires the Company to effect no more than 10 registrations at the request of such shareholders; provided, that each registration request must include at least 150,000 Registrable Shares. The first demand registration under the Alaska Cablevision Registration Rights Agreement may be requested only by the holders of a minimum of 10% of the Registrable Shares.

The Registration Rights Agreement between the Company and MCI dated March 31, 1993 requires the Company to effect no more than two registrations at the request of MCI; provided, that each registration request by MCI must include Registrable Shares having an aggregate market value of more than $500,000. MCI executed a second Registration Rights Agreement with the Company dated October 31, 1996, pursuant to which the Company is required to effect no more than two registrations at the request of MCI, each request to cover Registrable Shares having an aggregate market value of at least $1.5 million.

Under the Registration Rights Agreement between the Company and TCI (originally with WestMarc but transferred to TCI when the Registrable Shares were transferred by WestMarc), the Company is required, subject to specified limitations, to effect no more than two registrations at the request of TCI, so long as the request relates to Registrable Shares having an aggregate market value of more than $500,000.



PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Class A Common Stock and Class B Common Stock as of June 30, 1997, before and after giving effect to the Stock Offering, by (i) each person known by the Company to beneficially own 5% or more of the outstanding shares of Class A Common Stock or Class B Common Stock, (ii) each director of the Company, (iii) each of the Named Executive Officers, and (iv) all current executive officers and directors of the Company as a group. The table also reflects the number of shares to be sold by each of the selling shareholders in the Stock Offering. All information with respect to beneficial ownership has been furnished to the Company by the respective shareholders of the Company.

<TABLE>
<CAPTION>

| | | SHARES BENEFICIALLY OWNED PRIOR TO THE STOCK OFFERING | | | | |
|---|---|---|---|---|---|---|
| NAME AND ADDRESS OF BENEFICIAL OWNER (2) | TITLE OF CLASS | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS | PERCENT OF TOTAL SHARES OUTSTANDING | COMBINED VOTING POWER | NUMBER OF CLASS A SHARES OFFERED |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| PARTIES TO VOTING AGREEMENT: | | | | | | |
| MCI Telecommunications | Class A | 8,251,509(3) | 21.6% | 22.6% | 26.6% | -- |
| Corporation | Class B | 1,275,791(3) | 31.4% | | | |
| 1801 Pennsylvania Ave., N.W. | | | | | | |
| Washington, D.C. 20006 | | | | | | |
| Ronald A. Duncan | Class A | 1,011,988(3)(5) | 2.6% | 3.0% | 4.3% | -- |
| | Class B | 239,929(3)(5) | 5.9% | | | |
| Robert M. Walp | Class A | 572,845(3)(6) | 1.5% | 2.1% | 4.6% | 200,000(6) |
| | Class B | 303,457(3)(6) | 7.5% | | | |
| Tele-Communications, Inc. | Class A | -- | -- | 1.4% | 7.5% | 590,043(18) |
| 5619 DTC Parkway | Class B | 590,043(3) | 14.5% | | | |
| Englewood, CO 80111 | | | | | | |
| Voting Prime Sellers: | | | | | | |
| Prime Cable Growth Partners, | Class A | 7,423,569(3) | 19.5% | 17.6% | 9.4% | 1,484,713(17) |
| L.P. and its affiliates (4) | Class B | -- | -- | | | |
| 3000 One American Center | | | | | | |
| 600 Congress Avenue | | | | | | |
| Austin, TX 78701 | | | | | | |
| William Blair Venture Partners | Class A | 1,237,262(3) | 3.2% | 2.9% | 1.6% | -- |
| III Limited Partnership | Class B | -- | -- | | | |
| 222 West Adams Street | | | | | | |
| Chicago, IL 60606 | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Austin Ventures, L.P. | Class A | 791,848(3) | 2.1% | 1.9% | 1.0% | -- |
| 114 West 7th Street | Class B | -- | -- | | | |
| Suite 1300 | | | | | | |
| Austin, TX 78701 | | | | | | |
| Centennial Fund III, L.P. | Class A | 742,357(3) | 1.9% | 1.8% | * | -- |
| 1428 15th Street | Class B | -- | -- | | | |
| Denver, CO 80202 | | | | | | |
| BancBoston Capital, Inc. | Class A | 332,323(3) | * | * | * | 257,793 |
| 175 Federal Street, 10th Floor | Class B | -- | -- | | | |
| Boston, MA 02110 | | | | | | |
| First Chicago Investment Corporation | Class A | 301,407(3) | * | * | * | 233,810 |
| | Class B | -- | -- | | | |
| One First National Plaza | | | | | | |
| Chicago, IL 60670 | | | | | | |

<CAPTION>

| NAME AND ADDRESS OF BENEFICIAL OWNER (2) | SHARES BENEFICIALLY OWNED AFTER THE STOCK OFFERING (1) — AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS | PERCENT OF TOTAL SHARES OUTSTANDING | COMBINED VOTING POWER |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| PARTIES TO VOTING AGREEMENT: | | | | |
| MCI Telecommunications | 8,251,509(3) | 18.3% | 19.4% | 24.5% |
| Corporation | 1,275,791(3) | 31.4% | | |
| 1801 Pennsylvania Ave., N.W. | | | | |
| Washington, D.C. 20006 | | | | |
| Ronald A. Duncan | 791,945(3)(5)(18) | 1.8% | 2.5% | 6.3% |
| | 459,972(3)(5)(18) | 11.3% | | |
| Robert M. Walp | 372,845(3)(6) | * | 1.4% | 4.0% |
| | 303,457(3)(6) | 7.5% | | |
| Tele-Communications, Inc. | -- | -- | -- | -- |
| 5619 DTC Parkway | -- | -- | | |
| Englewood, CO 80111 | | | | |
| Voting Prime Sellers: | | | | |
| Prime Cable Growth Partners, | 5,938,856(3)(4) | 13.2%(4) | 12.1%(4) | 6.9%(4) |
| L.P. and its affiliates (4) | -- | -- | | |
| 3000 One American Center | | | | |
| 600 Congress Avenue | | | | |
| Austin, TX 78701 | | | | |
| William Blair Venture Partners | 1,237,262(3) | 2.7% | 2.5% | 1.4% |
| III Limited Partnership | -- | -- | | |
| 222 West Adams Street | | | | |
| Chicago, IL 60606 | | | | |
| Austin Ventures, L.P. | 791,848(3) | 1.8% | 1.6% | * |
| 114 West 7th Street | -- | -- | | |
| Suite 1300 | | | | |
| Austin, TX 78701 | | | | |
| Centennial Fund III, L.P. | 742,357(3) | 1.6% | 1.5% | * |
| 1428 15th Street | -- | -- | | |
| Denver, CO 80202 | | | | |
| BancBoston Capital, Inc. | 74,530(3) | * | * | * |
| 175 Federal Street, 10th Floor | -- | -- | | |
| Boston, MA 02110 | | | | |
| First Chicago Investment | 67,597(3) | * | * | * |
| Corporation | -- | -- | | |
| One First National Plaza | | | | |
| Chicago, IL 60670 | | | | |

</TABLE>



<TABLE>
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| NAME AND ADDRESS OF BENEFICIAL OWNER (2) | SHARES BENEFICIALLY OWNED PRIOR TO THE STOCK OFFERING — TITLE OF CLASS | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS | PERCENT OF TOTAL SHARES OUTSTANDING | COMBINED VOTING POWER | NUMBER OF CLASS A SHARES OFFERED |
|---|---|---|---|---|---|---|

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| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|---|---|
| Madison Dearborn Partners V | Class A | 30,916(3) | * | * | * | 23,982 |
| Three First National Plaza | Class B | -- | -- | | | |
| Suite 1330 | | | | | | |
| Chicago, IL 60602 | | | | | | |
| Aggregate Voting Prime Sellers | Class A | 10,859,682 | 28.5% | 25.7% | 13.8% | 2,000,298(20) |
| | Class B | -- | -- | | | |
| AGGREGATE SHARES SUBJECT TO | Class A | 20,422,112(7) | 53.5% | 54.0% | 56.3% | 2,200,298(7) |
| VOTING AGREEMENT | Class B | 2,400,591(7) | 59.0% | | | 590,043(18) |
| Jack Kent Cooke Incorporated | Class A | 2,923,077 | 7.7% | 6.9% | 3.7% | 2,923,077 |
| Kent Farms Route 713 | Class B | -- | -- | | | |
| Middleburg, VA 20117 | | | | | | |
| Kearns-Tribune Corporation | Class A | 300,200 | * | 1.2% | 3.2% | -- |
| 400 Tribune Building | Class B | 225,000 | 5.5% | | | |
| Salt Lake City, UT 84111 | | | | | | |
| General Communication, Inc. | Class A | 2,001,566 | 5.2% | 5.1% | 4.4% | 682,263 |
| Employee Stock Purchase Plan (8) | Class B | 145,147 | 3.6% | | | |
| 2550 Denali Street, | | | | | | |
| Suite 1000 | | | | | | |
| Anchorage, AK 99503 | | | | | | |
| William C. Behnke | Class A | 185,274(9) | * | * | * | 35,000(9) |
| | Class B | -- | -- | | | |
| Donne F. Fisher (individually | Class A | 287,975(10) | * | 2.2% | 8.6% | -- |
| and as Co-Personal Representative to the Estate of Bob Magness) | Class B | 648,491(10) | 15.9% | | | |
| Jeffery C. Garvey | Class A | 8,246(11) | * | * | * | -- |
| | Class B | -- | -- | | | |
| John W. Gerdelman | Class A | -- | -- | -- | -- | -- |
| | Class B | -- | -- | | | |
| William P. Glasgow | Class A | -- | -- | -- | -- | -- |
| | Class B | -- | -- | | | |
| G. Wilson Hughes | Class A | 341,670(12) | * | * | * | -- |
| | Class B | 2,735(12) | * | | | |
| John M. Lowber | Class A | 271,762(13) | * | * | * | 32,557(13) |
| | Class B | 6,266(13) | * | | | |
| Donald Lynch | Class A | -- | -- | -- | -- | -- |
| | Class B | -- | -- | | | |
| Carter F. Page | Class A | 197,487(14) | * | * | * | -- |
| | Class B | 25,246 | * | | | |
| Larry E. Romrell | Class A | -- | -- | * | * | -- |
| | Class B | 328 | * | | | |
| James M. Schneider | Class A | -- | -- | -- | -- | -- |
| | Class B | -- | -- | | | |
| Dana L. Tindall | Class A | 153,905(15) | * | * | * | -- |

| | | | |
|---|---|---|---|
| | Class B | 3,792(15) | * |

<CAPTION>

| NAME AND ADDRESS OF BENEFICIAL OWNER (2) | SHARES BENEFICIALLY OWNED AFTER THE STOCK OFFERING (1) | | | |
|---|---|---|---|---|
| | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS | PERCENT OF TOTAL SHARES OUTSTANDING | COMBINED VOTING POWER |
| <S> | <C> | <C> | <C> | <C> |
| Madison Dearborn Partners V | 6,934(3) | * | * | * |
| Three First National Plaza | -- | -- | | |
| Suite 1330 | | | | |
| Chicago, IL 60602 | | | | |
| Aggregate Voting Prime Sellers | 8,859,384(20) | 19.6%(20) | 18.0%(20) | 10.3%(20) |
| | -- | -- | | |
| AGGREGATE SHARES SUBJECT TO | 18,001,771(7)(18) | 39.9%(7) | 40.7%(7) | 44.6%(7) |
| VOTING AGREEMENT | 2,030,591(7)(18) | 49.9% | | |
| Jack Kent Cooke Incorporated | -- | -- | -- | -- |
| Kent Farms Route 713 | -- | -- | | |
| Middleburg, VA 20117 | | | | |
| Kearns-Tribune Corporation | 300,200 | * | 1.1% | 3.0% |
| 400 Tribune Building | 225,000 | 5.5% | | |
| Salt Lake City, UT 84111 | | | | |
| General Communication, Inc. | 1,319,303 | 2.9% | 3.0% | 3.2% |
| Employee Stock Purchase Plan (8) | 145,147 | 3.6% | | |
| 2550 Denali Street, | | | | |
| Suite 1000 | | | | |
| Anchorage, AK 99503 | | | | |
| William C. Behnke | 150,274(9) | * | * | * |
| | -- | -- | | |
| Donne F. Fisher (individually | 102,975(10)(18) | * | 1.9% | 9.8% |
| and as Co-Personal | 833,491(10)(18) | 20.5% | | |
| Representative to the Estate | | | | |
| of Bob Magness) | | | | |
| Jeffery C. Garvey | 8,246(11) | * | * | * |
| | -- | -- | | |
| John W. Gerdelman | -- | -- | -- | -- |
| | -- | -- | | |
| William P. Glasgow | -- | -- | -- | -- |
| | -- | -- | | |
| G. Wilson Hughes | 341,670(12) | * | * | * |
| | 2,735(12) | * | | |
| John M. Lowber | 239,205(13) | * | * | * |
| | 6,266(13) | * | | |
| Donald Lynch | -- | -- | -- | -- |
| | -- | -- | | |
| Carter F. Page | 12,487(14)(18) | * | * | 2.5% |
| | 210,246(18) | 5.2% | | |
| Larry E. Romrell | -- | -- | * | * |
| | 328 | * | | |
| James M. Schneider | -- | -- | -- | -- |
| | -- | -- | | |
| Dana L. Tindall | 153,905(15) | * | * | * |
| | 3,792(15) | * | | |

</TABLE>



<TABLE>
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| NAME AND ADDRESS OF BENEFICIAL OWNER (2) | SHARES BENEFICIALLY OWNED PRIOR TO THE STOCK OFFERING | | | | | NUMBER OF CLASS A SHARES OFFERED |
|---|---|---|---|---|---|---|
| | TITLE OF CLASS | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS | PERCENT OF TOTAL SHARES OUTSTANDING | COMBINED VOTING POWER | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| All Directors and Executive | Class A | 3,334,552(16) | 8.5% | 10.7% | 20.5% | 267,557 |
| Officers As a Group (15 Persons) | Class B | 1,307,420(16) | 32.1% | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ameritas Life Insurance Corp. (19) | Class A | 4,784 | * | * | * | 4,784 |
| KLANS Associates (19) | Class A | 1,557 | * | * | * | 1,557 |
| Pillsbury Master Retirement Trust (19) | Class A | 14,333 | * | * | * | 14,333 |
| Tribune Company Master Trust for Pension Plans (19) | Class A | 7,107 | * | * | * | 7,107 |
| K.D.F., a Massachusetts general partnership (19) | Class A | 17,968 | * | * | * | 17,968 |
| Fidelity Pension Trust (19) | Class A | 7,167 | * | * | * | 7,167 |
| Commerce BancShares, Inc. (19) | Class A | 10,802 | * | * | * | 10,802 |
| Robert G. Holman (19) | Class A | 144 | * | * | * | 144 |
| Equitable Life Assurance Society of the United States (19) | Class A | 9,561 | * | * | * | 9,561 |
| Donald Adams (19) | Class A | 107,226 | * | * | * | 60,000 |
| Karen Evans (19) | Class A | 106,153 | * | * | * | 106,153 |
| Samuel Evans (19) | Class A | 129,743 | * | * | * | 129,743 |

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TOTAL SHARES OFFERED BY SELLING SHAREHOLDERS: 6,800,000(21)

<CAPTION>

| NAME AND ADDRESS OF BENEFICIAL OWNER (2) | SHARES BENEFICIALLY OWNED AFTER THE STOCK OFFERING (1) | | | |
|---|---|---|---|---|
| | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCENT OF CLASS | PERCENT OF TOTAL SHARES OUTSTANDING | COMBINED VOTING POWER |
| <S> | <C> | <C> | <C> | <C> |
| All Directors and Executive Officers As a Group (15 Persons) | 2,476,952(16)(18)<br>1,897,463(16)(18) | 5.5%<br>46.6% | 8.7% | 25.0% |
| Ameritas Life Insurance Corp. (19) | -- | -- | -- | -- |
| KLANS Associates (19) | -- | -- | -- | -- |
| Pillsbury Master Retirement Trust (19) | -- | -- | -- | -- |
| Tribune Company Master Trust for Pension Plans (19) | -- | -- | -- | -- |
| K.D.F., a Massachusetts general partnership (19) | -- | -- | -- | -- |
| Fidelity Pension Trust (19) | -- | -- | -- | -- |
| Commerce BancShares, Inc. (19) | -- | -- | -- | -- |
| Robert G. Holman (19) | -- | -- | -- | -- |
| Equitable Life Assurance Society of the United States (19) | -- | -- | -- | -- |
| Donald Adams (19) | 47,226 | * | * | * |
| Karen Evans (19) | -- | -- | -- | -- |
| Samuel Evans (19) | -- | -- | -- | -- |
| TOTAL SHARES OFFERED BY SELLING SHAREHOLDERS: | | | | |

</TABLE>

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* Represents beneficial ownership of less than 1% of the corresponding class of common stock.

(1) Based upon the sale of all shares offered in the Stock Offering assuming no exercise of the Underwriters' over-allotment option in the Stock Offering.

(2) Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act. Shares of Common Stock that a person has the right to acquire within 60 days of June 30, 1997 are deemed to be beneficially owned by such person and are included in the computation of the ownership and voting percentages only of such person. Each person has sole voting and investment power with respect to the shares indicated except as otherwise stated in the footnotes to the table.

(3) Each of these persons is party to a Voting Agreement dated as of October 31, 1996 (the "Voting Agreement") and may be deemed to be the beneficial owner of all of the 20,442,112 shares of Class A Common Stock (18,001,771 shares after the Stock Offering) and 2,400,591 shares of Class B Common Stock (2,030,591 shares after the Stock Offering) that are subject to the Voting Agreement. See "--Changes in Control." MCI and Centennial report shared voting and investment power with respect to shares held by them that are subject to the Voting Agreement. BancBoston and Madison Dearborn report shared voting power with respect to shares held by them that are subject to the Voting Agreement. Prime, Austin Ventures, William Blair and Messrs. Duncan and Walp report shared voting power with respect to shares held by them that are subject to the Voting Agreement and shares held by other parties to the Voting Agreement. Prime also reports shared investment power with respect to shares held by it.

(4) Represents the aggregate number of shares reported by the following group members in a Schedule 13D filed with the Securities and Exchange Commission on November 12, 1996: Prime Cable G.P., Inc., Prime Cable Growth Partners, L.P., Prime Cable Limited Partnership, Prime II Management Group, Inc., Prime II Management, Inc., Prime II Management L.P., Prime Investors, L.P., Prime Venture I Holdings, L.P., Prime Venture I, Inc. and Prime Venture II, L.P. Collectively, Prime Cable Growth Partners, L.P. and its affiliates have granted to the Underwriters an option to purchase up to 2,070,000 additional shares of Class A Common Stock solely to cover over-allotments, if any. If the entire over-allotment option is exercised, the shares of Class A Common Stock held by such Selling Shareholders will decrease to 3,868,856 (8.6% of the then-outstanding



Class A Common Stock, representing 7.9% of the total shares outstanding and 4.5% of the combined voting power of the then-outstanding Common Stock).

(5) Includes 140,000 shares of Class A Common Stock which Mr. Duncan has the right to acquire within 60 days of June 30, 1997 by the exercise of vested stock options. Includes 95,683 shares of Class A Common Stock and 6,221 shares of Class B Common Stock allocated to Mr. Duncan under the Stock Purchase Plan. Does not include 105,111 or 90,220 shares of Class A Common Stock held by the Company in treasury pursuant to the First Duncan Agreement and the Second Duncan Agreement, respectively. See "Management--Executive Compensation" and "--Employment and Deferred Compensation Agreements." Does not include 18,560 shares of Class A Common Stock or 8,242 shares of Class B Common Stock held by the Amanda Miller Trust, with respect to which Mr. Duncan has no voting or investment power. Does not include 5,760 shares of Class A Common Stock or 27,020 shares of Class B Common Stock held by Dani Bowman, Mr. Duncan's wife, of which Mr. Duncan disclaims beneficial ownership.

(6) Includes 38,229 shares of Class A Common Stock and 2,408 shares of Class B Common Stock allocated to Mr. Walp under the Stock Purchase Plan. Includes 200,000 shares of Class A Common Stock held by a charitable remainder unit trust of which Mr. Walp is trustee, which shares will be sold in the Stock Offering.

(7) Does not include shares allocated to Messrs. Duncan and Walp under the Stock Purchase Plan or shares that Mr. Duncan has the right to acquire by exercise of vested stock options. Prime Cable Growth Partners, L.P. and its affiliates have collectively granted to the Underwriters an option to purchase up to 2,070,000 additional shares of Class A Common Stock solely to cover over-allotments, if any. If the entire over-allotment option is exercised, the number of shares of Class A Common Stock held by the parties to the Voting Agreement will decrease to 15,931,771 (35.2% of the then-outstanding Class A Common Stock, representing 36.4% of the total shares outstanding and 42.1% of the combined voting power of the

then-outstanding Common Stock).

(8) Voting and investment power with respect to shares held by the Stock Purchase Plan are exercised by the plan committee comprised of Manuel Hernandez, Valerie Longeski, Jimmy Sipes and Tami Graff, each of whom is an employee of the Company.

(9) Includes 185,190 shares (150,190 shares after the Stock Offering) which Mr. Behnke has the right to acquire within 60 days of June 30, 1997 by the exercise of vested stock options. Mr. Behnke will exercise options to purchase 35,000 shares of Class A Common Stock immediately prior to the Stock Offering, which shares will be sold in the Stock Offering.

(10) Includes 76,668 shares of Class A Common Stock and 620,803 shares of Class B Common Stock held by the Estate of Bob Magness, for which Mr. Fisher is Co-Personal Representative.

(11) Mr. Garvey is a general partner of Austin Ventures, L.P. and disclaims beneficial ownership of the shares held by that partnership and other general partners of that partnership.

(12) Includes 310,000 shares of Class A Common Stock which Mr. Hughes has the right to acquire within 60 days of June 30, 1997 by the exercise of vested stock options. Includes 28,670 shares of Class A Common Stock and 2,735 shares of Class B Common Stock allocated to Mr. Hughes under the Stock Purchase Plan. Does not include 7,437 shares of Class A Common Stock held in treasury by the Company pursuant to the Hughes Agreement. See "Management--Employment and Deferred Compensation Agreements."

(13) Includes 205,000 shares which Mr. Lowber has the right to acquire within 60 days of June 30, 1997 by the exercise of vested stock options. Includes 59,117 shares of Class A Common Stock (25,560 shares after the Stock Offering) and 5,996 shares of Class B Common Stock allocated to Mr. Lowber under the Stock Purchase Plan. The 32,557 shares to be sold in the Stock Offering are beneficially owned by Mr. Lowber through participation in the Employee Stock Purchase Plan.

(14) Does not include 8,550 shares of Class A Common Stock held in trust for the benefit of Mr. Page's grandchildren of which Mr. Page disclaims beneficial ownership. The trustee of the trust is Keith Page, Mr. Page's son.

(15) Includes 116,400 shares which Ms. Tindall has the right to acquire within 60 days of June 30, 1997 by the exercise of vested stock options. Includes 37,246 shares of Class A Common Stock and 3,792 shares of Class B Common Stock allocated to Ms. Tindall under the Stock Purchase Plan.

(16) Includes 1,061,590 shares of Class A Common Stock (1,026,590 shares after the Stock Offering) which such persons have the right to acquire within 60 days of June 30, 1997 through the exercise of vested stock options. Includes 281,583 shares of Class A Common Stock (249,026 shares after the Stock Offering) and 24,300 shares of Class B Common Stock allocated to such persons under the Stock Purchase Plan. Does not include ownership of parties to the Voting Agreement other than Messrs. Duncan and Walp.

(17) Of the shares offered, 247,452 are offered by Prime Venture I Holdings, L.P., 544,395 are offered by Prime Cable Growth Partners, L.P., 445,414 shares are offered by Prime Cable Limited Partnership and 247,452 shares are offered by Prime Venture II, L.P. Prime Cable Growth Partners, L.P. and its affiliates have collectively granted to the Underwriters an option to purchase up to 2,070,000 additional shares of Class A Common Stock solely to cover over-allotments, if any.

(18) Immediately prior to the Stock Offering, TCI will exchange its Class B Common Stock for Class A Common Stock with existing holders as follows: Mr. Duncan, 220,043 shares; Mr. Fisher, 185,000 shares; and Mr. Page, 185,000 shares. As a result, TCI will not be a party to the Voting Agreement after the Stock Offering.



(19) Each of these shareholders acquired his or her shares of Class A Common Stock in connection with the Company's acquisition of the Cable Systems. See "The Company--Recent Acquisition of Cable Systems."

(20) Prime Cable Growth Partners, L.P. and its affiliates have collectively granted to the Underwriters an option to purchase up to 2,070,000 additional shares of Class A Common Stock solely to cover over-allotments, if any. If the entire over-allotment option is exercised, the number of shares of Class A Common Stock held by the Voting Prime Sellers will decrease to 6,789,384 (15.0% of the then-outstanding Class A Common Stock, representing 13.8% of the total shares outstanding and 7.9% of the combined voting power of the then-outstanding Common Stock).

(21) The 32,557 shares to be sold by Mr. Lowber are beneficially owned by him through participation in the Employee Stock Purchase Plan and are also included in the 682,263 shares to be sold by the Employee Stock Purchase Plan.

CHANGES IN CONTROL

VOTING AGREEMENT. As of October 31, 1996, four principal shareholders, including two officers and directors of the Company (Messrs. Duncan and Walp, TCI and MCI) entered into the Voting Agreement with the Voting Prime Sellers through their designated agent, Prime Management. The Voting Agreement replaced a previous voting agreement among Messrs. Duncan and Walp, TCI and MCI. The Voting Agreement provides, in part, that the voting stock of the parties will be voted at shareholder meetings as a block in favor of two nominees proposed by each of MCI, TCI and the Voting Prime Sellers, and one nominee proposed by each of Messrs. Duncan and Walp. TCI expects to sell all of its shares of Common Stock in the Stock Offering. If it does so, it will no longer be subject to the Voting Agreement and each other party to the agreement will have the right to withdraw from the Voting Agreement by giving written notice to the other parties. The Company currently expects that TCI's nominees to the Board will continue as directors of Parent and that the other parties will not terminate their rights and obligations under the Voting Agreement. See "Management--Voting Agreement."

PLEDGED ASSETS AND SECURITIES. The obligations of the Company under the Credit Facility are secured by substantially all of the assets of the Company. Upon a default by the Company under such agreements, the Company's lenders could gain control of the assets of the Company, including the capital stock of the Company's subsidiaries.

DESCRIPTION OF CREDIT FACILITIES AND NOTES

THE EXISTING CREDIT FACILITIES

The Company's Existing Credit Facilities consist of the $62.5 million Telephony Credit Facility, under which $29.0 million was available for borrowing as of March 31, 1997 and the $205.0 million Cable Credit Facility, under which $39.1 million was available for borrowing as of March 31, 1997, in each case subject to compliance with restrictive covenants. The Telephony Credit Facility currently matures on July 24, 1997 but the Company has obtained a commitment on the part of its lenders to extend the maturity to December 31, 1997 if the Debt Offering is not consummated. The weighted average interest rate under the Telephony Credit Facility was 7.33% at December 31, 1996. The Telephony Credit Facility is guaranteed by the Company and is secured by all of the capital stock of GCI Communication Corp., GCI Communication Services and GCI Leasing Company (subject to the prior stock lien granted to National Bank of Alaska).

Obligations under the Cable Credit Facility mature on September 30, 2005. The Cable Credit Facility provides for interest at the lender's prime rate plus 1.875%. At the Company's option, interest on all or a specified portion of the indebtedness may be fixed for periods ranging from one to six months based on Eurodollar rates plus 2.875%. As security for borrowings under the Cable Credit Facility, the Company has pledged substantially all of the Cable Company assets and stock of the Company's cable subsidiaries. The Company is also required to pledge the stock of any other subsidiary that it may subsequently incorporate.

Among other restrictions, both the Telephony Credit Facility and the Cable Credit Facility restrict the payment of cash dividends, limit the use of borrowings, limit the creation of additional long-term



indebtedness and the issuance of additional equity and require the maintenance of certain financial ratios. Throughout the year ending December 31, 1996 the Company was in full compliance with all terms of the Telephony Credit Facility and the Cable Credit Facility. See "Risk Factors--Substantial Leverage; Ability to Service Debt," "Use of Proceeds," "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

## THE CREDIT FACILITY

The Debt Offering is contingent on the Company refinancing its Existing Credit Facilities with the Credit Facility, a new and enlarged single senior credit agreement, on or before closing of the Debt Offering. If the Debt Offering is not consummated, the Company will not immediately refinance its Existing Credit Facilities. The Company has formed a new subsidiary, Holdings, to be the obligor under the Credit Facility and expects that the Company will guarantee the obligations of Holdings on a PARI PASSU basis with the Notes. The Company expects that the aggregate principal amount available to be borrowed under the Credit Facility will be up to $275.0 million (a portion of which is a separate $50 million tranche which will cease to be available to the extent not borrowed within one year). The Company anticipates that the Credit Facility will be secured by substantially all of the assets of the Company and that it will restrict the payment of cash dividends, limit borrowings, limit the incurrence of additional long-term indebtedness and the issuance of additional equity, require the maintenance of certain financial ratios, limit liens, investments, changes of management and changes of control, transactions with affiliates, mergers and acquisitions, asset sales and changes in business. Advances under the Credit Facility will bear interest at either LIBOR plus a margin based on the leverage ratio of Holdings and its restricted subsidiaries or at the greater of the prime rate or the federal funds effective rate (as defined) plus a margin based on the leverage ratio of Holdings and its restricted subsidiaries. The Credit Facility is expected to mature on June 30, 2005, subject to required reductions in the commitment amounts commencing September 30, 2000. The Company would also be required to pay certain commitment and facility fees and to reimburse certain expenses of the lenders. Holdings' obligations under the Credit Facility are secured by a lien on substantially all assets of Holdings and its restricted subsidiaries, including the stock of those subsidiaries, subject to the existing lien securing the Existing Fiber Lease Facility (as defined below). See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

## THE NOTES

The Notes are expected to be senior unsecured obligations of GCI, Inc. in a principal amount of $150 million, with interest at rates related to market rates for similar debt. Interest on the Notes would be payable semiannually until the Notes are paid at maturity in 2007, unless the principal amount of the Notes is paid sooner in accordance with the indenture. Upon the occurrence of a change of control, as defined, GCI, Inc. would be required to offer to purchase the Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest. The Notes would be redeemable at the option of GCI, Inc. at specified redemption prices commencing in 2002. In addition, prior to a date to be specified in 2000, the Issuer would be permitted to redeem up to 33 1/3% of the Notes out of the net cash proceeds of one or more public equity offerings. The terms of the Notes would contain limitations on the ability of GCI, Inc. and its restricted subsidiaries to incur additional indebtedness, limitations on investments, payment of dividends and other restricted payments and limitations on liens, asset sales, mergers, transactions with affiliates, and operation of unrestricted subsidiaries. The Notes also limit the ability of GCI, Inc. and its restricted subsidiaries to enter into or suffer to exist specified restrictions on the ability of GCI, Inc. to receive distribution from restricted subsidiaries.

## THE FIBER FACILITY

The Company also plans to incur up to $75 million in additional indebtedness to finance the construction of an undersea fiber optic cable (the "Fiber Facility"). Indebtedness incurred under the



Fiber Facility is expected to mature approximately ten years after the initial borrowing under the Fiber Facility (subject to extension for an additional two years if certain conditions are met) and to accrue interest at rates equal to LIBOR plus 3.0% or the prime rate plus 1.75%. The borrower under the Fiber Facility would be an indirect wholly-owned subsidiary of the Company and an unrestricted subsidiary under the Credit Facility and the indenture governing the Notes, and indebtedness under the Fiber Facility would be secured by substantially all assets of that subsidiary. Other subsidiaries of the Company, including Holdings and GCI, Inc., would enter into various agreements intended to assure the ability of that subsidiary to meet its obligations under the Fiber

Facility, including leases of capacity, keep-well agreements, and a completion guarantee.

THE EXISTING FIBER LEASE FACILITY

On December 31, 1992, Leasing Company entered into a $12,000,000 loan agreement (the "Existing Fiber Lease Facility"), 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 Existing Fiber Lease Facility provides for monthly payments of $170,000 including principal and interest through the earlier of January 1, 2003, or until repaid. The Existing Fiber Lease Facility 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.

## DESCRIPTION OF CAPITAL STOCK

THE FOLLOWING SUMMARY DESCRIPTION OF THE CAPITAL STOCK OF THE COMPANY DOES NOT PURPORT TO BE COMPLETE AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PROVISIONS OF THE COMPANY'S RESTATED ARTICLES OF INCORPORATION AND ITS REVISED BYLAWS, BOTH OF WHICH ARE INCORPORATED HEREIN BY REFERENCE.

AUTHORIZED AND OUTSTANDING CAPITAL STOCK

The Company's authorized capital stock consists of 50.0 million shares of Class A Common Stock, 10.0 million shares of Class B Common Stock, and 1.0 million shares of undesignated preferred stock, no par value. As of June 30, 1997, there were 38,157,109 shares of Class A Common Stock and 4,068,934 shares of Class B Common Stock issued and outstanding. After giving effect to the Stock Offering, there will be 45,157,109 shares of Class A Common Stock and 4,068,934 shares of Class B Common Stock issued and outstanding. As of the date of this Prospectus, there are no shares of preferred stock designated or issued.

The number of authorized but unissued shares of Class A Common Stock as of the date of this Prospectus, net of shares reserved for issuance upon exercise of options and conversion of outstanding shares of Class B Common Stock, is approximately 5.2 million. Upon the consummation of the Stock Offering, the Company will be required to issue approximately 7.0 million shares of Class A Common Stock. In order to make available for issuance an additional 1.8 million shares of Class A Common Stock in addition to the 5.2 million shares currently available, certain holders of options to acquire an aggregate of approximately 1.8 million shares of Class A Common Stock have agreed not to exercise those options until such time as the Company's shareholders have approved an increase in the amount of authorized but unissued Class A Common Stock. The foregoing agreements require the Company to use its best efforts to obtain shareholder approval to increase its authorized Class A Common Stock as promptly as practicable, but not before its next annual meeting expected to be in October 1997.



COMMON STOCK

The Class A Common Stock and Class B Common Stock are identical in all respects except that holders of Class A Common Stock are entitled to one vote per share, while holders of Class B Common Stock are entitled to ten votes per share. The Class A Common Stock and Class B Common Stock vote together as a single class on all matters submitted to a vote of shareholders, including the election of directors. Cumulative voting for directors is not permitted.

The rights of the holders of Common Stock discussed herein are subject to any rights that the Board may hereafter confer on holders of preferred stock, which rights may adversely affect the rights of holders of Common Stock. Holders of Common Stock have no preemptive, subscription, redemption or conversion rights, except that holders of each outstanding share of Class B Common Stock may convert such shares into shares of Class A Common Stock on a one-for-one basis.

All outstanding shares of Class A Common Stock and Class B Common Stock are, and the shares of Class A Common Stock to be issued in the Stock Offering will be, validly issued, fully paid and non-assessable.

PREFERRED STOCK

The Board may, without further action by the Company's shareholders, issue shares of preferred stock in one or more series and may, at the time of issuance, determine the rights, preferences, and limitations of each series. Holders of preferred stock would normally be entitled to receive a preference payment in the event of any liquidation, dissolution or winding-up of the Company before any payment is made to the holders of the Common Stock. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of Common Stock or could adversely affect the rights and powers, including voting rights, of the holders of Common Stock. In certain circumstances, the issuance of preferred stock could have the effect of decreasing the market price of the Common Stock. Issuance of preferred stock could also have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of the Company. The Company has no present plans to issue any shares of preferred stock.

LIMITATION OF LIABILITY AND INDEMNIFICATION

The Company's Restated Articles of Incorporation provide for the indemnification to the full extent permitted by, and in the manner permissible under, the laws of the State of Alaska and any other applicable laws, of any person who is made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative, or investigative, other than an action by or in the right of the Company, by reason of the fact that he or she is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as an officer, director, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The Restated Articles of Incorporation provide that these requirements are deemed to be a contract between the Company and each director and officer who serves in such capacity at any time while those requirements of the Articles are in effect. The Company had not as of the date of this Prospectus entered into any express agreement with its officers and directors setting forth these terms of indemnification. In addition to providing indemnification for non-derivative action that is similar to the indemnification in the Restated Articles, the Company's revised Bylaws further provide for indemnification of any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of or arising from the fact that the person is or was a director, officer, employee, or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee, or agent of another enterprise.

The Bylaws provide that, unless otherwise ordered by a court, indemnification will only be made by the Company upon a determination by (i) a majority of the disinterested directors of the Board, (ii) a majority vote of shareholders or (iii) independent legal counsel that such indemnification is proper



because the person to be indemnified met the applicable standard of conduct. The Bylaws also provide, in accordance with Alaska law, that indemnification will not be made by the Company in respect of any claim, issue, or matter as to which the person has been adjudged to be liable for negligence or misconduct in the performance of the person's duty to the Company, except to the extent that the court in which the action or suit was brought determines upon application that, despite the adjudication of liability, in view of all circumstances of the case, the person is fairly and reasonably entitled to indemnification for such expenses that the court considers proper. The Bylaws also provide that to the extent a director, officer, employee, or agent of the Company has been successful in his or her defense of an action for which he or she is entitled to indemnification, that person will be indemnified against expenses and attorney fees actually and reasonably incurred in connection with the defense. The Bylaws also provide that the Company may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Company or who is or was serving at the request of the Company as a director, officer, employee or agent of another enterprise against any liability asserted against that person and incurred by that person in any such capacity, or arising out of that status, whether or not the Company would have the power to indemnify that person against such liability under provisions of the Bylaws.

POTENTIAL ANTI-TAKEOVER EFFECT OF THE RESTATED ARTICLES OF INCORPORATION AND BYLAWS OF THE COMPANY

The Restated Articles of Incorporation and revised Bylaws of the Company contain provisions that could have an anti-takeover effect. The provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board and in the policies formulated by the Board. These provisions also are intended to help ensure that the Board, if confronted by an unsolicited proposal from a third party which has acquired a block of stock of the Company, will have sufficient time to review the proposal and appropriate alternatives to the proposal and to act in what it believes to be the best interests of the shareholders. The Board of Directors has no current plans to formulate or effect additional measures that could have an anti-takeover effect.

The Restated Articles of Incorporation provide for a board of directors divided into three classes of directors serving staggered three-year terms. The classification of directors has the effect of making it more difficult for shareholders to change the composition of the Board in a relatively short period of time. At least two annual meetings of shareholders, instead of one, generally will be required to effect a change in a majority of the Board. Such a delay may help ensure that the Board and the shareholders, if confronted with an unsolicited proposal by a shareholder attempting to force a stock repurchase at a premium above market, a proxy contest or an extraordinary corporate transaction, will have sufficient time to review the proposal and appropriate alternatives to the proposal and to act in what it believes to be in the best interests of the shareholders.

The overall effect of these provisions, as well as the ability of the Board to issue preferred stock, may be to render more difficult the accomplishment of mergers or other takeover or change in control attempts. To the extent that this ability has this effect, removal of the Company's incumbent Board and management may be rendered more difficult. Further, this may have an adverse effect on the ability of shareholders of the Company to participate in a tender or exchange offer for the Common Stock and in so doing diminish the market value of the Common Stock. See "Risk Factors--Concentration of Stock Ownership" and "--Anti-Takeover Considerations."

TRANSFER AGENT

The transfer agent and registrar for the Class A Common Stock and the Class B Common Stock is ChaseMellon Shareholder Services, with offices in San Francisco, California.



SHARES ELIGIBLE FOR FUTURE SALE

Future sales of a substantial amount of Common Stock, or the perception that such sales may occur, could adversely affect the market price of the Common Stock. Several of the Company's principal shareholders hold a significant portion of Common Stock, and a decision by one or more of these shareholders to sell their shares could adversely affect the market price of the Common Stock.

Upon completion of the Offerings, the Company will have approximately 45,157,109 shares of Class A Common Stock and 4,068,934 shares of Class B Common Stock outstanding. Upon completion of the Stock Offering, all of the Company's outstanding Common Stock will be freely tradeable under the Securities Act of 1933 (the "Securities Act"), except shares of Common Stock held by affiliates of the Company and shares of Common Stock which are "restricted securities" within the meaning of Rule 144 promulgated under the Securities Act ("Rule 144"), which the Company estimates to be as many as 19,338,819 shares, and shares of Common Stock held by former affiliates of the Cable Systems within the meaning of Rule 145 promulgated under the Securities Act ("Rule 145") which could be as many as 10,770,879 shares (or 8,700,879 shares if the Underwriters' over-allotment option is exercised in full). The Rule 145 restrictions that are applicable to shares of Class A Common Stock received by affiliates of the owners of the Cable Systems in connection with the Company's acquisition of the Cable Systems expire on October 31, 1997. Shares of Common Stock acquired directly or indirectly from the issuer or an affiliate of the issuer in transactions not involving any public offering are "restricted securities" within the meaning of Rule 144. Holders of restricted shares generally will be entitled to sell their shares in the public securities market without registration under the Securities Act to the extent permitted by Rule 144 promulgated under the Securities Act or pursuant to an exemption under the Securities Act. In general, under Rule 144 as currently in effect, any holder, including an affiliate of the Company, of restricted securities as to which at least one year has elapsed since the later of the date of the acquisition of such restricted securities from the Company or from an affiliate is entitled to sell, within any three-month period a number of shares that does not exceed the greater of one percent of the then outstanding shares of Common Stock or the average weekly trading volume in the Common Stock during the four calendar weeks preceding such sale. Shares of Common Stock held by affiliates which are not restricted securities are also subject to these restrictions on the amount of securities that may be sold. Sales under Rule 144 also are subject to certain manner-of-sale provisions, notice requirements and the availability of current public information about the Company. A person who is not an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned restricted securities for at least two years, is entitled to sell such shares under Rule 144(k) without regard to the limitations described above. Although shares of Common Stock held by MCI, the Prime Sellers and the shareholders of Alaska CableVision, Inc. may be subject to restrictions on resale under Rule 144 or Rule 145, these parties have been granted registration rights with respect to such shares which, if exercised by them, would permit them to sell those shares free of the restrictions imposed by Rule 144 and Rule 145. See "Principal and Selling Shareholders" and "Certain Transactions--Registration Rights Agreements."

The Company and each of its directors and executive officers and certain selling shareholders have entered into "lock-up" agreements with the Underwriters, providing that, subject to certain exceptions, they will not, for a period of 180 days from the date of this Prospectus, without the prior written consent of Salomon Brothers Inc, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Class A Common Stock or any securities convertible into, or exchangeable for, shares of Class A Common Stock, provided that the Company may issue and sell shares of Class A Common Stock pursuant to the Stock Purchase Plan. See "Underwriting."

As of June 30, 1997, there were outstanding options to purchase 2,593,790 shares of Class A Common Stock, 2,408,600 of which were granted under the Stock Option Plan. All of the 2,408,600 shares of Class A Common Stock issuable upon the exercise of options granted under the Stock Option Plan have been registered by the Company under the Securities Act on Form S-8.



UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement among the Company, the Selling Shareholders and the Underwriters (the "Underwriting Agreement"), the Company and the Selling Shareholders have agreed to issue and sell to the Underwriters named below (the "Underwriters"), for whom Salomon Brothers Inc, Donaldson, Lufkin & Jenrette Securities Corporation and Schroder & Co. Inc. are acting as representatives (the "Representatives"), and each of the Underwriters has severally agreed to purchase from the Company and the Selling Shareholders the aggregate number of shares of Class A Common Stock set forth opposite its name below:

<TABLE>
<CAPTION>

| UNDERWRITER | NUMBER OF SHARES |
|---|---|
| <S> | <C> |
| Salomon Brothers Inc ........................................................................... | |
| Donaldson, Lufkin & Jenrette Securities Corporation............................................. | |
| Schroder & Co. Inc.............................................................................. | |
| | 13,800,000 |

</TABLE>

In the Underwriting Agreement, the Underwriters have severally agreed, subject to the terms and conditions set forth therein, to purchase all of the shares of Class A Common Stock offered hereby (other than those subject to the over-allotment option described below) if any such shares are purchased. In the event of a default by any Underwriter, the Underwriting Agreement provides that, in certain circumstances, the purchase commitments of the non-defaulting Underwriters may be increased or the Underwriting Agreement may be terminated.

The Company has been advised by the Representatives that the several Underwriters propose initially to offer the shares of Class A Common Stock to the public at the public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $   per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $   per share to certain other dealers. At the public offering, the public offering price and such concessions may be changed.

Certain Selling Shareholders have granted the Underwriters an option, exercisable within 30 days of the date of this Prospectus, to purchase up to 2,070,000 additional shares of Class A Common Stock to cover over-allotments, if any, at the price to the public set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise such option, in whole or in part, each Underwriter will have a firm commitment, subject to certain conditions, to purchase the same proportion of the option shares as the number of shares of Class A Common Stock to be purchased by such Underwriter in the above table bears to the total number of shares of Class A Common Stock offered by the Underwriters hereby.

It is expected that delivery of the Class A Common Stock will be made against payment therefor on or about the fifth business day following the date of this Prospectus. Under Rule 15c6-1 of the U.S. Securities and Exchange

Commission under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Class A Common Stock on the date hereof or the next succeeding business day will be required, by virtue of the fact that the Class A Common Stock



initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Class A Common Stock who wish to trade Class A Common Stock on the date hereof or the next succeeding business day should consult their own advisor.

The Underwriting Agreement provides that the Company will indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act, and contribute to payments the Underwriters may be required to make in respect thereof.

The Company, its directors and officers, the Selling Shareholders and certain other shareholders have each agreed with the Underwriters that they will not offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Common Stock or any securities convertible into, or exchangeable for, shares of Common Stock for a period of 180 days from the date of this Prospectus, without the prior written consent of Salomon Brothers Inc.

In connection with this Offering, certain Underwriters and selling group members and their respective affiliates may engage in transactions that stabilize, maintain, or otherwise affect the market price of the Class A Common Stock. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M under the Securities Exchange Act of 1934, as amended, pursuant to which such persons may bid for or purchase Class A Common Stock for the purposes of stabilizing their market price. The Underwriters also may create a short position for their respective accounts by selling more Class A Common Stock in connection with this Offering than they are committed to purchase from the Company, and in such case may purchase shares of Class A Common Stock in the open market following completion of this Offering to cover all or a portion of such short position. In addition, Salomon Brothers Inc, on behalf of the Underwriters, may impose "penalty bids" under contractual arrangements between the Underwriters whereby it may reclaim from an Underwriter (or dealer participating in this Offering) for the account of the Underwriters, the selling concession with respect to Class A Common Stock that is distributed in this Offering but subsequently purchased for the account of the Underwriters in the open market. Any of the transactions described in this paragraph may result in the maintenance of the price of the shares of Class A Common Stock at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph are required, and, if they are undertaken, they may be discontinued at any time.

## LEGAL MATTERS

The validity of the Class A Common Stock and certain other legal matters in connection with the Class A Common Stock offered hereby are being passed upon for the Company by Wohlforth, Argetsinger, Johnson & Brecht, a Professional Corporation, Anchorage, Alaska, and by Sherman & Howard L.L.C., Denver, Colorado, special counsels for the Company. Paul, Hastings, Janofsky & Walker LLP, New York, New York has acted as legal counsel to the Underwriters in connection with the Offerings.

## EXPERTS

The consolidated financial statements and schedule of the Company as of December 31, 1996 and 1995, and for each of the years in the three-year period ended December 31, 1996, have been included in this Prospectus and in the Registration Statement in reliance upon the reports of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, which, as to the year ended December 31, 1996, are based in part on the report of Ernst & Young LLP, independent auditors, (whose report covers the consolidated financial statements of GCI Cable, Inc, (a subsidiary of the Company) and its subsidiaries, as of December 31, 1996 and for the period from inception (April 12, 1996) to December 31, 1996, which are not included separately herein), given upon the authority of said firms as experts in accounting and auditing.

The financial statements of Prime Cable of Alaska, L.P. at December 31, 1995 and 1994 and for each of the two years in the period ended December 31, 1995, and the combined financial statements of the



Alaskan Cable Network at December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and

Registration Statement, have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein, and are included in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

The audited financial statements of Alaska Cablevision at December 31, 1995 and 1994, and for each of the three years in the period ended December 31, 1995, appearing in this Prospectus and Registration Statement have been audited by Carl & Carlsen, independent auditors, as set forth in their report appearing elsewhere herein and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

## AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act") and in accordance therewith is required to file reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information filed with the Commission can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549 and at the following Regional Offices of the Commission: 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such material can be obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. The Commission maintains a Web site that contains reports, proxy and information statements and other information filed electronically by the Company, and can be found at http:\\www.sec.gov.

The Class A Common Stock is designated a national market system stock on Nasdaq. The Class B Common Stock is traded in the over-the-counter market. Reports, proxy statements and other information concerning the Company can be inspected at the offices of Nasdaq located at 1735 K Street, N.W., Washington, D.C. 20006.

The Company has filed a Registration Statement with the Commission with respect to the Class A Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not include all of the information set forth in the Registration Statement and the exhibits and schedules thereto, as permitted by the rules and regulations of the Commission. For further information with respect to the Company and the Class A Common Stock, reference is made to the Registration Statement and the exhibits and schedules filed as a part thereof. The Registration Statement, including any amendments, schedules and exhibits filed or incorporated by reference as a part of it, is available for inspection and copying as set forth above. Statements contained in this Prospectus about the contents of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in its entirety by such reference.

## INCORPORATION BY REFERENCE

The following documents are specifically incorporated by reference in this Prospectus:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 1996 (Commission File No. 0-15279), as amended by a Form 10-K/A filed April 30, 1997;

2. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997; and

3. All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since December 31, 1996.



All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, prior to the termination of this Offering shall be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in it (or in any other subsequently filed document that is or is deemed to be incorporated by reference) modifies or supersedes such previous statement. Any statement so modified or superseded shall not be deemed to constitute a part of this Prospectus except as so modified or superseded.

All information appearing in this Prospectus is qualified in its entirety by the information and financial statements (including notes thereto) appearing in the documents incorporated herein by reference.

THIS PROSPECTUS INCORPORATES DOCUMENTS BY REFERENCE THAT ARE NOT PRESENTED IN THIS REGISTRATION STATEMENT OR DELIVERED WITH IT. THESE DOCUMENTS (OTHER THAN EXHIBITS TO SUCH DOCUMENTS, UNLESS SUCH EXHIBITS ARE SPECIFICALLY INCORPORATED BY REFERENCE IN THIS REGISTRATION STATEMENT) ARE AVAILABLE WITHOUT CHARGE, UPON WRITTEN OR ORAL REQUEST BY ANY PERSON TO WHOM THIS PROSPECTUS HAS BEEN DELIVERED, FROM INVESTOR RELATIONS DEPARTMENT, GENERAL COMMUNICATION, INC., 2550 DENALI STREET, SUITE 1000, ANCHORAGE, ALASKA 99503-2781 (TELEPHONE NO. 907/265-5628).

## GLOSSARY

APUC -- The Alaska Public Utilities Commission.

ATU -- The Anchorage Telephone Utility, a public utility and local telephone exchange owned by the Municipality of Anchorage and the largest municipally-owned LEC in the country.

AVERAGE MONTHLY REVENUE PER EQUIVALENT BASIC SUBSCRIBER -- Total subscriber revenues for the year from the sale of cable television services divided by average total equivalent basic subscribers divided by 12.

BASIC PENETRATION -- Equivalent basic subscribers divided by homes passed.

BST -- Basic tier of cable services.

CAP (COMPETITIVE ACCESS PROVIDER) -- A company that provides its customers with an alternative to the local exchange company for local transport of private line and special access telecommunications services.

CENTRAL OFFICES -- The switching centers or central switching facilities of the local exchange companies.

COLOCATION -- The ability of a CAP such as the Company to connect its network to the LECs central offices. Physical colocation occurs when a CAP places its network connection equipment inside the local exchange company's central offices. Virtual colocation is an alternative to physical colocation pursuant to which the LEC permits a CAP to connect its network to the LEC's central offices on comparable terms, even though the CAP's network connection equipment is not physically located inside the central offices.

CPST -- Cable programming service tier.

DAMA -- Demand assigned multiple access.

DBS -- Direct broadcast satellite television.



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

DIALING PARITY -- The ability of a competing local or toll service provider to provide telecommunications services in such a manner that customers have the ability to route automatically, without the use of any access code, their telecommunications to the service provider of the customer's designation and the ability of customers to dial the same number of digits on a competitor's network as on the LEC's network.

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

DS3 --Digital signal level 3, a 44.736 megabits per second digital transmission facility.

EBITDA -- Consists of earnings before interest (net), income taxes, depreciation, amortization, and other income (expense). EBITDA is a measure commonly used in the telecommunications and cable television industries to analyze companies on the basis of operating performance. It is not a measure of financial performance under GAAP and should not be considered as an alternative to net income as a measure of performance nor as an alternative to cash flow as a measure of liquidity.

EQUIVALENT BASIC SUBSCRIBERS -- A number representing the sum of (a) residential customers receiving at least the entry level of cable television service offered by a system ("Basic Service") at the system's standard residential rate for Basic Service plus (b) for customers receiving Basic Service under bulk billing arrangements at a rate less than the system's standard residential rate for Basic Service (including multi-unit residential complexes, hotels, motels and hospitals), the number derived by dividing the monthly amount billed to all such subscribers for Basic Service by the monthly standard residential rate for Basic Service.

GTEOC -- GTE Operating Companies.

HOMES PASSED -- Dwellings and commercial establishments that are or can be connected to the distribution system of a cable system without further extension of the transmission lines of that cable system.

HSD -- Home satellite dish earth stations.

INTERCONNECTION -- Interconnection of facilities between or among local exchange carriers, including potential physical colocation of one carrier's equipment in the other carrier's premises to facilitate such interconnection.

INTERLATA -- Telecommunications services originating in a LATA and terminating outside of that LATA.

INTRALATA -- Telecommunications services originating and terminating within the same LATA.

ISDN -- Integrated services digital network.

LATA (LOCAL ACCESS AND TRANSPORT AREA) -- A geographic area composed of contiguous local exchanges, usually but not always within a single state.

LFA -- Local franchising authority.

LOCAL EXCHANGE -- A geographic area determined by the appropriate state regulatory authority in which calls generally are transmitted without toll charges to the calling or called party.

LEC (LOCAL EXCHANGE CARRIER) -- A company providing local telephone services.



LONG DISTANCE CARRIERS (INTEREXCHANGE CARRIERS) -- Long distance carriers provide services between local exchanges on an interstate or intrastate basis. A long distance carrier may offer services over its own or another carrier's facilities.

MAN -- Metropolitan area network.

MMDS -- Multichannel, multipoint distribution service.

MTS -- Message toll service.

NPT -- New product tier.

OVS -- Open video system.

PACS -- Personal access communications system.

PCS (PERSONAL COMMUNICATION SERVICE) -- A telephone service with respect to which a telephone number or numbers are assigned to a person rather than to a fixed location thereby allowing that person to receive and make calls from any location within the area serviced by the personal communication service.

PEG -- Public access, educational and government.

POP -- The estimates of the 1995 population of a Metropolitan Statistics Area for which the FCC licensed communications systems or a Rural Service Area for which the FCC licensed communications systems, as derived from the 1995 population estimates prepared by Strategic Mapping, Inc.

PREMIUM PENETRATION -- Premium service units divided by equivalent basic subscribers.

PREMIUM SERVICE UNITS -- Premium programming services selected by and sold to subscribers on an la carte or packaged basis for monthly fees in addition to the fee for Basic Service.

SMATV -- Satellite master antenna television.

SS7 -- Signaling system number 7.

SSP -- Service switching point, an SS7 network element.

SWITCH -- A device that opens or closes circuits or selects the paths or circuits to be used for transmission of information. Switching is a process of interconnecting circuits to form a transmission path between users.

SWITCHED ACCESS TRANSPORT SERVICES -- Transportation of switched traffic along dedicated lines between the local exchange company central offices and long distance carrier pop.

SWITCHED TRAFFIC -- Telecommunications traffic along the public switched network. This traffic is generally switched at the LEC's central offices.

TRS -- Telephone relay services.

UNBUNDLED ACCESS -- Access to unbundled elements of a telecommunications services provider's network, including network facilities, equipment, features, functions and capabilities, at any technically feasible point within such network.

VSAT --Very small aperture terminal.



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<CAPTION>



</TABLE>

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of General Communication, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of GCI Cable, Inc., a wholly owned subsidiary, which 1996 statements reflect total assets of $310 million and total revenues of $9.5 million of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for GCI Cable, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Communication, Inc. and Subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/ KPMG PEAT MARWICK LLP

Anchorage, Alaska
February 21, 1997



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## REPORT OF INDEPENDENT AUDITORS

Board of Directors
GCI Cable, Inc. and Subsidiaries

We have audited the consolidated balance sheet of GCI Cable, Inc. and Subsidiaries as of December 31, 1996 and the related consolidated statements of operations, shareholder's equity and cash flows for the period from inception (April 12, 1996) to December 31, 1996 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GCI Cable, Inc. and Subsidiaries at December 31, 1996, and the consolidated results of their operations and their cash flows for the period from inception (April 12, 1996) to December 31, 1996 in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Austin, Texas
February 14, 1997



GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS

| | (UNAUDITED) MARCH 31, 1997 | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | |
| <S> | <C> | <C> | <C> |
| Current assets: | | | |
| Cash and cash equivalents | $ 4,730 | 13,349 | 4,017 |
| Receivables: | | | |
| Trade | 27,815 | 27,953 | 21,737 |
| Other | 1,803 | 1,412 | 253 |
| | 29,618 | 29,365 | 21,990 |
| Less allowance for doubtful receivables | 776 | 597 | 295 |
| Net receivables | 28,842 | 28,768 | 21,695 |
| Prepaid and other current assets | 2,288 | 2,236 | 1,566 |
| Deferred income taxes, net (note 7) | 871 | 835 | 746 |
| Inventories | 1,666 | 1,589 | 991 |
| Notes receivable (note 4) | 330 | 325 | 167 |
| Total current assets | 38,727 | 47,102 | 29,182 |
| Property and equipment, at cost (notes 6, 9, 10 and 11) | | | |
| Land and buildings | 692 | 692 | 73 |
| Telephony distribution systems | 90,256 | 81,414 | 67,434 |
| Cable television distribution systems | 53,250 | 52,284 | 0 |
| Transportation equipment | 1,072 | 1,064 | 0 |
| Support equipment | 20,559 | 19,994 | 11,610 |
| Property and equipment under capital leases | 2,030 | 2,030 | 2,030 |
| | 167,859 | 157,478 | 81,147 |
| Less amortization and accumulated depreciation | 45,770 | 41,497 | 33,789 |
| Net property and equipment in service | 122,089 | 115,981 | 47,358 |
| Construction in progress | 19,901 | 20,770 | 3,096 |
| Net property and equipment | 141,990 | 136,751 | 50,454 |
| Notes receivable (note 4) | 1,344 | 1,016 | 904 |
| Intangible assets, net of amortization (notes 2 and 5) | 249,243 | 250,920 | 3,125 |
| Transponder deposit (note 13) | 9,100 | 9,100 | 0 |
| Deferred loan costs, net of amortization | 759 | 900 | 110 |
| Other assets, at cost, net of amortization | 1,715 | 1,546 | 990 |
| Total assets | $ 442,878 | 447,335 | 84,765 |

</TABLE>

See accompanying notes to consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY

| | (UNAUDITED) MARCH 31, 1997 | DECEMBER 31, 1996 | 1995 |
|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | |
| <S> | <C> | <C> | <C> |
| Current liabilities: | | | |
| Current maturities of long-term debt (note 6)........................ | $ 31,938 | 31,969 | 1,689 |
| Current maturities of obligations under capital leases (note 11)...... | 74 | 71 | 282 |
| Accounts payable...................................................... | 22,320 | 23,677 | 16,861 |
| Accrued payroll and payroll related obligations...................... | 3,679 | 3,830 | 2,108 |
| Accrued liabilities................................................... | 4,269 | 4,173 | 1,134 |
| Accrued income taxes (note 7)......................................... | 0 | 0 | 547 |
| Accrued interest...................................................... | 351 | 2,708 | 132 |
| Subscriber deposits and deferred revenues............................ | 3,444 | 3,449 | 1,317 |
| Total current liabilities.......................................... | 66,075 | 69,877 | 24,070 |
| Long-term debt, excluding current maturities (note 6)................ | 180,873 | 191,273 | 8,291 |
| Obligations under capital leases, excluding current maturities (note 11).............................................................. | 0 | 0 | 26 |
| Obligations under capital leases due to related parties, excluding current maturities (notes 10 and 11)............................... | 655 | 675 | 739 |
| Deferred income taxes, net (note 7).................................. | 34,020 | 33,720 | 7,004 |
| Other liabilities..................................................... | 2,160 | 2,236 | 1,619 |
| Total liabilities.................................................. | 283,783 | 297,781 | 41,749 |
| Stockholders' equity (notes 2, 3, 6, 7 and 8): | | | |
| Common stock (no par): | | | |
| Class A. Authorized 50,000,000 shares; issued and outstanding 36,586,973 and 19,680,199 shares at December 31, 1996 and 1995, respectively........................................................ | 123,498 | 113,421 | 13,912 |
| Class B. Authorized 10,000,000 shares; issued and outstanding 4,074,028 and 4,175,434 shares at December 31, 1996 and 1995, respectively; convertible on a share-per-share basis into Class A common stock........................................................ | 3,432 | 3,432 | 3,432 |
| Less cost of 199,081 and 122,611 Class A common shares held in treasury at December 31, 1996 and 1995, respectively............... | (1,039) | (1,010) | (389) |
| Paid-in capital......................................................... | 4,247 | 4,229 | 4,041 |
| Retained earnings....................................................... | 28,957 | 29,482 | 22,020 |
| Total stockholders' equity......................................... | 159,095 | 149,554 | 43,016 |
| Commitments and contingencies (notes 11 and 13)........................ | | | |
| Total liabilities and stockholders' equity....................... | $ 442,878 | 447,335 | 84,765 |

</TABLE>

See accompanying notes to consolidated financial statements.



GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

| | (UNAUDITED) THREE MONTHS ENDED MARCH 31, 1997 | 1996 | YEARS ENDED DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Revenues (notes 9 and 10): | | | | | |
| Telecommunication services...................... | $ 39,225 | 37,969 | 155,419 | 129,279 | 116,981 |
| Cable services.................................. | 13,656 | -- | 9,475 | 0 | 0 |
| Total revenues................................ | 52,881 | 37,969 | 164,894 | 129,279 | 116,981 |
| Cost of sales and services........................ | 27,168 | 21,302 | 92,664 | 72,091 | 63,877 |
| Operating, selling, general and administrative expenses....................................... | 16,301 | 10,833 | 46,412 | 37,691 | 33,468 |
| Depreciation and amortization..................... | 6,120 | 1,887 | 9,409 | 5,993 | 6,639 |

| | | | | | |
|---|---|---|---|---|---|
| Operating income (note 9) | 3,292 | 3,947 | 16,409 | 13,504 | 12,997 |
| Interest expense, net (notes 3 and 6) | 3,949 | 260 | 3,719 | 903 | 1,316 |
| Net earnings before income taxes | (657) | 3,687 | 12,690 | 12,601 | 11,681 |
| Income tax expense (notes 3 and 7) | (132) | 1,550 | 5,228 | 5,099 | 4,547 |
| Net earnings | $ (525) | 2,137 | 7,462 | 7,502 | 7,134 |
| Net earnings per common share | $ (0.01) | 0.09 | 0.27 | 0.31 | 0.30 |
| Weighted average number of shares of common stock equivalents outstanding | 43,167 | 24,854 | 27,668 | 24,426 | 24,083 |

</TABLE>

See accompanying notes to consolidated financial statements.



GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

| | SHARES OF COMMON STOCK | | CLASS A COMMON | CLASS B COMMON | CLASS A SHARES HELD IN |
|---|---|---|---|---|---|
| (AMOUNTS IN THOUSANDS) | CLASS A | CLASS B | STOCK | STOCK | TREASURY |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Balances at December 31, 1993 | 19,001 | 4,114 | $ 13,470 | 3,432 | (328) |
| Net earnings | -- | -- | -- | -- | -- |
| Class B shares converted to Class A | 9 | (9) | -- | -- | -- |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | -- | -- | -- | -- | -- |
| Shares issued under stock option plan | 72 | -- | 96 | -- | -- |
| Shares issued under warrant agreement, net | 254 | -- | 185 | -- | -- |
| Shares issued and issuable under officer stock option agreements | 281 | 74 | 79 | -- | -- |
| Balances at December 31, 1994 | 19,617 | 4,179 | 13,830 | 3,432 | (328) |
| Net earnings | -- | -- | -- | -- | -- |
| 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 | -- | -- | -- | -- | -- |
| Shares purchased and held in Treasury | -- | -- | -- | -- | (61) |
| Shares issued under stock option plan | 40 | -- | 82 | -- | -- |
| Shares issued and issuable under officer stock option agreements | 20 | -- | -- | -- | -- |
| Balances at December 31, 1995 | 19,680 | 4,176 | 13,912 | 3,432 | (389) |
| Net earnings | -- | -- | -- | -- | -- |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | -- | -- | -- | -- | -- |

| | | | | | |
|---|---|---|---|---|---|
| Shares issued under stock option plan | 1 | -- | 1 | -- | -- |
| Shares issued and issuable under officer stock option agreements | -- | -- | -- | -- | -- |
| Balances at March 31, 1996 (unaudited) | 19,681 | 4,176 | 13,913 | 3,432 | (389) |
| Net earnings (Unaudited) | -- | -- | -- | -- | -- |
| Class B shares converted to Class A | 102 | (102) | -- | -- | -- |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | -- | -- | -- | -- | -- |
| Shares issued to MCI | 2,000 | -- | 13,000 | -- | -- |
| Shares issued pursuant to acquisitions, net of costs totaling $432 | 14,723 | -- | 86,278 | -- | -- |
| Shares purchased and held in Treasury | -- | -- | -- | -- | (621) |
| Shares issued under stock option plan | 81 | -- | 230 | -- | -- |
| Balances at December 31, 1996 | 36,587 | 4,074 | 113,421 | 3,432 | (1,010) |
| Net Loss (Unaudited) | | | | | |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | -- | -- | -- | -- | -- |
| Class B shares converted to Class A | 3 | (3) | -- | -- | -- |
| Shares issued upon conversion of convertible note | 1,538 | -- | 9,983 | -- | -- |
| Shares purchased and held in Treasury | -- | -- | -- | -- | (29) |
| Shares issued under stock option plan | 31 | -- | 94 | -- | -- |
| Balances at March 31, 1997 (unaudited) | 38,159 | 4,071 | $ 123,498 | 3,432 | (1,039) |

<CAPTION>

| (AMOUNTS IN THOUSANDS) | PAID-IN CAPITAL | RETAINED EARNINGS |
|---|---|---|
| <S> | <C> | <C> |
| Balances at December 31, 1993 | 3,252 | 7,384 |
| Net earnings | -- | 7,134 |
| Class B shares converted to Class A | -- | -- |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | 371 | -- |
| Shares issued under stock option plan | -- | -- |
| Shares issued under warrant agreement, net | -- | -- |
| Shares issued and issuable under officer stock option agreements | 18 | -- |
| Balances at December 31, 1994 | 3,641 | 14,518 |
| Net earnings | -- | 7,502 |
| Class B shares converted to Class A | -- | -- |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | 397 | -- |
| Shares purchased and held in Treasury | -- | -- |
| Shares issued under stock option plan | -- | -- |
| Shares issued and issuable under officer stock option agreements | 3 | -- |
| Balances at December 31, 1995 | 4,041 | 22,020 |
| Net earnings | -- | 2,137 |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | 16 | -- |
| Shares issued under stock option plan | -- | -- |

| | | |
|---|---|---|
| Shares issued and issuable under officer stock option agreements | 1 | -- |
| Balances at March 31, 1996 (unaudited) | 4,058 | 24,157 |
| Net earnings (Unaudited) | -- | 5,325 |
| Class B shares converted to Class A | -- | -- |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | 171 | -- |
| Shares issued to MCI | -- | -- |
| Shares issued pursuant to acquisitions, net of costs totaling $432 | -- | -- |
| Shares purchased and held in Treasury | -- | -- |
| Shares issued under stock option plan | -- | -- |
| Balances at December 31, 1996 | 4,229 | 29,482 |
| Net Loss (Unaudited) | | (525) |
| Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes | 18 | -- |
| Class B shares converted to Class A | -- | -- |
| Shares issued upon conversion of convertible note | -- | -- |
| Shares purchased and held in Treasury | -- | -- |
| Shares issued under stock option plan | -- | -- |
| Balances at March 31, 1997 (unaudited) | 4,247 | 28,957 |

</TABLE>

See accompanying notes to consolidated financial statements.



GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

| | UNAUDITED THREE MONTHS ENDED MARCH 31, | | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (AMOUNTS IN THOUSANDS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Cash flows from operating activities: | | | | | |
| Net earnings | $ (525) | 2,137 | 7,462 | 7,502 | 7,134 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 5,979 | 1,887 | 9,409 | 5,993 | 6,639 |
| Amortization of deferred loan costs | 141 | 0 | 63 | 230 | 100 |
| Deferred income tax expense | 264 | 13 | 2,252 | 1,017 | 1,588 |
| Deferred compensation and compensatory stock options | (18) | 143 | 619 | 433 | 343 |
| Disposals of property and equipment | 0 | 0 | 30 | 170 | 0 |
| Bad debt expense, net of write-offs | 179 | (37) | (34) | (114) | (312) |
| Other noncash income and expense items | 16 | (11) | (42) | 354 | (36) |
| Change in operating assets and liabilities (note 3) | (4,196) | (1,773) | 2,612 | (1,307) | 3,063 |
| Net cash provided by operating activities | 1,840 | 2,359 | 22,371 | 14,278 | 18,519 |
| Cash flows from investing activities: | | | | | |
| Acquisitions of businesses, net of cash acquired (notes 2 and 3) | 0 | 0 | (72,818) | 0 | 0 |
| Purchases of property and equipment | (9,529) | (6,950) | (38,642) | (8,938) | (10,604) |
| Purchases of other assets including long-term deposits | (197) | (45) | (10,959) | (510) | (1,110) |
| Proceeds from the sale of investment security | 0 | 0 | 0 | 832 | 0 |
| Notes receivable issued | (337) | (130) | (515) | (251) | (339) |
| Payments received on notes receivable | 4 | 2 | 288 | 184 | 10 |
| Restricted cash investments | 0 | 0 | 0 | 0 | 684 |
| Net cash used in investing activities | (10,059) | (7,123) | (122,646) | (8,683) | (11,359) |
| Cash flows from financing activities: | | | | | |
| Long-term borrowings | 10,000 | 3,300 | 208,000 | 0 | 0 |
| Repayments of long-term borrowings and capital lease obligations | (10,448) | (485) | (5,039) | (2,824) | (8,494) |
| Proceeds from common stock issuance | 77 | 1 | 13,231 | 82 | 360 |
| Purchase of treasury stock | (29) | 0 | (621) | (61) | 0 |
| Retirement of bank debt assumed | 0 | 0 | (105,200) | 0 | 0 |
| Payment of deferred loan costs | 0 | 0 | (764) | (424) | 0 |

| | | | | | |
|---|---|---|---|---|---|
| Net cash provided (used) by financing activities | (400) | 2,816 | 109,607 | (3,227) | (8,134) |
| Net increase (decrease) in cash and cash equivalents | (8,619) | (1,948) | 9,332 | 2,368 | (974) |
| Cash and cash equivalents at beginning of period | 13,349 | 4,017 | 4,017 | 1,649 | 2,623 |
| Cash and cash equivalents at end of period | $ 4,730 | 2,069 | 13,349 | 4,017 | 1,649 |

</TABLE>

See accompanying notes to consolidated financial statements.





NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION RELATING TO INTERIM PERIODS IS UNAUDITED)

## (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

### (a) ORGANIZATION

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.

Cable television services are provided through GCI Cable, Inc. and through its ownership in Prime Cable of Alaska L.P. ("Prime"), and through GCI Cable, Inc.'s wholly owned subsidiaries GCI Cable/ Fairbanks, Inc., and GCI Cable/Juneau, Inc. (collectively "GCI Cable" or "Cable Companies"). GCI Cable, Inc. and its subsidiaries are Alaska corporations and were incorporated in 1996. GCI Cable, Inc. is a wholly-owned subsidiary of GCI. Prime is a limited partnership organized under the laws of the state of Delaware whose partnership interests are wholly owned by GCI Cable, Inc.

### (b) PRINCIPLES OF CONSOLIDATION

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

### (c) NET EARNINGS PER COMMON SHARE

Primary earnings per common share are determined by dividing net earnings by the weighted number of common and common equivalent shares outstanding:

<TABLE>
<CAPTION>

| <S> | 1996 <C> | 1995 <C> | 1994 <C> |
|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | |
| Weighted average common shares outstanding | 26,498 | 23,723 | 23,199 |
| Common equivalent shares outstanding | 1,170 | 703 | 884 |
| | 27,668 | 24,426 | 24,083 |

--------- --------- ---------

</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





(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

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

(e) INVENTORIES

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.

Cable television inventories are carried at the lower of cost (weighted average unit cost) or market.

(f) PROPERTY AND EQUIPMENT

TELECOMMUNICATIONS 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 on December 31, 1996; management intends to place this equipment in service during 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.

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.

CABLE TELEVISION PROPERTY AND EQUIPMENT

Cable television equipment depreciation is computed by the straight-line method over the estimated useful lives of the assets. The composite method and a 10 year life are used for cable television distribution systems. Under the composite method, proceeds from the retirement of cable television distribution system assets are credited to the allowance for depreciation. Gains or losses on disposition of property, plant and equipment (other than cable television distribution systems) are credited or charged to income. Maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and betterments are capitalized.

(g) OTHER ASSETS

Intangible assets are valued at the lower of unamortized cost or fair value. Management reviews the valuation and amortization of intangible assets on a periodic basis, taking into consideration any events or circumstances which might result in diminished fair value.

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Goodwill represents the excess of cost over fair value of net assets acquired and is being amortized on a straight-line basis over periods of 20 to 40 years. Goodwill and certificates of operating rights arising from the 1996 acquisition of the Cable Companies are amortized using the straight line method over forty years.

Other assets, excluding deferred loan costs, certificates of operating rights and goodwill, are recorded at cost and are amortized on a straight-line basis over 2 to 15 years.

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

(h) DEFERRED LOAN COSTS

Debt issuance costs are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related debt.

(i) REVENUE FROM SERVICES AND PRODUCTS

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

Cable television and private line telecommunication revenues are generally billed in advance and are recognized as the associated service is provided.

Other revenues are recognized when the service is provided.

(j) ADVERTISING EXPENSE

The Company expenses advertising costs as incurred. Advertising expenses were approximately $3,061,000, $1,924,000 and $796,000 for 1996, 1995 and 1994, respectively.

(k) INTEREST EXPENSE

Interest costs incurred during the construction period of significant capital projects are capitalized. Interest capitalized by the Company totaled $1,034,000, $112,000, and $0 during the years ended December 31, 1996, 1995, and 1994.

(l) INCOME TAXES

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities be 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. Deferred tax assets are recognized to the extent that the benefits are more likely to be realized than not.

(m) STOCK OPTION PLAN




Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

(n) 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.

(o) CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash, temporary investments, and accounts receivable. Excess cash is invested in high quality short-term liquid money instruments issued by highly-rated financial institutions. At December 31, 1996, substantially all of the Company's cash balances were invested in short-term liquid money instruments. Though limited to one geographical area, the concentration of credit risk with respect to the Company's receivables is minimized due to the large number of customers, individually small balances, short payment terms and required deposits.

(p) IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company adopted the provisions of SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

(q) RECLASSIFICATIONS

Reclassifications have been made to the 1994 and 1995 financial statements to make them comparable with the 1996 presentation.




(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

(r) UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited financial interim financial statements have been prepared in accordance with generally accepted accounting principals for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the quarter ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ended December 31, 1997,

(2) ACQUISITION OF CABLE TELEVISION SYSTEMS

Effective October 31, 1996, following shareholder and regulatory approvals, the Company completed the acquisition of seven Alaska cable television companies ("Cable Systems"). Under the terms of the transactions, accounted for using the purchase method, the final purchase price was $280.1 million, which was the aggregate value for all the Cable Systems and included certain transaction and financing costs. The purchase price included issuance of 14.7 million shares of GCI's Class A common stock and cash, debt assumption and issuance of subordinated notes. Financing for the transactions resulted from borrowings under a new $205 million bank credit facility and from additional capital provided from the sale of two million shares of GCI's Class A common stock to MCI Telecommunications Corporation for $6.50 per share.

Acquisition costs totaling $304.4 million were allocated to tangible and identifiable intangible assets and liabilities based upon fair market values. Approximately $206.5 million was allocated to the certificate of operating rights and approximately $42.4 was allocated to goodwill.

Various tax attributes of Prime gave rise to a deferred tax liability (see Note 7) of $24.4 million recorded by the Company as a result of the acquisition.

During January 1997, holders of the GCI subordinated notes exercised a conversion option which allowed them to exchange their notes for GCI Class A common shares at a predetermined conversion price of $6.50 per share. As a result, the note holders will receive a total of 1,538,457 shares of GCI Class A common stock. As of January 1997, 1,415,385 shares were issued for the converted notes. The remaining shares will be issued upon release of the related notes still held in escrow (see below).

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.

In connection with the Acquisitions, GCI placed 1,093,750 shares of GCI Class A common stock, $800,000 of GCI subordinated notes, and $150,000 cash into an indemnity escrow account. The various selling entities collectively placed the same amounts in escrow. Upon satisfactory completion of the indemnity period (180 days after each closing), the escrowed amounts will be returned to GCI and the various sellers.

The following table sets forth for the periods indicated, in comparative columnar form, unaudited pro forma operating data and pro forma per-share data for the Company including operating data for Prime Cable of Alaska L.P., Alaska Cablevision, Inc., and Alaskan Cable companies. Results of operations and per share data, where applicable, is provided for the following items: (1) total revenues; (2) earnings before extraordinary items; (3) cumulative effect of accounting changes; and (4) net earnings. The pro forma information shown gives effect to the cable company acquisitions as if they had occurred as of the beginning of the periods presented. Company common stock issued pursuant to the cable company acquisitions is valued at approximately $5.89 per share (the trading price for the shares on the dates surrounding the announcement of the transactions) for purposes of the pro forma presentation below.

The pro forma financial data are unaudited and are not necessarily indicative of the results of operations of the Company that would have occurred had the cable company acquisitions been




(2) ACQUISITION OF CABLE TELEVISION SYSTEMS (CONTINUED)
completed as of the beginning of the earliest periods presented or of the future results of operations of the Company.

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | |
|---|---|---|
| | 1996 | 1995 |
| | (AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS) | |

<S> <C> <C>

| | | |
|---|---|---|
| Total revenues | $ 210,762 | 182,308 |
| Net earnings | $ 6,700 | 5,918 |
| Net earnings per common share | $ 0.16 | 0.14 |
| Shares used in computation | 41,604 | 41,149 |

</TABLE>

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL DISCLOSURES

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

<TABLE>
<CAPTION>

| | (UNAUDITED) THREE MONTHS ENDED MARCH 31, | | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1996 | 1995 | 1994 |
| | (AMOUNTS IN THOUSANDS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| (Increase) decrease in trade receivables | $ 138 | (2,089) | (4,604) | (4,701) | 63 |
| (Increase) decrease in other receivables | (391) | 20 | (134) | (32) | (91) |
| (Increase) decrease in prepaid and other current assets | (52) | (374) | (467) | (222) | 312 |
| (Increase) decrease in inventory | (77) | (34) | 412 | (317) | (38) |
| (Increase) in income taxes receivable | 0 | 0 | (1,026) | 0 | 0 |
| Increase (decrease) in accounts payable | (1,357) | (22) | 5,517 | 5,020 | 1,434 |
| Increase (decrease) in accrued liabilities | 96 | (69) | 914 | 423 | 195 |
| Increase (decrease) in accrued payroll and payroll related obligations | (151) | 73 | 1,723 | (1,928) | 1,238 |
| Increase (decrease) in accrued income taxes | 0 | 917 | (547) | 330 | 163 |
| Increase in accrued interest | (2,357) | 10 | 2,188 | 31 | 14 |
| Increase (decrease) in deferred revenues | (5) | (120) | (4) | 220 | (90) |
| (Decrease) in components of other liabilities | (40) | (85) | (1,360) | (131) | (137) |
| | $ (4,196) | (1,773) | 2,612 | (1,307) | 3,063 |

</TABLE>




(3) CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL DISCLOSURES (CONTINUED)

Acquisitions of businesses, net of cash acquired for the year ended December 31, 1996 consists of (in thousands):

<TABLE>

| <S> | <C> |
|---|---|
| Fair value of assets acquired | $ 304,441 |
| Bank debt and net working capital deficit assumed | (110,538) |
| Common stock issued to sellers | (86,710) |
| Convertible, subordinated debt issued to sellers | (10,000) |
| Net deferred income tax liability | (24,375) |
| Net cash used to acquire business | $ 72,818 |

</TABLE>

Income taxes paid totaled $0 and $633,000 for the three months ended March 31, 1997 and 1996, respectively, (unaudited) and $4,361,000, $3,752,000 and $2,796,000 during 1996, 1995 and 1994, respectively.

Interest paid totaled approximately $6,300,000 and $407,000 for the three months ended March 31, 1997 and 1996, respectively, (unaudited) and ($2,657,000, $1,227,000 and $1,525,000 during 1996, 1995 and 1994, respectively.

The Company recorded $18,000 and $16,000 for the three months ended March 31, 1997 and 1996, respectively, (unaudited) and $187,000, $397,000 and $371,000 in 1996, 1995 and 1994, respectively, in paid-in capital in recognition of the income tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes.

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





(4) NOTES RECEIVABLE

A summary of notes receivable follows:

<TABLE>
<CAPTION>

| | DECEMBER 31, 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 | 488 | 261 |
| Total notes receivable | 1,212 | 985 |
| Less current portion | (325) | (167) |
| Plus long-term accrued interest | 129 | 86 |
| | $ 1,016 | 904 |

</TABLE>

(5) INTANGIBLE ASSETS

Intangible assets consist of the following:

<TABLE>
<CAPTION>

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| | (AMOUNTS IN THOUSANDS) | |
| <S> | <C> | <C> |
| Certificates of operating rights | $ 206,492 | 0 |
| Goodwill | 44,347 | 1,983 |
| PCS license and related costs | 1,913 | 1,802 |
| Other intangibles | 121 | 439 |
| | 252,873 | 4,224 |
| Less amortization | 1,953 | 1,099 |
| Intangible assets, net | $ 250,920 | 3,125 |

</TABLE>

(6) LONG-TERM DEBT

Long-term debt is summarized as follows:

<TABLE>
<CAPTION>

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| | (AMOUNTS IN THOUSANDS) | |
| Senior loan (a) | $ 175,900 | $ 0 |
| Credit Agreement (b) | 30,100 | 1,000 |
| Convertible, subordinated notes (c) | 10,000 | 0 |
| Undersea Fiber and Equipment Loan Agreement (d) | 6,886 | 8,271 |
| Financing Obligation (e) | 356 | 709 |
| | 223,242 | 9,980 |
| Less current maturities | 31,969 | 1,689 |
| Long-term debt, excluding current maturities | $ 191,273 | $ 8,291 |

</TABLE>

(a) GCI Cable entered into a credit facility totaling $205 million ("Senior Loan") effective October 31, 1996, associated with the acquisition of the cable companies. Loans (advances) made pursuant to the Senior Loan mature on September 30, 2005 or such earlier date as payment of the loans are due, whether by acceleration or otherwise.

The Senior Loan provides for interest at the bank's prime rate plus 1.875%. At GCI Cable's option, interest on all or a specified portion of the indebtedness may be fixed for periods ranging from one to six months based on Eurodollar rates plus 2.875%. Upon the request of GCI Cable and the approval of the banks, the period of a Eurodollar advance can be extended beyond six months. The interest rates under the new agreement are subject to reductions of up to 1.75% per annum if certain financial tests are met. GCI Cable is required to pay a commitment fee equal to 0.50% per annum on the unused portion of the commitment. In addition, if the obligations under the Senior Loan are not repaid in full on or before September 30, 1997, GCI Cable has agreed to pay an additional fee of $712,500. Interest and fees are payable quarterly.

The Senior Loan facility contains, among others, covenants requiring maintenance of specific levels of operating cash flow to indebtedness and to interest expense. The Senior Loan facility includes limitations on acquisitions and additional indebtedness, and prohibits any direct or indirect distribution, dividend, redemption or other payment to any person on account of any general or limited partnership interest in, or shares of capital stock or other securities of GCI Cable or any of its subsidiaries. GCI Cable was in compliance with all credit agreement covenants during the period commencing October 31, 1996 (date of the Senior Loan) through December 31, 1996.

While GCI Cable may elect at any time to reduce amounts due and available under the loan agreement, a mandatory prepayment is required each May, beginning in May 2000, if, for the prior year ended December 31, GCI Cable's Operating Cash Flow (defined as net income before extraordinary items and gains and losses on asset sales, plus interest expense, depreciation, amortization, bank fees, deferred management fees, expenses and other amounts deferred under the management agreement, income tax expense and other non-cash expenses) exceeds payments made for cash interest expense, permanent prepayments of




(6) LONG-TERM DEBT (CONTINUED)

principal amounts outstanding under the loan agreement, bank fees, cash income tax payments, capital expenditures, amounts previously deferred under the management agreement and capital lease obligations. GCI Cable is required to make a prepayment in the amount of 50% of such excess. Additionally, a mandatory prepayment may be required in the event of asset sales (other than dispositions of obsolete inventory and equipment in the ordinary course of business) or the issuance of capital stock or other debt or equity securities. All such mandatory prepayments permanently reduce the amounts due and available under the loan commitment.

The loan agreement is collateralized by essentially all of GCI Cable Inc.'s assets as well as a pledge of GCI Cable's stock by GCI.

In connection with the funding of the loan agreement, GCI Cable Inc. paid bank fees and other expenses of approximately $764,000, which will be amortized to interest expense over the life of the agreement.

(b) GCI entered into a new $62.5 million interim telephony 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 plans to restructure the facility prior to its maturity on April 25, 1997. Since the entire facility matures within the twelve-month period ending December 31, 1997, the outstanding balance at December 31, 1996 is included in current maturities of long-term debt.

The interim facility provides for interest (7.33% weighted average interest rate at December 31, 1996), among other options, at LIBOR plus 1.75% to 2.25%, 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 December 31, 1996.

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.

The Company extended the maturity date of its $62.5 million interim telephony credit facility during April 1997. The interim facility matures in July 1997 and is expected to be extended further or refinanced prior to that time. Since the facility matures within the twelve-month period




(6) LONG-TERM DEBT (CONTINUED)

ending March 31, 1998, the outstanding balance at March 31, 1997 is included in current maturities of long-term debt (unaudited).

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% 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.

(c) GCI issued subordinated notes totaling $10 million in connection with the acquisitions described in Note 2. The notes bear simple, non compounding interest at the lowest allowable rate of the Internal Revenue Service under imputed interest rules in effect at closing. The notes are subordinated to all of the Company's senior indebtedness. During January 1997, the holders of the GCI subordinated notes exercised a conversion option which allowed them to exchange their notes for GCI Class A common shares at a predetermined conversion price of $6.50 per share. As a result, the former note holders received 1,538,457 shares of GCI Class A common stock.

(d) 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.

(e) As consideration for MCI's role in enabling Leasing Company to finance and acquire the undersea fiber optic cable capacity described at note 6(d) above, Leasing Company agreed to pay MCI $2,040,000 in 60 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.





(6) LONG-TERM DEBT (CONTINUED)

As of December 31, 1996 maturities of long-term debt including mandatory reductions of loan commitments pursuant to the Company's Senior Loan were as follows (in thousands):

| YEAR ENDING DECEMBER 31, | |
|---|---|
| 1997 | $ 31,969 |
| 1998 | 1,647 |
| 1999 | 6,917 |
| 2000 | 4,497 |
| 2001 | 5,125 |
| 2002 and thereafter | 163,087 |
| | 213,242 |
| Subordinated debt converted into GCI Class A common stock in January 1997 | 10,000 |
| | $ 223,242 |

(7) INCOME TAXES

Total income tax expense (benefit) for the years ended December 31, 1996, 1995 and 1994 were allocated as follows:

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (AMOUNTS IN THOUSANDS) | | |
| Earnings from continuing operations | $ 5,228 | $ 5,099 | $ 4,547 |
| Stockholders' equity, for stock option compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes | (187) | (397) | (371) |
| | $ 5,041 | $ 4,702 | $ 4,176 |

(7) INCOME TAXES (CONTINUED)

Income tax expense consists of the following:

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (AMOUNTS IN THOUSANDS) | | |
| <S> | <C> | <C> | <C> |
| Current tax expense: | | | |
| Federal taxes | $ 2,292 | $ 3,077 | $ 2,604 |
| State taxes | 684 | 1,005 | 355 |
| | 2,976 | 4,082 | 2,959 |
| Deferred tax expense: | | | |
| Federal taxes | 1,734 | 780 | 816 |
| State taxes | 518 | 237 | 772 |
| | 2,252 | 1,017 | 1,588 |
| | $ 5,228 | $ 5,099 | $ 4,547 |

</TABLE>





(7) INCOME TAXES (CONTINUED)

Total income tax expense differed from the "expected" income tax expense determined by applying the statutory federal income tax rate of 34% as follows:

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (AMOUNTS IN THOUSANDS) | | |
| <S> | <C> | <C> | <C> |
| Expected statutory tax expense | $ 4,314 | 4,284 | 3,971 |
| State income taxes, net of federal benefit | 793 | 820 | 742 |
| Income tax effect of goodwill amortization, nondeductible expenditures and other items, net | 55 | 41 | 0 |
| Change in valuation allowance | (225) | (200) | 0 |
| Other | 291 | 154 | (166) |
| | $ 5,228 | 5,099 | 4,547 |

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995 are presented below.

<TABLE>
<CAPTION>

| | DECEMBER 31, | |
|---|---|---|
| | 1996 | 1995 |
| | (AMOUNTS IN THOUSANDS) | |
| <S> | <C> | <C> |
| Net current deferred tax assets: | | |
| Accounts receivable, principally due to allowance for doubtful accounts | $ 98 | 119 |
| Compensated absences, accrued for financial reporting purposes | 380 | 400 |
| Workers compensation and self insurance health reserves, principally due to accrual for financial reporting purposes | 243 | 183 |

| | | |
|---|---|---|
| Other | 114 | 133 |
| Total gross current deferred tax assets | 835 | 835 |
| Less valuation allowance | 0 | 89 |
| Net current deferred tax assets | $ 835 | 746 |

</TABLE>




(7) INCOME TAXES (CONTINUED)

<TABLE>
<CAPTION>

| | DECEMBER 31, 1996 | DECEMBER 31, 1995 |
|---|---|---|
| | (AMOUNTS IN THOUSANDS) | |
| Net long-term deferred tax assets: | | |
| Net operating loss carryforwards | $ 23,507 | 0 |
| Deferred compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes | 617 | 587 |
| Employee stock option compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes | 198 | 206 |
| Sweepstakes award in excess of amounts recognized for tax purposes | 211 | 215 |
| Other | 197 | 261 |
| Total gross long-term deferred tax assets | 24,730 | 1,269 |
| Less valuation allowance | 8,129 | 136 |
| Net long-term deferred tax assets | 16,601 | 1,133 |
| Net long-term deferred tax liabilities: | | |
| Plant and equipment, principally due to differences in depreciation | 50,163 | 7,997 |
| Other | 158 | 140 |
| Total gross long-term deferred tax liabilities | 50,321 | 8,137 |
| Net combined long-term deferred tax liabilities | $ 33,720 | 7,004 |

</TABLE>

In conjunction with the acquisition of the Cable Companies the Company incurred a net deferred income tax liability of $24,375,000 which is net of gross deferred tax assets of $23,253,000 and a valuation allowance of $8,129,000.

The valuation allowance for deferred tax assets was $8,129,000, $225,000 and $425,000 as of December 31, 1996, 1995 and 1994, respectively.

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.

At December 31, 1996, the Company has tax net operating loss carryforwards of approximately $58,475,000 which will begin expiring in 2004 if not utilized. The Company's utilization of these carryforwards is subject to certain limitations pursuant to section 382 of the Internal Revenue Code. A valuation allowance of $8,129,000 was recognized to offset the deferred tax assets related to these carryforwards due to uncertainty regarding realizability. If realized, the tax benefit for the carryforwards offset by the valuation allowance will be applied to reduce goodwill and other non-current intangibles, and then applied to reduce income tax expense.

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.

(8) STOCKHOLDERS' EQUITY

COMMON STOCK

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

After the transaction described in Note 2, MCI owns a total of 8,251,509 shares of GCI's Class A and 1,275,791 shares of GCI's Class B common stock which on a fully diluted basis represented approximately 23% and 31% of the issued and outstanding shares of the respective class at December 31, 1996.

After the transaction described in Note 2, the owners of the cable television properties acquired in 1996 own a total of 14,723,077 shares of GCI's Class A common stock which on a fully diluted basis represented approximately 40% of the issued and outstanding Class A common shares at December 31, 1996.

STOCK WARRANTS

On May 18, 1994 an officer of the Company exercised warrants. In exchange for $114, the Company issued 160,297 and 74,028 shares of GCI Class A and Class B common stock, respectively.

Pursuant to the terms of a stock appreciation right granted in 1988, the Company issued to its former senior lender warrants to acquire 1,021,373 shares of GCI Class A common stock for $.85669 per share. Warrants to purchase 600,000 shares of Class A common stock were exercised in April and May, 1991, an additional 168,085 were exercised in September, 1991 and the remaining warrants to purchase 253,288 shares were exercised in September and October, 1994.

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.

The Option Plan provides that all options granted under the Option Plan must expire not later than ten years after the date of grant. If at the time an option is granted the exercise price is less than the





(8) STOCKHOLDERS' EQUITY (CONTINUED)
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.

Information for the years 1994, 1995 and 1996 with respect to the Plan follows:

<TABLE>
<CAPTION>

| | WEIGHTED AVERAGE EXERCISE | RANGE OF EXERCISE |
|---|---|---|

| | SHARES | PRICE | PRICES |
|---|---|---|---|
| Outstanding at December 31, 1993 | 1,823,658 | $ 2.87 | $0.75-$4.00 |
| Granted | -- | | -- |
| Exercised | (72,459) | $ 2.39 | $0.75-$3.00 |
| Forfeited | (21,500) | | $4.00 |
| Outstanding at December 31, 1994 | 1,729,699 | $ 2.88 | $0.75-$4.00 |
| Granted | 610,000 | | $4.00 |
| Exercised | (40,000) | $ 2.06 | $1.87-$2.25 |
| Forfeited | (11,500) | | $4.00 |
| Outstanding at December 31, 1995 | 2,288,199 | $ 3.19 | $0.75-$4.00 |
| Granted | 321,000 | $ 5.79 | $3.75-$6.50 |
| Exercised | (82,291) | $ 2.80 | $0.75-$4.00 |
| Forfeited | (79,785) | $ 3.11 | $0.75-$4.50 |
| Outstanding at December 31, 1996 | 2,447,123 | $ 3.54 | $0.75-$6.50 |
| Available for grant at December 31, 1996 | 108,338 | | |

The options expire at various dates through December 2006. At December 31, 1996 and 1995, the weighted-average remaining contractual lives of options outstanding were 6.73 and 7.15 years, respectively.

At December 31, 1996 and 1995, the number of options exercisable was 1,275,903 and 986,999, respectively, and the weighted-average exercise price of those options was $2.85 and $2.56, respectively.

The per share weighted-average fair value of stock options granted during 1996 was $3.50 for compensatory options and $2.28 for non-compensatory options; for 1995, the per share weighted-average fair value of non-compensatory stock options granted was $1.62. The amounts were determined as of the options' grant dates using a qualified binomial option-pricing model with the following weighted-average assumptions: 1996--risk-free interest rate of 6.3% and an expected life of eight years; 1995--risk-free interest rate of 6.25% and an expected life of eight years.




(8) STOCKHOLDERS' EQUITY (CONTINUED)

Had compensation cost for the Company's 1995 and 1996 grants for stock-based compensation plans been determined consistent with SFAS 123, the Company's net income and net income per common share would approximate the pro forma amounts below (in millions except per share data):

| | AS REPORTED | PRO FORMA |
|---|---|---|
| 1995: | | |
| Net earnings | $ 7,502 | $ 7,438 |
| Net earnings per common share | $ 0.31 | $ 0.30 |
| 1996: | | |
| Net earnings | $ 7,462 | $ 7,322 |
| Net earnings per common share | $ 0.27 | $ 0.26 |

Pro forma net income reflects only options granted in 1996 and 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of 5 years and compensation cost for options granted prior to January 1, 1995 is not considered.

STOCK OPTIONS NOT PURSUANT TO A PLAN

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

The Company entered into an incentive agreement in June 1989 with an officer providing for the acquisition of 85,190 remaining shares of Class A common stock of the Company for $.001 per share exercisable through June 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 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.

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% of such compensation up to a maximum of $9,500 in 1996; they may contribute up to 10% of their compensation with after-tax dollars, or they may elect a combination of salary reductions and after-tax contributions.





(8) STOCKHOLDERS' EQUITY (CONTINUED)

GCI may match employee salary reductions and after tax contributions in any amount, elected by GCI each year, but not more than 10% 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% 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 common stock, MCI common stock, Tele-Communications, Inc. common stock or 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 $1,013,000, $864,000 and $792,000 for the years ended December 31, 1996, 1995, and 1994, 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.

(9) INDUSTRY SEGMENTS DATA

The Company is engaged in the provision or sale of services and products in three principal industries: (1) long-distance telecommunication services ("long-distance services"), (2) cable television services, and, on a pre-operating basis, (3) local telecommunication services ("local services").

<TABLE>
<CAPTION>

| | DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (AMOUNTS IN THOUSANDS) | | |
| <S> | <C> | <C> | <C> |
| Net sales | | | |
| Long-distance services | $ 155,419 | 129,279 | 116,981 |
| Cable television services | 9,475 | 0 | 0 |
| Total net sales | $ 164,894 | 129,279 | 116,981 |
| Operating income | | | |
| Long-distance services | $ 15,083 | 13,504 | 12,997 |

| | | | |
|---|---|---|---|
| Cable television services | 2,196 | 0 | 0 |
| Local services | (870) | 0 | 0 |
| Total operating income | $ 16,409 | 13,504 | 12,997 |
| Identifiable assets | | | |
| Long-distance services | $ 133,780 | 81,377 | 72,744 |
| Cable television services | 62,039 | 0 | 0 |
| Total identifiable assets | $ 195,819 | 81,377 | 72,744 |
| Capital expenditures | | | |
| Long-distance services | $ 37,793 | 8,938 | 10,604 |
| Cable television services | 849 | 0 | 0 |
| Total capital expenditures | $ 38,642 | 8,938 | 10,604 |

</TABLE>





(9) INDUSTRY SEGMENTS DATA (CONTINUED)

<TABLE>
<CAPTION>

| | DECEMBER 31, 1996 | 1995 | 1994 |
|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | |
| Depreciation and amortization expense | | | |
| <S> | <C> | <C> | <C> |
| Long-distance services | $ 7,189 | 5,993 | 6,639 |
| Cable television services | 2,220 | 0 | 0 |
| Total depreciation and amortization expense | $ 9,409 | 5,993 | 6,639 |

</TABLE>

Reclassifications have been made to 1995 and 1994 data to make them comparable with the 1996 presentation. Intersegment sales approximate market and are not significant. Identifiable assets are assets associated with a specific industry segment. Revenues derived from leasing operations are allocated to the message and data transmission services segment. Long-distance services includes equipment sales and service which were previously reported as a separate segment.

The Company provides message telephone service to MCI and Sprint, major customers (see Note 10). The Company earned revenues pursuant to a contract with Sprint totaling approximately $18,781,000, $14,885,000 and $12,412,000 for the years ended December 31, 1996, 1995 and 1994 respectively. Amounts receivable from Sprint totaled $1,683,000 and $2,362,000 at December 31, 1996 and 1995, respectively.

(10) RELATED PARTY TRANSACTIONS

Pursuant to the terms of a contract with MCI, a major shareholder of the Company (see note 8), the Company earned revenues of approximately $29,208,000, $23,939,000 and $19,512,000 for the years ended December 31, 1996, 1995 and 1994, respectively. Amounts receivable from MCI totaled $5,252,000 and $4,256,000 at December 31, 1996 and 1995, respectively. The Company paid MCI for distribution of its traffic in the lower 49 states totaling approximately $12,224,000, $12,556,000 and $10,252,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

The Company entered into a long-term capital lease agreement in 1991 with the wife of the Company's president for property occupied by the Company. The lease is guaranteed 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 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 Cable Company is a party to a Management Agreement with Prime II Management, L.P. ("PMLP"). Certain of the Prime sellers are affiliated with PMLP. The Management Agreement expires on October 31, 2005, however, it will be terminated earlier upon loss of a license to operate the systems, sale of the systems, breach of contract, or upon exercise of an option to terminate the Management Agreement by PMLP or GCI Cable any time after October 31, 1998. Under the terms of the Management Agreement, PMLP manages the operations of the acquired cable television systems for fees of




(10) RELATED PARTY TRANSACTIONS (CONTINUED)
$1,000,000 in the first year, $750,000 in the second year, and $500,000 thereafter (unless the agreement is terminated as outlined above) and reimbursement for certain expenses. The fees and reimbursed expenses are payable on a monthly basis. Under the terms of the bank loan agreement (Note 6), the Cable Company must defer payment of management fees if it fails to meet certain financial ratio covenants. Any deferred fees bear interest at a rate of 17.5% per annum. In connection with the agreement, the Cable Company incurred approximately $197,000 in management fees and reimbursable expenses for the period ended December 31, 1996.

(11) 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 $7,364,000, $4,353,000 and $4,258,000 for the years ended December 31, 1996, 1995 and 1994, respectively.

A summary of future minimum lease payments for all leases as of December 31, 1996 follows:

<TABLE>
<CAPTION>

| YEAR ENDING DECEMBER 31: | OPERATING | CAPITAL |
|---|---|---|
| | (AMOUNTS IN THOUSANDS) | |
| <S> | <C> | <C> |
| 1997 | $ 10,772 | $ 194 |
| 1998 | 8,211 | 202 |
| 1999 | 4,990 | 204 |
| 2000 | 3,283 | 211 |
| 2001 | 1,870 | 214 |
| 2002 and thereafter | 2,568 | 1,265 |
| Total minimum lease payments | $ 31,694 | $ 2,290 |
| Less amount representing interest | | (1,544) |
| Less current maturities of obligations under capital leases | | (71) |
| Subtotal--long-term obligations under capital leases | | 675 |
| Less long-term obligations under capital leases due to related parties, excluding current maturities | | (675) |
| Long-term obligations under capital leases, excluding current maturities | | $ 0 |

</TABLE>

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

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

(12) 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 December 31, 1996 and 1995 for the Company's financial assets and liabilities approximate their fair values.

(13) COMMITMENTS AND CONTINGENCIES

DEFERRED COMPENSATION PLAN

During 1995, the Company adopted a non-qualified, unfunded deferred compensation plan to provide a means by which certain employees may elect to defer receipt of designated percentages or amounts of their compensation and to provide a means for certain other deferrals of compensation. The Company may, at its discretion, contribute matching deferrals equal to the rate of matching selected by the Company. Participants immediately vest in all elective deferrals and all income and gain attributable thereto. Matching contributions and all income and gain attributable thereto vest over a six-year period. Participants may elect to be paid in either a single lump sum payment or annual installments over a period not to exceed 10 years. Vested balances are payable upon termination of employment, unforeseen emergencies, death and total disability. Participants are general creditors of the Company with respect to deferred compensation plan benefits. Participant elective deferrals attributed to current services, interest earnings, vested Company contributions and vested matching contributions are accrued and are reflected in accrued payroll and payroll related obligations. Compensation deferred pursuant to the plan totaled $222,000 and $340,000 as of December 31, 1996 and 1995, respectively.

SATELLITE TRANSPONDERS

The Company entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders to meet its long-term satellite capacity requirements. The balance payable upon expected delivery of the transponders in 1998 is dependent upon a number of factors. The Company does not expect the remaining balance payable at delivery to exceed $41 million.

SELF-INSURANCE

The Company is self-insured for losses and liabilities related primarily to health and welfare claims up to predetermined amounts above which third party insurance applies. A reserve of $450,000 was recorded at December 31, 1996 to cover estimated reported losses, estimated unreported losses based on past experience modified for current trends, and estimated expenses for investigating and settling claims. Actual losses will vary from the recorded reserve. While management uses what it believes is pertinent information and factors in determining the amount of reserves, future additions to the reserves may be necessary due to changes in the information and factors used.




(INFORMATION RELATING TO INTERIM PERIODS IS UNAUDITED)

(13) COMMITMENTS AND CONTINGENCIES (CONTINUED)

LITIGATION

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

CABLE SERVICE RATE REREGULATION

Beginning in April 1993, the Federal Communications Commission ("FCC") adopted regulations implementing the Cable Television Consumer Protection and

Competition Act of 1992 ("The Cable Act of 1992"). Included are rules governing rates charged by cable operators for the basic service tier, the installation, lease and maintenance of equipment (such as converter boxes and remote control units) used by subscribers to receive this tier and for cable programming services other than programming offered on a per-channel or per-program basis (the "regulated services"). Generally, the regulations require affected cable systems to charge rates for regulated services that have been reduced to prescribed benchmark levels, or alternatively, to support rates using costs-of-service methodology.

The regulated services rates charged by the Company may be reviewed by the State of Alaska, operating through the Alaska Public Utilities Commission ("APUC") for basic service, or by the FCC for cable programming service. Refund liability for basic service rates is limited to a one year period. Refund liability for cable programming service rates may be calculated from the date a complaint is filed with the FCC until the rate reduction is implemented.

In order for the State of Alaska to exercise rate regulation authority over the Company's basic service rates, 25% of a systems' subscribers must request such regulation by filing a petition with the APUC. At December 31, 1996, the State of Alaska has rate regulation authority over the Juneau system's basic service rates. (The Juneau system serves 9% of the Company's total basic service subscribers at December 31, 1996.) Juneau's current rates have been approved by the APUC and there are no other pending filings with the APUC, therefore, there is no refund liability for basic service at this time.

Complaints by subscribers relating to cable programming service rates were filed with, and accepted by, the FCC for certain franchise areas, however, PCOA's filings made in response to those complaints related to the period prior to July 15, 1994 were approved by the FCC. Therefore, the potential liability for cable programming service refunds would be limited to the period subsequent to July 15, 1994 for these areas. Management of the Company believes that it has complied in all material respects with the provisions of the FCC rules and regulations and that the Company is, therefore, not liable for any refunds. Accordingly, no provision has been made in the financial statements for any potential refunds. The FCC rules and regulations are, however, subject to judgmental interpretations, and the impact of potential rate changes or refunds ordered by the FCC could cause the Company to make refunds and/or to be in default of certain debt covenants.

In February 1996, a telecommunications bill was signed into federal law which impacts the cable industry. Most notably, the bill allows cable system operators to provide telephony services, allows telephone companies to offer video services, and provides for deregulation of cable programming service rates by 1999. Management of the Company believes the bill will not have a significant adverse impact on the financial position or results of operations of the Company.




(14) SUPPLEMENTARY FINANCIAL DATA

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 1996 and 1995.

<TABLE>
<CAPTION>

| 1996 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | TOTAL YEAR |
|---|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Total revenues | $ 37,969 | 37,199 | 38,664 | 51,062 | 164,894 |
| Net earnings | $ 2,137 | 2,150 | 2,140 | 1,035 | 7,462 |
| Net earnings per share | $ 0.09 | 0.09 | 0.09 | 0.02 | 0.27 |

<CAPTION>

| 1995 | FIRST QUARTER | SECOND QUARTER | THIRD QUARTER | FOURTH QUARTER | TOTAL YEAR |
|---|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Total revenues | $ 29,693 | 31,860 | 33,363 | 34,363 | 129,279 |
| Net earnings | $ 1,607 | 1,836 | 2,252 | 1,807 | 7,502 |
| Net earnings per share | $ 0.07 | 0.08 | 0.09 | 0.07 | 0.31 |

</TABLE>

(15) SUPPLEMENTAL FINANCIAL INFORMATION

<TABLE>
<CAPTION>

| (UNAUDITED) | THREE-MONTHS ENDED MARCH 31, 1997 LONG--DISTANCE | CABLE | LOCAL | COMBINED |
|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | | |
| Revenues: | | | | |
| Telecommunication revenues | $ 39,225 | -- | -- | 39,225 |
| Cable revenues | -- | 13,656 | -- | 13,656 |
| Total revenues | 39,225 | 13,656 | -- | 52,881 |
| Cost of sales and services: | | | | |
| Distribution costs and costs of services | 23,884 | -- | 118 | 24,002 |
| Programming and copyright costs | -- | 3,166 | -- | 3,166 |
| Total cost of sales and services | 23,884 | 3,166 | 118 | 27,168 |
| Selling, general and administrative expenses: | | | | |
| Operating and engineering | 2,792 | -- | -- | 2,792 |
| Cable television, including management fees of $271 | -- | 4,368 | -- | 4,368 |
| Sales and communications | 2,864 | -- | 50 | 2,914 |
| General and administrative | 4,887 | -- | 369 | 5,256 |
| Legal and regulatory | 351 | -- | 97 | 448 |
| Bad debts | 426 | 97 | -- | 523 |
| Depreciation and amortization | 2,623 | 3,497 | -- | 6,120 |
| Operating income (loss) | $ 1,398 | 2,528 | (634) | 3,292 |

</TABLE>




(15) SUPPLEMENTAL FINANCIAL INFORMATION (CONTINUED)

<TABLE>
<CAPTION>

| | 1996 LONG-DISTANCE | 1996 CABLE | 1996 LOCAL | 1996 COMBINED | 1995 LONG-DISTANCE | 1994 LONG-DISTANCE |
|---|---|---|---|---|---|---|
| | | (AMOUNTS IN THOUSANDS) | | | | |
| Revenues: | | | | | | |
| Telecommunication revenues | $ 155,419 | 0 | 0 | 155,419 | 129,279 | 116,981 |
| Cable revenues | 0 | 9,475 | 0 | 9,475 | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total revenues | 155,419 | 9,475 | 0 | 164,894 | 129,279 | 116,981 |
| Cost of sales and services: | | | | | | |
| Distribution costs and costs of services | 90,597 | 0 | 0 | 90,597 | 72,091 | 63,877 |
| Programming and copyright costs | 0 | 2,067 | 0 | 2,067 | 0 | 0 |
| Total cost of sales and services | 90,597 | 2,067 | 0 | 92,664 | 72,091 | 63,877 |
| Selling, general and administrative expenses: | | | | | | |
| Operating and engineering | 9,095 | 0 | 92 | 9,187 | 9,182 | 7,607 |
| Cable television, including management fees of $197 | 0 | 2,992 | 0 | 2,992 | 0 | 0 |
| Sales and communications | 13,013 | 0 | 28 | 13,041 | 9,865 | 7,040 |
| General and administrative | 17,349 | 0 | 316 | 17,665 | 15,645 | 16,658 |
| Legal and regulatory | 1,357 | 0 | 434 | 1,791 | 1,540 | 1,334 |
| Bad debts | 1,736 | 0 | 0 | 1,736 | 1,459 | 829 |
| Depreciation and amortization | 7,189 | 2,220 | 0 | 9,409 | 5,993 | 6,639 |
| Operating income (loss) | $ 15,083 | 2,196 | (870) | 16,409 | 13,504 | 12,997 |

</TABLE>



REPORT OF INDEPENDENT AUDITORS

To the Partners
Prime Cable of Alaska, L.P.

We have audited the accompanying balance sheets of Prime Cable of Alaska, L.P. (the Partnership) as of December 31, 1995 and 1994, and the related statements of operations, changes in partners' capital deficiency, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prime Cable of Alaska, L.P. as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Austin, Texas
March 18, 1996, except for the
last paragraph of Note 7, as to
which the date is September 9, 1996



PRIME CABLE OF ALASKA, L.P.

BALANCE SHEETS

ASSETS (NOTE 6)

<TABLE>
<CAPTION>

| | (UNAUDITED) SEPTEMBER 30, 1996 | (UNAUDITED) JUNE 30, 1996 | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|---|---|
| | (IN THOUSANDS) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Cash and cash equivalents | $ -- | $ 803 | $ 9,477 | $ 8,375 |
| Accounts receivable, net (Note 4) | 1,059 | 956 | 1,221 | 1,204 |
| Prepaid expenses | 142 | 196 | 166 | 227 |
| Inventories | 815 | 854 | 833 | 324 |
| Property, plant and equipment, at cost: | | | | |
| Cable television distribution systems | 72,578 | 69,695 | 68,090 | 63,819 |
| Transportation equipment | 901 | 910 | 848 | 775 |
| Furniture and fixtures | 2,372 | 2,306 | 1,864 | 1,760 |
| Land and buildings | 494 | 487 | 487 | 487 |

| | | | | |
|---|---|---|---|---|
| | 76,345 | 73,398 | 71,289 | 66,841 |
| Less accumulated depreciation.......................... | (47,612) | (45,770) | (42,114) | (34,975) |
| Net property, plant and equipment.................... | 28,733 | 27,628 | 29,175 | 31,866 |
| Intangible assets, net (Note 5).......................... | 26,055 | 28,397 | 33,080 | 42,447 |
| Deferred debt issuance costs, net........................ | 2,197 | 2,209 | 125 | 832 |
| Other assets............................................. | 349 | 181 | 64 | 28 |
| Total assets........................................ | $ 59,350 | $ 61,224 | $ 74,141 | $ 85,303 |

LIABILITIES AND PARTNERS' CAPITAL DEFICIENCY

| | | | | |
|---|---|---|---|---|
| Accounts payable......................................... | $ 2,297 | $ 583 | $ 773 | $ 809 |
| Accounts payable, affiliates............................. | 1,620 | 907 | 186 | 124 |
| Accrued interest......................................... | 2,217 | 2,061 | 1,368 | 1,311 |
| Other accrued expenses................................... | 1,764 | 2,086 | 1,639 | 1,656 |
| Subscriber deposits and unearned income.................. | 2,093 | 2,060 | 2,043 | 1,796 |
| Term debt (Note 6)....................................... | 102,000 | 103,000 | 82,565 | 84,065 |
| Subordinated debt (Note 7)............................... | 4,320 | 4,320 | 34,041 | 27,689 |
| Total liabilities................................... | 116,311 | 115,017 | 122,615 | 117,450 |
| Commitments and Contingencies (Notes 7 and 9) | | | | |
| Partners' capital deficiency (Note 7): | | | | |
| General partners...................................... | 9,000 | 9,000 | 9,000 | 9,000 |
| Limited partners...................................... | 36,000 | 36,000 | 36,000 | 36,000 |
| Accumulated deficit...................................... | (101,961) | (98,793) | (93,474) | (77,147) |
| Total partners' capital deficiency................... | (56,961) | (53,793) | (48,474) | (32,147) |
| Total liabilities and partners' capital deficiency.... | $ 59,350 | $ 61,224 | $ 74,141 | $ 85,303 |

</TABLE>

The accompanying notes are an integral part of the financial statements.



PRIME CABLE OF ALASKA, L.P.

STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

| | (UNAUDITED) NINE MONTHS ENDED SEPTEMBER 30, | | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | |
|---|---|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 | 1995 | 1994 |
| | | | (IN THOUSANDS) | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Revenues............................... | $ 25,770 | $ 24,223 | $ 17,276 | $ 16,100 | $ 32,594 | $ 30,599 |
| Operating expenses: | | | | | | |
| Cable television system expenses...... | 13,253 | 12,296 | 8,668 | 8,150 | 16,264 | 14,911 |
| Management fees and expenses (Note 9)................................. | 1,423 | 1,255 | 924 | 817 | 1,674 | 1,671 |
| Depreciation and amortization......... | 12,637 | 12,353 | 8,410 | 8,208 | 16,487 | 16,944 |
| Provision for inventory obsolescence....................... | -- | -- | -- | -- | -- | 35 |
| Loss from operations................... | (1,543) | (1,681) | (726) | (1,075) | (1,831) | (2,962) |
| Interest income........................ | 135 | 331 | 131 | 207 | 460 | 285 |
| Interest expense....................... | (7,106) | (7,999) | (4,736) | (5,349) | (14,960) | (9,035) |
| Gain (loss) on disposal of assets....... | 27 | 4 | 12 | 4 | 4 | (15) |
| Net loss............................... | $ (8,487) | $ (9,345) | $ (5,319) | $ (6,213) | $ (16,327) | $ (11,727) |

</TABLE>

The accompanying notes are an integral part of the financial statements.

PRIME CABLE OF ALASKA, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL DEFICIENCY

<TABLE>
<CAPTION>

| | GENERAL PARTNERS | LIMITED PARTNERS | TOTAL |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| Balances, January 1, 1994 | $ (20,420) | $ -- | $ (20,420) |
| Net loss for the year ended December 31, 1994 | (11,727) | -- | (11,727) |
| Balances, December 31, 1994 | (32,147) | -- | (32,147) |
| Net loss | (16,327) | -- | (16,327) |
| Balances, December 31, 1995 | (48,474) | -- | (48,474) |
| Net loss (unaudited) | (8,487) | -- | (8,487) |
| Balances, September 30, 1996 (unaudited) | $ (56,961) | $ -- | $ (56,961) |

</TABLE>

The accompanying notes are an integral part of the financial statements.



PRIME CABLE OF ALASKA L.P.

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

| | (UNAUDITED) NINE MONTHS ENDED SEPTEMBER 30, | | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | |
|---|---|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 | 1995 | 1994 |
| | | | (IN THOUSANDS) | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Net loss | $ (8,487) | $ (9,345) | $ (5,319) | $ (6,213) | $ (16,327) | $ (11,727) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | 12,637 | 12,353 | 8,410 | 8,208 | 16,487 | 16,944 |
| Amortization of deferred debt issuance costs | 208 | 530 | 170 | 352 | 708 | 500 |
| Deferred interest on subordinated debt | 401 | 1,501 | 401 | 985 | 6,352 | 1,802 |
| Provision for inventory obsolescence | -- | -- | -- | -- | -- | 35 |
| (Gain) loss on disposal of assets | (27) | (4) | (12) | (4) | (4) | 15 |
| | 4,732 | 5,035 | 3,650 | 3,328 | 7,216 | 7,569 |
| Net decrease (increase) in accounts receivable, prepaid expenses and other assets | (99) | 221 | 118 | 338 | 8 | (355) |
| Net increase (decrease) in accounts payable, accounts payable-affiliates, accrued interest, other accrued expenses, and subscriber deposits and unearned income | 3,982 | (160) | 1,688 | (14) | 313 | 1,236 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net cash provided by operating activities | 8,615 | 5,096 | 5,456 | 3,652 | 7,537 | 8,450 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Purchase of property, plant and equipment and inventories | (5,154) | (3,742) | (2,201) | (2,821) | (4,988) | (4,021) |
| Proceeds from sale of assets | 29 | 54 | 12 | 54 | 54 | 10 |
| Net cash used in investing activities | (5,125) | (3,688) | (2,189) | (2,767) | (4,934) | (4,011) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | | |
| Proceeds from bank debt borrowings | 106,500 | -- | 105,000 | -- | -- | -- |
| Repayment of term debt | (87,065) | (1,500) | (84,565) | -- | (1,500) | (4,330) |
| Prepayment of subordinated debt | (30,122) | -- | (30,122) | -- | -- | -- |
| Increase in deferred debt issuance cost | (2,280) | -- | (2,254) | -- | (1) | (646) |
| Net cash used in financing activities | (12,967) | (1,500) | (11,941) | -- | (1,501) | (4,976) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (9,477) | (92) | (8,674) | 885 | 1,102 | (537) |
| Cash and cash equivalents, beginning of period | 9,477 | 8,375 | 9,477 | 8,375 | 8,375 | 8,912 |
| Cash and cash equivalents, end of period | $ -- | $ 8,283 | $ 803 | $ 9,260 | $ 9,477 | $ 8,375 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | | | | |
| Cash interest paid | $ 5,648 | $ 5,943 | $ 3,472 | $ 3,912 | $ 7,843 | $ 6,330 |

</TABLE>

The accompanying notes are an integral part of the financial statements.



PRIME CABLE OF ALASKA, L.P.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Prime Cable of Alaska, L.P. (the "Partnership"), a Delaware limited partnership, was formed on January 30, 1989 to acquire and operate cable television systems serving the municipality of Anchorage and its environs, Fort Richardson, Elmendorf Air Force Base, the city of Bethel and its environs, and the city of Kenai and the Kenai Peninsula Borough, all in the state of Alaska (the "Alaska Systems"). The Partnership was capitalized with contributions totaling $9,000,000 from the general partners, Prime Cable Fund I, Inc., Prime Cable Fund II, Inc. and Prime Cable Fund III, Inc., and contributions from the limited partners, Alaska Cable Inc. ("Alaska Cable"), Prime Cable Growth Partners, L.P. and Prime Venture I Holdings, L.P. in the amounts of $23,000,000, $11,000,000 and $2,000,000, respectively.

The partnership agreement calls for losses to be allocated 97% to the general partners and 3% to the limited partners until the general partners' capital accounts have been reduced to zero. Thereafter, losses are allocated entirely to the limited partners until sufficient losses have been allocated to reduce limited partner capital accounts to zero. Finally, remaining losses are allocated to the general partners.

Profits will be allocated first to those partners with capital account deficits, in proportion to their respective deficit balances. Second, profits will be allocated to all partners based on respective capital contributions until the capital accounts have been restored to the amount of each partner's capital contribution less any distributions. Profits in excess of capital contributions less distributions remaining from the sale of all, or substantially all, of the assets of the Partnership will be allocated to the partners in proportion to their respective capital contributions after first being reduced by amounts paid to the corporate limited partner and to the subordinate debt holders as described in Note 7.

As of June 30, 1995 certain shareholders of Alaska Cable can require the sale of the Partnership for any reason.

The Partnership has a $10 investment, representing a .165% limited partnership capital interest in Prime Video, L.P. ("PVLP"). PVLP was organized to acquire, develop and operate Blockbuster Video Superstores, and has 19 stores in operation at December 31, 1995. The Partnership's investment is accounted for using the cost method, the results of which do not differ significantly from the equity method. Through December 1995, the Partnership has received distributions totaling $7,000 from PVLP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES

Inventories are carried at the lower of cost (weighted average unit cost) or market.

PROPERTY, PLANT AND EQUIPMENT

Depreciation is computed by the straight-line method over the estimated useful lives of the assets. The composite method and a ten year life are used for cable television distribution systems. Under the composite method, proceeds from the retirement of cable television distribution system assets are credited to the allowance for depreciation. Gains or losses on disposition of property, plant and equipment (other than cable television distribution systems) are credited or charged to income. Maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and betterments are capitalized.





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

Excess cost over net assets acquired arising from the acquisition of cable television systems is being amortized by the straight line method over ten years. Other intangible assets, including subscriber lists and a Certificate of Operating Rights, are being amortized by the straight line method over their useful lives ranging from ten to eleven years.

It is the Partnership's policy to value intangible assets at the lower of unamortized cost or fair value. Management reviews the valuation and amortization of intangible assets on a periodic basis, taking into consideration any events or circumstances which might result in diminished fair value.

DEFERRED DEBT ISSUANCE COSTS

Debt issuance costs are deferred and amortized by the straight-line method, which approximates the interest method, over the term of the related debt.

REVENUE RECOGNITION

Revenues are generally billed in advance and are recognized as the cable service is provided.

ADVERTISING EXPENSE

The Partnership expenses advertising costs as incurred. Advertising expenses, net of reimbursements, were approximately $660,000 and $674,000 for 1995 and 1994, respectively.

INCOME TAXES

The Partnership as an entity pays no income taxes, although it is required to file federal and state income tax returns for informational purposes only. All income or loss "flows through" to the individual partners in the manner specified in the partnership agreement.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Partnership to concentrations of credit risk are primarily cash, temporary investments, and accounts receivable. Excess cash is invested in high quality short-term liquid money instruments issued by highly-rated financial institutions. At December 31, 1995, substantially all of the Partnership's cash balances were invested in short-term liquid money instruments. Though limited to one geographical area, the concentration of credit risk with respect to the Partnership's receivables is minimized due to the large number of customers, individually small balances, short payment terms and required deposits.

STATEMENTS OF CASH FLOWS

For purposes of the Statements of Cash Flows, the Partnership considers all highly liquid investments with a maturity of three months or less, when acquired, to be cash equivalents.





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3. ACQUISITION OF CABLE TELEVISION SYSTEMS

On June 30, 1989, the Partnership acquired the Alaska Systems for an aggregate purchase price including acquisition expenses of $143,843,000. For financial statement purposes, the acquisition was accounted for using the purchase method with the acquisition cost allocated to the tangible and identifiable intangible assets based upon current fair market values. The allocation resulted in an excess of cost over net assets acquired of $24,204,000.

On October 1, 1989, the cable television system in the Eaglewood subdivision of Anchorage was acquired by the Partnership for $541,000, including acquisition expenses. The acquisition was accounted for as a purchase transaction with the acquisition cost allocated to the tangible and identifiable intangible assets of the system based upon current fair market values. This allocation resulted in an excess of cost over net assets acquired of $217,000.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

| | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|
| <S> | <C> | <C> |
| Accounts receivable, trade | $ 1,333 | $ 1,402 |
| Accounts receivable, other | 117 | 69 |
| Less allowance for doubtful accounts | (229) | (267) |
| Accounts receivable, net of allowance | $ 1,221 | $ 1,204 |

</TABLE>





5. INTANGIBLE ASSETS

Intangible assets consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

| | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|
| <S> | <C> | <C> |
| Subscriber list | $ 34,821 | $ 34,821 |
| Certificate of Operating Rights | 29,019 | 29,019 |
| Excess of acquisition costs over net assets acquired | 24,421 | 24,421 |
| Other intangibles | 5,775 | 5,775 |
| | 94,036 | 94,036 |
| Less accumulated amortization | (60,956) | (51,589) |
| Intangible assets, net | $ 33,080 | $ 42,447 |

</TABLE>

6. BANK DEBT

Bank debt consisted of the following (thousands of dollars):

<TABLE>
<CAPTION>

| | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|
| Bank credit agreement: | | |
| Tranche A Note | $ 65,065 | $ 66,565 |
| Tranche B Note | 17,500 | 17,500 |
| | $ 82,565 | $ 84,065 |

</TABLE>

The rates of interest on amounts outstanding under the bank loan agreement at December 31, 1995 were fixed under three-month Eurodollar contracts at 7.2% and 7.9% for the Tranche A Note and the Tranche B Note, respectively.

On March 7, 1996, the Partnership consummated a new bank loan agreement using the proceeds to pay off all amounts outstanding under the previous bank credit agreement and subordinated notes (Note 7). The Partnership has $125,000,000 available under the new loan agreement, with borrowings bearing interest at the bank's prime rate plus 2%. At the Partnership's option, all or a specified portion of the indebtedness may be fixed for periods ranging from one month to one year based on Eurodollar rates plus 3%. The interest rates under the new agreement are subject to reductions of up to 1.75% per annum if certain financial tests are met. The Partnership is required to pay a commitment fee equal to .5% per annum on the unused portion of the commitment, and an agency fee of $50,000 per year. Interest and fees are payable quarterly.





6. BANK DEBT (CONTINUED)

Beginning June 30, 1998, the loan commitment is reduced at the end of each calendar quarter through March 31, 2005 as follows:

<TABLE>
<CAPTION>

| | QUARTERLY REDUCTION OF LOAN COMMITMENT |
|---|---|
| 1998 | $ 4,166,667 |
| 1999 | $ 3,125,000 |
| 2000 | $ 3,125,000 |
| 2001 | $ 3,125,000 |
| 2002 | $ 4,687,500 |
| 2003 | $ 4,687,500 |
| 2004 | $ 6,250,000 |
| 2005 | $ 12,500,000 |

</TABLE>

While the Partnership may elect to reduce amounts due and available under the loan agreement through prepayments of not less than $1,000,000, a mandatory prepayment is required each May, beginning in May 1999, if, for the prior year ended December 31, the Partnership's Operating Cash Flow (defined as net income before extraordinary items and gains and losses on asset sales, plus interest expense, depreciation, amortization, bank fees, deferred management fees, expenses and other amounts deferred under the management agreement (Note 8), income tax expense, partnership expenses not to exceed $75,000 per annum, and other non-cash expenses) exceeds payments made for cash interest expense, permanent prepayments of principal amounts outstanding under the loan agreement, bank fees, cash income tax payments, capital expenditures, amounts previously deferred under the management agreement, and capital lease obligations. The Partnership is required to make a prepayment in the amount of 50% of such excess. Additionally, a mandatory prepayment may be required in the event of asset sales (other than dispositions of obsolete inventory and equipment in the ordinary course of business), the issuance of partnership interests or other debt or equity securities, or in the event of certain changes in ownership of the Partnership. All such mandatory prepayments permanently reduce the amounts due and available under the loan commitment.

The loan agreement is collateralized by essentially all of the Partnership's assets, the general partners' interests in the Partnership, and a pledge by PMLP of its rights under the management agreement. The loan agreement imposes numerous requirements and restrictions, including limitations on indebtedness, payments, purchases and capital expenditures. In addition, certain financial ratios must be maintained.

In connection with the initial funding under the March 7, 1996 loan agreement, the Partnership paid bank fees of approximately $2,144,000, which will be amortized to interest expense over the life of the agreement. Additional bank fees equal to .5% of the commitment are due upon the occurrence of certain changes in ownership of the Partnership, but in no event later than September 7, 1997.




7. SUBORDINATED DEBT

Subordinated debt consisted of the following (thousands of dollars):

| | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|
| Subordinated notes: | | |
| Original principal amount outstanding | $ 20,000 | $ 20,000 |
| Deferred interest | 14,041 | 7,689 |
| | $ 34,041 | $ 27,689 |

On June 30, 1989, the Partnership entered into an investment agreement to issue subordinated notes with an original principal amount of $20,000,000. The notes bear interest at 12.25%, with 7.25% payable quarterly and the remainder deferred. Interest deferred each quarter bears interest at 12.25% and is payable at maturity.

On March 7, 1996, the Partnership used $30,387,000 in proceeds from the bank loan agreement (Note 6) to prepay in full the amounts outstanding under the subordinated notes. The investment agreement remained in force.

Under the investment agreement, the subordinated debt holders also were issued profit participation rights entitling them to receive the Profit Participation Amount (defined as 13.6284% multiplied by the excess of the fair market value of the Partnership over the sum of (1) the $45,000,000 original equity contributed to the Partnership, reduced by distributions, plus (2) the amount of the tax allocation to the corporate limited partner which provides the corporate limited partner an after-tax return equivalent to the other limited partners). The holders of profit participation rights have right of first refusal on a portion of the issuance of additional partnership interests by the Partnership.

The holders of the profit participation rights may elect at any time to put all or any portion of their rights to the Partnership. In the event that the Partnership is unable to purchase their rights, the holders can require the liquidation of the Partnership. At any time after June 30, 1996, but prior to June 30, 1998, the Partnership may, by notice to the holders, require them to sell all or any portion of their profit participation rights to the Partnership. Under the put and call agreements, the purchase price of the rights shall be based on the Profit Participation Amount multiplied by the percentage of rights sold. Any payments to the holders of the profit participation rights are subordinate to payment of amounts due under the new March 7, 1996 bank loan agreement (Note 6).

At each balance sheet date, management of the Partnership estimates fair market value of the Partnership to determine the Profit Participation Amount. Based upon such estimates, the Partnership recorded a liability of $4,320,000 to the holders of the profit participation rights in 1995. This amount was charged to interest expense and recorded as additional deferred interest on the subordinated debt in the financial statements for 1995, which have been restated to include this expense and liability. Such amount will be paid upon the sale of the partnership interests (see Note 9).

8. COMMITMENTS AND CONTINGENCIES

LEASE ARRANGEMENTS

The Partnership, as an integral part of its operations, has entered into operating lease contracts for microwave service, pole use and office space. The approximate minimum aggregate rentals under such leases (exclusive of minimum pole rentals of approximately $142,000 per year) at December 31, 1995, are as follows: 1996, $462,000; 1997, $454,000; 1998, $451,000; 1999, $471,000; 2000, $486,000 and $332,000 thereafter. Rent expense was $571,000, $556,000, and $460,000, for the years ended December 31, 1995, 1994 and 1993, respectively.

MANAGEMENT AGREEMENT

The Partnership is a party to a management agreement with PMLP, an affiliate of the general partners. Under the terms of the management agreement, PMLP manages all aspects of the daily operations of the cable television systems. In consideration for its services to the Partnership, PMLP receives annual fees equal to 5% of the gross revenues of the Partnership and is reimbursed for certain expenses incurred in connection with the services provided. Under the terms of the March 7, 1996 bank loan agreement (Note 6), the Partnership will defer payment of the 5% fees until October 1, 1996. The deferred fees bear interest at a rate of 17.5% per annum, and may be paid to PMLP upon the achievement of certain financial ratios. In addition, the terms of the bank loan agreement restrict payments to PMLP in the event of a default under the credit agreement.

In connection with the agreement, the Partnership incurred $1,674,000, $1,671,000, and $1,542,000, in management fees and reimbursable expenses for the years ended December 31, 1995, 1994 and 1993, respectively.

EMPLOYEE BENEFIT PLAN

The Partnership participates with other affiliated entities in a defined contribution pension plan covering substantially all full-time employees who have completed one year of service. The plan is subject to the provisions of Internal Revenue Code Sec. 401(k). Contributions by the Partnership are determined as a percent of each participating employee's contributions and are at the discretion of the plan's sponsor, PMLP. Partnership contributions totaled $33,000, $29,000, and $21,000, for fiscal years 1995, 1994 and 1993, respectively.

LITIGATION

The Partnership is involved in various lawsuits and legal proceedings which have arisen in the normal course of business, including the following: Two former employees filed separate lawsuits related to the Partnership's employment practices, with claims for damages aggregating approximately $650,000, with one action including an unspecified claim for punitive damages. Two suits have been filed against the Partnership related to automobile accidents, one making damage claims aggregating approximately $550,000, the other claiming damages in an unspecified amount. However, any damages ultimately assessed or settlements negotiated under these two automobile accident claims will be paid by the Partnership's insurance carrier. While the ultimate results of these matters cannot be predicted with certainty, management does not expect them to have a material adverse effect on the financial position or results of operations of the Partnership, and therefore no provision for liability has been made in the financial statements.




8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CABLE SERVICE RATE REREGULATION

On April 1, 1993, the Federal Communications Commission ("FCC") adopted rules governing rates charged by cable operators for the basic service tier of channels, the installation, lease and maintenance of equipment (such as converter boxes and remote control units) used by subscribers to receive this tier, and for cable programming services other than programming offered on a per-channel or per-program basis (the "regulated services"). To comply with the regulations, the Partnership implemented various subscriber service and rate changes effective September 1, 1993. These changes resulted in a reduction of total monthly revenue of approximately 6%.

On March 30, 1994, the FCC released revisions to its April 1, 1993 rate regulations. The revisions required cable operators to implement additional rate rollbacks using complex benchmark calculations, or alternatively, to justify higher rates based on a cost-of-service showing. The Partnership elected to file cost-of-service showings with the FCC where required. Management of the

Partnership believes that rates in effect at March 1994 were supportable under the cost-of-service rules, and therefore, no rate rollbacks were implemented in connection with the 1994 FCC revisions. Subsequent rate adjustments have been made utilizing cost-of-service methodology with adjustments as provided by FCC rules.

The regulated services rates charged by the Partnership may be reviewed by the State of Alaska under certain conditions (for basic service) or the FCC (for cable programming service). Refund liability for basic service rates is limited to a one-year period. In order for the State of Alaska to exercise rate regulation authority over the Partnership's basic service rates, 25% of the Alaska Systems' subscribers must request such regulation by filing a petition with the State of Alaska. At December 31, 1995, the State of Alaska does not have rate regulation authority over the Partnership's basic service rates, and therefore there is no refund liability for basic service at this time. Refund liability for cable programming service rates may be calculated from the date a complaint alleging an unreasonable rate for cable programming service is filed with the FCC until the rate reduction is implemented. Complaints by subscribers have been filed with, and accepted by, the FCC for certain franchise areas. However, the Partnership's filings made in response to those complaints related to the period prior to July 15, 1994 have been approved by the FCC; therefore, the potential liability for cable programming service refunds would be limited to the period subsequent to July 15, 1994 for these areas. Management of the Partnership believes that the potential for any refund liability for cable programming service is remote, and therefore no provision has been made in the financial statements for such refunds.

Management of the Partnership believes that it has complied in all material respects with the provisions of the FCC rules and regulations and that the Partnership is, therefore, not liable for any refunds. Accordingly, no provision has been made in the financial statements for any potential refunds. The FCC rules and regulations are, however, subject to judgmental interpretations, and the impact of potential rate changes or refunds ordered by the FCC could cause the Partnership to make refunds and/ or to be in default on certain debt covenants.

In February 1996, a telecommunications bill was signed into federal law which significantly impacts the cable industry. Most notably, the bill allows cable system operators to provide telephony services, allows telephone companies to offer video services, and provides for deregulation of cable programming service rates by 1999. The impact of the new bill cannot be determined at this time, but it is not expected to have a significant adverse impact on the financial position or results of operations of the Partnership.




9. SUBSEQUENT EVENT

The Partners of the Partnership have signed a letter of intent to sell the Partnership to General Communication, Inc. (GCI). GCI is a telecommunications company providing long distance services in Alaska. A definitive agreement is expected to be signed in the second quarter of 1996. Under the terms of the letter of intent, the non-corporate partners would sell their partnership interests, the shareholders of the corporate partners would exchange their corporate shares, and the holders of the profit participation rights (see Note 7) would receive settlement of the Profit Participation Amount, all for a total consideration of 11.8 million shares of GCI common stock.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION FOR PRIME CABLE

Prime management's discussion of the financial condition of Prime must be addressed in the context of regulatory changes in the form of the 1996 Telecom Act, the 1992 Cable Act, and the Communications Act discussed elsewhere in this Prospectus.

### TWO YEARS ENDED DECEMBER 31, 1995

As of December 31, 1995, the Prime Cable passed more than 106,000 homes and served more than 53,000 residential subscribers and 12,000 non-standard residential and business connections, including individual dwelling units in apartment complexes and hotels which are billed under bulk billing arrangements. Prime had approximately 63,000 subscriptions to premium service units.

RESULTS OF OPERATIONS. Revenues totaled $32.6 million and $30.6 million during the years ended December 31, 1995 and 1994 respectively. The 6.5% growth in 1995 as compared to 1994 resulted primarily from increases in the number of subscribers, primarily as a result of additional homes passed and increases in the number of subscriptions for services. Approximately $356,000 of the growth in 1995 revenues was due to increases in regulated service rates implemented in January, 1995. Average monthly revenue per account was approximately $40.17 and

$39.92 in 1995 and 1994, respectively, representing an increase of approximately 0.6%. Revenues were primarily generated from subscription fees, installation charges, and subscriber cable equipment rentals.

Cable television system expenses, representing costs directly attributable to providing cable services to customers, increased 9.1% in 1995 as compared to 1994. The increases result from increased business activity resulting from the growth in the number of subscribers and increased programming costs.

Prime pays management fees plus associated reimbursable expenses under the present Prime management agreement with its manager. The management fee is based on a percentage of gross revenues. Management fees and reimbursable expenses for the each of the years ended December 31, 1995 and 1994 were $1.7 million.

EBITDA as a percentage of revenues decreased from 45.7% to 45.0% during the year ended December 31, 1995 compared to the corresponding period of 1994. The decrease was primarily caused by an increase in cable television system expenses that on a percentage basis exceeded the corresponding increase in revenues.

Depreciation and amortization expense was $16.5 million and $16.9 million for the years ended December 31, 1995 and 1994, respectively. The 1995 decrease as compared to 1994 resulted from certain tangible and intangible assets becoming fully amortized.

Interest expense was $15.0 million and $9.0 million for the years ended December 31, 1995 and 1994, respectively. The increases, except for that described below, were primarily attributable to increases in interest rates throughout the period and amortization of additional deferred loan costs related to amendments of Prime's prior agreement. Approximately $4.4 million of the 1995 increase results from accrual of the December 31, 1995 profit participation amount (equity participation interest) as further described in Note 7 to Prime's accompanying December 31, 1995 financial statements.

Prime, as a partnership entity, pays no income taxes, although it is required to file federal and state income tax returns for informational purposes only. All income or loss "flows through" to the individual partners.

Certain of Prime's expenses, such as those for wages and benefits, equipment repair and replacement, and billing and marketing generally increase with inflation.



LIQUIDITY AND CAPITAL RESOURCES. Cash provided by operating activities decreased $913,000 to $7.54 million for the year ended December 31, 1995 compared to the corresponding period of 1994 resulting primarily from increases in interest expense.

Cash used in investing activities increased $923,000 to $4.93 million for the year ended December 31, 1995 compared to the corresponding period of 1994, primarily due to expenditures related to plant upgrades in 1995.

Cash used in financing activities decreased from $4.98 million to $1.5 million for the year ended December 31, 1995 compared to the corresponding period of 1994 related primarily to reduced debt repayment in 1995 as compared to 1994.

Prime's primary need for capital has been to finance plant extensions, rebuilds and upgrades and to add addressable converters to certain cable systems. Prime spent $5.0 million during 1995 on capital expenditures.

On March 7, 1996, Prime consummated the bank credit agreement using the proceeds to pay off all amounts outstanding under the previous bank credit agreement and subordinated notes. Prime has up to $125 million available under the commitment in the new loan agreement, with available borrowing levels based on debt to operating cash flow ratios as specified in the loan agreement. Borrowings bear interest at the bank's prime rate plus 2%.

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

As of June 30, 1996, the Prime Cable passed more than 107,000 homes and served more than 52,000 residential subscribers and 12,000 non-standard residential and business connections, including individual dwellings units in apartment complexes and hotels which are billed under bulk billing arrangements. Prime had approximately 51,000 subscriptions to premium service units.

RESULTS OF OPERATIONS. Revenues totaled $17.3 million for the six months ended June 30, 1996, and $16.1 million for the six months ended June 30, 1995. The 7.3% growth for the six months results primarily from increases in the number of subscribers as a result of additional homes passed and increases in the number of subscriptions for services as well as a rate increase implemented effective December 15, 1995. Average monthly revenue per account was approximately $42.17 and $40.67 for the six months ended June 30, 1996 and 1995, respectively. This represents an increase of approximately 3.7% for the six months ended June 30, 1996 compared to the corresponding periods of 1995. Revenues were primarily generated from subscription fees, installation charges, and subscriber cable equipment rentals.

Cable television system expenses, representing costs directly attributable to providing cable services to customers, increased 6.4% for the six months ended June 30, 1996 compared to the corresponding periods of 1995. This resulted from increased business activity attributed to growth in the number of subscribers and increased programming costs.

Prime paid management fees plus associated reimbursable expenses under a management agreement. Management fees and reimbursable expenses were $924,000 and $817,000 for the six months ended June 30, 1996 and 1995, respectively.

EBITDA increased to 44.5% from 44.3% for the 6 months ended June 30, 1996 compared to the corresponding period of 1995. The increases were primarily caused by an increase in cable television system gross margin resulting from the December 15, 1995 rate increase to subscribers.

Depreciation and amortization expense was $8.4 million and $8.2 million for the six months ended June 30, 1996 and 1995, respectively. The increase results from additional purchases of property, plant and equipment.



Interest expense totaled $4.7 million and $5.4 million for the six months ended June 30, 1996 and 1995, respectively. The 1996 decrease was primarily attributable to lower total borrowings and lower effective interest rates in 1996 compared to 1995.

Prime, as a partnership entity, pays no income taxes although it is required to file federal and state income tax returns for informational purposes only. All income or loss "flow through" to the individual partners.

Certain of Prime's expenses, such as those for wages and benefits, equipment repair and replacement and billing and marketing generally increase with inflation.

LIQUIDITY AND CAPITAL RESOURCES. Cash provided by operating activities increased $1.8 million for the six months ended June 30, 1996, compared to the corresponding period of 1995. The increase results primarily from a timing difference in the payment of interest expense, the deferral of payment of management fees and from increased revenues attributable to increased subscriber counts and a December 15, 1995 rate increase.

Cash used in investing activities decreased $578,000 to $2.2 million for the six months ended June 30, 1996, compared to the corresponding period of 1995. The decrease results primarily from decreased capital expenditures related to improvements to the cable television system and decreases in the purchase of addressable converters.

Cash used in financing activities totaled $11.9 million for the six months ended June 30, 1996 resulting from the repayment of current debt and previously outstanding debts and payments of deferred debt issuance costs in excess of the initial draw on the bank credit agreement.

Prime's primary need for capital has been to finance plant extensions, rebuilds and upgrades and to add addressable converters to certain cable systems. Prime spent $2.2 million during the first six months of 1996 on capital expenditures.

The bank credit agreement was consummated in March, 1996. Prime has up to $125 million available under the commitment in the new loan agreement, with available borrowing levels based on debt to operating cash flow ratios as specified in the loan agreement. Based on Prime's operating cash flow for the quarter ending June 30, 1996, Prime could have borrowed up to approximately $112.3 million without being in default at June 30, 1996. Borrowings bear interest at the bank's prime rate plus 2%.



## REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Alaskan Cable Network

We have audited the accompanying combined balance sheets of the Alaskan Cable Network (see Note 1) as of December 31, 1995 and 1994, and the related combined statements of income, shareholder's equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Alaskan Cable Network at December 31, 1995 and 1994, and the combined results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

/S/ ERNST & YOUNG LLP

Woodland Hills, California

February 9, 1996 except for
Note 13, as to which the date is
March 14, 1996



ALASKAN CABLE NETWORK

COMBINED BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

| | (UNAUDITED) JUNE 30, 1996 | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|---|
| | (IN THOUSANDS) | | |
| Cash and cash equivalents | $ 1,015 | $ 3,905 | $ 6,153 |
| Trade accounts receivable, less allowance for doubtful accounts of $102 in 1996, $95 in 1995, $82 in 1994 | 1,402 | 1,537 | 1,366 |
| Property, plant and equipment, net | 10,909 | 12,144 | 14,161 |
| Intangible assets, net | 5,244 | 6,908 | 10,027 |
| Due from affiliates | 639 | -- | 1,673 |
| Total Assets | $ 19,209 | $ 24,494 | $ 33,380 |

LIABILITIES AND SHAREHOLDER'S EQUITY

| | (UNAUDITED) JUNE 30, 1996 | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|---|
| Line of credit | $ 3,000 | $ 8,000 | $ -- |
| Accounts payable | 305 | 615 | 390 |
| Accrued compensation and benefits | 425 | 331 | 381 |
| Other accrued liabilities | 885 | 775 | 1,445 |
| Deferred revenue | 1,152 | 1,211 | 1,128 |
| Due to affiliates | -- | 64 | -- |
| Total liabilities | 5,767 | 10,996 | 3,344 |
| Commitments and contingencies | | | |
| Shareholder's equity: | | | |
| Common Stock | 3 | 3 | 3 |
| Additional paid-in-capital | 14,458 | 14,478 | 31,936 |
| Accumulated deficit | (1,019) | (983) | (1,903) |
| Total shareholder's equity | 13,442 | 13,498 | 30,036 |
| Total liabilities and shareholder's equity | $ 19,209 | $ 24,494 | $ 33,380 |

</TABLE>

See accompanying notes.



ALASKAN CABLE NETWORK

COMBINED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

| | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | | YEARS ENDED, DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1996 | 1995 | 1995 | 1994 | 1993 |
| | (IN THOUSANDS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Cable television service revenue | $ 7,442 | $ 7,224 | $ 14,515 | $ 13,883 | $ 14,142 |
| Operating expenses: | | | | | |
| Cost of revenues | 2,485 | 2,374 | 4,702 | 4,467 | 4,350 |
| Selling, general and administrative | 1,515 | 1,450 | 3,005 | 2,808 | 3,063 |
| Depreciation and amortization | 3,113 | 3,034 | 6,176 | 6,092 | 6,362 |
| Income from operations | 329 | 366 | 632 | 516 | 367 |
| Other income (expense): | | | | | |
| Loss on disposal of assets | (6) | (2) | -- | -- | (2,687) |
| Interest income, net | (374) | 55 | 80 | 235 | 46 |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | (51) | 419 | 712 | 751 | (2,274) |
| Benefit (provision) for income taxes | 15 | 16 | 208 | (9) | 622 |
| Income (loss) before cumulative effect of change in accounting principle | (36) | 435 | 920 | 742 | (1,652) |
| Cumulative effect of change in accounting principle | -- | -- | -- | -- | (622) |
| Net income (loss) | $ (36) | $ 435 | $ 920 | $ 742 | $ (2,274) |

</TABLE>

See accompanying notes.



ALASKAN CABLE NETWORK

COMBINED STATEMENTS OF SHAREHOLDER'S EQUITY

<TABLE>
<CAPTION>

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | TOTAL |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| | | (IN THOUSANDS) | | |
| Balance at December 31, 1992 | $ 3 | $ 32,161 | $ (371) | $ 31,793 |
| Dividends paid | -- | (112) | -- | (112) |
| Net income, year ended December 31, 1993 | -- | -- | (2,274) | (2,274) |
| Balance at December 31, 1993 | 3 | 32,049 | (2,645) | 29,407 |
| Decrease in paid-in-capital | -- | (113) | -- | (113) |
| Net income, year ended December 31, 1994 | -- | -- | 742 | 742 |
| Balance at December 31, 1994 | 3 | 31,936 | (1,903) | 30,036 |
| Dividend to JKCI | -- | (18,195) | -- | (18,195) |
| Net income | -- | -- | 920 | 920 |
| Capital Contribution by JKCI | -- | 737 | -- | 737 |
| Balance at December 31, 1995 | 3 | 14,478 | (983) | 13,498 |
| Net loss (unaudited) | -- | -- | (36) | (36) |
| Decrease in additional paid-in capital (unaudited) | -- | (20) | -- | (20) |
| Balance at June 30, 1996 (unaudited) | $ 3 | $ 14,458 | $ (1,019) | $ 13,442 |

</TABLE>

See accompanying notes.



ALASKAN CABLE NETWORK

COMBINED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

| | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|---|---|
| | 1996 | 1995 | 1995 | 1994 | 1993 |

| | | | | | |
|---|---|---|---|---|---|
| | (IN THOUSANDS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| OPERATING ACTIVITIES | | | | | |
| Net income (loss) | $ (36) | $ 435 | $ 920 | $ 742 | $ (2,274) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | |
| Provision (credit) for uncollectible accounts receivable | 7 | 14 | 13 | (13) | 55 |
| Loss on disposal of assets | 6 | 2 | 20 | 39 | 2,687 |
| Depreciation and amortization | 3,113 | 3,034 | 6,176 | 6,092 | 6,362 |
| Changes in operating assets and liabilities: | | | | | |
| Trade accounts receivable | 128 | 13 | (184) | (11) | 160 |
| Intangible and other assets | (4) | 155 | (146) | (206) | 3 |
| Accounts payable | (310) | (86) | 225 | (219) | (44) |
| Accrued compensation and benefits and other accrued liabilities | 204 | 61 | 17 | (156) | 414 |
| Deferred revenue | (59) | 15 | 83 | 11 | (36) |
| Net cash provided by operating activities | 3,049 | 3,643 | 7,124 | 6,279 | 7,327 |
| INVESTING ACTIVITIES | | | | | |
| Additions to property, plant and equipment | (216) | (275) | (914) | (1,170) | (6,005) |
| Net cash used in investing activities | (216) | (275) | (914) | (1,170) | (6,005) |
| FINANCING ACTIVITIES | | | | | |
| Borrowings on line of credit | 6,000 | -- | 8,000 | -- | -- |
| Repayment of line of credit | (11,000) | -- | -- | -- | -- |
| Change in due from affiliates | (703) | 1,628 | 1,737 | (1,673) | -- |
| Decrease in paid-in-capital | (20) | -- | -- | (113) | -- |
| Dividends paid to Jack Kent Cooke Incorporated | -- | (9,700) | (18,195) | -- | (112) |
| Net cash used in financing activities | (5,723) | (8,072) | (8,458) | (1,786) | (112) |
| Net increase (decrease) in cash and cash equivalents | (2,890) | (4,704) | (2,248) | 3,323 | 1,210 |
| Cash and cash equivalents at beginning of period | 3,905 | 6,153 | 6,153 | 2,830 | 1,620 |
| Cash and cash equivalents at end of period | $ 1,015 | $ 1,449 | $ 3,905 | $ 6,153 | $ 2,830 |
| Supplemental disclosure of cash flow information: | | | | | |
| Cash paid during the year for: | | | | | |
| Interest | $ -- | $ -- | $ -- | $ -- | $ -- |
| Income taxes | $ -- | $ -- | $ 3 | $ 45 | $ -- |
| Supplemental disclosure of noncash financing activities: | | | | | |
| In 1995, JKCI forgave $737 of liabilities owed by the Company | | | | | |

</TABLE>

See accompanying notes.



ALASKAN CABLE NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 1995

1. ORGANIZATION AND BASIS OF PRESENTATION

The combined financial statements of the Alaskan Cable Network (ACN or the Company) include the operations of cable television systems of Alaskan Cable Network/Fairbanks, Inc., Alaskan Cable Network/Juneau, Inc. and Alaskan Cable Network/Ketchikan, Sitka, Inc. for the years ended December 31, 1995, 1994 and 1993. Each of the entities comprising ACN is wholly-owned by Jack Kent Cooke Incorporated (JKCI). Prior to April 30, 1992, these companies were wholly-owned subsidiaries of Cooke Media Group Inc. (CMG), a wholly owned subsidiary of JKCI. In connection with an agreement with an unrelated party for the sale of CMG and certain other JKCI operations, the cable television systems comprising ACN were transferred to JKCI. This transaction was accounted for as a transfer among companies under common control, and therefore, was recorded at CMG's historical cost basis.

Cable television operations generate revenue through the use of property and equipment and, therefore, have few current assets, as the expression is defined in terms of a one-year operating cycle. Accordingly, the Company does not identify current assets and current liabilities separately in the accompanying combined balance sheets.

The Company's operations are regulated by the Federal Communications Commission and certain other state and local authorities.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes". The Company adopted the provisions of the new standard in its financial statements on January 1, 1993. The cumulative effect as of January 1, 1993, due to the adoption of SFAS No. 109, was an expense for income taxes of $622,000 for the year ended December 31, 1993.

Under SFAS 109, the liability method is used in accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts, and the tax bases of existing assets and liabilities. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Prior to the adoption of SFAS No. 109, income tax expense was determined using the deferred method. Under the deferred method, deferred taxes were recognized using the tax rate applicable to the year of calculation and were not adjusted for subsequent changes in tax rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS

The Company considers all highly liquid investments with initial maturities of three months or less when acquired as cash equivalents.

CONCENTRATION OF CREDIT RISK

The Company derives its revenues from thousands of customers located principally in four cities in Alaska. None of the individual customer accounts receivable balances are material. Customers are billed monthly, 15 days in advance of the beginning of the service period. Invoices are generally due at the





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

beginning of the service period. The Company generally does not require collateral and losses on uncollectible receivables have been within management's expectations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recorded at cost. Depreciation and amortization is provided on the straight-line method over the estimated useful lives, which are generally as follows:

| | |
|---|---|
| Buildings and improvements.......................... | 19 to 40 years |
| Cable television systems........................... | 8 to 10 years |
| Machinery and equipment............................ | 8 to 10 years |

INTANGIBLE AND OTHER ASSETS

Intangible assets are recorded at cost and are amortized using the straight-line method over their estimated useful lives, principally 7 to 12 years. The cost in excess of fair value of net assets of purchased businesses is amortized using the straight-line method over forty years. The carrying value of the cost in excess of fair value of net assets of purchased businesses is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates the cost in excess of fair value of the net assets of purchased businesses will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of this asset is reduced by the estimated shortfalls of cash flows.

REVENUE RECOGNITION

Revenues are generally billed in advance and are deferred until cable service is provided.

ESTIMATES USED IN THE PREPARATION OF THE COMBINED FINANCIAL STATEMENTS

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results inevitably will differ from those estimates and such differences may be material to the financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1994 and 1993 financial statements to conform to the 1995 presentation.




3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

| | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|
| Land | $ 20 | $ 20 |
| Buildings and improvements | 294 | 270 |
| Cable television systems | 27,354 | 26,743 |
| Machinery and equipment | 1,399 | 1,399 |
| Construction in progress | 637 | 441 |
| | 29,704 | 28,873 |
| Less accumulated depreciation | (17,560) | (14,712) |
| | $ 12,144 | $ 14,161 |

The Company recorded depreciation expense of $2,911,000, $2,871,000 and $3,040,000 in 1995, 1994 and 1993, respectively.

4. INTANGIBLE AND OTHER ASSETS

Intangible and other assets consist of the following (in thousands):

| | DECEMBER 31, 1995 | DECEMBER 31, 1994 |
|---|---|---|
| Subscriber lists | $ 26,666 | $ 26,666 |
| Franchise rights | 5,609 | 5,609 |
| Cost in excess of fair value of purchased businesses (goodwill) | 2,209 | 2,209 |
| Other assets | 1,334 | 1,188 |
| | 35,818 | 35,672 |
| Less accumulated amortization | (28,910) | (25,645) |
| | $ 6,908 | $ 10,027 |

5. LINE OF CREDIT

On June 27, 1995, the Company entered into a $30 million line of credit agreement with a bank. Borrowings under the line of credit are collateralized by all of the Company's common stock and bear interest, at the Company's option, at the prime rate or the interbank offered rate plus 1% (7.5% at December 31, 1995). If the aggregated borrowings exceed $25 million, the interest rate, at the Company's option, on the amount in excess of $25 million is based on the prime rate plus .75% or the interbank offered rate plus 2%. The line of credit agreement expires on June 30, 1997. There were $8 million in borrowings outstanding under this agreement at December 31, 1995.




5. LINE OF CREDIT (CONTINUED)

The line of credit agreement places certain restrictions on the Company, including limitations on liens, disposition of assets, loans, investments, capital expenditures, and requires compliance with certain financial covenants.

6. INCOME TAXES

The Company utilizes the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Temporary differences arise primarily from differences in depreciation and amortization for financial statement and income tax purposes, and unused net operating loss carryforwards.

Significant components of the Company's deferred tax liabilities and assets are as follows (in thousands):

<TABLE>
<CAPTION>

| | DECEMBER 31, | |
|---|---|---|
| | 1995 | 1994 |
| <S> | <C> | <C> |
| Deferred tax liabilities: | | |
| Depreciation and amortization | $ -- | $ 377 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | 2,085 | 2,679 |
| Depreciation and amortization | 434 | -- |
| Accrued sick leave pay | 49 | 48 |
| Accrued vacation pay | 39 | 37 |
| Allowance for loss on receivables | 35 | 35 |
| Tax credit carryforward | 19 | 19 |
| Total deferred tax assets | 2,661 | 2,818 |
| Valuation allowance for deferred tax assets | (2,661) | (2,441) |
| Net deferred tax assets | -- | 377 |
| Net deferred taxes | $ -- | $ -- |

</TABLE>

Management has determined, based on the Company's historical operating results, the potential impact of deregulation in the cable television industry, and the ability of other JKCI entities to utilize the Company's net operating loss carryforwards, that it is more likely than not that the deferred tax asset will not be realized prior to expiration. The Company will continue to assess the need for a valuation allowance based on future operating results and facts and circumstances at the time.





6. INCOME TAXES (CONTINUED)

The reconciliation of income tax computed at the U.S. federal statutory tax rate to the provision (benefit) for income taxes for the years ended December 31 is as follows:

<TABLE>
<CAPTION>

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| U.S. federal income tax rate | 34.0% | 34.0% | (34.0)% |
| State income tax refunds, net of federal tax benefit | (29.0) | -- | -- |
| Benefit of alternative minimum tax loss carryforwards | -- | (36.0) | -- |
| Benefit of net operating loss carryforwards | (72.0) | -- | -- |
| Forgiveness of debt income | 35.0 | -- | -- |
| Amortization of cost in excess of fair value of net assets of purchased businesses | 3.0 | 3.0 | 1.0 |
| Alternative minimum tax | -- | (1.0) | -- |
| Reduction of taxes provided in prior years | -- | (1.0) | -- |
| Net operating losses not providing current tax benefit | -- | -- | 6.0 |
| Other--net | -- | 2.0 | -- |
| | (29.0)% | 1.0% | (27.0)% |

|  |  |  |
|---|---|---|
| ----- | ----- | ----- |
| ----- | ----- | ----- |

</TABLE>

At December 31, 1995, the company has unused net operating loss carryforwards for federal and state income tax purposes of approximately $4.5 million and $5.9 million, respectively. The federal and state net operating loss carryforwards expire in years 2006 through 2009.

A consolidated federal tax return is filed by JKCI. The Company has a tax sharing arrangement with JKCI requiring that the Company provide for income taxes as if it were a separate taxable entity. Under the arrangement, the Company will receive benefit for its operating losses only in years when it has taxable income. Such benefit will be reduced to the extent that the Company's operating losses have been utilized by affiliated companies in the consolidated tax return. Management believes the recorded provision (benefit) for income taxes is not materially different than the amounts that would be recorded if the Company were a stand-alone entity.

7. RETIREMENT PLANS

An affiliate of the Company sponsors a 401(k) savings plan (the Plan) which covers most non-union full-time employees of the Company, who may elect to contribute from 2% to 16% of their compensation to the Plan. The Company recognized expenses for matching contributions in the amount of $24,000, $16,000 and $18,000 in 1995, 1994 and 1993, respectively.

The company contributes to a union-sponsored defined benefit pension plan. Such contribution expense totaled $130,000, $123,000 and $135,000 for the years ended December 31, 1995, 1994 and 1993, respectively.





8. SHAREHOLDER'S EQUITY

Common Stock consists of the following:

<TABLE>

| <S> | <C> |
|---|---|
| $1.00 par value, shares authorized, issued and outstanding: | |
| Alaskan Cable Network, Inc................................. | 200 shares |
| Alaskan Cable Network/Fairbanks, Inc....................... | 1,000 shares |
| Alaskan Cable Network/Juneau Holdings, Inc................. | 200 shares |
| Alaskan Cable Network/Ketchikan-Sitka, Inc................. | 1,000 shares |
| Alaskan Cable Network/Juneau, Inc.......................... | 540.5 shares |

</TABLE>

The accumulated deficit reflects the Company's operating results subsequent to the sale of the cable television systems to JKCI discussed in Note 1.

9. ADVERTISING COSTS

The Company expenses all advertising costs as incurred. Advertising costs were $113,000, $98,000 and $131,000 for the years ended December 31, 1995, 1994 and 1993, respectively, and were recorded as part of selling, general and administrative expenses.

10. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases certain facilities and equipment primarily under operating leases which expire on various dates through 2001. Future minimum rental payments as of December 31, 1995 under noncancellable operating leases are as follows (in thousands):

<TABLE>

| <S> | <C> |
|---|---|
| 1996....................................................... | $ 127 |
| 1997....................................................... | 99 |
| 1998....................................................... | 71 |
| 1999....................................................... | 64 |
| 2000....................................................... | 21 |
| Thereafter................................................. | 9 |
| | --------- |
| | $ 391 |
| | --------- |
| | --------- |

</TABLE>

Rent expense was $433,000, $391,000 and $373,000 for the years ended December 31, 1995, 1994 and 1993, respectively.





10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CABLE SERVICE RATE REREGULATION

On April 1, 1993 the Federal Communications Commission ("FCC") adopted rules governing rates charged by cable operators for the basic service tier of channels, the installation, lease and maintenance of equipment (such as converter boxes and remote control units) used by subscribers to receive this tier, and for cable programming services other than programming offered on a per-channel or per-program basis (the "regulated services"). To comply with the regulations, the Company implemented various subscriber service and rate changes effective September 1, 1993. These changes resulted in a reduction of total monthly revenue of approximately 10.5%.

On March 30, 1994, the FCC released revisions to its April 1, 1993 rate regulations. The revisions required cable operators to implement additional rate rollbacks using complex benchmark calculations, or alternatively, to justify higher rates based on a cost-of-service showing. The Company elected to file cost-of-service showings with the FCC where required. Management of the Company believes that rates in effect at March 1994 were supportable under the cost-of-service rules, and therefore, no rate rollbacks were implemented in connection with the 1994 FCC revisions. Subsequent rate adjustments have been made utilizing cost-of-service methodology with adjustments as provided by FCC rules.

The regulated service rates charged by the Company may be reviewed by the State of Alaska under certain conditions (for basic service) or the FCC (for cable programming service). Refund liability for basic service rates is limited to a one-year period. In order for the State of Alaska to exercise rate regulation authority over the Company's basic service rates, 25% of each systems' subscribers must request such regulation by filing a petition with the State of Alaska. In July 1990, the Alaskan Public Utilities Commission instituted rate regulation over the Juneau operations for their basic cable service and installation. At December 31, 1995, the State of Alaska does not have rate regulation authority over the other three locations comprising the Alaskan Cable Network over their basic service rates, and therefore there is no refund liability for basic service at this time. Furthermore, since the rate regulation at the Juneau facility began in 1990, no refund liability exists for this location as of December 31, 1995. Refund liability for cable programming service rates may be calculated from the date a complaint alleging an unreasonable rate for cable programming service is filed with the FCC until the rate reduction is implemented. There have been no complaints filed with the FCC for these certain franchise areas.

Management of the Company believes that it has complied in all material respects with the provisions of the FCC rules and regulations and that the Company is, therefore, not liable for any refunds. Accordingly, no provision has been made in the financial statements for any potential refunds. The FCC rules and regulations are, however, subject to judgmental interpretations, and the impact of potential rate changes or refunds ordered by the FCC could cause the Company to make refunds.

In February 1996, a telecommunications bill was signed into federal law which significantly impacts the cable industry. Most notably, the bill allows cable system operators to provide telephony services, allows telephone companies to offer video services, and provides for deregulation of cable programming service rates by 1999. The impact of the new bill cannot be determined at this time, but it is not expected to have a significant adverse impact on the financial position or results of operations of the Company.





10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

LITIGATION

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, based in part on the opinion of the Company's legal counsel, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

## 11. RELATED PARTY TRANSACTION

The Company makes advances to/borrows from an affiliate at interest rates of 6.97% per annum during 1995, ranging from 3.91% to 5.49% per annum during 1994, and ranging from 3.88% to 4.28% per annum during 1993. Net interest income related to these advances was $7,000, $127,000 and $16,000 for the years ended December 31, 1995, 1994 and 1993, respectively. Such advances/borrowings are payable on demand.

Certain executive officers of JKCI and Tower Media Inc., an affiliate of the Company, perform services for the Company. No allocations to the Company were made for such services performed by JKCI, as the amounts were immaterial, during 1995, 1994 and 1993. Management fees of $225,000, $233,000 and $202,000 for 1995, 1994 and 1993, respectively, were paid to Tower Media Inc. for accounting and administrative services rendered on behalf of the Company. The Company believes the management fees paid to Tower Media Inc. are at least as favorable as the cost of similar services from unrelated third parties. JKCI administers a health insurance plan for the Company's employees at JKCI's cost. The Company then reimburses JKCI for the cost of the service provided.

## 12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

CASH AND CASH EQUIVALENTS; The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

LINE OF CREDIT; The carrying amounts of the Company's borrowings under its line of credit agreement approximate their fair value as a result of the variable interest rate that is adjusted monthly.

DUE FROM AFFILIATES; The carrying amount of the due from (to) affiliates approximates its fair value as a result of being payable on demand and the immateriality of the outstanding borrowings.

## 13. SUBSEQUENT EVENT

On March 14, 1996, the Company signed a letter of intent to sell all of its assets to General Communication, Inc. The selling price is in excess of the net book value of the Company's assets at December 31, 1995. The closing of the sale is subject to the execution of a definitive Asset Purchase Agreement and may be subject to regulatory approval.



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION FOR ALASKAN CABLE

Alaskan Cable management's discussion of the financial condition of Alaskan Cable must be addressed in the context of regulatory changes in the form of the 1996 Telecom Act, the 1992 Cable Act, and the Communications Act discussed elsewhere in this Prospectus.

## THREE YEARS ENDED DECEMBER 31, 1995

As of December 31, 1995, Alaskan Cable's cable systems passed more than 42,300 homes and served more than 25,900 residential subscribers. Alaskan Cable had approximately 15,780 subscriptions to premium service units.

RESULTS OF OPERATIONS. Revenues totaled $14.5 million, $13.9 million and $14.1 million during the years ended December 31, 1995,1994 and 1993, respectively. The 4.6% growth in 1995 as compared to 1994 resulted primarily from increases in regulated service rates implemented January 1, 1995. The 1.8% decrease in 1994 as compared to 1993 resulted primarily from the subscriber rate reductions implemented September 1, 1993. Average monthly revenue per account was approximately $48.00, $45.75 and $47.75 in 1995, 1994 and 1993, respectively, representing an increase (decrease) of approximately 4.9% and (4.2%) in 1995 and 1994, respectively. Revenues were primarily generated from subscription fees, installation charges, and subscriber cable equipment rentals.

Direct operating expenses, representing costs directly attributable to providing cable services to customers, increased 5.3% in 1995 as compared to 1994 and increased 2.7% in 1994 as compared to 1993. The increases result from increased business activity resulting from the growth in the number of subscribers and increased programming costs.

EBITDA as a percentage of revenues decreased from 47.6% to 46.9% during the year ended December 31, 1995 compared to the corresponding period of 1994. The decrease was primarily caused by an increase in cost of revenues and selling, general and administrative expenses that on a percentage basis exceeded the corresponding increase in revenues. EBITDA as a percentage of revenues increased from 28.6% to 47.6% during the year ended December 31, 1994 compared to the corresponding period of 1993. The increase was primarily caused by a loss on disposal of assets in 1993 offset by a net decrease in cost of revenues, selling, general and administrative expenses, depreciation and amortization expenses that on a percentage basis exceeded the corresponding decrease in revenues as affected by the approximate 10.5% rate reduction described above.

Depreciation and amortization expense was $6.2 million, $6.1 million and $6.4 million for the years ended December 31, 1995, 1994 and 1993, respectively. The 1995 increase as compared to 1994 results from continued cable television build-out expenditures, and the amortization of line of credit deferred loan expenses. The 1994 decrease as compared to 1993 results from disposal of old cable television systems in 1993 whose original construction costs were higher than the expenditures made to rebuild the system.

Income tax (provision) benefit totaled $208,000, ($9,000) and $622,000 in 1995, 1994 and 1993, respectively, resulting from the application of statutory income tax rates to net earnings or loss before income taxes. Alaskan Cable experienced income (loss) before income taxes and cumulative effect of change in accounting principle of $712,000, $751,000 and ($2,274,000) for the years ended December 31, 1995, 1994, and 1993, respectively.

In light of Alaskan Cable's history of losses prior to 1994, the potential negative impact of recent deregulation in the cable television industry, and the ability of other Jack Kent Cooke Incorporated entities to utilize Alaskan Cable's net operating loss carryforwards, management established a valuation allowance for $2.7 million as of December 31, 1995.



Alaskan Cable adopted Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), Accounting for Income Taxes on January 1, 1993. The cumulative effect adjustment recorded in 1993 due to adoption of SFAS 109 totaled $622,000.

Certain of Alaskan Cable's expenses, such as those for wages and benefits, equipment repair and replacement, and billing and marketing generally increase with inflation.

LIQUIDITY AND CAPITAL RESOURCES. Cash provided by operating activities increased $800,000 to $7.1 million for the year ended December 31, 1995 compared to the corresponding period of 1994 resulting primarily from increased net income of $178,000 and $444,000 resulting from a $225,000 increase in accounts payable in 1995 compared to a $219,000 decrease in 1994. Cash provided by operating activities decreased $1.0 million to $6.3 million for the year ended December 31, 1994 compared to the corresponding period of 1993. The decrease resulted primarily from cash used for the acquisition of other assets and payments of accrued liabilities.

Cash used in investing activities decreased $256,000 to $914,000 for the year ended December 31, 1995 compared to the corresponding period of 1994. Cash used in investing activities decreased $4.8 million to $1.2 million for the year ended December 31, 1994 compared to the corresponding period of 1993. Both decreases result primarily from reduced capital expenditures related to purchases of property, plant and equipment.

Cash used in financing activities increased from $1.8 million to $8.5 million for the year ended December 31, 1995 compared to the corresponding period of 1994 related primarily to the excess of dividends paid over borrowings in 1995 as compared to 1994. Cash used in financing activities increased from $112,000 to $1.8 million for the year ended December 31, 1994 compared to the corresponding period of 1993 primarily due to increased loans to affiliates.

Alaskan Cable's primary need for capital has been to finance plant extensions, rebuilds and upgrades and to add addressable converters to certain cable systems. Alaskan Cable spent $914,000 during 1995 on capital expenditures, and currently intends to spend approximately $400,000 in 1996 for capital expenditures, including $70,000 to extend its plant to new service areas.

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

As of June 30, 1996, Alaskan Cable's systems passed more than 42,720 homes and served more than 25,426 residential subscribers. Alaskan Cable had approximately 20,310 subscriptions to premium service units.

RESULTS OF OPERATIONS. Revenues totaled $7.4 million and $7.2 million during the six-month periods ended June 30, 1996 and 1995, respectively. The revenue growth in 1996 as compared to 1995 resulted primarily from rate increases for services. Average monthly revenue per account for the six months ended June 30, 1996 and 1995, was approximately $48.83 and $46.17, respectively, representing increases of 5.8%. Revenues were primarily generated from subscription fees, installation charges, and subscriber cable equipment rentals.

Direct operating expenses, representing costs directly attributable to providing cable services to customers, increased 4.7% for the six-month period ended June 30, 1996 compared to the corresponding period of 1995. 1996 increases resulted from increased business activity from increased services and increased programming costs. Selling, general and administrative operating expenses increased 4.5% for the six-month period ended June 30, 1996 compared to the corresponding period of 1995. 1996 increases resulted from increased business activity from increased services.

Depreciation and amortization expense totaled $3.1 million and $3.0 million for the six-month periods ended June 30, 1996 and 1995, respectively. The 1996 increases as compared to 1995 is primarily the result of the amortization of deferred loan expenses pertaining to the line of credit reflected in the first six months of 1996.



LIQUIDITY AND CAPITAL RESOURCES. Cash provided by operating activities decreased $594,000 to $3,049,000 for the six-month period ended June 30, 1996 compared to the corresponding period of 1995 resulting from decreased net income of $471,000 and a net use of cash resulting from changes in operating assets and liabilities in 1996 as compared to 1995.

Cash used in investing activities decreased from $275,000 to $216,000 for the six-month period ended June 30, 1996 compared to the corresponding period of 1995 resulting from reduced capital expenditures for property, plant and equipment in 1996 as compared to 1995.

Cash used in financing activities decreased from $8.1 million to $5.7 million for the six-month period ended June 30, 1996 compared to the corresponding period of 1995. For 1996, increases in cash from line of credit borrowings in 1996 totaling $6.0 million were offset by repayments of line of credit borrowings totaling $11.0 million. For 1995, dividends paid of $9.7 million were offset by reduced loan repayments from affiliates of $2.3 million.

Alaskan Cable's primary need for capital has been to finance plant extensions, rebuilds and upgrades and to add addressable converters to certain cable systems.

EBITDA as a percentage of revenues decreased from 47.1% to 46.2% during the six-month period ended June 30, 1996 compared to the corresponding period of 1995. The 1996 decrease was primarily caused by increases in cost of revenues and selling, general and administrative expenses that on a percentage basis exceeded the corresponding increase in revenues.

Income from operations before net interest income (expense) and income taxes totaled $109,000 and $194,000 for the quarters ended June 30, 1996 and 1995, respectively and totaled $329,000 and $366,000 for the six-month periods ended June 30, 1996 and 1995, respectively. The 1996 decreases as compared to 1995 were due primarily to increased operating expenses that on a percentage basis exceeded the corresponding increase in revenues.

Certain of Alaskan Cable's expenses, such as those for wages and benefits, equipment repair and replacement, and billing and marketing generally increase with inflation.



REPORT OF INDEPENDENT AUDITORS

To The Stockholders
Alaska Cablevision, Inc.
Kirkland, Washington

We have audited the accompanying balance sheets of Alaska Cablevision, Inc. as of December 31, 1995 and 1994, and the related statements of income, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alaska Cablevision, Inc. at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

/s/ CARL & CARLSEN

February 27, 1996

Seattle, Washington



ALASKA CABLEVISION, INC.

BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

| <S> | (UNAUDITED) JUNE 30, 1996 <C> | DECEMBER 31, 1995 <C> | DECEMBER 31, 1994 <C> |
|---|---|---|---|
| Cash | $ 614,411 | $ 525,734 | $ 118,856 |
| Subscriber receivables | 100,157 | 113,651 | 102,740 |
| Advances to affiliates | 70,650 | 5,846 | 1,475 |
| Other receivables | 3,443 | 8,406 | 127,381 |
| Prepaid assets | 49,984 | 34,196 | 24,510 |
| Property, plant and equipment, less accumulated depreciation of $8,296,801 (1996), $8,635,146 (1995) and $8,464,628 (1994) | 2,496,739 | 2,493,956 | 2,138,843 |
| Excess of cost over fair value of net tangible assets of systems purchased, less amortization of $363,150 (1996), $401,602 (1995) and $388,785 (1994) | 111,110 | 123,927 | 149,562 |
| | $ 3,446,494 | $ 3,305,716 | $ 2,663,367 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | | |
| Accounts payable | $ 205,737 | $ 99,458 | 125,801 |
| Accrued interest | 57,810 | 53,659 | 37,718 |
| Accrued taxes and expenses | 191,404 | 320,755 | 246,517 |
| Deferred revenues | 23,882 | 27,193 | 26,999 |
| Loans payable to bank | 3,695,079 | 3,695,079 | 3,421,629 |
| Note payable to stockholder | 300,000 | 300,000 | 300,000 |
| Notes payable to former stockholders | 1,563,887 | 1,673,155 | 1,879,888 |
| Total liabilities | 6,037,799 | 6,169,299 | 6,038,552 |
| Stockholders' Deficit | | | |
| Common stock ($1.00 par value), including consideration paid in excess of stated value. Authorized 20,000 shares; issued and outstanding 10,000 at June 30, 1996 and December 31, 1995, and 1994. | 12,624 | 12,624 | 12,624 |
| Treasury stock, 3,400 and 3,000 shares at June 30, 1996 and December 31, 1995, respectively | (4,500,000) | (4,500,000) | (4,500,000) |
| Retained earnings | 1,896,071 | 1,623,793 | 1,112,191 |
| Total stockholders' deficit | (2,591,305) | (2,863,583) | (3,375,185) |
| Commitments and contingencies | | | |
| | $ 3,446,494 | $ 3,305,716 | $ 2,663,367 |

</TABLE>

See accompanying notes.



ALASKA CABLEVISION, INC.

STATEMENTS OF INCOME

<TABLE>
<CAPTION>

| <S> | (UNAUDITED) SIX MONTHS ENDED JUNE 30, 1996 <C> | 1995 <C> | YEARS ENDED DECEMBER 31, 1995 <C> | 1994 <C> | 1993 <C> |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Cable television fees | $ 3,006,745 | $ 2,969,030 | $ 5,920,057 | $ 5,708,842 | $ 5,660,189 |
| Operating Expenses | | | | | |
| Salaries and wages | 451,898 | 392,373 | 840,031 | 917,223 | 786,391 |
| Payroll taxes and employee benefits | 102,658 | 97,656 | 216,597 | 210,962 | 181,521 |
| Program fees | 491,789 | 475,923 | 950,778 | 908,770 | 821,037 |

| | | | | | |
|---|---|---|---|---|---|
| Copyright fees | 20,818 | 22,845 | 40,345 | 38,874 | 28,515 |
| Maintenance, parts and supplies | 44,768 | 50,236 | 114,318 | 134,893 | 116,740 |
| Bad debts | 23,115 | 12,461 | 45,201 | 33,376 | 32,320 |
| Insurance | 18,320 | 16,589 | 34,175 | 27,258 | 29,867 |
| Business and property taxes | 15,876 | 24,479 | 25,481 | 24,511 | 8,567 |
| Rentals | 84,921 | 72,126 | 144,292 | 135,674 | 129,521 |
| Travel | 8,026 | 23,433 | 54,505 | 82,790 | 42,161 |
| Telephone and utilities | 65,494 | 61,468 | 127,535 | 109,123 | 112,939 |
| Vehicle expense | 22,002 | 18,915 | 44,322 | 40,433 | 40,858 |
| Computer services | 23,556 | 23,189 | 46,298 | 41,358 | 45,110 |
| Postage and freight | 21,701 | 22,055 | 47,543 | 42,259 | 46,551 |
| Office expense | 28,480 | 27,463 | 58,200 | 56,611 | 49,013 |
| Advertising and sales expense | 34,679 | 21,948 | 66,262 | 63,306 | 56,276 |
| Other operating expenses (net) | 770 | 664 | (2,906) | 35,570 | 24,162 |
| Depreciation and amortization | 236,907 | 209,998 | 420,001 | 313,615 | 435,113 |
| Corporate administration | 239,413 | 246,295 | 483,801 | 276,190 | 291,454 |
| Management fees (Note 6) | 183,944 | 217,227 | 400,075 | 571,357 | 567,017 |
| | 2,119,135 | 2,037,343 | 4,156,854 | 4,064,153 | 3,845,133 |
| Operating income | 887,610 | 931,687 | 1,763,203 | 1,644,689 | 1,815,056 |
| Other Income (Expense) | | | | | |
| Interest expense | (202,998) | (269,923) | (485,508) | (418,301) | (468,240) |
| Interest income | 3,372 | 22 | -- | 13,446 | 6,105 |
| Income (loss) from disposition of assets | -- | -- | 7,431 | (47,532) | (33,135) |
| Other (net) | (42,118) | -- | (79,475) | -- | (1,739) |
| | (241,744) | (259,901) | (557,552) | (452,387) | (497,009) |
| Net income | $ 645,866 | $ 661,786 | $ 1,205,651 | $ 1,192,302 | $ 1,318,047 |
| Net income per common share | $ 97.86 | $ 94.54 | $ 172.24 | $ 170.33 | $ 188.29 |

</TABLE>

See accompanying notes.



ALASKA CABLEVISION, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

| <S> | COMMON STOCK <C> | TREASURY STOCK <C> | RETAINED EARNINGS <C> |
|---|---|---|---|
| Balance, December 31, 1993 | 12,624 | (4,500,000) | 570,778 |
| Net income, year ended December 31, 1994 | -- | -- | 1,192,302 |
| Distributions to stockholders | -- | -- | (650,889) |
| Balance, December 31, 1994 | 12,624 | (4,500,000) | 1,112,191 |
| Net income | -- | -- | 1,205,651 |
| Distributions to stockholders | -- | -- | (694,049) |
| Balance, December 31, 1995 | $ 12,624 | $ (4,500,000) | $ 1,623,793 |
| Net income (unaudited) | -- | -- | 645,866 |
| Distributions to stockholders | -- | -- | (373,588) |
| Balance, June 30, 1996 (unaudited) | $ 12,624 | $ (4,500,000) | $ 1,896,071 |

</TABLE>

See accompanying notes.



ALASKA CABLEVISION, INC.

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

| | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | | YEARS ENDED DECEMBER 31, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1995 | 1994 |

1993

| <S> | <C> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|---|
| Cash Flows From Operating Activities | | | | | |
| Net income.............................. | $ 645,866 | $ 661,786 | $ 1,205,651 | $ 1,192,302 | $ 1,318,047 |
| Noncash items included in net income | | | | | |
| Depreciation and amortization.......... | 236,907 | 209,998 | 420,001 | 313,615 | 435,113 |
| (Gain) loss from disposition of assets.............................. | -- | -- | (7,431) | 47,532 | 33,135 |
| Net increase in advances to affiliates.......................... | (64,804) | (49,851) | (4,371) | 382,241 | (267,771) |
| Net decrease in subscriber receivables, other receivables and prepaid assets.............................. | 2,669 | 105,827 | 98,378 | (16,093) | (13,965) |
| Net increase (decrease) in payables, accrued expenses and deferred revenues............................ | (18,921) | 36,452 | 64,030 | 56,365 | (9,390) |
| Net cash provided by operating activities......................... | 801,717 | 964,212 | 1,776,258 | 1,975,962 | 1,495,169 |
| Cash Flows From Investing Activities | | | | | |
| Additions to property, plant and equipment............................. | (226,872) | (441,255) | (757,062) | (1,118,183) | (337,164) |
| Proceeds from sale of assets............ | -- | -- | 15,014 | 9,038 | 2,795 |
| Net cash used by investing activities......................... | (226,872) | (441,255) | (742,048) | (1,109,145) | (334,369) |
| Cash Flows From Financing Activities | | | | | |
| Proceeds from senior debt borrowings..... | -- | 3,695,079 | 3,695,079 | -- | -- |
| Increase (decrease) in loans due to affiliate............................ | -- | (3,421,629) | (3,421,629) | 46,102 | (256,923) |
| Repayment on notes due to former stockholders.......................... | (109,269) | (101,446) | (206,733) | (191,928) | (178,184) |
| Repayment on other borrowings........... | (3,311) | (1,447) | -- | -- | (1,932) |
| Distributions to stockholders........... | (373,588) | (348,027) | (694,049) | (650,889) | (736,100) |
| Net cash used by financing activities......................... | (486,168) | (177,470) | (627,332) | (796,715) | (1,173,139) |
| Net increase in cash...................... | 88,677 | 345,487 | 406,878 | 70,102 | (12,339) |
| Cash Balance | | | | | |
| Beginning of period...................... | 525,734 | 118,856 | 118,856 | 48,754 | 61,093 |
| End of period........................... | $ 614,411 | $ 464,343 | $ 525,734 | $ 118,856 | $ 48,754 |
| Supplemental Information | | | | | |
| Interest paid........................... | $ 248,700 | $ 288,544 | $ 469,567 | $ 421,793 | $ 471,541 |

</TABLE>

See accompanying notes.





NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) AFFILIATION--The Company is affiliated with Rock Associates, Inc. through common ownership and management.

(b) FINANCIAL STATEMENT PRESENTATION--The accompanying balance sheet is presented in an unclassified format as allowed in the Statement of Position on Accounting by Cable Television Companies issued by the American Institute of Certified Public Accountants. Revenues of cable television systems are derived through use of plant and equipment and have few assets that can be defined in terms of a one-year operating cycle. Management believes this format is the most meaningful presentation of its financial position.

(c) OPERATIONS--The Company is engaged in providing cable television to various communities located in the State of Alaska.

(d) REVENUE RECOGNITION--Revenues billed in advance for cable services are deferred and recorded as income in the month in which the services are rendered.

(e) INCOME TAXES--The Company, with the consent of its shareholders, has elected to have its income reported directly by the shareholders under provisions of Sub-chapter S of the Internal Revenue Code.

(f) PLANT AND EQUIPMENT--Depreciation is computed substantially on the straight-line basis for financial statement purposes over the estimated useful lives of the assets:

<TABLE>

| <S> | <C> |
|---|---|
| Cable distribution systems....................... | 7 - 10 years |
| Headend and satellite receiving equipment......... | 7 - 10 years |
| Buildings......................................... | 10 - 31 years |
| Transportation equipment.......................... | 3 - 7 years |
| Other equipment and fixtures...................... | 5 - 10 years |

Maintenance and repairs are charged to expense as incurred.
</TABLE>

(g) INTANGIBLE ASSETS--The excess cost over fair value of net tangible assets of systems acquired is primarily assignable as cost of franchise rights, and is being amortized on a straight-line method over their respective expected useful lives, but none in excess of twenty years. The carrying value of the cost in excess of fair value of net assets of purchased business is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates the cost in excess of fair value of the net assets of purchased businesses will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of this asset is reduced by the estimated shortfalls of cash flows.

(h) EMPLOYEE BENEFITS PLAN--The Company has adopted a profit sharing and employee savings plan under Section 401(K) of the Internal Revenue Code. This plan allows eligible employees to defer up to 15% of their compensation on a pre-tax basis through contributions to the savings plan. The Company contributed $.50 in 1995, 1994 and 1993 for every dollar the employees contributed up to 5% of compensation, which amounted to $14,117, $10,253 and $11,848 respectively.

(i) 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.

NOTE 2--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, and categorized as follows:

<TABLE>
<CAPTION>

| | DECEMBER 31, | |
|---|---|---|
| | 1995 | 1994 |
| <S> | <C> | <C> |
| Buildings, including leasehold improvements.................. | $ 194,578 | $ 157,778 |
| Cable distribution systems, including connect drops and converters............................................... | 7,188,764 | 6,900,036 |
| Headend and satellite equipment............................. | 2,734,119 | 2,649,779 |
| Transportation equipment.................................... | 346,507 | 322,047 |
| Other equipment and fixtures................................ | 494,616 | 406,010 |
| | $ 10,958,584 | $ 10,435,650 |

</TABLE>

NOTE 3--LOANS PAYABLE TO BANK

Rock Associates, Inc. owed Provident National Bank and The Bank of California, N.A. the combined amount of $36,260,000 as of December 31, 1994. These combined borrowings, covered by a Term Loan Agreement, were collateralized principally by the capital stock and assets of Rock Associates, Inc. and its affiliates (see Note 1). Rock Associates, Inc. in turn loaned the Company portions of the bank borrowings. Note payable to stockholder was also subordinated in favor of Rock Associates, Inc.'s liability to the banks. This debt was paid in full on February 28, 1995.

At December 31, 1995, loans payable to bank were covered by a Senior Reducing Revolving Credit Loan Agreement between Rock Associates, Inc. and Alaska Cablevision, Inc., co-borrowers, and PNC Bank, National Association. Proceeds of the new loan agreement dated February 28, 1995, were used primarily to refinance existing senior debt and to provide funds for cable plant expansion.

Subject to various terms and conditions, including minimum required quarterly annualized cash flow ratios to aggregate bank debt, the bank will lend up to $6,400,000 on a revolving loan basis until December 31, 1997. Interest is payable quarterly at either of two floating rates of interest. The first rate will be the higher of the bank's prime rate or the Federal Funds rate plus 1/2%. The second rate will be LIBOR rate plus 1 1/2%. The balance of loans payable to bank is due at maturity, which is December 31, 1997.

Borrowings under the loan agreement are collateralized principally by the capital stock and assets of the co-borrowers. Note payable to stockholder is subordinated in favor of the Company's liability to the bank.

NOTE 4--NOTES PAYABLE TO FORMER STOCKHOLDERS

The notes due to former shareholders of Alaska Cablevision, Inc. originally totaling $1,650,000 call for quarterly installments of $73,625 including interest at 7 1/2% per annum. These notes are due in full on




NOTE 4--NOTES PAYABLE TO FORMER STOCKHOLDERS (CONTINUED)
January 1, 1997. Notes totaling $600,000 are due August 30, 1996, repayable in quarterly installments of interest only at 9% per annum. All notes are subordinated to senior bank debt.

NOTE 5--NOTE PAYABLE TO STOCKHOLDER

The note due to stockholder is a demand note with interest payable quarterly at a rate equal to the weighted average rate paid by Alaska Cablevision, Inc. on its senior bank debt. The note is subordinated to senior bank debt.

NOTE 6--RELATED PARTY TRANSACTION

As described in Note 1, Rock Associates, Inc. provides significant services to the Company. By agreement, the charge for overall management services is presently based on a percentage of the Company's operating revenues. The management fee percentage was 6%-10%, 10% and 10% for the year ended December 31, 1995, 1994 and 1993, respectively. In 1994 and 1993 Rock Associates, Inc. also provided administration support to the Company. Corporate administration charges are actual costs incurred. In 1995 all administration was performed by the Company.

NOTE 7--FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. The fair value of the Company's assets, which are primarily cash and accounts receivable, and the Company's liabilities approximate their carrying value. The fair value of any off-balance sheet commitments is immaterial.

NOTE 8--COMMITMENTS AND CONTINGENCIES

Minimum annual rental commitments at December 31, 1995 under operating leases are approximately as follows:

| | |
|---|---|
| Year Ended December 31: | |
| 1996 | $ 99,000 |
| 1997 | $ 73,000 |
| 1998 | $ 45,000 |
| 1999 | $ 42,000 |
| 2000 | $ 43,000 |
| Thereafter | $ 160,000 |

NOTE 9--SUBSEQUENT EVENT

On March 14, 1996, the Company entered into a letter of intent to sell its operating assets to General Communication, Inc. The total sales price is $26,650,000, of which $16,650,000 is payable in cash at closing and $10,000,000 is payable in convertible subordinated debt. The sale is expected to close by the end of 1996.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION FOR ALASKA CABLEVISION

Alaska Cablevision management's discussion of the financial condition of Alaska Cablevision must be addressed in the context of regulatory changes in the form of the 1996 Telecom Act, the 1992 Cable Act, and the Communications Act discussed elsewhere in this Prospectus.

THREE YEARS ENDED DECEMBER 31, 1995

As of December 31, 1995, Alaska Cablevision's cable systems passed more than 10,860 homes and served more than 7,735 residential subscribers and over 100 business subscribers. Alaska Cablevision had approximately 7,875 residential subscriptions to premium service units.

RESULTS OF OPERATIONS. Revenues totaled $5.9 million, $5.7 million and $5.7 million during the years ended December 31, 1995, 1994 and 1993, respectively. The 3.7% growth in 1995 as compared to 1994 resulted primarily from modest incremental growth in the number of subscribers and increases in regulated service rates. Approximately $171,000 of the growth in 1995 revenues was due to increases in regulated service rates implemented November 1, 1994 and November 1, 1995. The 0.9% increase in 1994 as compared to 1993 resulted primarily from additional revenues resulting from a 4.6% increase in the number of subscribers offset by the subscriber rate reductions implemented in September 1993 and July 1994. Average monthly revenue per account was approximately $60.83, $61.17 and $64.75 in 1995, 1994 and 1993, respectively, representing decreases of approximately 0.6% and 5.5% in 1995 and 1994, respectively. Revenues were primarily generated from subscription fees, installation charges, and subscriber cable equipment rentals and advertising revenues.

Programming and copyright costs directly attributable to providing cable services to customers increased 4.6% in 1995 as compared to 1994 and increased 11.5% in 1994 as compared to 1993. The increases result from increased business activity from growth in the number of subscribers, increased program offerings and increased programming rates.

Depreciation and amortization expense was $420,000, $314,000 and $435,000 for the years ended December 31, 1995, 1994 and 1993, respectively. The 1995 increase as compared to 1994 results from additional depreciation resulting from increased capital expenditures in 1995 and 1994. The 1994 decrease as compared to 1993 result from certain tangible and intangible assets becoming fully amortized.

EBITDA as a percentage of revenues increased from 34.3% to 36.9% during the year ended December 31, 1995 compared to the corresponding period of 1994. The increase is primarily a result of a reduction in management fees charged by Rock Associates, Inc. from $571,000 to $400,000. EBITDA as a percentage of revenues decreased from 39% to 34.3% during the year ended December 31, 1994 compared to the corresponding period of 1993. The decrease was primarily caused by an increase in programming costs and operating expenses that on a percentage basis exceeded the corresponding increase in revenues.

Certain of Alaska Cablevision's expenses, such as those for wages and benefits, equipment repair and replacement, and billing and marketing generally increase with inflation.

LIQUIDITY AND CAPITAL RESOURCES. Cash provided by operating activities decreased approximately $200,000 to $1.8 million for the year ended December 31, 1995 compared to the corresponding period of 1994 resulting primarily from the net effect of the following: (1) the decrease (receipt) of advances to affiliates in 1994; (2) the decrease (receipt) of other receivables in 1995; and (3) the increase in operating income in 1995. Cash provided by operating activities increased $500,000 to $2.0 million for the year ended December 31, 1994 compared to the corresponding period of 1993. The increase resulted primarily from the net effect of the following: (1) a decrease in advances to affiliates in 1994 as compared



to an increase in 1993; (2) an increase in accounts payable and accrued expenses in 1994 compared to 1993; and (3) a decrease in operating income from 1993 to 1994.

Cash used in investing activities decreased $367,000 to $742,000 for the year ended December 31, 1995 compared to the corresponding period of 1994. The 1995 decrease results primarily from reduced capital expenditures related to purchases of property, plant and equipment. Cash used in investing activities increased $775,000 to $1.1 million for the year ended December 31, 1994 compared to the corresponding period of 1993. The 1994 increase results primarily from increased capital expenditures related to purchases of property, plant and equipment.

Cash used in financing activities decreased from $797,000 to $627,000 for the year ended December 31, 1995 compared to the corresponding period of 1994. The 1995 decrease resulted from $3.7 million of borrowings from Alaska Cablevision's new senior revolving credit loan agreement which was used to payoff $3.6 million in loans from affiliates and notes due to former stockholders. Cash used in financing activities decreased from $1.2 million to $797,000 for the year ended December 31, 1994 compared to the corresponding period of 1993 related primarily to a net decrease in the pay-down of loans from affiliates and reduced stockholder distributions of .

Alaska Cablevision's primary need for capital has been to finance plant rebuilds and upgrades, channel additions and service vehicles. Alaska Cablevision spent $757,000 during 1995 on capital expenditures. The recorded cost of assets disposed of totaled approximately $234,000, $583,000 and $501,000 in 1995, 1994 and 1993, respectively. 1995 disposals resulted from the replacement of vehicles and upgraded plant and headend equipment. 1994 and 1993 disposals resulted primarily from the write-off of converters and inside the home cable wiring resulting from certain provisions of the 1992 Cable Act affecting the pricing of converter rentals and ownership of inside the home cable wiring.

On February 28, 1995, Alaska Cablevision and Rock Associates, Inc., as co-borrowers, entered into a new $6.4 million senior reducing revolving credit loan agreement with a bank. Borrowings under the agreement are collateralized by all of Alaska Cablevision's common stock and assets and bear interest, at Alaska Cablevision's option, at (1) the higher of the bank's prime rate or the federal funds rate plus 1/2%, or (2) the LIBOR rate plus 1-1/2%. The agreement expires December 31, 1997.

SIX-MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

As of June 30, 1996, Alaska Cablevision's cable systems passed more than 11,000 homes and served more than 7,500 residential subscribers and over 1,500 business subscribers. Alaska Cablevision had approximately 7,650 residential subscriptions to premium service units.

RESULTS OF OPERATIONS. Revenues totaled $3.0 million during each of the six-month periods ended June 30, 1996 and 1995. Average monthly revenue per account was approximately $62.00 and $61.17 during the six-month periods ended June 30, 1996 and 1995, respectively, representing an increase of approximately 1.4%. Revenues were primarily generated from subscription fees, installation charges, and subscriber cable equipment rentals and advertising revenues.

Programming and copyright costs increased 2.5% during the six-month period ended June 30, 1996 compared to the corresponding period of 1995 due to increased business activity from growth in the number of subscribers, increased program offerings and increased programming rates.

Depreciation and amortization expense was approximately $237,000 and $210,000 for the six-month periods ended June 30, 1996 and 1995, respectively. The increase in the six-month period ended June 30, 1996 as compared to the same period of 1995 results from additional depreciation resulting from capital expenditures during 1996 and a full year of depreciation in 1996 on 1995 capital expenditures as compared to a partial year of depreciation in 1995.

EBITDA as a percentage of revenues decreased from 38.5% to 37.4% during the six-month period ended June 30, 1996 compared to the corresponding period of 1995. The decrease is primarily a result of expenses associated with the sale of Alaska Cablevision's assets as described below and an increase in programming costs and operating expenses that on a percentage basis exceeded the corresponding increase in revenues.

Certain of Alaska Cablevision's expenses, such as those for wages and benefits, equipment repair and replacement, and billing and marketing generally increase with inflation.

LIQUIDITY AND CAPITAL RESOURCES. Sources of cash during the first six months of 1996 included Alaska Cablevision's operating activities which generated positive cash flow of $802,000 net of changes in the components of working capital. Cash provided by operating activities decreased $162,000 for the six-month period ended June 30, 1996 compared to the corresponding period of 1995 resulting primarily from the net effect of the decrease (receipt) of subscriber receivables, other receivables and prepaid assets in 1995 and the decrease (payment) of payables, accrued expenses and deferred revenues in 1996.

Cash used in investing activities decreased $214,000 to $227,000 for the six-month period ended June 30, 1996 compared to the corresponding period of 1995. The 1995 decrease results primarily from reduced capital expenditures related to purchases of property, plant and equipment.

Cash used in financing activities totaled $486,000 and $177,000 during the six-month periods ended June 30, 1996 and 1995, respectively. Uses of cash in 1996 resulted primarily from repayment on notes due to former stockholders of $109,000 and distributions to stockholders of $374,000. Uses of cash in 1995 resulted primarily from repayment on notes due to former stockholders of $101,000 and distributions to stockholders of $348,000. Proceeds from a new senior revolving credit loan agreement totaling $3.7 million were used in 1995 to payoff $3.4 million in loans from affiliates.

Alaska Cablevision's primary need for capital has been to finance plant rebuilds and upgrades, channel additions and service vehicles. Alaska Cablevision spent $227,000 during for the six-month period ended June 30, 1996 on capital expenditures. The recorded cost of assets disposed of totaled approximately $54,000 for the six-month period ended June 30, 1996 resulting from the replacement of vehicles and corporate office equipment.

On February 28, 1995, Alaska Cablevision and Rock Associates, Inc., as co-borrowers, entered into a new $6.4 million senior reducing revolving credit loan agreement with a bank. Borrowings under the agreement are collateralized by all of Alaska Cablevision's common stock and assets and bear interest, at Alaska Cablevision's option, at (1) the higher of the bank's prime rate or the federal funds rate plus 1/2%, or (2) the LIBOR rate plus 1-1/2%. The agreement expires December 31, 1997.



PRO FORMA COMBINED STATEMENT OF OPERATIONS (UNAUDITED)

GENERAL. The following unaudited pro forma combined statement of operations has been prepared to reflect the acquisition of the cable systems by the Company. The results of operations for McCaw/Rock Homer and McCaw/Rock Seward have not been included as they are not significant to the acquisition. The acquisition was accounted for using the purchase method of accounting.

The unaudited pro forma combined statement of operations for the year ending December 31, 1996 gives effect to the acquisition as if it occurred as of the beginning of the year presented and combines (1) the Company's historical income for the year ended December 31, 1996, and (2) cable operations which consist of Prime's, Alaska Cablevision's and Alaskan Cable's historical statements of operations for the ten months ended October 31, 1996.

The unaudited pro forma combined condensed statement of operations does not purport to represent what the Company's results of operations would actually have been had the acquisition occurred at the beginning of the year presented, or to project any future results of operations of the Company. The pro forma adjustments are based on available information and upon assumptions that the Company's management believes are reasonable under the circumstances. These adjustments are directly attributable to the acquisition indicated and are expected to have a continuing impact on the results of operations of the Company.

The pro forma combined statement of operations should be read in conjunction with the historical financial statements and notes thereto of the Company, Prime, Alaska Cablevision, and Alaskan Cable.

GENERAL COMMUNICATION, INC.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 1996

($ IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

<TABLE>
<CAPTION>

| | COMPANY | CABLE (10 MONTHS ENDED OCTOBER 31, 1996) | PRO FORMA ADJUSTMENTS | PRO FORMA AMOUNTS |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Telecommunciation services | $ 155,419 | 0 | 0 | 155,419 |
| Cable services | 9,475 | 45,868 | 0 | 55,343 |
| Total revenues | 164,894 | 45,868 | 0 | 210,762 |
| Cost of sales and services | 92,664 | 11,516 | 0 | 104,180 |
| Selling, general and administrative expenses (1) | 46,412 | 14,106 | (1,362) | 59,156 |
| Depreciation and amortization (2) | 9,409 | 19,785 | (8,641) | 20,553 |
| Operating income | 16,409 | 461 | 10,003 | 26,873 |
| Interest expense, net (3) | 3,719 | 8,422 | 3,370 | 15,511 |
| Other income (expense) | 0 | 33 | 0 | 33 |
| Net earnings (loss) before income taxes | 12,690 | (7,928) | 6,633 | 11,395 |
| Income tax expense (4) | 5,228 | (27) | (560) | 4,695 |
| Net earnings (loss) | $ 7,462 | (7,955) | 7,193 | 6,700 |
| Earnings per share common share | | | | 0.16 |
| Weighted average shares | | | | 41,604 |
| EBITDA (5) | | | | 47,427 |

</TABLE>

ADJUSTMENTS.

The pro forma adjustments to the unaudited pro forma combined statement of operations for the year ended December 31, 1996 are as follows:

(1) Pursuant to the Prime Management Agreement, Prime has agreed to oversee, manage and supervise the development and operation of the Cable Systems. The Company has agreed to pay Prime $1.0 million for these services in year one of the agreement. Accordingly, the historical management fees are eliminated from selling, general and administrative expenses and $1.0 million of management fees included.

(2) Represents adjustments to depreciation and amortization expense resulting from the adjusted carrying values, and lives of tangible and intangible assets. Goodwill, certificates of operating rights and PCS license are being amortized over 40 years.

(3) Elimination of historical interest expense incurred by the Cable Systems with interest accrued on GCI Cable debt of $175.9 million as if it was outstanding for the entire year at 8.12%.

(4) Income tax expense is computed using the Company's consolidated effective tax rate for 1996 of 41.2%

(5) EBITDA consists of earnings before interest (net), income taxes, depreciation, amortization and other income (expense).



NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, THE SELLING SHAREHOLDERS OR THE UNDERWRITERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATES AS OF WHICH INFORMATION IS GIVEN IN THIS PROSPECTUS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY STATE IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR

TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH SOLICITATION.

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13,800,000 SHARES

GENERAL COMMUNICATION, INC.

CLASS A COMMON STOCK
(NO PAR VALUE)

[LOGO]

SALOMON BROTHERS INC

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

SCHRODER & CO. INC.

PROSPECTUS

DATED , 1997

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

All of the expenses of the offering of the Class A Common Stock are to be borne by the Company. These expenses will include the following, subject to future contingencies:

| | |
|---|---|
| Accounting Fees* | $ |
| Costs of Printing* | $ |
| Legal Fees* | $ |
| Registration/Filing Fees | |
| Securities Act of 1933 | $ 32,611.65 |
| Blue Sky Compliance* | $ |
| NASD Filing Fee | $ 11,261.84 |
| Nasdaq Application Fee | $ |
| Transfer Agent and Registrar Fees | $ |
| Miscellaneous* | $ |

| | |
|---|---|
| TOTAL | $ |

</TABLE>

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*   Estimates

The Company intends to pay all expenses of registration, issuance and distribution, excluding Underwriters' discounts and commissions, with respect to the shares being sold by the Selling Shareholders.

ITEM 15.  INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Company's Restated Articles of Incorporation provide for the indemnification to the full extent permitted by, and in the manner permissible under, the laws of the State of Alaska and any other applicable laws, of any person who is made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative, or investigative, other than an action by or in the right of the Company, by reason of the fact that he or she is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as an officer, director, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The Restated Articles of Incorporation provide that these requirements are deemed to be a contract between the Company and each director and officer who serves in such capacity at any time while those requirements of the Articles are in effect. The Company had not as of the date of this Prospectus entered into any express agreement with its officers and directors setting forth these terms of indemnification. In addition to providing indemnification for non derivative actions that is similar to the indemnification in the Restated Articles, the Company's revised Bylaws further provide for indemnification of any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Company to procure a judgment in its favor by reason of or arising from the fact that the person is or was a director, officer, employee, or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee, or agent of another enterprise.

The Bylaws provide that, unless otherwise ordered by a court, indemnification will only be made by the Company upon a determination by (i) a majority of the disinterested directors of the Board, (ii) a majority vote of shareholders or (iii) independent legal counsel that such indemnification is proper because the person to be indemnified met the applicable standard of conduct. The Bylaws also provide, in accordance with Alaska law, that indemnification will not be made by the Company in respect of any



claim, issue, or matter as to which the person has been adjudged to be liable for negligence or misconduct in the performance of the person's duty to the Company, except to the extent that the court in which the action or suit was brought determines upon application that, despite the adjudication of liability, in view of all circumstances of the case, the person is fairly and reasonably entitled to indemnification for such expenses that the court considers proper. The Bylaws also provide that to the extent a director, officer, employee, or agent of the Company has been successful in his or her defense of an action for which he or she is entitled to indemnification, that person will be indemnified against expenses and attorney fees actually and reasonably incurred in connection with the defense. The Bylaws also provide that the Company may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Company or who is or was serving at the request of the Company as a director, officer, employee or agent of another enterprise against any liability asserted against that person and incurred by that person in any such capacity, or arising out of that status, whether or not the Company would have the power to indemnify that person against such liability under provisions of the Bylaws.

ITEM 16.  EXHIBITS.

See Exhibit Index and Financial Statement Schedules at the end of this Registration Statement.

ITEM 17.  UNDERTAKINGS.

(1) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(2) The undersigned Registrant hereby undertakes insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(3) The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the Municipality of Anchorage, State of Alaska, on July 7, 1997.

<TABLE>
<S> <C> <C>

GENERAL COMMUNICATION, INC.
(Registrant)

By: /s/ JOHN M. LOWBER
----------------------------------------
John M. Lowber
SENIOR VICE PRESIDENT

</TABLE>

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

| NAME | TITLE | DATE |
|---|---|---|
| * <br> Ronald A. Duncan | Director, Chief Executive Officer and President (Principal Executive Officer) | July 7, 1997 |
| /s/ JOHN M. LOWBER <br> John M. Lowber | Chief Financial Officer (Principal Financial Officer) | July 7, 1997 |
| * <br> Alfred J. Walker | Chief Accounting Officer (Principal Accounting Officer) | July 7, 1997 |
| * <br> Carter F. Page | Chairman of the Board and Director | July 7, 1997 |

| | | |
|---|---|---|
| * Robert M. Walp | Vice Chairman of the Board and Director | July 7, 1997 |
| * Donne F. Fisher | Director | July 7, 1997 |
| * John W. Gerdelman | Director | July 7, 1997 |
| Larry E. Romrell | Director | |
| * James M. Schneider | Director | July 7, 1997 |
| * Jeffery C. Garvey | Director | July 7, 1997 |
| * William P. Glasgow | Director | July 7, 1997 |
| * Donald Lynch | Director | July 7, 1997 |

</TABLE>

* By: /s/ John M. Lowber, Attorney-in-Fact



SCHEDULE VIII

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

<TABLE>
<CAPTION>

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | ADDITIONS: CHARGED TO PROFIT AND LOSS | ADDITIONS: OTHER | DEDUCTIONS: WRITE-OFFS NET OF RECOVERIES | BALANCE AT END OF YEAR |
|---|---|---|---|---|---|
| | (AMOUNTS IN THOUSANDS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Year ended December 31, 1996: | | | | | |
| Allowance for doubtful receivables............... | $ 295 | 1,736 | 354(1) | 1,788 | 597 |
| Year ended December 31, 1995: | | | | | |
| Allowance for doubtful receivables............... | $ 409 | 1,459 | -- | 1,573 | 295 |
| Year ended December 31, 1994: | | | | | |
| Allowance for doubtful receivables............... | $ 721 | 829 | -- | 1,141 | 409 |

</TABLE>

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(1) Allowance for doubtful receivables acquired pursuant to the Cable Company

acquisitions described in footnote (2) to the Company's consolidated financial statements.

S-1

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 1.1 | Underwriting Agreement |
| 3.1 | Restated Articles of Incorporation of the Company(1) |
| 3.2 | Bylaws of the Company(1) |
| 4.1 | Form of Indenture relating to the Notes (including Form of Note) |
| 5.1 | Opinion of Wohlforth, Argetsinger, Johnson & Brecht, A Professional Corporation |
| 9.1 | Voting Agreement dated October 31, 1996, among Prime II Management L.P., as agent for the Voting Prime Sellers, MCI Telecommunications Corporation, Ronald A. Duncan, Robert M. Walp and TCI GCI, Inc.(12) |
| 10.1 | Credit Facility* |
| 10.2 | Registration Rights Agreement, dated as of January 18, 1991, between General Communication, Inc. and WestMarc Communications, Inc.(2) |
| 10.3 | Employee stock option agreements issued to individuals Spradling, O'Hara, Strid, Behnke, Lewkowski and Snyder(3) |
| 10.4 | Registration Rights Agreement, dated October 31, 1996, between General Communication, Inc. and the Prime Sellers(12) |
| 10.5 | Registration Rights Agreement, dated October 31, 1996, between General Communication, Inc., and Alaskan Cable Network/Fairbanks, Inc. ("ACNFI"), Alaskan Cable Network/Juneau, Inc. ("ACNJI"), Alaskan Cable Network/Ketchikan-Sitka, Inc. ("ACNKSI") and Jack Kent Cooke, Inc.(12) |
| 10.6 | Registration Rights Agreement, dated October 31, 1996, between General Communication, Inc., and the owners of Alaska Cablevision, Inc.(12) |
| 10.7 | Lease agreement between GCI Communication Services, Inc. and National Bank of Alaska Leasing Corporation dated January 15, 1992(4) |
| 10.8 | Westin Building Lease(5) |
| 10.9 | Duncan and Hughes Deferred Bonus Agreements (6) |
| 10.10 | Compensation Agreement between General Communication, Inc. and William C. Behnke dated January 1, 1997 |
| 10.11 | Order approving Application for a Certificate of Public Convenience and Necessity to operate as a Telecommunications (Intrastate Interexchange Carrier) Public Utility within Alaska(3) |
| 10.12 | 1986 Stock Option Plan, as amended(14) |
| 10.13 | Loan agreement between National Bank of Alaska and GCI Leasing Co., Inc. dated December 31, 1992(4) |
| 10.14 | Pledge and Security Agreement between National Bank of Alaska and GCI Communication Services, Inc. dated December 31, 1992(4) |
| 10.15 | Lease Agreement between MCI Telecommunications Corporation and GCI Leasing Co., Inc. dated December 31, 1992(4) |
| 10.16 | Sublease Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated December 31, 1992(4) |
| 10.17 | Assistance Agreement between MCI Telecommunications Corporation and GCI Leasing Co., Inc. dated December 31, 1992(4) |
| 10.18 | Letter of intent between MCI Telecommunications Corporation and General Communication, Inc. dated December 31, 1992(7) |
| 10.19 | MCI Carrier Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated January 1, 1993(8) |

| | |
|---|---|
| 10.20 | Contract for Alaska Access Services Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated January 1, 1993(8) |
| 10.21 | Promissory Note Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993(9) |
| 10.22 | Deferred Compensation Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993(9) |
| 10.23 | Pledge Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993(9) |
| 10.24 | Revised Qualified Employee Stock Purchase Plan of General Communication, Inc.(10) |
| 10.25 | Summary Plan Description pertaining to the Revised Qualified Employee Stock Purchase Plan of General Communication, Inc.(10) |
| 10.26 | The GCI Special Non-Qualified Deferred Compensation Plan(11) |
| 10.27 | Transponder Purchase Agreement for Galaxy X between Hughes Communications Galaxy, Inc. and GCI Communication Corp.(11) |
| 10.28 | Equipment Purchase Agreement between GCI Communication Corporation and Scientific-Atlanta, Inc.(11) |
| 10.29 | Management Agreement, between Prime II Management, L.P., and GCI Cable, Inc., dated October 31, 1996(12) |
| 10.30 | Third Amended and Restated Credit Agreement, dated as of October 31, 1996, between GCI Communication Corp., and NationsBank of Texas, N.A.(13) |
| 10.31 | Loan Agreement among GCI Cable, Inc., as Borrower; Toronto-Dominion (Texas), Inc., et al., as of October 31, 1996(13) |
| 10.32 | Licenses(5)<br>214 Authorization |

| | |
|---|---|
| | International Resale Authorization<br>Digital Electronic Message Service Authorization<br>Fairbanks Earth Station License<br>Fairbanks (Esro) Construction Permit for P-T-P Microwave Service<br>Fairbanks (Polaris) Construction Permit for P-T-P Microwave Service<br>Anchorage Earth Station Construction Permit<br>License for Eagle River P-T-P Microwave Service<br>License for Juneau Earth Station<br>Issaquah Earth Station Construction Permit |
| 10.33 | ATU Interconnection Agreement between GCI Communication Corp. and Municipality of Anchorage executed January 15, 1997 |
| 10.34 | First Amendment to Third Amended and Restated Credit Agreement entered into among GCI Communication Corp., NationsBank of Texas, N.A., Toronto Dominion (Texas), Inc., Credit Lyonnais New York Branch, and National Bank of Alaska(15) |
| 10.35 | Second Amendment to the Third Amended and Restated Credit Agreement entered into among GCI Communication Corp., NationsBank of Texas, N.A., Toronto Dominion (Texas), Inc., Credit Lyonnais New York Branch, and NationsBank of Alaska.* |
| 10.36 | Securities Purchase and Sale Agreement, dated May 2, 1996, among General Communication, Inc., and the Prime Sellers(12) |
| 10.37 | Agreement and Plan of Merger of ACI with and into GCI Cable, Inc., dated October 31, 1996(12) |
| 10.38 | Certificate of Merger Merging ACI into GCI Cable, Inc. (filed in Delaware on October 31, 1996)(12) |

</TABLE>

<TABLE>

| <S> | <C> | <C> |
|---|---|---|
| 10.39 | Articles of Merger between GCI Cable, Inc., and ACI (filed in Delaware on October 31, 1996)(12) | |
| 10.40 | Agreement and Plan of Merger of PCFI with and into GCI Cable, Inc., dated October 31, 1996(12) | |
| 10.41 | Certificate of Merger Merging PCFI into GCI Cable, Inc. (filed in Delaware on October 31, 1996)(12) | |
| 10.42 | Articles of Merger between GCI Cable and PCFI (for filing in Alaska)(12) | |
| 10.43 | Asset Purchase Agreement, dated April 15, 1996, among General Communication, Inc., ACNFI, ACNJI and ACNKSI(12) | |
| 10.44 | Asset Purchase Agreement, dated May 10, 1996, among General Communication, Inc., and Alaska Cablevision, Inc.(12) | |
| 10.45 | Asset Purchase Agreement, dated May 10, 1996, among General Communication, Inc., and McCaw/Rock Homer Cable System, J.V.(12) | |
| 10.46 | Asset Purchase Agreement, dated May 10, 1996, between General Communication, Inc., and McCaw/Rock Seward Cable System, J.V.(12) | |
| 10.47 | Amendment No. 1 to Securities Purchase and Sale Agreement, dated October 31, 1996, among General Communication, Inc., and the Prime Sellers Agent(13) | |
| 10.48 | First Amendment to Asset Purchase Agreement, dated October 30, 1996, among General Communication, Inc., ACNFI, ACNJI and ACNKSI(13) | |
| 10.49 | Amendment to Revised Qualified Employee Stock Purchase Plan of General Communication, Inc. | |
| 10.50 | Form of Agreement Waiving Right to Exercise Stock Options | |
| 10.51 | Order Approving Arbitrated Interconnection Agreement as Resolved and Modified by Order U-96-89(8) dated January 14, 1997 | |
| 10.52 | First Amendment to Loan Agreement among GCI Cable, Inc., as Borrower, and Toronto-Dominion (Texas), Inc., et al., as of October 31, 1996* | |
| 10.53 | Amendment to the MCI Carrier Agreement executed April 20, 1994 | |
| 10.54 | Amendment No. 1 to MCI Carrier Agreement executed July 26, 1994(16) | |
| 10.55 | MCI Carrier Addendum--MCI 800 DAL Service effective February 1, 1994(16) | |
| 10.56 | Third Amendment to MCI Carrier Agreement dated as of October 1, 1994(16) | |
| 10.57 | Fourth Amendment to MCI Carrier Agreement dated as of September 25, 1995(16) | |
| 10.58 | Fifth Amendment to the MCI Carrier Agreement executed April 19, 1996 | |
| 10.59 | Sixth Amendment to MCI Carrier Agreement dated as of March 1, 1996(16) | |
| 10.60 | Seventh Amendment to MCI Carrier Agreement dated November 27, 1996* | |
| 10.61 | First Amendment to Contract for Alaska Access Services between General Communication, Inc. and MCI Telecommunications Corporation dated April 1, 1996* | |
| 10.62 | Letter of Intent between General Communication, Inc. and MCI Telecorp dated August 6, 1993 | |
| 10.63 | Service Mark License Agreement between MCI Communications Corporation and General Communication, Inc. dated April 13, 1994 | |
| 10.64 | Radio Station Authorization (Personal Communications Service License), Issue Date June 23, 1995 | |
| 10.65 | Framework Agreement between National Bank of Alaska (NBA) and General Communication, Inc. dated October 31, 1995(17) | |
| 10.66 | 1997 Call-Off Contract between National Bank of Alaska (NBA) and General Communication, Inc. (GCI) dated November 1, 1996* | |
| 10.67 | Contract No. 92MR067A Telecommunications Services between BP Exploration (Alaska), Inc. and GCI Network Systems dated April 1, 1992* | |

</TABLE>

<TABLE>

| <S> | <C> | <C> |
|---|---|---|
| 10.68 | Amendment No. 01 to BP Exploration (Alaska) Inc. Contract No. 92MRO67A* | |
| 10.69 | Amendment No. 02 to BP Exploration (Alaska) Inc. Contract No. 92MRO67A* | |
| 10.70 | Amendment No. 03 to BP Exploration (Alaska) Inc. Contract No. 92MRO67A effective August 1, 1996* | |
| 10.71 | Lease Agreement dated September 30, 1991 between RDB Company and General Communication, Inc.(3) | |
| 10.72 | Certificate of Public Convenience and Necessity No. 436 for Telecommunications Service (Relay Services) | |
| 10.73 | Order Approving Transfer Upon Closing, Subject to Conditions, and Requiring Filings dated | |

| | |
|---|---|
| | September 23, 1996 |
| 10.74 | Order Granting Extension of Time and Clarifying Order dated October 21, 1996 |
| 10.75 | Contract for Alaska Access Services among General Communication, Inc. and GCI Communication Corp., and Sprint Communications Company L.P. dated June 1, 1993* |
| 10.76 | First Amendment to Contract for Alaska Access Services between General Communication, Inc. and Sprint Communications Company L.P. dated as of August 7, 1996* |
| 10.77 | Employment and Deferred Compensation Agreement between General Communication, Inc. and John M. Lowber dated July 1982 |
| 10.78 | Deferred Compensation Agreement between GCI Communication Corp. and Dana L. Tindall dated August 15, 1994 |
| 10.79 | Transponder Lease Agreement between General Communication Incorporated and Hughes Communications Satellite Services, Inc., executed August 8, 1989(9) |
| 10.80 | Addendum to Galaxy X Transponder Purchase Agreement between GCI Communication Corp. and Hughes Communications Galaxy, Inc. dated August 24, 1995 |
| 10.81 | Order Approving Application, Subject to Conditions; Requiring Filing; and Approving Proposed Tariff on an Inception Basis, dated February 4, 1997 |
| 10.82 | Resale Solutions Switched Services Agreement between Sprint Communications Company L.P. and GCI Communications, Inc. dated May 31, 1996* |
| 10.83 | Commitment Letter from Credit Lyonnais New York Branch, NationsBank of Texas, N.A. and TD Securities (USA) Inc. for Fiber Facility dated as of July 3, 1997 |
| 10.84 | Commitment Letter from NationsBank for Credit Facility dated July 2, 1997 |
| 11.1 | Statement Re Computation of Earnings Per Share |
| 21.1 | Subsidiaries of the Company** |
| 23.1 | Consent of KPMG Peat Marwick LLP (Accountant for Company) |
| 23.2 | Consent of Ernst & Young LLP (Accountants for Prime for 1994 and 1995 and accountants for Alaskan Cable for 1993, 1994 and 1995 |
| 23.3 | Consent of Carl & Carlsen (Accountant for Alaska Cablevision) |
| 23.4 | Consent of Wohlforth, Argetsinger, Johnson & Brecht, A Professional Corporation (included as part of Exhibit 5.1) |
| 23.5 | Consent of Sherman & Howard L.L.C. |
| 24.1 | Power of Attorney (included with the signature page to the Registration Statement) |
| 99.1 | Additional Exhibits |
| | The Articles of Incorporation of GCI Communication Corp.(2) |
| | The By-laws of GCI Communication Corp.(2) |
| | The Articles of Incorporation of GCI Communication Services, Inc.(4) |
| | The By-laws of GCI Communication Services, Inc.(4) |
| | The By-laws of GCI Leasing Co., Inc.(4) |

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*    To be filed by amendment.

**  Previously filed.

*** Revised and Refiled Herewith.

(1) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1994.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.

(5) Incorporated by reference to the Company's Registration Statement on Form 10 (File No. 0-15279), mailed to the Securities and Exchange commission on December 30, 1986.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

(7) Incorporated by reference to the Company's Current Report on Form 8-K dated January 13, 1993.

(8) Incorporated by reference to the Company's Current Report on Form 8-K dated June 4, 1993.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.

(10) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

(11) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

(12) Incorporated by reference to the Company's Annual Report on Form S-4 Registration Statement dated October 4, 1996.

(13) Incorporated by reference to the Company's Current Report on Form 8-K dated November 13, 1996.

(14) Incorporated by reference to the Company's Annual Report on Form 10K for the year ended December 31, 1996.

(15) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 1997.

(16) Incorporated by reference to the Company's Current Report on Form 8-K dated March 14, 1996, filed March 28, 1996.

(17) Incorporated by reference to the Company's Amendment to Annual Report on Form 10-K/A (Amendment No. 1) dated December 31, 1995.

DRAFT

GENERAL COMMUNICATION, INC.

13,800,000 Shares
Class A Common Stock
(no par value)

Underwriting Agreement

New York, New York
July __, 1997

Salomon Brothers Inc
Donaldson, Lufkin & Jenrette
Securities Corporation
Schroder & Co. Inc.,
As Representatives of the several Underwriters
c/o Salomon Brothers Inc
Seven World Trade Center
New York, New York 10048

Ladies and Gentlemen:

General Communication, Inc., an Alaska corporation (the "Company"), proposes to issue and sell to the underwriters named in Schedule I hereto (the "Underwriters"), for whom you (the "Representatives") are acting as representatives, 7,000,000 shares of Class A common stock, no par value, of the Company ("Common Stock") and the persons named in Schedule II hereto (the "Selling Stockholders") propose to sell to the Underwriters 6,800,000 shares of Common Stock (collectively, the "Underwritten Securities"). In addition, for the sole purpose of covering over-allotments in connection with the sale of the Underwritten Securities, a certain Selling Stockholder, as named in Schedule II hereto (the "Option Selling Stockholder"), proposes to issue and sell to the Underwriters, at the option of the Underwriters, up to 2,070,000 additional shares of Common Stock (collectively, the "Option Securities," and together with the Underwritten Securities, the "Securities").

1. REPRESENTATIONS AND WARRANTIES.

(a) The Company represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1. Certain terms used in this Section 1 are defined in paragraph (vii) hereof.

(i) The Company meets the requirements for use of Form S-3 under the Securities Act of 1933, as amended (the "Act"), and has filed with the Securities and Exchange Commission (the "Commission") a registration statement (file number 333-28001) on Form S-3, including a related preliminary prospectus, for the registration under the Act, of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including the related preliminary prospectus, each of which has previously been furnished to you. The Company will next file with the Commission either: (A) prior to effectiveness of such registration statement, a further amendment to such registration statement (including the form of final prospectus) or (B) after effectiveness of such registration statement, a final prospectus in accordance with Rules 430A and 424(b)(1) or (4). In the case of clause (B), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in the Prospectus with respect to the Securities and the offering thereof. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required information, with respect to the Securities and the offering thereof and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein. Upon your request, the Company also will file with the Commission a Rule 462(b) Registration Statement in accordance with Rule 462(b).

(ii) On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on the Closing Date (as defined herein) and on any date on which Option Securities are purchased, if such date is not the Closing Date (a "Settlement Date"), the Prospectus (and any supplements thereto) will, comply in all material respects with the applicable requirements of the Act and the Securities Exchange Act of 1934 (the "Exchange Act") and the respective rules and regulations thereunder; on the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date and any Settlement Date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto).

(iii) The Company and its subsidiaries (all of which are listed in Schedule III attached hereto) (individually, a "Subsidiary" and collectively, the "Subsidiaries") have in effect all the communications regulatory licenses, permits, franchises, authorizations, registrations, certifications, consents and approvals ("Communications Licenses") necessary, including from the Federal Communications Commission ("FCC") and the Alaska Public Utilities Commission ("APUC"), for the Company and its Subsidiaries to conduct their respective businesses as presently conducted or proposed to be conducted, except for Communications Licenses as to which the failure to obtain, individually or in the aggregate, would not have a material adverse effect on the Company and its Subsidiaries, taken as a whole. The Communications



Licenses obtained by the Company or its Subsidiaries have been duly and validly issued, are in full force and effect and are not subject to any restrictions or conditions which, individually or in the aggregate, would have a material adverse effect on the Company and its Subsidiaries, taken as a whole. No proceedings to revoke, refuse to renew, modify or restrict such Communications Licenses are pending or, to the Company's best knowledge, threatened.

(iv) The Company and its Subsidiaries are not in violation of any applicable statute, law, ordinance, rule, regulation, policy, franchise or any judgment, injunction, order or decree ("Governmental Laws") of any court or governmental authority, including, but not limited to, the FCC or of the communications regulatory authority of the State of Alaska or of any other jurisdiction (domestic or foreign) in which the Company or its Subsidiaries conduct business having jurisdiction over the Company or the Subsidiaries, or over their respective properties except for violations which would not, individually or in the aggregate, have a material adverse effect on the Company and its Subsidiaries, taken as a whole. The Company and its Subsidiaries have not received any notice of any violation of any Governmental Laws (including, without limitation, the Communications Act of 1934, as amended, and the FCC's rules).

(v) There is no outstanding adverse judgment, injunction, decree or order that has been issued by any court or governmental authority, including, but not limited to, the FCC or the APUC, against the Company or any of its Subsidiaries or any action, proceeding or investigation pending before or, to the Company's best knowledge, threatened by any court or governmental authority, including, but not limited to, the FCC or the APUC, against the Company or any of its Subsidiaries which would, individually or in the aggregate, have a material adverse effect on the Company and its Subsidiaries, taken as a whole.

(vi) No consent, approval, authorization, license or order of, or filing, registration or qualification with, any court or governmental agency or body, domestic or foreign, is required, including, without limitation, under the Federal Communications Act of 1934, as amended, the Cable Communications Policy Act of 1984, the Cable Television Consumer Protection and

Competition Act of 1992 and the Telecommunications Act of 1996 (collectively, the "Telecommunications Acts") or any order, rule, regulation or policy of the FCC or of the APUC for the performance by the Company of its obligations under this Agreement or for the consummation of the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals as have been obtained.

(vii) The terms which follow, when used in this Agreement, shall have the meanings indicated. The term "the Effective Date" shall mean each date that the Registration Statement and any post-effective amendment or amendments thereto and any Rule 462(b) Registration Statement became or become effective and each date after the date hereof on which a document incorporated by reference in the Registration Statement is filed. "Execution Time" shall mean the date and time that this Agreement is executed and delivered by the parties hereto. "Preliminary Prospectus" shall mean any preliminary prospectus referred to in paragraph (i) above and any preliminary prospectus included in the Registration Statement at the Effective Date that omits Rule 430A Information. "Prospectus" shall mean the prospectus relating to the Securities that is first filed pursuant to Rule 424(b) after the Execution Time or, if no filing pursuant to Rule 424(b) is required, shall mean the form of final prospectus relating to the Securities included in the Registration Statement at the Effective Date. "Registration Statement" shall mean the registration statement referred to in paragraph (i) above, including incorporated documents, exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto or any Rule 462(b) Registration Statement becomes effective prior to the Closing Date, shall also mean such registration statement as so amended or such Rule 462(b) Registration Statement, as the case may be. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A. "Rule 415," "Rule 424," "Rule 430A," "Rule 462" and "Regulation S-K" refer to such rules or regulation under the Act. "Rule 430A Information" means information with respect to the



Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A. Any reference herein to the Registration Statement, a Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Exchange Act on or before the Effective Date of the Registration Statement or the issue date of such Preliminary Prospectus or the Prospectus, as the case may be; and any reference herein to the terms "amend", "amendment" or "supplement" with respect to the Registration Statement, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the filing of any document under the Exchange Act after the Effective Date of the Registration Statement, or the issue date of any Preliminary Prospectus or the Prospectus, as the case may be, deemed to be incorporated therein by reference. "Rule 462(b) Registration Statement" shall mean a registration statement and any amendments thereto filed pursuant to Rule 462(b) relating to the offering covered by the initial registration statement (file number 333-28001).

(b) Each Selling Stockholder, severally and not jointly, represents and warrants to, and agrees with, each Underwriter that:

(i) Such Selling Stockholder is the lawful owner of the Securities to be sold by such Selling Stockholder hereunder and upon sale and delivery of, and payment for, such Securities, as provided herein, such Selling Stockholder will convey good and marketable title to such Securities, free and clear of all liens, encumbrances, equities and claims whatsoever.

(ii) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities and has not effected any sales of shares of Common Stock which, if effected by the issuer, would be required to be disclosed in response to Item 701 of Regulation S-K.



(iii) Certificates in negotiable form for such Selling Stockholder's Securities have been placed in custody, for delivery pursuant to the terms of this Agreement, under a Custody Agreement duly authorized, executed and delivered by such Selling Stockholder, in the form heretofore furnished to you (the "Custody Agreement"), with Chase Trust Company of California, as Custodian (the "Custodian"); the Securities represented by the certificates so held in custody for each Selling Stockholder are subject to the interests hereunder of the Underwriters, the Company and the other Selling Stockholders; the arrangements for custody and delivery of such certificates, made by such Selling Stockholder hereunder and under the Custody Agreement, are not subject to termination by any acts of such Selling Stockholder, or by operation of law, whether by the death or incapacity of such Selling Stockholder or the occurrence of any other event; and if any such death, incapacity or any other such event shall occur before the delivery of such Securities hereunder, certificates for the Securities will be delivered by the Custodian in accordance with the terms and conditions of this Agreement and the Custody Agreement as if such death, incapacity or other event had not occurred, regardless of whether or not the Custodian shall have received notice of such death, incapacity or other event.

(iv) No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation by such Selling Stockholder of the transactions contemplated herein, except such as may have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals as have been obtained.

(v) Neither the sale of the Securities being sold by such Selling Stockholder nor the consummation of any other of the transactions herein contemplated by such Selling Stockholder or the fulfillment of the terms hereof by such Selling Stockholder will conflict with, result in a breach or violation of, or constitute a default under any law or any Governmental Laws or, if applicable, the charter or bylaws of such Selling Stockholder or the terms of any indenture or other agreement or instrument to which such Selling Stockholder or any of such Selling Stockholder's properties or assets is bound, or any judgment, order



or decree applicable to such Selling Stockholder or any of such Selling Stockholder's properties or assets of any court, regulatory body, administrative agency, governmental body or arbitrator.

In respect of any statements in or omissions from the Registration Statement or the Prospectus or any supplement thereto made in reliance upon and in conformity with information furnished in writing to the Company by any Selling Stockholder specifically for use in connection with the preparation thereof, such Selling Stockholder hereby makes the same representations and warranties to each Underwriter as the Company makes to such Underwriter under paragraph (a)(ii) of this Section 1.

(c) Each Selling Stockholder beneficially owning 5% or more of the Company's outstanding shares of Common Stock, severally and not jointly, represents and warrants to, and agrees with, each Underwriter that such Selling Stockholder has no reason to believe that the representations and warranties of the Company contained in this Section 1 are not true and correct; such Selling Stockholder is familiar with the Registration Statement and has no knowledge of any material fact, condition or information not disclosed in the Prospectus or any supplement thereto which has adversely affected or may adversely affect the business of the Company or any of its subsidiaries; and the sale of Securities by such Selling Stockholder pursuant hereto is not prompted by any information concerning the Company or any of its subsidiaries which is not set forth in the Prospectus or any supplement thereto.

2. PURCHASE AND SALE. (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholders (collectively, the "Sellers" and individually a "Seller") agree, severally and not jointly, to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Sellers, at a purchase price of $ per share, the amount of the Securities set forth opposite such Underwriter's name in Schedule I hereto. The amount of Securities to be purchased by each Underwriter from each Seller shall be as nearly as practicable in the same proportion to the total amount of Securities to be purchased by such Underwriter as the total amount of Securities to be sold by each Seller bears to the total amount of Securities to be sold pursuant hereto.



(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Option Selling Stockholder hereby grants an option to the Underwriters to purchase, severally and not jointly, up to 2,070,000 shares of the Option Securities at the same purchase price per share as the Underwriters shall pay for the Underwritten Securities. Said option may be exercised only to cover over-allotments in the sale of the

Underwritten Securities by the Underwriters. Said option may be exercised in whole or in part at any time on or before the 30th day after the date of the Prospectus upon written notice by the Representatives to the Option Selling Stockholder setting forth the number of shares of the Option Securities as to which the several Underwriters are exercising the option and, subject to Section 3 hereof, the Settlement Date. The Settlement Date may be the same as the Closing Date but not earlier than the Closing Date nor later than ten business days after the date of such notice. Delivery of certificates for the shares of Option Securities by the Option Selling Stockholder and payment therefor to the Option Selling Stockholder shall be made as provided in Section 3 hereof. The number of shares of the Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares.

3. DELIVERY AND PAYMENT. The Company, the Representatives and the Selling Stockholders agree that the delivery of and payment for the Underwritten Securities shall take place five business days following the date of this Agreement. Delivery of and payment for the Underwritten Securities and the Option Securities (if the option provided for in Section 2(b) hereof shall have been exercised on or before the second business day prior to the Closing Date) shall be made at 10:00 AM, New York City time, on July __, 1997, or such later date (not later than _____________, 1997) as the Representatives shall designate, which date and time may be postponed by agreement among the Representatives, the Company and the Selling Stockholders or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "Closing Date"). Delivery of the Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the respective



aggregate purchase prices of the Securities being sold by the Company and each of the Selling Stockholders to or upon the order of the Company and the Selling Stockholders, as the case may be, by certified or official bank check or checks drawn on or by a New York Clearing House bank and payable in next day funds. Delivery of the Underwritten Securities and the Option Securities shall be made at such location as the Representatives shall reasonably designate at least one business day in advance of the Closing Date and payment for the Securities shall be made at the office of Paul, Hastings, Janofsky & Walker LLP, 399 Park Avenue, New York, New York. Certificates for the Securities shall be registered in such names and in such denominations as the Representatives may request not less than two full business days in advance of the Closing Date.

The Company and the Selling Stockholders agree to have the Securities available for inspection, checking and packaging by the Representatives in New York, New York, not later than 1:00 PM on the business day prior to the Closing Date.

Each Selling Stockholder will pay all applicable state transfer taxes, if any, involved in the transfer to the several Underwriters of the Securities to be purchased by them from such Selling Stockholder and the respective Underwriters will pay any additional stock transfer taxes involved in further transfers.

If the option provided for in Section 2(b) hereof is exercised after the second business day prior to the Closing Date, the Option Selling Stockholder will deliver (at the expense of the Company) to the Representatives, at Paul, Hastings, Janofsky & Walker LLP, 399 Park Avenue, New York, New York, on the date specified by the Representatives (which shall be within three business days after exercise of said option), certificates for the Option Securities in such names and denominations as the Representatives shall have requested against payment of the purchase price thereof to or upon the order of the Option Selling Stockholder, by certified or official bank check or checks drawn on or by a New York Clearing House bank and payable in next day funds. If settlement for the Option Securities occurs after the Closing Date, the Option Selling Stockholder will deliver to the Representatives on the Settlement Date, and the obligation of the Underwriters to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming



as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.

4. OFFERING BY UNDERWRITERS. It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus.

5. AGREEMENTS. (a) The Company agrees with the several

Underwriters that:

(i) The Company will use its reasonable best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement, supplement to the Prospectus or any Rule 462(b) Registration Statement without your prior consent. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. Upon your request, the Company will cause the Rule 462(b) Registration Statement, completed in compliance with the Act and the applicable rules and regulations thereunder, to be filed with the Commission pursuant to Rule 462(b) and will provide evidence satisfactory to the Representatives of such filing. The Company will promptly advise the Representatives (A) when the Registration Statement, if not effective at the Execution Time, and any amendment thereto, shall have become effective, (B) when the Prospectus, and any supplement thereto, or any Rule 462(b) Registration Statement, shall have been filed (if required) with the Commission pursuant to Rule 424(b), (C) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (D) of any request by the Commission for any amendment of the Registration Statement, or any Rule 462(b) Registration Statement, or supplement to the Prospectus or for any additional information, (E) of the issuance by the Commission of any stop order suspending the effectiveness of the



Registration Statement or the institution or threatening of any proceeding for that purpose and (F) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company will use its reasonable best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) If, at any time when a prospectus relating the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the Exchange Act or the respective rules and regulations thereunder, the Company promptly will (i) prepare and file with the Commission, subject to the second sentence of paragraph (a)(i) of this Section 5, an amendment or supplement which will correct such statement or omission or effect such compliance and (ii) supply any amended or supplemented Prospectus to you in such quantities as you may reasonably request.

(iii) As soon as practicable, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company and its subsidiaries which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

(iv) The Company will furnish to each of the Representatives and counsel for the Underwriters, without charge, signed copies of the Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act or otherwise required, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request The Company



will pay the expenses of printing or other production of all documents relating to the offering.

(v) The Company will arrange in cooperation with the Representatives for the qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may designate, will maintain such qualifications in effect so long as required for the distribution of the Securities, will arrange for the determination of the legality of the Securities for purchase by institutional investors and will pay the fee of the National Association of Securities Dealers, Inc., in connection with its review of the offering.

(vi) The Company will not, for a period of 180 days following the Execution Time, without the prior written consent of Salomon Brothers Inc, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock, any other equity securities of the Company or any securities convertible into or exchangeable or exercisable for shares of Common Stock or other equity securities of the Company; PROVIDED, HOWEVER, that the Company may (1) issue and sell Common Stock pursuant to any employee stock option plan or stock ownership plan in effect at the Execution Time, (2) issue Common Stock issuable upon the conversion of Class B common stock of the Company outstanding at the Execution Time, and (3) issue options to acquire _____ shares of Common Stock that were approved by the Board of Directors of the Company on February __, 1997, and which will be issued pending shareholder approval, which is being sought at a shareholder meeting contemplated to be held in September 1997.

(vii) The Company confirms as of the date hereof that it is in compliance with all provisions of Section 517.075, Florida Statutes, relating to issuers doing business with the Government of Cuba or with any person or affiliate located in Cuba, and the Company further agrees that if it commences engaging in business with the government of Cuba or with any person or affiliate located in Cuba after the date the Registration Statement becomes or has become effective with the Commission or with the Florida Department of Banking and Finance (the "Department"), whichever date is later, or if the information reported in the Prospectus, if any, concerning the Company's business



with Cuba or with any person or affiliate located in Cuba changes in any material way, the Company will provide the Department notice of such business or change, as appropriate, in a form acceptable to the Department.

(b) Each Selling Stockholder agrees with the several Underwriters that such Selling Stockholder will not during the period of 180 days following the Execution Time, without the prior written consent of Salomon Brothers Inc, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock, or any other equity securities of the Company, beneficially owned by such person, or any securities convertible into, or exchangeable for, shares of Common Stock or any other equity securities of the Company, other than shares of Common Stock disposed of as bona fide gifts.

6. CONDITIONS TO THE OBLIGATIONS OF THE UNDERWRITERS. The obligations of the Underwriters to purchase the Underwritten Securities and the Option Securities, as the case may be, shall be subject to the accuracy of the representations and warranties on the part of the Company and the Selling Stockholders contained herein as of the Execution Time, the Closing Date and any Settlement Date pursuant to Section 3 hereof, to the accuracy of the statements of the Company and the Selling Stockholders made in any certificates pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 5:30 PM, New York City time, on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 PM, New York City time, on such date or (ii) 12:00 noon on the business day following the day on which the public offering price was determined, if such determination occurred after 3:00 PM, New York City time, on such date; if filing of the Prospectus, or any supplement thereto, is required pursuant to the applicable paragraph of Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order



suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) The Company shall have furnished to the Representatives the opinion of Wohlforth, Arget, Singer, Johnson & Brecht corporate counsel for the Company, dated the Closing Date, to the effect that:

(i) each of the Company and each of its Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with full corporate power and authority to own its properties and conduct its business as described in the Prospectus, and is duly qualified to transact business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification wherein it owns or leases material properties or conducts material business;

(ii) all the outstanding shares of capital stock of each Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable, and, except as otherwise set forth in the Prospectus, all outstanding shares of capital stock of the Subsidiaries are owned by the Company either directly or through wholly owned Subsidiaries, free and clear of any perfected security interest and, to the knowledge of such counsel, after due inquiry, any other security interests, claims, liens or encumbrances;

(iii) the Company's authorized equity capitalization is as set forth in the Company's Prospectus; the capital stock of the Company conforms to the description thereof contained in the Prospectus; the outstanding equity securities of the Company (including the Securities being sold hereunder by the Selling Stockholders) have been duly authorized and validly issued, fully paid and nonassessable; the Securities have been duly authorized, and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be validly issued, fully paid and nonassessable; the Securities being sold by the Selling Stockholders are duly listed and admitted for trading on the Nasdaq National Market



("Nasdaq"); the Securities being sold hereunder by the Company are duly authorized for listing, subject to official notice of issuance, on the Nasdaq; the certificates for the Securities are in valid and sufficient form; and the holders of outstanding shares of capital stock of the Company are not entitled to preemptive or other rights to subscribe for the Securities;

(iv) to the best knowledge of such counsel, there are no pending or threatened actions, suits or proceedings before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its Subsidiaries of a character required to be disclosed in the Registration Statement or the Prospectus which are not adequately disclosed therein, and there are no franchises, contracts or other documents of a character required to be described in the Registration Statement or Prospectus, or to be filed as exhibits, which are not described or filed as required; and the statements included or incorporated in the Prospectus describing any legal proceedings, regulatory matters, statutes, material contracts or agreements relating to the Company fairly summarize such matters;

(v) this Agreement has been duly authorized, executed and delivered by the Company;

(vi) no consent, approval, authorization, license or order of, or filing, registration or qualification with, any court or governmental agency or body, domestic or foreign, is required, including without limitation, under the Telecommunications Acts or any order, rule, regulation or policy of the FCC or the APUC, for the performance by the Company of its obligations under this Agreement or for the consummation of the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals (specified in such opinion) as have been obtained;

(vii) neither the issue and sale of the Securities, nor the consummation of any other of



the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation of, or constitute a default under any law or any Governmental Laws or the certificate of incorporation or by-laws of the Company or the terms of any indenture or other agreement or instrument known to such counsel and to which the Company or any of its Subsidiaries is a party or bound or any judgment, injunction, order or decree known to such counsel to be applicable to the Company or any of its Subsidiaries of any court, regulatory body, administrative agency, governmental body or arbitrator;

(viii) except as set forth in the Registration Statement under the section entitled "Certain Transactions -- Registration Rights Agreements," no holders of securities of the Company have rights to the registration of such securities under the Registration Statement;

(ix) the execution and delivery of this Agreement and the issuance and sale of Securities by the Company, and the performance by the Company of its obligations under this Agreement and the Securities, do not violate the Telecommunications Acts or any rules, regulations or policies thereunder binding on the Company or its Subsidiaries or any order, writ, judgment, injunction, decree or award of the FCC binding on the Company or its Subsidiaries; and

(x) the Company and its Subsidiaries are not, nor with the passage of time or the giving of notice or both would be, to the best knowledge of such counsel, in violation of any Governmental Laws of any court or any governmental authority, excluding the FCC or the APUC, relating specifically to the Company or its Subsidiaries or to any properties of the Company or its Subsidiaries. The Company and its Subsidiaries have not received any notice of any violation of any Governmental Laws.

In addition, such counsel shall state that nothing has come to its attention that leads it to believe that the Registration Statement at the time the Registration Statement became effective or on the Closing Date (other



than the financial statements and supporting notes and schedules and other financial and statistical data contained therein, as to which such counsel need not comment) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectuses at the time they were delivered or on the Closing Date (other than the financial statements and supporting notes and schedules and other financial and statistical data contained therein, as to which such counsel need not comment) contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of Alaska [, Limited Partnership Law of the State of Delaware] or the United States to the extent such counsel deems proper and as specified in such opinion, upon the opinion of other counsel of good standing whom such counsel believes to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent deemed proper, on certificates of responsible officers of the Company and public officials. References to the Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

(c) The Company shall have furnished to the Representatives the opinion of Mark Moderow, counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company and its Subsidiaries have been granted and presently hold all Communications Licenses necessary, including from the FCC and the APUC, for the Company and its Subsidiaries to conduct their respective businesses as presently conducted or proposed to be conducted; to the best knowledge of such counsel such Communications Licenses have been duly and validly issued and are in full force and effect, and such Communications Licenses are not subject to any restrictions or conditions which, individually or in the aggregate, would have a material adverse effect on the Company and its Subsidiaries, taken as a whole. No proceedings to revoke, refuse to renew, modify or restrict such Communications Licenses



are pending or, to the best knowledge of such counsel, threatened;

(ii) there is no proceeding pending before the FCC or the APUC, or, to the best knowledge of such counsel, any investigation or proceeding pending or threatened by the FCC or the APUC against the Company or its Subsidiaries which, if adversely determined, individually or in the aggregate, could have a material adverse effect on the Company and its Subsidiaries taken as a whole; and

(iii) the Company and its Subsidiaries are not, nor with the passage of time or the giving of notice or both would be, to the best knowledge of such counsel, in violation of any Governmental Laws of any court or any governmental authority, including, but not limited to, the FCC or the APUC relating to the Company or its Subsidiaries or to any properties of the Company or its Subsidiaries. The Company and its Subsidiaries have not received any notice of any violation of any Governmental Laws.

(d) The Company shall have furnished to the Representatives the opinion of Sherman & Howard L.L.C., special counsel for the Company, dated the Closing Date, to the effect that:

(i) each of the Company and each of its Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with full corporate power and authority to own its properties and conduct its business as described in the Prospectus;

(ii) the Company's authorized equity capitalization is as set forth in the Prospectus; and the capital stock of the Company conforms to the description thereof contained in the Prospectus;

(iii) the Registration Statement has become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule



424(b); to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial and statistical information contained therein as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the Exchange Act and the respective rules thereunder;

(iv) this Agreement has been duly authorized, executed and delivered by the Company;

(v) no consent, approval, authorization, license or order of, or filing, registration or qualification with, any court or governmental agency or body, domestic or foreign, is required, including without limitation, under the Telecommunications Acts or any order, rule, regulation or policy of the FCC or the APUC for the performance by the Company of its obligations under this Agreement or for the consummation of the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals (specified in such opinion) as have been obtained;

(vi) neither the issue and sale of the Securities, nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation of, or constitute a default under any law or any Governmental Laws or the certificate of incorporation or by-laws of the Company or the terms of any agreement governing indebtedness for money borrowed or other material agreement or instrument known to such counsel and to which the Company or any of its Subsidiaries is a party or bound or any judgment, injunction, order or decree known to such counsel to be applicable to the Company or any of its Subsidiaries of any court, regulatory body, administrative agency,



governmental body or arbitrator except for such conflicts, breaches, violations or defaults as would not have a material adverse effect on the Company and its Subsidiaries, taken as a whole.

In addition, such counsel shall state that it has participated in conferences with officers and other representatives of the Company, representatives of the Selling Stockholders, representatives of the independent public accountants for the Company, representatives of the Representatives and counsel for the Representatives at which the contents of the Registration Statement and related matters were discussed and, although such counsel has not independently verified, are not passing upon and do not assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Registration Statement, no facts have come to such counsel's attention that leads such counsel to believe that the Registration Statement, as of the date it is declared effective by the Commission or on the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus as of the Closing Date contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that such counsel does not comment as to the financial statements (including supporting schedules), and other financial data included in the Registration Statement, and the Prospectus or the exhibits to the Registration Statement).

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of [Colorado] [, the General Corporation/Limited Partnership Law of the State of Delaware] or the United States, to the extent such counsel deems proper and as specified in such opinion, upon the opinion of other counsel of good standing whom such counsel believes to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent deemed proper, on certificates of responsible officers of the Company and public officials. References to the Prospectus in this paragraph (d) include any supplements thereto at the Closing Date.

(e) Each Selling Stockholder shall have furnished to the Representatives the opinion of such Selling Stockholder's counsel, dated the Closing Date, to the effect that:



(i) this Agreement, the Custody Agreement and the Power of Attorney have been duly authorized, executed and delivered by the Selling Stockholders; the Custody Agreement is valid and binding on the Selling Stockholders and each Selling Stockholder has full legal right and authority to sell, transfer and deliver in the manner provided in this Agreement and the Custody Agreement the Securities being sold by such Selling Stockholder hereunder;

(ii) the delivery by each Selling Stockholder to the several Underwriters of certificates for the Securities being sold hereunder by such Selling Stockholder against payment therefor as provided herein, will pass good and marketable title to such Securities to the several Underwriters, free and clear of all liens, encumbrances, equities and claims whatsoever;

(iii) no consent, approval, authorization, license or order of, or filing, registration, or qualification with, any court or governmental agency or body is required for the consummation by any Selling Stockholder of the transactions contemplated herein, except such as may have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters and such other approvals (specified in such opinion) as have been obtained; and

(iv) neither the sale of the Securities being sold by any Selling Stockholder nor the consummation of any other of the transactions herein contemplated by any Selling Stockholder or the fulfillment of the terms hereof by any Selling Stockholder will conflict with, result in a breach or violation of, or constitute a default under any law or any Governmental Laws or, if applicable, the charter or By-laws of the Selling Stockholder or the terms of any indenture or other agreement or instrument known to such counsel and to which any Selling Stockholder or any of such Selling Stockholder's properties or assets is bound, or any judgment, order or decree known to such counsel to be applicable to any Selling Stockholder or any of such Selling Stockholder's properties or assets of any court, regulatory



body, administrative agency, governmental body or arbitrator.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the laws of the jurisdiction in which they are admitted and the United States, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters, and (B) as to matters of fact, to the extent they deem proper, on certificates of, or certificates of responsible officers of, the Selling Stockholders and public officials.

(f) the Representative shall have received from Paul, Hastings, Janofsky & Walker LLP, counsel for the Underwriters, such opinion or opinions, dated the Closing Date, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require, and the Company and each Selling Stockholder shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(g) the Company shall have furnished to the Representatives a certificate of the Company, signed by (1) the President and the Chief Executive Officer and (2) the Chief Financial Officer of the Company, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus and this Agreement and that:

(i) the representations and warranties of the Company in this Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened; and



(iii) since the date of the most recent financial statements included in the Prospectus (exclusive of any supplement thereto), there has been no material adverse change in the condition financial or other), earnings, business, properties or prospects of the Company and its Subsidiaries, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(h) Each Selling Stockholder shall have furnished to the Representatives a certificate, signed by an attorney-in-fact on behalf of each such Selling Stockholder, dated the Closing Date, to the effect that the Selling Stockholders have carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus and this Agreement and that the representations and warranties of such Selling Stockholder in this Agreement are true and correct in all material respects on and as of the Closing Date to the same effect as if made on the Closing Date.

(i) At the Execution Time and at the Closing Date, KPMG Peat Marwick LLP shall have furnished to the Representatives a letter or letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, confirming that they are independent accountants within the meaning of the Act and the Exchange Act and the respective applicable published rules and regulations thereunder and stating in effect that:

(i) in their opinion the audited financial statements and financial statement schedules and pro forma financial statements included or incorporated in the Registration Statement and the Prospectus and reported on by them comply in form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations;

(ii) on the basis of a reading of the latest unaudited financial statements made available by the Company and its Subsidiaries; their limited review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited interim financial information as indicated in their reports incorporated in the Registration Statement and the



Prospectus; carrying out certain specified procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders, directors and executive, audit and compensation committees of the Company and the Subsidiaries; and inquiries of certain officials of the Company who have responsibility for financial and accounting matters of the Company and its Subsidiaries as to transactions and events subsequent to December 31, 1996, nothing came to their attention which caused them to believe that:

(1) any unaudited financial statements included or incorporated in the Registration Statement and the Prospectus do not comply in form in all material respects with applicable accounting requirements of the Act and the related published rules and regulations with respect to financial statements included or incorporated in quarterly reports on Form 10-Q under the Exchange Act; and said unaudited financial statements are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included or incorporated in the Registration Statement and the Prospectus;

(2) with respect to the period subsequent to December 31, 1996, audited or unaudited, in or incorporated in the Prospectus, there was any change, at a specified date not more than five business days prior to the date of the letter, in the capital stock, increase in long-term debt or decrease in consolidated net current assets or stockholders' equity of the Company and its Subsidiaries as compared with the amounts shown on the December 31, 1996 consolidated balance sheet included or incorporated in the Registration Statement and the Prospectus, or for the period from January 1, 1997 to such specified date there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in the total or per share amounts of income before extraordinary items or net income of



the Company and its Subsidiaries, except in all instances for changes, increases or decreases that the Registration Statement and Prospectus discloses have occurred or may occur, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Representatives; or

(3) the information included in the Registration Statement and the Prospectus in response to Regulation S-K, Item 301 (Selected Financial Data), Item 302 (Supplementary Financial Information) and Item 402 (Executive Compensation) is not in conformity with the applicable disclosure requirements of Regulation S-K;

(iii) they have performed certain other specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of the Company and its Subsidiaries) set forth in the Registration Statement and the Prospectus, including the information set forth under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Capitalization," "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Management," and "Certain Transactions" in the Prospectus, the information included or incorporated in Items [________] of the Company's Annual Report on Form 10-K, incorporated in the Registration Statement and the Prospectus, the information included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included or incorporated in the Company's Quarterly Reports on Form 10-Q, incorporated in the Registration Statement and the Prospectus, and the information in the Company's Current Report on Form 8-K, if any, incorporated in the Registration Statement and the Prospectus agrees with the accounting records of the Company and its Subsidiaries, excluding any questions of legal interpretation.



(iv) on the basis of a reading of the unaudited pro forma financial statements included or incorporated in the Registration Statement and the Prospectus (the "pro forma financial statements"); carrying out certain specified procedures; inquiries of certain officials of the Company who have responsibility for financial and accounting matters; and proving the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the pro forma financial statements, nothing came to their attention which caused them to believe that the pro forma financial statements do not comply in form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of such statements.

References to the Prospectus in this paragraph (h) include any supplement thereto at the date of the letter.

The Representatives shall have also received from KPMG Peat Marwick LLP a letter stating that the Company's system of internal accounting controls taken as a whole is sufficient to meet the broad objectives of internal accounting control insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial statements of the Company and its Subsidiaries.

(j) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (h) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the business or properties of the Company and its Subsidiaries the effect of which, in any case referred to in clause (i) or (ii) above, is, in the judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(k) At the Execution Time, the Company shall have furnished to the Representatives a letter substantially



in the form of Exhibit A hereto from each officer and director of the Company and each holder of five percent (5%) or more of outstanding shares of (i) any class of equity securities of the Company or (ii) all classes of equity securities of the Company (counted as a single class) addressed to the Representatives, in which each such person agrees not to offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Common Stock, or any other equity securities of the Company, beneficially owned by such person or any securities convertible into, or exchangeable for, shares of Common Stock or any other equity securities of the Company for a period of 180 days following the Execution Time without the prior written consent of Salomon Brothers Inc, other than shares of Common Stock disposed of as bona fide gifts.

(l) Prior to the Closing Date, the Company and each Selling Stockholder shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

(m) The Securities shall be duly authorized for listing, subject to official notice of issuance, on the Nasdaq.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be cancelled at, or at any time prior to, the Closing Date by the Representatives. Notice of such cancellation shall be given to the Company and each Selling Stockholder in writing or by telephone or facsimile and confirmed in writing.

The documents required to be delivered by this Section 6 shall be delivered at the office of Paul, Hastings, Janofsky & Walker LLP, counsel for the Underwriters, at 399 Park Avenue, New York, New York, on the Closing Date.

7. REIMBURSEMENT OF UNDERWRITERS' EXPENSES. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the



Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company or any Selling Stockholder to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities. If the Company is required to make any payments to the Underwriters under this Section 7 because of any Selling Stockholder's refusal, inability or failure to satisfy any condition to the obligations of the Underwriters set forth in Section 6, the Selling Stockholders, PRO RATA in proportion to the percentage of Securities to be sold by each Selling Stockholder, shall reimburse the Company on demand for all amounts so paid.

8. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of

the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion therein. This



indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Selling Stockholder, severally and not jointly, agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls the Company or any Underwriter within the meaning of either the Act or the Exchange Act and each other Selling Stockholder to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information furnished to the Company by or on behalf of such Selling Stockholder specifically for use in the preparation of the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Selling Stockholder may otherwise have.

(c) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Act or the Exchange Act and each Selling Stockholder and each person who controls such Selling Stockholder, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter through the Representatives specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company and each Selling Stockholder acknowledge that the statements set forth in the last paragraph of the cover page and under the heading "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in any Preliminary Prospectus or the Prospectus, and you, as the Representatives, confirm that such statements are correct.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a), (b) or (c) above unless and to the extent it did not otherwise learn of such action and



such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a), (b) or (c) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); PROVIDED, HOWEVER, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(e) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company, the Selling Stockholders and the Underwriters agree to contribute to the aggregate losses,



claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company, one or more of the Selling Stockholders and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company, by the Selling Stockholders and by the Underwriters from the offering of the Securities; PROVIDED, HOWEVER, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company, the Selling Stockholders and the Underwriters shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company, of the Selling Stockholders and of the Underwriters in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company and by the Selling Stockholders shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by each of them, and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the Company, the Selling Stockholders or the Underwriters. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (e), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls an Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company,



subject in each case to the applicable terms and conditions of this paragraph (e).

9. DEFAULT BY AN UNDERWRITER. If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; PROVIDED, HOWEVER, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Underwriter, the Selling Stockholders or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding seven days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected.

Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company, the Selling Stockholders and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. TERMINATION. This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company prior to delivery of and payment for the Securities, if prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Commission or the Nasdaq or trading in securities generally on the New York Stock Exchange or the Nasdaq shall have been suspended or limited or minimum prices shall have been established on the New York Stock Exchange or the Nasdaq, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as



to make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Prospectus (exclusive of any supplement thereto).

11. REPRESENTATIONS AND INDEMNITIES TO SURVIVE. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers, of each Selling Stockholder and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter, any Selling Stockholder or the Company or any of the officers, directors or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. NOTICES. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representatives, will be mailed, delivered or telegraphed and confirmed to them, care of Salomon Brothers Inc, Seven World Trade Center, New York, New York 10048, attention: Legal Department; or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it, at 2550 Denali Street, Suite 1000, Anchorage, Alaska 99503-2781, attention: John M. Lowber; or, if sent to any Selling Stockholder, will be mailed, delivered or telegraphed and confirmed to such Selling Stockholder, care of General Communication, Inc., 2550 Denali Street, Suite 100, Anchorage, Alaska 99503-2781, attention: John M. Lowber and Ronald A. Duncan.

13. SUCCESSORS. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors, employees, agents and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. APPLICABLE LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.



If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company, the Selling Stockholders and the several Underwriters.

Very truly yours,

GENERAL COMMUNICATION, INC.

By:______________________________
Name:
Title:

JOHN M. LOWBER,
as Attorney-in-Fact for
the Selling Stockholders

_________________________________

RONALD A. DUNCAN,
as Attorney-in-Fact for
the Selling Stockholders

______________________________



The foregoing Agreement is hereby
confirmed and accepted as of the
date first above written

SALOMON BROTHERS INC
DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION
SCHRODER & CO. Inc.

By: SALOMON BROTHERS INC

By:______________________
Name:
Title:

For themselves and the other
several Underwriters named in
Schedule I to the foregoing
Agreement.



EXHIBIT A

[Letterhead of officer, director or 5%
shareholder of General Communication, Inc.]

GENERAL COMMUNICATION, INC.
PUBLIC OFFERING OF COMMON STOCK

, 1997

Salomon Brothers Inc
Donaldson, Lufkin & Jenrette
Securities Corporation
Schroder & Co. Inc.,
As Representatives of the several Underwriters
c/o Salomon Brothers Inc
Seven World Trade Center
New York, New York 10048

Ladies and Gentlemen:

This letter is being delivered to you in connection with the proposed Underwriting Agreement (the "Underwriting Agreement"), between General Communication, Inc., an Alaska corporation (the "Company"), certain Selling Stockholders named therein and each of you as representatives of a group of Underwriters named therein, relating to an underwritten public offering of Class A common stock, no par value (the "Common Stock"), of the Company.

In order to induce you and the other Underwriters to enter into the Underwriting Agreement, the undersigned agrees not to offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Common Stock, or any other equity securities of the Company, beneficially owned by the undersigned or any securities convertible into, or exchangeable for, shares of Common Stock or any other equity securities of the Company for a period of 180 days following the day on which the Underwriting Agreement is executed without the prior written consent of Salomon Brothers Inc, other than shares of Common Stock disposed of as bona fide gifts.

If for any reason the Underwriting Agreement is not entered into on or before September 15, 1997 or if entered into by such date and is thereafter terminated prior to the Closing Date (as defined in the Underwriting Agreement), the agreement set forth above shall likewise terminate without further action on the part of any party.

Yours very truly,

[Signature of officer, director or
5% shareholder]

[Name and address of officer,
director or 5% shareholder]



SCHEDULE I

| Underwriters | Number of Shares of Securities to be Purchased |
|---|---|
| Salomon Brothers Inc . . . . . . . . . . . . . . . . . . | |
| Donaldson, Lufkin & Jenrette Securities Corporation . . . . . . . . . . . . . . . . | |
| Schroder & Co. Inc. . . . . . . . . . . . . . . . . . . | |
| Total . . . . . . . . . . . . . . . . . . . . . . | |

SCHEDULE II

| SELLING STOCKHOLDERS | NUMBER OF SHARES OF SECURITIES TO BE SOLD | NUMBER OF SHARES OF OPTION SECURITIES TO BE SOLD |
|---|---|---|
| Walp Family Charitable Remainder Trust | 200,000 | |
| TCI GCI, Inc. | 590,043 | |
| Prime Venture I Holdings, L.P. | 247,452 | 345,000 |
| Prime Cable Growth Partners, L.P. | 544,395 | 759,000 |
| Prime Cable Limited Partnership | 445,414 | 621,000 |
| Prime Venture II, L.P. | 247,452 | 345,000 |
| BancBoston Capital, Inc. | 257,793 | |
| First Chicago Investment Corporation | 233,810 | |
| Madison Dearborn Partners V | 23,982 | |
| Jack Kent Cooke Incorporated | 2,923,077 | |
| General Communication, Inc. Employee Stock Purchase Plan | 682,263 | |
| William C. Behnke | 35,000 | |
| Ameritas Life Insurance Corp. | 4,784 | |
| KLANS Associates | 1,557 | |
| Pillsbury Master Retirement Trust | 14,333 | |
| Tribune Company Master Trust for Pension Plans | 7,107 | |
| K.D.F., a Massachusetts general partnership | 17,968 | |
| Fidelity Pension Trust | 7,167 | |
| Commerce Banc Shares, Inc. | 10,802 | |
| Robert G. Holman | 144 | |
| Equitable Life Assurance Society of the United States | 9,561 | |
| Donald Adams | 60,000 | |
| Karen Evans | 106,153 | |

| | | |
|---|---|---|
| Samuel Evans | 129,743 | |
| TOTAL | 6,800,000 | 2,070,000 |
| | --------- | --------- |

SCHEDULE III

SUBSIDIARIES OF THE COMPANY

GCI, Inc., an Alaska corporation

GCI Holdings, Inc., an Alaska corporation

GCI Communication Corp., an Alaska corporation

GCI Communication Services, Inc., an Alaska corporation

GCI Leasing Co., Inc., an Alaska corporation

GCI Cable, Inc., an Alaska corporation

GCI Cable/Fairbanks, Inc., an Alaska corporation

Prime Cable of Alaska, LP, a Delaware limited partnership

GCI Cable/Juneau, Inc., an Alaska corporation

GCI Transport Company, an Alaska corporation

GCI Satellite Company, an Alaska corporation

GCI Fiber Company, an Alaska corporation

Fiber Hold Company, an Alaska corporation

Alaska United Partnership, an Alaska partnership

GCI, INC.,
a wholly-owned subsidiary of
General Communication, Inc.,
Issuer

$150,000,000

% Senior Notes Due 2007

INDENTURE

Dated as of July __, 1997

THE BANK OF NEW YORK,
Trustee

CROSS-REFERENCE TABLE

| TIA Section | | Indenture Section |
|---|---|---|
| 310 | (a)(1) | 7.10 |
| | (a)(2) | 7.10 |
| | (a)(3) | N.A. |
| | (a)(4) | N.A. |
| | (a)(5) | 7.10 |
| | (b) | 7.08; 7.10 |
| | (c) | N.A. |
| 311 | (a) | 7.11 |
| | (b) | 7.11 |
| | (c) | N.A. |
| 312 | (a) | 7.06 |
| | (b) | N.A. |
| | (c) | 7.06 |
| 313 | (a) | 7.06 |
| | (b)(1) | N.A. |
| | (b)(2) | 7.06 |
| | (c) | 10.02 |
| | (d) | 7.06 |
| 314 | (a) | 4.02; 4.08; 10.02 |
| | (b) | N.A. |
| | (c)(1) | 10.04 |
| | (c)(2) | 10.04 |
| | (c)(3) | N.A. |
| | (d) | N.A. |
| | (e) | 10.05 |
| | (f) | N.A. |
| 315 | (a) | 7.01 |
| | (b) | 7.05, 10.02 |
| | (c) | 7.01 |
| | (d) | 7.01 |
| | (e) | 6.11 |
| 316 | (a) (last sentence) | 10.06 |
| | (a)(1)(A) | 6.05 |
| | (a)(1)(B) | 6.04 |
| | (a)(2) | N.A. |
| | (b) | 6.07 |
| | (c) | 6.07 |
| 317 | (a)(1) | 6.08 |

| TIA Section | | Indenture Section |
|---|---|---|
| 318 | (a) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 10.01 |

N.A. means Not Applicable.

- ---------------
Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of the Indenture.



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INDENTURE dated as of July __, 1997 between GCI, INC., an Alaska corporation (the "Company"), a wholly owned subsidiary of General Communication, Inc., and THE BANK OF NEW YORK, a New York banking corporation (the "Trustee").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's _____% Senior

Notes Due 2007 (the "Notes"):

# ARTICLE 1

## Definitions and Incorporation by Reference

SECTION 1.01. Definitions.

"Additional Assets" means (i) any Property (other than cash, cash equivalents or securities) to be owned by the Company or a Restricted Subsidiary and used in a Related Business, (ii) the costs of improving or developing any Property owned by the Company or a Restricted Subsidiary which is used in a Related Business and (iii) Investments in any other Person engaged primarily in a Related Business (including the acquisition from third parties of Capital Stock of such Person) as a result of which such other Person becomes a Restricted Subsidiary or is merged or consolidated with or into the Company or any Restricted Subsidiary.

"Affiliate" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or executive officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in clause (i) above. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. "Affiliate" shall also mean any beneficial owner of shares representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Annualized Pro Forma EBITDA" means, with respect to any Person, the product of such Person's Pro Forma EBITDA for the latest fiscal quarter for which financial statements are available multiplied by four.

"Asset Sale" means, with respect to any Person, any transfer, conveyance, sale, lease or other disposition (including, without limitation, dispositions pursuant to any consolidation or merger or a Sale and Leaseback Transaction) by such Person or any of its Subsidiaries (or, in the case of the Company, its Restricted Subsidiaries) in any single transaction or series of transactions

of (a) shares of Capital Stock or other ownership interests in another Person (including, with respect to the Company and its Restricted Subsidiaries, Capital Stock of Unrestricted Subsidiaries) or (b) any other Property of such Person or any of its Restricted Subsidiaries; PROVIDED, HOWEVER, that the term "Asset Sale" shall not include: (i) the sale or transfer of Temporary Cash Investments, inventory, accounts receivable or other Property (including, without limitation, the sale or lease of excess satellite transponder capacity and the sale or lease of excess fiber capacity) in the ordinary course of business; (ii) the liquidation of Property received in settlement of debts owing to such Person or any of its Restricted Subsidiaries as a result of foreclosure, perfection or enforcement of any Lien or debt, which debts were owing to such Person or any of its Restricted Subsidiaries in the ordinary course of business, (iii) when used with respect to the Company, any asset disposition permitted pursuant to Section 5.01 which constitutes a disposition of all or substantially all of the Company's Property; (iv) the sale or transfer of any Property by such Person or any of its Restricted Subsidiaries to such Person or any of its Restricted Subsidiaries; (v) a disposition in the form of a Restricted Payment permitted to be made pursuant to Section 4.13; or (vi) a disposition (taken together with any other dispositions in a single transaction or series of related transactions) with a Fair Market Value and a sale price of less than $5 million.

"Attributable Indebtedness" means Indebtedness deemed to be incurred in respect of a Sale and Leaseback Transaction and shall be, at the date of determination, the present value (discounted at the actual rate of interest implicit in such transaction, compounded annually), of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"AULP" means __________________________, an Alaska partnership that will be an Unrestricted Subsidiary on the Issue Date.

"Average Life" means, as of the date of determination, with respect to any security, the quotient obtained by dividing (i) the sum of the products of the numbers of years (rounded to the nearest one-twelfth of one year) from the date of determination to the dates of each successive scheduled principal or other redemption payment of such security multiplied by the amount of such payment by (ii) the sum of all such payments.

"Board of Directors" of any Person means the Board of Directors of such Person or any committee thereof duly authorized to act on behalf of such Board.

"Board Resolution" of any Person means a copy of a resolution certified by the Secretary or an Assistant Secretary of Parent and the Company to have been duly adopted by the Board of Directors of such Person, to be in full force and effect on the date of such certification and delivered to the Trustee.



"Business Day" means each day which is not a Legal Holiday (as defined in Section 10.07).

"Capacity Lease" means the Lease Contract and related guaranty by and among GCI Communication Corporation (a Restricted Subsidiary) as lessee, GCI Holdings (a Restricted Subsidiary) as guarantor of the lessee's obligations and AULP as lessor, on terms and conditions substantially as outlined in and otherwise consistent with Exhibit A (Summary of Terms and Conditions) attached to the Fiber Construction Facility Commitment Letter pursuant to which GCI Communication Corporation agrees to lease up to 45% of the output capacity of the System, as such lease contract may otherwise be amended, supplemented or otherwise modified in accordance with the terms thereof and of this Indenture.

"Capital Lease Obligations" means Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP and the amount of such Indebtedness shall be the capitalized amount of such obligations determined in accordance with GAAP.

"Capital Stock" means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

"Capital Stock Sale Proceeds" means the aggregate Net Cash Proceeds received by the Company from the issue or sale (other than to a Subsidiary of the Company or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company and other than pursuant to the Stock Offering) by the Company of any class of its Capital Stock (other than Disqualified Stock) after the Issue Date, provided, however, that exercise of the over-allotment option with respect to the Stock Offering shall not constitute Capital Stock Sale Proceeds.

"Change of Control" means the occurrence of any of the following events: (i) any "person" or "group" (within the meaning and otherwise consistent with Sections 13(d)(3) and 14(d)(2) of the Exchange Act or any successor provision to either of the foregoing, including any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b) (1) under the Exchange Act) other than one or more of the Permitted Holders, or an entity or entities controlled by one or more of the Permitted Holders, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40% or more of the total voting power of the Voting Stock (on a fully diluted basis) of Parent or the Company, (ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Parent or the Company (together with any new directors whose election by the Board of Directors of Parent or the Company, as the case may be, or whose nomination for election by the shareholders of Parent or the Company, as the case may be, was approved by a majority vote of the directors of Parent or the Company, as the case may be, then still in office who were either directors at the beginning of such period or



whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Parent or the Company, as the case may be, then in office, (iii) the Company consolidates or merges with or into any other Person (other than one or more Permitted Holders or an entity or entities controlled by one or more Permitted Holders) or any other Person (other than one or more Permitted Holders or an entity or entities controlled by one or more Permitted Holders) consolidates or merges with or into the Company, in either case, other than (a) a consolidation or merger with a wholly owned Restricted Subsidiary in which all of the Voting Stock of the Company outstanding immediately prior to the effectiveness thereof is changed into or exchanged for substantially the same consideration or (b) a consolidation or merger with or into Parent or (iv) the Company sells, conveys, transfers or leases, directly or indirectly, all or substantially all of its assets (other than a transfer of such assets as an entirety or virtually as an entirety to a wholly owned Restricted Subsidiary, Parent, one or more Permitted Holders or an entity or entities controlled by one or more Permitted Holders).

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means the party named as such in this Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the TIA, each other obligor on the indenture securities.

"Completion Guarantee" means the Completion Guarantee between GCI Holdings and AULP in form and on terms and conditions substantially as outlined in and otherwise consistent with Exhibit A (Summary of Terms and Conditions) attached to the Fiber Construction Facility Commitment Letter pursuant to which GCI Holdings agrees, subject to certain limitations, to advance funds, directly or indirectly, to a Fiber Construction Facility Obligor for, or otherwise cause, the timely completion of construction of the System, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and of this Indenture.

"Consolidated Interest Expense" means, for any Person, for any period, the amount of interest in respect of Indebtedness (including amortization of original issue discount, fees payable in connection with financings, including commitment, availability and similar fees, and amortization of debt issuance costs, non-cash interest payments on any Indebtedness and the interest portion of any deferred payment obligation and after taking into account the effect of elections made under, and the net costs associated with, any Interest Rate Agreement, however denominated, with respect to such Indebtedness), the amount of dividends in respect of Disqualified Stock paid by such Person, the amount of Preferred Stock dividends in respect of all Preferred Stock of Subsidiaries of such Person held other than by such Person or a Subsidiary (other than any Unrestricted Subsidiary) of such Person, commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, and the interest component of rentals in respect of any Capital Lease Obligation or Sale and Leaseback Transaction paid, accrued or scheduled to be paid or accrued by such Person during such period, determined on a consolidated basis for such Person and its Subsidiaries (or, in the case of the Company, its Restricted Subsidiaries) in accordance with GAAP consistently applied. For



purposes of this definition, interest on a Capital Lease Obligation or a Sale and Leaseback Transaction shall be deemed to accrue at an interest rate reasonably determined by such Person to be the rate of interest implicit in such Capital Lease Obligation or Sale and Leaseback Transaction in accordance with GAAP consistently applied.

"Consolidated Net Income" of a Person means for any period, the net income (loss) of such Person and its Subsidiaries; PROVIDED, HOWEVER, that there shall not be included in such Consolidated Net Income (i) with respect to the Company, any net income (loss) of any Person if such Person is not a Restricted Subsidiary, except that (a) subject to the limitations contained in clause (iv) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in clause (iii) below) and (b) the Company's equity in a net loss of any such Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income, (ii) any net income (loss) of any Person acquired by such Person or a Subsidiary of such Person in a pooling of interests transaction for any period prior to the date of such acquisition, (iii) with respect to the Company, any net income (loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that (a) subject to the limitations contained in clause (iv) below, the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause) and (b) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income, (iv) any gains or losses realized upon the sale or other disposition of any Property of such Person or its consolidated Subsidiaries (including pursuant to any Sale and Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business, (v) any extraordinary gain or loss and (vi) the cumulative effect of a change in accounting principles.

Notwithstanding the provisions of clause (iii) in the preceding paragraph, in the event that Consolidated Net Income is being calculated with respect to the Company or any Surviving Entity (a) for purposes of determining whether the Company or any Surviving Entity could incur at least $1.00 of additional Indebtedness pursuant to clause (a) of the first paragraph of Section 4.11 for purposes of (i) clause (b) of the first sentence of Section 4.13, (ii) clause (c) of Section 5.01 or (iii) the definition of "Unrestricted Subsidiary" or (b) for purposes of calculating Cumulative EBITDA pursuant to clause (c) of the first sentence of Section 4.13, restrictions on the payment of dividends or the making of distributions to the Company by GCI Holdings referred to in clause (1)(iii) of the second sentence under Section 4.18 shall be disregarded.



Notwithstanding the provisions of clause (iii) in the first paragraph of this definition, in the event that Consolidated Net Income is being calculated with respect to the Company for purposes of determining whether the Incurrence of Indebtedness proposed to be Incurred is permissible under clause (a) of the first paragraph of Section 4.11, then (i) if such proposed Indebtedness is proposed to be Incurred by GCI Holdings or any Subsidiary thereof that is a Restricted Subsidiary, restrictions on the payment of dividends or the making of distributions to the Company by GCI Holdings referred to in clause (1)(iii) of the second sentence of Section 4.18 shall be disregarded and (ii) if such proposed Indebtedness is proposed to be Incurred by the Company or any Subsidiary of the Company (other than GCI Holdings and its Subsidiaries) that is a Restricted Subsidiary, restrictions on the payment of dividends or the making of distributions to the Company by GCI Holdings referred to in clause (1)(iii) of the second sentence of Section 4.18 shall be disregarded, PROVIDED that the lenders pursuant to the Credit Facility modify the Credit Facility to (A) allow for the payment of dividends or the making of distributions to the Company in amounts sufficient to pay the scheduled principal and interest payments on such proposed Indebtedness when due and payable or, in the case of a proposed Incurrence of Indebtedness by a Subsidiary, in an amount sufficient to fund capital contributions or other Investments to or in such Subsidiary in amounts sufficient to pay the scheduled principal and interest payments on such proposed Indebtedness when due and payable so long as there does not exist an event which after notice or passage of time or both would permit the lenders under the Credit Facility to declare all amounts thereunder due and payable, and (B) provide that in no event shall any encumbrance or restriction pursuant to the Credit Facility prohibit distributions to pay principal, premium, if any, and interest on such proposed Indebtedness for more than 180 days in any consecutive 360 day period, unless the maturity of the Credit Facility has been accelerated.

"Credit Facility" means the $375 million credit facility pursuant to a credit agreement, dated as of ____________, 1997, among GCI Holdings, as borrower, and NationsBank of Texas, N.A., Credit Lyonnais, New York Branch and Toronto Dominion (USA) Inc., as agents, and the lenders party thereto, as amended or supplemented, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring all or any portion of the Indebtedness under such agreement or any successor replacement agreement and whether by the same or any other agent, lender or group of lenders.

"Cumulative EBITDA" means at any date of determination the cumulative EBITDA of the Company from and after the last day of the fiscal quarter of the Company immediately preceding the Issue Date to the end of the fiscal quarter immediately preceding the date of determination or, if such cumulative EBITDA for such period is negative, the amount (expressed as a negative number) by which such cumulative EBITDA is less than zero.

"Cumulative Interest Expense" means at any date of determination the aggregate amount of Consolidated Interest Expense paid, accrued or scheduled to be paid or accrued by the Company and its Restricted Subsidiaries from the last day of the fiscal quarter of the Company immediately preceding the Issue Date to the end of the fiscal quarter immediately preceding the date of determination.



"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default pursuant to Section 6.01.

"Depository" means The Depository Trust Company, its nominees and their respective successors.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for Indebtedness at the option of the holder thereof, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the Notes.

"EBITDA" means, for any Person, for any period, an amount equal to (A) the sum of (i) Consolidated Net Income for such period, plus, to the extent deducted in arriving at Consolidated Net Income for such period, (ii) (a) the provision for taxes for such period based on income or profits to the extent such income or profits were included in computing Consolidated Net Income and any provision for taxes utilized in computing net loss under clause (i) hereof, (b) Consolidated Interest Expense for such period, (c) depreciation for such period on a consolidated basis, (d) amortization of intangibles for such period on a consolidated basis, and (e) any other non-cash items reducing Consolidated Net Income for such period, minus (B) all non-cash items increasing Consolidated Net Income for such period, all for such Person and its Subsidiaries determined in accordance with GAAP consistently applied, except that with respect to the Company each of the foregoing items shall be determined on a consolidated basis with respect to the Company and its Restricted Subsidiaries only.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means, with respect to any Property, the price which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined, except as otherwise provided, (i) if such property or asset has a Fair Market Value of less than or equal to $15 million, by any Officer of Parent and the Company or (ii) if such property or asset has a Fair Market Value in excess of $15 million, by a majority of the Board of Directors of Parent and the Company and evidenced by a Board Resolution, dated within 30 days of the relevant transaction.

"Fiber Construction Agreement" means each of the Fiber Construction Facility, the Completion Guarantee, the GCI Transport Keep-Well Agreement, the Operating Keep-Well Agreement, the Operating and Maintenance Contract and the Capacity Lease.

"Fiber Construction Facility" means the Construction and Term Loan Facility by and among the Fiber Construction Facility Banks as agents, certain lenders and AULP on terms and conditions (i) substantially as



outlined in and otherwise consistent with Exhibit A (Summary of Terms and Conditions) attached to the Fiber Construction Facility Commitment Letter, and (ii) to include an additional covenant requiring third party commitments (including for this purpose bona fide purchases by the Company and its Restricted Subsidiaries) to generate capacity purchase revenues or lease payments pursuant to which the Fiber Construction Facility Banks have agreed to provide financing to construct and develop an undersea fiber optic cable connecting Anchorage, Fairbanks and Juneau, Alaska with the continental United States, as such facility may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and of this Indenture.

"Fiber Construction Facility Banks" means Credit Lyonnais, New York Branch, NationsBank of Texas, N.A. and Toronto Dominion (USA) Inc.

"Fiber Construction Facility Commitment Letter" means the commitment letter dated July 3, 1997 for such facility between Parent and the Fiber Construction Facility Banks.

"Fiber Construction Facility Obligor" means each of AULP and one or more of its Subsidiaries and their respective successors so long as it is a party to the Fiber Construction Facility.

"GAAP" means United States generally accepted accounting principles as in effect on the Issue Date, unless stated otherwise.

"Galaxy X Agreement" means each of the Galaxy X Transponder Service Agreement between Hughes Communications Satellite Services, Inc. and GCI Communication Corp. and the Galaxy X Transponder Purchase Agreement, each of which is dated August 24, 1995, as such agreements may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and the terms of this Indenture.

"GCI" means General Communication, Inc., an Alaska corporation, and its successors.

"GCI Holdings" means GCI Holdings, Inc., an Alaska corporation, and its successors.

"GCI Transport" means GCI Transport Company, an Alaska corporation, and its successors.

"GCI Transport Keep-Well Agreement" means the Operating Keep-Well Agreement dated ________, 1997 between GCI Transport and AULP in form and on terms and conditions substantially as outlined in and otherwise consistent with

Exhibit A (Summary of Terms and Conditions) attached to the Fiber Construction Facility Commitment Letter pursuant to which GCI Transport agrees, subject to certain limitations, to advance funds, directly or indirectly to a Fiber Construction Facility Obligor to pay (i) any operating expenses, including interest and principal payments on indebtedness, in excess of revenues of AULP and (ii) any unpaid amount on the Fiber Construction Facility when due at Stated Maturity or upon acceleration, as such agreement may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and the terms of this Indenture.



"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement condition or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee against loss in respect thereof (in whole or in part); PROVIDED, HOWEVER, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligation" of any Person means any obligation of such Person pursuant to any Interest Rate Agreement, foreign exchange contract, currency swap agreement, currency option or any other similar agreement or arrangement.

"Holder" or "Noteholder" means the Person in whose name a Note is registered on the Registrar's books.

"Incur" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (by merger, conversion, exchange or otherwise), extend, assume, Guarantee or become liable in respect of such Indebtedness or other obligation or the recording, as required pursuant to GAAP or otherwise, of any such Indebtedness or obligation on the balance sheet of such Person (and "Incurrence," "Incurred," "Incurrable" and "Incurring" shall have meanings correlative to the foregoing); PROVIDED, HOWEVER, that a change in GAAP that results in an obligation of such Person that exists at such time, and is not theretofore classified as Indebtedness, becoming Indebtedness shall not be deemed an Incurrence of such Indebtedness; PROVIDED FURTHER, that solely for purposes of determining compliance with Section 4.11, amortization of debt discount shall not be deemed to be the Incurrence of Indebtedness, PROVIDED that in the case of Indebtedness sold at a discount, the amount of such Indebtedness Incurred shall at all times be the aggregate principal amount at Stated Maturity.

"Indebtedness" means (without duplication), with respect to any Person, any indebtedness, secured or unsecured, contingent or otherwise, which is for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof), or evidenced by bonds, notes, debentures or similar instruments or representing the balance deferred and unpaid of the purchase price of any property (excluding any balances that constitute customer advance payments and deposits, accounts payable or trade payables, and other accrued liabilities arising in the ordinary course of business) if and to the extent any of the foregoing indebtedness would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and shall also include, to the extent not otherwise included (i) any Capital Lease Obligations, (ii) Indebtedness of other Persons secured by a Lien to which the Property owned or held by such first Person is subject, whether or not the obligation or obligations secured thereby shall have been assumed (the amount of such Indebtedness being



deemed to be the lesser of the value of such property or assets or the amount of the Indebtedness so secured), (iii) Guarantees of Indebtedness of other Persons, (iv) any Disqualified Stock, (v) any Attributable Indebtedness, (vi) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments or credit transactions issued for the account of such Person, (vii) in the case of the Company, Preferred Stock of its Restricted Subsidiaries, and (viii) to the extent not otherwise included in clauses (i) through (vii) of this paragraph, any payment obligations of any such Person at the time of determination under any Hedging Obligation. For purposes of this definition, the maximum fixed repurchase price of any Disqualified Stock that does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were repurchased on any date on which Indebtedness shall be required to be determined pursuant to this Indenture; PROVIDED, HOWEVER, that if such Disqualified Stock is not then permitted to be repurchased, the repurchase price shall be the book value of such Disqualified Stock. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any contingent obligations in respect thereof at such date. For purposes of this definition, the amount of the payment obligation with respect to any Hedging Obligation shall be an amount equal to (i) zero, if such obligation is an Interest Rate Agreement permitted pursuant to clause (v) of the second paragraph of Section 4.11 or (ii) the notional amount of such Hedging Obligation, if such Hedging Obligation is not an Interest Rate Agreement so permitted.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the TIA that are deemed to be a part of and govern this instrument, and any such supplemental indenture, respectively.

"Interest Rate Agreement" means, for any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement.

"Investment" by any Person means any direct or indirect loan, advance or other extension of credit or capital contribution (by means of transfers of cash or other Property to others or payments for Property or services for the account or use of others, or otherwise) to, or Incurrence of a Guarantee of any obligation of, or purchase or acquisition of Capital Stock, bonds, notes, debentures or other securities or evidence of Indebtedness issued by, any other Person. In determining the amount of any Investment made by transfer of any Property other than cash, such Property shall be valued at its Fair Market Value at the time of such Investment (it being understood that leasing output capacity of the System under the Capacity Lease shall not be or be deemed an Investment).

"Issue Date" means the date on which the Notes are initially issued.



"Leverage Ratio" means the ratio of (i) the outstanding Indebtedness of a Person and its Subsidiaries (or in the case of the Company, the outstanding Indebtedness of the Company and its Restricted Subsidiaries) divided by (ii) the Trailing Pro Forma EBITDA of such Person (or in the case of the Company, the Trailing Pro Forma EBITDA of the Company and its Restricted Subsidiaries).

"Lien" means, with respect to any Property of any Person, any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, easement (other than any easement not materially impairing usefulness or marketability), encumbrance, preference, priority, or other security agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such Property (including any Capital Lease Obligation, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing or any Sale and Leaseback Transaction).

"Net Available Cash" from an Asset Sale means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to such Properties or assets or received in any other noncash form) in each case net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Sale, and in each case net of all payments made on any Indebtedness (a) which is secured by any assets subject to such Asset Sale, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or (b) which must (1) by its terms, or in order to obtain a necessary consent to such Asset Sale (except, in the case of this clause (b), Indebtedness that is PARI PASSU with or subordinated to the Notes), or (2) by applicable law be repaid out of the proceeds from such Asset Sale, and net of all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale.

"Net Cash Proceeds" with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale, net of attorney's fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Notes" means the Notes issued under this Indenture.

"Officer" means the Chief Executive Officer, the President, the Chief Financial Officer and the Chief Accounting Officer of Parent and the Company.

"Officers' Certificate" means a certificate signed by two Officers of Parent and the Company, at least one of whom shall be the principal executive officer or principal financial officer of Parent and the Company, and delivered to the Trustee.

"Operating and Maintenance Contract" means the Operating and Maintenance Contract between GCI Communication Corporation (a Restricted Subsidiary) and AULP on terms and conditions substantially as outlined in and otherwise consistent with Exhibit A (Summary of Terms and Conditions) attached to the Fiber Construction Facility Commitment Letter, pursuant to which GCI Communication Corporation agrees, subject to certain limitations, to operate and maintain the system and receive compensation for the actual services provided by it, as such agreement may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and of this Indenture.

"Operating Keep-Well Agreement" means the Operating Keep-Well Agreement between GCI Holdings and AULP on terms and conditions substantially as outlined in and otherwise consistent with Exhibit A (Summary of Terms and Conditions) attached to the Fiber Construction Facility Commitment Letter pursuant to which such Restricted Subsidiary agrees, subject to certain limitations, to advance funds, directly or indirectly, to a Fiber Construction Facility Obligor to pay (i) any operating expenses, including interest and principal payments on Indebtedness, in excess of revenues of AULP and (ii) any unpaid amount on the Fiber Construction Facility when due at Stated Maturity or upon acceleration, as such agreement may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and of this Indenture.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be counsel to Parent, the Company or the Trustee.

"Parent" means GCI so long as it owns, and any other Person which acquires or owns, directly or indirectly, 80% or more of the Voting Stock of the Company.

"pari passu" as applied to the ranking of any Indebtedness of a Person in relation to other Indebtedness of such Person, means that each such Indebtedness either (i) is not subordinate in right of payment to any Indebtedness or (ii) is subordinate in right of payment to the same Indebtedness as is the other, and is so subordinate to the same extent, and is not subordinate in right of payment to each other or to any Indebtedness as to which the other is not so subordinate.

"Permitted Holders" means (i) Ronald Duncan and his estate, spouse, ancestors, lineal descendants and the trustee of any bona fide trust of which the foregoing are the sole beneficiaries, (ii) MCI Telecommunications Corporation and its controlled Affiliates, (iii) Prime Cable Growth Partners, L.P., Prime Venture I Holdings, L.P., Prime Venture II, L.P., Prime Cable Limited Partnership and their respective controlled Affiliates, (iv) the General Communication, Inc. Employee Stock Purchase Plan, and (v) the Estate of Bob Magness so long as Donne Fisher is one of no more than two legal representatives of such estate.



"Permitted Investment" means an Investment by the Company or any Restricted Subsidiary in (i) a Restricted Subsidiary or a Person which will, upon the making of such Investment, become a Restricted Subsidiary, PROVIDED the primary business of such Restricted Subsidiary is a Related Business; (ii) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to (after which such other Person shall cease to exist or shall remain a "shell" corporation), the Company or a Restricted Subsidiary, PROVIDED such Person's primary business is a Related Business; (iii) Temporary Cash Investments; (iv) accounts receivable owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; (v) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business; (vi) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments; and (vii) loans and advances to employees of Parent, the Company or a Restricted Subsidiary made in the ordinary course of business consistent with past practice of Parent, the Company or such Restricted

Subsidiary, as the case may be, PROVIDED, that such loans and advances do not exceed in the aggregate $5 million at any one time outstanding.

"Permitted Issue Date Transactions" means any transaction on or promptly after the Issue Date relating to (i) the repayment in full of bank credit facilities of the Company's Subsidiaries outstanding on the Issue Date before giving effect to the incurrence of Indebtedness under the Credit Facility and (ii) the contribution or advancement by the Company or a Restricted Subsidiary of an amount not in excess of $50 million to GCI Transport.

"Permitted Liens" means (i) Liens on the Property of the Company or any Restricted Subsidiary existing on the Issue Date, (ii) Liens on all or substantially all of the assets of the Restricted Subsidiaries and the Capital Stock of any Restricted Subsidiary owned by the Issuer in favor of the lender under the Credit Facility; (iii) Liens on the Property of the Company or any Restricted Subsidiary to secure any extension, renewal, refinancing, replacement or refunding (or successive extensions, renewals, refinancings, replacements or refundings), in whole or in part, of any Indebtedness secured by Liens referred to in any of clauses (i), (ii), (vii) or (x); PROVIDED, HOWEVER, that any such Lien will be limited to all or part of the same Property that secured the original Lien (plus improvements on such Property) and the aggregate principal amount of Indebtedness that is secured by such Lien will not be increased to an amount greater than the sum of (A) the outstanding principal amount, or, if greater, the committed amount, of the Indebtedness secured by Liens described under clauses (i), (ii), (vii) or (x), as applicable, at the time the original Lien became a Permitted Lien under the Indenture and (B) an amount necessary to pay any premiums, fees and other expenses incurred by the Company in connection with such extension, renewal, refinancing, replacement or refunding; (iv) Liens for taxes, assessments or governmental charges or levies on the Property of the Company or any Restricted Subsidiary if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings; (v) Liens imposed by law, such as



carriers', warehousemen's and mechanics' Liens and other similar Liens on the Property of the Company or any Restricted Subsidiary arising in the ordinary course of business and securing payment of obligations which are not more than 60 days past due or are being contested in good faith and by appropriate proceedings; (vi) Liens on the Property of the Company or any Restricted Subsidiary Incurred in the ordinary course of business to secure performance of obligations with respect to statutory or regulatory requirements, performance or return-of-money bonds, surety bonds or other obligations of a like nature and Incurred in a manner consistent with industry practice; (vii) Liens on Property at the time the Company or any Restricted Subsidiary acquired such Property, including any acquisition by means of a merger or consolidation with or into the Company or any Restricted Subsidiary; PROVIDED such Lien shall not have been Incurred in anticipation of or in connection with such transaction or series of related transactions pursuant to which such Property was acquired by the Company or any Restricted Subsidiary; (viii) other Liens on the Property of the Company or any Restricted Subsidiary incidental to the conduct of their respective businesses or the ownership of their respective Properties which were not created in anticipation of or in connection with the Incurrence of Indebtedness or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of their respective Properties or materially impair the use thereof in the operation of their respective businesses; (ix) pledges or deposits by the Company or any Restricted Subsidiary under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which the Company or any Restricted Subsidiary is party, or deposits to secure public or statutory obligations of the Company or any Restricted Subsidiary, or deposits for the payment of rent, in each case Incurred in the ordinary course of business; (x) Liens on the Property of a Person at the time such Person becomes a Restricted Subsidiary; PROVIDED any such Lien does not extend to any other Property of the Company or any Restricted Subsidiary; and PROVIDED FURTHER that any such Lien was not Incurred in anticipation of or in connection with the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary; and (xi) utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character.

"Permitted Refinancing Indebtedness" means any extensions, renewals, refinancings, replacements or refundings of any Indebtedness, including any successive extensions, renewals, refinancings, replacements or refundings so long as (i) the aggregate amount of Indebtedness represented thereby is not increased by such extension, renewal, refinancing, replacement or refunding (other than to finance fees and expenses, including any premium and defeasance costs, incurred in connection therewith), (ii) the Average Life of such Indebtedness is equal to or greater than the Average Life of the Indebtedness being extended, renewed, refinanced, replaced or refunded, (iii) the Stated Maturity of such Indebtedness is no earlier than the Stated Maturity of the Indebtedness being refinanced and (iv) the new Indebtedness shall not be senior in right of payment to the Indebtedness that is being extended, renewed, refinanced, replaced or refunded; PROVIDED, that Permitted Refinancing Indebtedness shall not include (a) Indebtedness of a Subsidiary that extends, renews, refinances, replaces or refunds Indebtedness of the Company or



(b) Indebtedness of the Company or a Restricted Subsidiary that extends, renews, refinances replaces or refunds Indebtedness of an Unrestricted Subsidiary.

"Person" means any individual, corporation, company (including any limited liability company), partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" means any Capital Stock of a Person, however designated, which entitles the holder thereof to a preference with respect to dividends, distributions or liquidation proceeds of such Person over the holders of other Capital Stock issued by such Person.

"principal" of a Note means the principal of the Note plus the premium, if any, payable on the Note which is due or overdue or is to become due at the relevant time.

"pro forma" means, with respect to any calculation made or required to be made pursuant to the terms hereof, a calculation in accordance with Article 11 of Regulation S-X promulgated under the Securities Act (to the extent applicable), as interpreted in good faith by the Board of Directors after consultation with the independent certified public accountants of the Company, or otherwise a calculation made in good faith by the Board of Directors after consultation with the independent certified public accountants of the Company, as the case may be.

"Pro Forma EBITDA" means for any Person, for any period, the EBITDA of such Person as determined on a consolidated basis in accordance with GAAP consistently applied after giving effect to the following: (i) if, during or after such period, such Person or any of its Subsidiaries shall have made any disposition of any Person or business, Pro Forma EBITDA of such Person and its Subsidiaries shall be computed so as to give pro forma effect to such disposition and (ii) if, during or after such period, such Person or any of its Subsidiaries completes an acquisition of any Person or business which immediately after such acquisition is a Subsidiary of such Person or whose assets are held directly by such Person or a Subsidiary of such Person, Pro Forma EBITDA shall be computed so as to give pro forma effect to the acquisition of such Person or business; PROVIDED, HOWEVER, that, with respect to the Company, all of the foregoing references to "Subsidiary or "Subsidiaries" shall be deemed to refer only to the "Restricted Subsidiaries" of the Company.

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including, without limitation, Capital Stock in, and other securities of, any other Person (but excluding Capital Stock or other securities issued by such first mentioned Person).

"Public Equity Offerings" means an underwritten public offering of Qualified Stock of Parent or the Company, that generates in the aggregate gross proceeds of at least $50 million, pursuant to a registration statement filed with the SEC in accordance with the Securities Act; PROVIDED that, the Stock Offering (including any over-allotment option in respect thereof) shall be



excluded from the definition of Public Equity Offerings; PROVIDED FURTHER, that in the event of a Public Equity Offering by Parent, Parent contributes to the capital of the Company the portion of the net cash proceeds of such Public Equity Offering necessary to pay the aggregate redemption price (plus accrued and unpaid interest thereon to the redemption date) of the Notes to be redeemed pursuant to the Company's Optional Redemption or other Indebtedness of any Restricted Subsidiary required to be paid out of such proceeds.

"Qualified Stock" means any Capital Stock that is not Disqualified Stock.

"Redemption Date" means, with respect to any Note to be redeemed, any date fixed for such redemption by or pursuant to this Indenture and the terms of the Notes.

"Redemption Price" means, with respect to any Note to be redeemed, the price at which it is to be redeemed pursuant to this Indenture and the terms of the Notes.

"Related Business" means the business of (i) transmitting, or providing services related to the transmission of voice, video or data through owned or leased wireline or wireless transmission facilities, (ii) creating, developing, constructing, installing, repairing, maintaining or marketing communications-related systems, network equipment and facilities, software and other products or (iii) pursuing any other business that is primarily related to those identified in the foregoing clauses (i) or (ii).

"Restricted Payment" means (i) any dividend or distribution (whether made in cash, Property or securities) declared or paid on or with respect to any shares of Capital Stock of the Company or Capital Stock of any Restricted Subsidiary except for any dividend or distribution which is made solely by a Restricted Subsidiary to the Company or another Restricted Subsidiary (and, if such Restricted Subsidiary is not wholly owned, to the other shareholders of such Restricted Subsidiary on a pro rata basis) or dividends or distributions payable solely in shares of Capital Stock (other than Disqualified Stock) of the Company; (ii) a payment made by the Company or any Restricted Subsidiary to purchase, redeem, acquire or retire any Capital Stock of the Company or Capital Stock of any Affiliate of the Company (other than a Restricted Subsidiary) or any warrants, rights or options to directly or indirectly purchase or acquire any such Capital Stock or any securities exchangeable for or convertible into any such Capital Stock; (iii) a payment made by the Company or any Restricted Subsidiary to redeem, repurchase, defease or otherwise acquire or retire for value, prior to any scheduled maturity, scheduled sinking fund or mandatory redemption payment (other than the purchase, repurchase, or other acquisition of any Indebtedness subordinate in right of payment to the Notes purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), Indebtedness of the Company which is subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes; or (iv) an Investment (other than Permitted Investments) in any Person; PROVIDED, HOWEVER, that the term "Restricted Payment" shall not include any of the Permitted Issue Date Transactions.



"Restricted Subsidiary" means (i) any Subsidiary of the Company on or after the Issue Date unless such Subsidiary shall have been designated an Unrestricted Subsidiary as permitted or required pursuant to the definition of "Unrestricted Subsidiary" and (ii) an Unrestricted Subsidiary which is redesignated as a Restricted Subsidiary as permitted pursuant to the definition of "Unrestricted Subsidiary."

"Sale and Leaseback Transaction" means, with respect to any Person, any direct or indirect arrangement pursuant to which Property is sold or transferred by such Person or a Subsidiary of such Person (or, in the case of the Company, its Restricted Subsidiaries) and is thereafter leased back from the purchaser or transferee thereof by such Person or one of its Subsidiaries (or, in the case of the Company, its Restricted Subsidiaries).

"SEC" means the Securities and Exchange Commission.

"Secured Indebtedness" means any Indebtedness of the Company secured by a Lien.

"Securities Act" means the Securities Act of 1933, as amended.

"Significant Subsidiary" shall have the meaning set forth in Rule 1.02(w) of Regulation S-X under the Securities Act as in effect on the Issue Date; PROVIDED, HOWEVER, that for purposes of this definition only, (i) subclause (3) of such Rule 1.02(w) shall be disregarded and (ii) "Significant Subsidiary" shall include any Subsidiary (and its Subsidiaries) whose EBITDA comprises more than 10% of the EBITDA of the Company for the most recently completed fiscal year.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer thereof unless such contingency has occurred).

"Stock Offering" means the offering of 13,800,000 shares of Class A common stock of Parent, no par value per share, 7,000,000 shares of which were sold by the Company pursuant to registration statement No. 333-28001, filed with the SEC on May 27, 1997, as amended on July 7, 1997, plus any over-allotment option exercised by the underwriters in connection therewith.

"Subsidiary" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organized or acquired, (i) in the case of a corporation, of which at least a majority of the total voting power of the Voting Stock is held by such first-named Person or any of its Subsidiaries and such first-named

Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (ii) in the case of a partnership, joint venture, association, or other business entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the



direction of the management and policies of such entity by contract or otherwise if in accordance with generally accepted accounting principles such entity is consolidated with the first-named Person for financial statement purposes.

"System" has the meaning set forth in the Fiber Construction Facility as in effect on the Issue Date.

"Temporary Cash Investments" means any of the following: (i) Investments in U.S. Government Obligations maturing within 90 days of the date of acquisition thereof, (ii) Investments in time deposit accounts, certificates of deposit and money market deposits maturing within 90 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America or any state thereof having capital, surplus and undivided profits aggregating in excess of $500,000,000 and whose long-term debt is rated "A-3" or "A-" or higher according to Moody's Investors Service, Inc. or Standard & Poor's Ratings Group (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)) and shall, in any event, include National Bank of Alaska or First National Bank of Anchorage, (iii) repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) entered into with a bank meeting the qualifications described in clause (ii) above, and (iv) Investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than the Company or an Affiliate of the Company) organized and in existence under the laws of the United States of America with a rating at the time as of which any Investment therein is made of "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to Standard & Poor's Ratings Group (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)).

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of this Indenture; PROVIDED, HOWEVER, that in the event the Trust Indenture Act of 1939 is amended after such date, "TIA" means, to the extent required by any such amendment, the Trust Indenture Act of 1939, as so amended.

"Trade Payables" means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person arising in the ordinary course of business of such Person in connection with the acquisition of goods or services.

"Trailing Pro Forma EBITDA" means, with respect to any Person, such Person's Pro Forma EBITDA for the four most recent full fiscal quarters for which financial statements are available.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture and, thereafter, means the successor.



"Trust Officer" means the Chairman of the Board, the President or any other officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Uniform Commercial Code" means the New York Uniform Commercial Code as in effect from time to time.

"Unrestricted Subsidiary" means (a) GCI Transport, GCI Satellite Company, GCI Fiber Company, Fiber Hold Company, and AULP and (b) any Subsidiary of an Unrestricted Subsidiary. The Parent's and the Company's Board of Directors may designate any Person that becomes a Subsidiary of the Company or any Restricted Subsidiary to be an Unrestricted Subsidiary if (i) the Subsidiary to be so designated does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any Property of, the Company or any other Restricted Subsidiary, (ii) the Subsidiary to be so designated is not obligated under any Indebtedness or other obligation that, if in default, would result (with the passage of time or notice or otherwise) in a default on any Indebtedness of the Company or any Restricted Subsidiary and (iii) either (A) the Subsidiary to be so designated has total assets of $1,000 or less or (B) such designation is effective immediately upon such entity becoming a Subsidiary of the Company or any Restricted Subsidiary. Unless so designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of the Company or of any Restricted Subsidiary will be classified as a Restricted Subsidiary; PROVIDED, HOWEVER, that such Subsidiary shall not be designated a Restricted Subsidiary and shall be automatically classified as an Unrestricted Subsidiary if the Company would be unable to Incur at least $1.00 of additional Indebtedness pursuant to clause (a) of the first paragraph of Section 4.11. Except as provided in the second sentence of this paragraph, no Restricted Subsidiary may be redesignated as an Unrestricted Subsidiary. Parent's and the Company's Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if, immediately after giving pro forma effect to such designation, (x) the Company could Incur at least $1.00 of additional indebtedness pursuant to clause (a) of the first paragraph of Section 4.11 and (y) no Default or Event of Default shall have occurred and be continuing or would result therefrom. Any such designation by Parent's and the Company's Board of Directors will be evidenced to the Trustee by filing with the Trustee a copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying (i) that such designation complies with the foregoing provisions and (ii) giving the effective date of such designation, such filing with the Trustee to occur within 75 days after the end of the fiscal quarter of the Company in which such designation is made (or in the case of a designation made during the last fiscal quarter of the Company's fiscal year, within 120 days after the end of such fiscal year).

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

"Vendor Financing" means the financing entered into with any vendor or supplier (or any financial institution acting on behalf of or for the purpose of directly financing purchases from



such vendor or supplier) to the extent the Indebtedness thereunder is incurred for the purpose of financing the cost (including the cost of design, development, site acquisition, construction, integration, manufacture or acquisition) or maintenance of personal property (tangible or intangible) used, or to be used, in a Related Business.

"Voting Stock" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

SECTION 1.02. Other Definitions.

| Term | Defined in Section |
|---|---|
| "Affiliate Transaction". . . . . . . . . . . | 4.14 |
| "Agent Members". . . . . . . . . . . . . . . | 2.13 |
| "Bankruptcy Law" . . . . . . . . . . . . . . | 6.01 |
| "Change of Control Offer". . . . . . . . . . | 4.15 |
| "Change of Control Payment Date" . . . . . . | 4.15 |
| "Change of Control Purchase Price" . . . . . | 4.15 |
| "covenant defeasance option" . . . . . . . . | 8.01(b) |
| "Custodian". . . . . . . . . . . . . . . . . | 6.01 |
| "Defaulted Interest" . . . . . . . . . . . . | 2.10 |
| "Event of Default" . . . . . . . . . . . . . | 6.01 |
| "Global Notes. . . . . . . . . . . . . . . . | 2.13 |
| "incorporated provision" . . . . . . . . . . | 10.01 |
| "legal defeasance option". . . . . . . . . . | 8.01(b) |
| "Legal Holiday". . . . . . . . . . . . . . . | 10.07 |
| "Notes Register" . . . . . . . . . . . . . . | 2.11 |
| "Notice of Default". . . . . . . . . . . . . | 6.01 |
| "Paying Agent" . . . . . . . . . . . . . . . | 2.03 |
| "Registrar". . . . . . . . . . . . . . . . . | 2.03 |
| "Surviving Entity" . . . . . . . . . . . . . | 5.01 |

SECTION 1.03. Incorporation by Reference of Trust Indenture Act. This Indenture is subject to the mandatory provisions of the TIA which are incorporated by reference in and made a part of this Indenture. The following TIA terms have the following meanings:

"indenture securities" means the Notes.

"indenture security holder" means a Holder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company and any other obligor on the Notes.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

SECTION 1.04. Rules of Construction. Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive;

(4) "including" means including without limitation;

(5) words in the singular include the plural and words in the plural include the singular; and

(6) "herein" and "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

## ARTICLE 2

## The Notes

SECTION 2.01. Form and Dating. The Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A attached hereto which is hereby incorporated in and expressly made a part of this Indenture. The Notes may have notations, legends or endorsements required by law, stock exchange rules, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Note shall be dated the date of its authentication.

SECTION 2.02. Execution and Authentication; Aggregate Principal Amount. Two Officers shall sign the Notes for the Company by manual or facsimile signature. The Company's seal shall be impressed, affixed, imprinted or reproduced on the Notes and may be in facsimile form.

If an Officer whose signature is on a Note no longer holds that office at the time the Trustee authenticates the Note, the Note shall be valid nevertheless.



A Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall authenticate the Notes for original issue in the aggregate principal amount not to exceed $150,000,000 upon written orders of the Company in the form of an Officers' Certificate. The Officers' Certificate shall specify the amount of the Notes to be authenticated and the date on which the Notes are to be authenticated. The aggregate principal amount of the Notes outstanding at any time may not exceed $150,000,000, except as provided in Section 2.06.

The Trustee may appoint an authenticating agent reasonably acceptable to the Company to authenticate the Notes. Unless limited by the terms of such appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Registrar, Paying Agent or agent for service of notices and demands.

The Notes shall be issuable in fully registered form only, without coupons, in denominations of $1,000 and any integral multiple thereof.

SECTION 2.03. Registrar and Paying Agent. The Company shall maintain an office or agency (which shall be located in the Borough of Manhattan in the City of New York, State of New York) where (a) Notes may be presented for registration of transfer or for exchange (the "Registrar"), (b) Notes may be presented for payment (the "Paying Agent") and (c) notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Registrar shall keep a register of the Notes and of their transfer and exchange. The Company may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent. Neither the Company nor any Affiliate of the Company may act as Paying Agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.07.

The Company initially appoints the Trustee as Registrar and Paying Agent in connection with the Notes.

SECTION 2.04. Paying Agent To Hold Money in Trust. Prior to each due date of the principal and interest on any Note, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require



each Paying Agent (other than the Trustee) to agree in writing that the Paying Agent shall hold in trust for the benefit of Noteholders or the Trustee all money held by the Paying Agent for the payment of principal of and interest on the Notes and shall notify the Trustee of any default by the Company in making any such payment. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money delivered to the Trustee.

SECTION 2.05. Noteholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Noteholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Noteholders.

SECTION 2.06. Replacement Notes. If a mutilated Note is surrendered to the Registrar or if the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Note if the requirements of Section 8-405 of the Uniform Commercial Code are met and the Holder satisfies any other reasonable requirements of the Trustee or the Company. Such Holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss which any of them may suffer if a Note is replaced. The Company and the Trustee may charge the Holder for their expenses in replacing a Note. Every replacement Note is an additional obligation of the Company.

SECTION 2.07. Outstanding Notes. Notes outstanding at any time are all Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding. A Note does not cease to be outstanding because the Company or an Affiliate of the Company holds the Note.

If a Note is replaced pursuant to Section 2.06, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Note is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay all principal and interest payable on that date with respect to the Notes (or portions thereof) to be redeemed or maturing, as the case may be, then on and after that date such Notes (or portions thereof) cease to be outstanding and interest on them ceases to accrue.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction or consent or any amendment, modification or other change to this



Indenture, Notes owned by the Company or by an Affiliate of the Company shall be disregarded and treated as if they were not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent or any amendment, modification or other change to the Indenture, only Notes which the Trustee actually knows are so owned shall be so disregarded. Notes so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to the Notes and that the pledgee is not the Company or an Affiliate of the Company.

SECTION 2.08. Temporary Notes. Until definitive Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Notes and deliver them in exchange for temporary Notes.

SECTION 2.09. Cancellation. The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee shall cancel or destroy (subject to the record retention requirements of the Exchange Act) all Notes surrendered for registration of transfer, exchange, payment or cancellation and deliver a certificate of such destruction to the Company unless the Company directs the Trustee to deliver canceled Notes to the Company. The Trustee shall in no event be required to destroy Notes. The Company may not issue new Notes to replace Notes it has redeemed, paid or delivered to the Trustee for cancellation.

SECTION 2.10. Defaulted Interest. Any interest on any Note which is payable, but is not punctually paid or duly provided for, on the dates and in the manner provided in the Notes and this Indenture (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant record date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(i) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Notes are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record



date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be given to each Holder, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Notes are registered at the close of business on such special record date.

(ii) The Company may make payment of any Defaulted Interest on the Notes in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 2.10, each Note delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

SECTION 2.11. Transfer and Exchange. The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency designated pursuant to Section 4.02 being sometimes referred to herein as the "Notes Register") in which, subject to such reasonable regulations as the Registrar may prescribe, the Company shall provide for the registration of Notes and of transfers and exchanges of Notes. The Trustee is hereby initially appointed Registrar for the purpose of registering Notes and transfers of Notes as herein provided.

When Notes are presented to the Registrar or a co-Registrar with a request from the Holder of such Notes to register the transfer or exchange for an equal principal amount of Notes of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested; provided that every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer or exchange in form satisfactory to the Company and the Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing. Whenever any Notes are so presented for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes which the Holder making the exchange is entitled to receive. No service charge shall be made to the Noteholder for any registration of transfer or exchange. The Company may require from the Noteholder payment of a sum sufficient to cover any transfer taxes or other governmental charge that may be imposed in relation to a transfer or exchange, but this provision shall not apply to any exchange pursuant to Section 2.09, 4.15 or 4.17 hereof (in which events the Company will



be responsible for the payment of all such taxes which arise solely as a result of the transfer or exchange and do not depend on the tax status of the Holder). The Trustee shall not be required to exchange or register the transfer of any Note for a period of 15 days immediately preceding the first mailing of notice of redemption of Notes to be redeemed or of any Note selected, called or being called for redemption except, in the case of any Note where public notice has been given that such Note is to be redeemed in part, the portion thereof not to be redeemed.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same Indebtedness, and entitled to the same benefits under this Indenture, as the Notes surrendered upon such registration of transfer or exchange.

SECTION 2.12. CUSIP Number. The Company in issuing the Notes may use a "CUSIP" number (if then generally in use), and if so, the Trustee may use the CUSIP numbers in notices of redemption or exchange as a convenience to Holders; provided, however, that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Notes, and that reliance may be placed only on the other identification numbers. The Company shall promptly notify the Trustee in writing of any change in the CUSIP number of the Notes.

SECTION 2.13. Book-Entry Provisions for Global Notes.

(a) The Notes shall be issued initially in the form of one or more permanent global Notes in the form as set forth in Exhibit A attached hereto (the "Global Notes") and shall (i) be registered in the name of the Depository or the nominee of such Depository, (ii) be delivered to the Trustee as custodian for such Depository and (iii) bear a legend as set forth in Exhibit B attached hereto.

Members of, or participants in, the Depository ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Depository, or the Trustee as its custodian, or under the Global Note, and the Depository may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of the Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or impair, as between the Depository and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Notes.

(b) Transfers of Global Notes shall be limited to transfers in whole, but not in part, to the Depository, its successors or their respective nominees. Interests of beneficial owners in the Global Notes may be transferred or exchanged for physical Notes in accordance with the rules and procedures of the Depository. In addition, physical Notes shall be transferred to all beneficial owners in exchange for their beneficial interests in Global Notes if (i) the Depository notifies the Company that it is unwilling or unable to continue as Depository for any Global Note and a



successor Depository is not appointed by the Company within 90 days of such notice or (ii) an Event of Default has occurred and is continuing and the Registrar has received a written request from the Depository to issue physical Notes.

(c) In connection with any transfer or exchange of a portion of the beneficial interest in any Global Note to beneficial owners pursuant to paragraph (b), the Registrar shall (if one or more physical Notes are to be issued) reflect on its books and records the date and a decrease in the principal amount at maturity of the Global Note in an amount equal to the principal amount of the beneficial interest in the Global Note to be transferred, and the Company shall execute, and the Trustee shall authenticate and deliver, one or more physical Notes of like tenor and principal amount of authorized denominations.

(d) In connection with the transfer of Global Notes as an entirety to beneficial owners pursuant to paragraph (b), the Global Notes shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the Depository in exchange for its beneficial interest in the Global Notes, an equal aggregate principal amount at maturity of physical Notes of like tenor of authorized denominations.

(e) The Holder of any Global Note may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Notes.

## ARTICLE 3

## Redemption of Securities

SECTION 3.01. Right of Redemption. The Notes may be redeemed at the option of the Company, in whole or in part, on the bases and at the Redemption Prices specified in the form of Note, together with accrued but unpaid interest to the Redemption Date.

SECTION 3.02. Applicability of Article. Redemption of Notes at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article.

SECTION 3.03. Election to Redeem; Notice to Trustee. The election of the Company to redeem any Notes pursuant to Section 3.01 shall be evidenced by a Board Resolution and an Officers' Certificate. In case of any redemption at the election of the Company, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice period shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Notes to be redeemed.



SECTION 3.04. Selection by Trustee of Notes to be Redeemed. If less than all the Notes are to be redeemed, the particular Notes or portions thereof to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the outstanding Notes not previously called for redemption in compliance with the requirements of the principal national securities exchange, if any, on which the Notes being redeemed are listed, or, if the Notes are not listed on a national exchange, by such method as the Trustee shall deem fair and appropriate; provided that no Notes of a principal amount of $1,000 or less will be redeemed in part; provided, further, that any such redemption pursuant to the provisions relating to a Public Equity Offering shall be made on a pro rata basis or on as nearly a pro rata basis as practicable (subject to the procedures of the Depository or any other depository).

The Trustee shall promptly notify the Company and each Note Registrar in writing of the Notes selected for partial redemption and the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note which has been or is to be redeemed.

SECTION 3.05. Notice of Redemption. Notice of redemption will be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Notes to be redeemed, at the address of such Holder appearing in the Note Register.

All notices of redemption will state:

(i) the Redemption Date;

(ii) the Redemption Price;

(iii) if less than all outstanding Notes are to be redeemed, the identification of the particular Notes to be redeemed;

(iv) in the case of a Note to be redeemed in part, the principal amount of such Note to be redeemed and that after the Redemption Date upon surrender of such Note, a new Note or Notes in the aggregate principal amount equal to the unredeemed portion thereof shall be issued;

(v) that Notes called for redemption must be surrendered to the Paying Agent to collect the Redemption Price;

(vi) that on the Redemption Date the Redemption Price shall become due and payable upon each such Note or portion thereof, and that (unless the Company shall default in payment of the Redemption Price) interest thereon shall cease to accrue on and after said date;



(vii) the place or places where such Notes are to be surrendered for payment of the Redemption Price;

(viii) the CUSIP number, relating to such Notes; and

(ix) the paragraph of the Notes pursuant to which the Notes are being redeemed.

Notice of redemption of Notes to be redeemed at the election of the Company will be given by the Company or, at the Company's written request, by the Trustee in the name and at the expense of the Company.

The notice if mailed in the manner herein provided will be conclusively presumed to have been given, whether or not the Holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the Holder of any Note designated for redemption as a whole or in part will not affect the validity of the proceedings for the redemption of any other Note.

SECTION 3.06. Deposit of Redemption Price. On or prior to any Redemption Date, the Company will deposit with the Trustee or with a Paying Agent an amount of money in same day funds sufficient to pay the Redemption Price of, and accrued interest on, all the Notes or portions thereof which are to be redeemed on that date.

SECTION 3.07. Notes Payable on Redemption Date. Notice of redemption having been given as aforesaid, the Notes so to be redeemed will, on the Redemption Date, become due and payable at the Redemption Price therein specified and from and after such date (unless the Company shall default in the payment of the Redemption Price) such Notes will cease to bear interest and such Notes will cease to be outstanding. Upon surrender of any such Note for redemption in accordance with said notice, such Note will be paid by the Company at the Redemption Price; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Notes, registered as such on the relevant regular record dates.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal and premium, if any, shall, until paid, bear interest from the Redemption Date at the rate then borne by such Note.

SECTION 3.08. Notes Redeemed or Purchased in Part. Any Note which is to be redeemed or purchased only in part shall be surrendered to the Paying Agent at the office or agency maintained for such purpose pursuant to Section 4.02 (with, if required by the Company, the Note Registrar or the Trustee, due endorsement by, or a written instrument of transfer in form satisfactory to, the Company, the Note Registrar or the Trustee duly executed by the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver (at the Company's expense) to the Holder of such Note



without service charge, a new Note or Notes, of any authorized denomination as requested by such Holder in aggregate principal amount equal to, and in exchange for, the unredeemed portion of the principal of the Note so surrendered that is not redeemed or purchased.

## ARTICLE 4

## Covenants

SECTION 4.01. Payment of Notes. The Company shall promptly pay the principal of and interest on the Notes on the dates and in the manner provided in the Notes and in this Indenture. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal and interest then due.

The Company shall pay interest on overdue principal at the rate specified therefor in the Notes, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 4.02. Maintenance of Office or Agency. The Company will maintain in the Borough of Manhattan in The City of New York, State of New York, an office or agency where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The office of the Trustee at its Corporate Trust Office will be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company will give prompt written notice to the Trustee of any change in the location of any such required office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside of The City of New York, State of New York) where the Notes may be presented or surrendered for any or all such purposes, and may from time to time rescind such designation; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in The City of New York, State of New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency.

SECTION 4.03. Money for Note Payments to Be Held in Trust. The Company will, on or before each due date of the principal of or interest on, any Notes, deposit with a Paying



Agent a sum in same day funds sufficient to pay the principal or interest so becoming due, such sum to be held in trust for the benefit of the Holders entitled to such principal or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of such action or any failure so to act. The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent will agree with the Trustee, subject to the provisions of this Section 4.03, that such Paying Agent will:

(a) hold all sums held by it for the payment of the principal of or interest on Notes in trust for the benefit of the Holders entitled thereto until such sums shall be paid to such Holders or otherwise disposed of as herein provided;

(b) give the Trustee notice of any Default by the Company (or any other obligor upon the Notes) in the making of any payment of principal of or interest on the Notes;

(c) at any time during the continuance of any such Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent; and

(d) acknowledge, accept and agree to comply in all aspects with the provisions of this Indenture relating to the duties, rights and liabilities of such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture for any other purpose, pay, or by Company order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent will be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Company upon receipt of a Company request therefor, or (if then held by the Company) will be discharged from such trust; and the Holder of such Note will thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, will thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in the New York Times and the Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining shall be repaid to the Company.

SECTION 4.04. Corporate Existence. Subject to Article Four, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect the corporate



existence, rights (charter and statutory), licenses and franchises of the Company and each of the Restricted Subsidiaries; provided, however, that the Company will not be required to preserve any such right, license or franchise if the Board of Directors or Directors of Parent and the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and the Restricted Subsidiaries as a whole and that the loss thereof is not adverse in any material respect to the Holders; provided, further, that the foregoing will not prohibit a sale, transfer or conveyance of a Subsidiary of the Company or any of its assets in compliance with the terms of this Indenture.

SECTION 4.05. Payment of Taxes and Other Claims. The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (a) all material taxes, assessments and governmental charges levied or imposed (i) upon the Company or any of its Subsidiaries or (ii) upon the income, profits or property of the Company or any of the Restricted Subsidiaries and (b) all material lawful claims for labor, materials and supplies, which, if unpaid, could reasonably be expected to become a Lien upon the property of the Company or any of the Restricted Subsidiaries; provided, however, that the Company will not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings properly instituted and diligently conducted.

SECTION 4.06. Maintenance of Properties. The Company will cause all material properties owned by the Company or any of the Restricted Subsidiaries or used or held for use in the conduct of their respective businesses to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section 4.06 will prevent the Company from discontinuing the maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable ln the conduct of its business or the business of any of the Restricted Subsidiaries and is not disadvantageous in any material respect to the Holders.

SECTION 4.07. Insurance. The Company will at all times keep all of its and the Restricted Subsidiaries' properties which are of an insurable nature insured, either with insurers believed by the Company in good faith to be financially sound and responsible or by maintaining reserves in amounts customarily maintained by corporations similarly situated, against loss or damage to the extent that property of similar character is usually and customarily so insured by corporations similarly situated and owning like properties.

SECTION 4.08. Books and Records. The Company will, and will cause each of the Restricted Subsidiaries to, keep proper books of record and account, in which full and correct entries will be made of all financial transactions and the assets and business of the Company and each Restricted Subsidiary of the Company in accordance with GAAP, consistently applied.



SECTION 4.09. Compliance Certificate. The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating that in the course of the performance by the signers of their duties as Officers of the Company they would normally have knowledge of any Default and whether or not the signers know of any Default that occurred during such period. If they do, the certificate shall describe the Default, its status and what action the Company is taking or proposes to take with respect thereto. The Company also shall comply with TIA Section 314(a)(4).

SECTION 4.10. SEC Reports. The Company shall file with the Trustee and provide Noteholders, within 15 days after it files them with the SEC, copies of its annual report and the information, documents and other reports which the Company is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that the Company may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange

Act, the Company shall continue to file with the SEC and provide the Trustee and Noteholders with the annual reports and the information, documents and other reports which are specified in Sections 13 and 15(d) of the Exchange Act at the times specified for the filing of such information. The Company also shall comply with the other provisions of TIA Section 314(a).

SECTION 4.11. Limitation on Indebtedness. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, Incur any Indebtedness; PROVIDED, HOWEVER, that (a) if after giving pro forma effect to the application of the proceeds thereof, no Default or Event of Default would occur as a consequence of such Incurrence or be continuing following such Incurrence, the Company may Incur Indebtedness and Restricted Subsidiaries may borrow or Guarantee borrowings under the Credit Facility and Incur Indebtedness that is Vendor Financing, in each case, if on the date of the Incurrence of such Indebtedness, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds thereof, the Leverage Ratio of the Company and the Restricted Subsidiaries (on a consolidated basis) would not exceed (i) 7.5 from the Issue Date until December 31, 1999 and (ii) 6.0 after December 31, 1999 and (b) Permitted Indebtedness may be Incurred.

"Permitted Indebtedness" is defined to include any and all of the following: (i) in addition to any amounts outstanding pursuant to clause (vii) below, Indebtedness pursuant to the Credit Facility and this clause (i) in an aggregate amount outstanding at any time not to exceed $75 million; (ii) Indebtedness of the Company evidenced by the Notes; (iii) Indebtedness of the Company owing to and held by a Restricted Subsidiary and Indebtedness of a Restricted Subsidiary owing to and held by the Company or any Restricted Subsidiary; PROVIDED, HOWEVER, that any event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such Indebtedness (except to the Company or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the issuer thereof; PROVIDED, FURTHER, that any Indebtedness of the Company owing to and held by a Restricted Subsidiary shall be expressly subordinated to the Notes; (iv) Indebtedness (other than Indebtedness permitted by the immediately preceding paragraph or elsewhere in this paragraph) in an aggregate principal amount outstanding at any time not to exceed $15 million; (v) Indebtedness under Interest Rate Agreements entered into for the purpose of limiting interest rate



risks, PROVIDED, that the obligations under such agreements are related to payment obligations on Indebtedness otherwise permitted by the terms of this Section 4.11; (vi) Indebtedness in connection with one or more standby letters of credit or performance bonds issued in the ordinary course of business or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit; (vii) Indebtedness outstanding on the Issue Date (after giving effect to the application of the proceeds of the sale of the Notes and the Stock Offering); (viii) Permitted Refinancing Indebtedness Incurred in respect of Indebtedness Incurred pursuant to clause (a) of the immediately preceding paragraph and clauses (ii) and (vii) above; (ix) Indebtedness incurred solely as a result of the execution by the Company or its Restricted Subsidiaries of the Capacity Lease; and (x) Indebtedness incurred solely as a result of the execution by the Company or its Restricted Subsidiaries of the Operating Keep-Well Agreement and the Completion Guarantee; PROVIDED, HOWEVER, that the foregoing exception shall not be applicable to Indebtedness actually incurred by the Company or any of its Restricted Subsidiaries in order to fund the obligations of the Company or its Restricted Subsidiaries to perform under the Operating Keep-Well Agreement or the Completion Guarantee.

SECTION 4.12. Limitation on Indebtedness of AULP. The Company shall not permit AULP or any Subsidiary of AULP to, directly or indirectly, incur any Indebtedness other than (i) Indebtedness under the Fiber Construction Facility or any Permitted Refinancing Indebtedness incurred in respect of such Fiber Construction Facility in an aggregate principal amount not to exceed $75 million, less any principal payments made thereunder, (ii) Indebtedness owing to and held by GCI Transport, the Issuer or any Restricted Subsidiary and evidencing amounts advanced pursuant to the GCI Transport Keep-Well Agreement or the Operating Keep-Well Agreement, (iii) additional Indebtedness not to exceed $5 million in the aggregate at any one time outstanding and (iv) Indebtedness (other than Indebtedness permitted under the preceding clauses (i) through (iii)) in an aggregate principal amount outstanding at any time not to exceed $10 million, but only if and to the extent that (a) all principal, interest and other obligations of any kind under such Indebtedness permitted under this clause (iv) are excluded for all purposes in determining amounts that may become due and owing pursuant to the GCI Transport Keep-Well Agreement or the Operating Keep-Well Agreement and (b) such Indebtedness permitted under this clause (iv) is non-recourse to, and the lender thereunder has waived all claims against, the Company and its Restricted Subsidiaries and their respective Properties and assets with respect thereto.

SECTION 4.13. Limitation on Restricted Payments. The Company shall not make, and shall not permit any Restricted Subsidiary to make, directly or indirectly, any Restricted Payment if at the time of, and after giving effect to, such proposed Restricted Payment, (a) a Default or an Event of Default shall have occurred and be continuing, (b) the Company could not Incur at least $1.00 of additional Indebtedness pursuant to clause (a) of the first paragraph of Section 4.11 or (c) the aggregate amount of such Restricted Payment and all other Restricted Payments made since the Issue Date (the amount of any Restricted Payment, if made other than in cash, to be based upon Fair Market Value) would exceed an amount equal to the sum of (i) the excess of (A) Cumulative EBITDA over (B) the product of 1.5 and Cumulative Interest Expense, (ii) Capital Stock Sale Proceeds, (iii) the amount by which Indebtedness of the Company or any Restricted



Subsidiary is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Issue Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash or other Property distributed by the Company or any Restricted Subsidiary upon conversion or exchange) and (iv) an amount equal to the net reduction in Investments made by the Company and its Restricted Subsidiaries subsequent to the Issue Date in any Person resulting from (A) dividends, repayment of loans or advances, or other transfers or distributions of Property (but only to the extent the Company excludes such transfers or distributions from the calculation of Cumulative EBITDA for purposes of clause (c)(i)(A) above), in each case to the Company or any Restricted Subsidiary from any Person or (B) the redesignation of any Unrestricted Subsidiary as a Restricted Subsidiary, not to exceed, in the case of (A) or (B) of this subclause (iv), the amount of such Investments previously made by the Company and its Restricted Subsidiaries in such Person or such Unrestricted Subsidiary, as the case may be, which were treated as Restricted Payments.

Notwithstanding the foregoing limitation, the Company and, in the case of clauses (e), (f) and (h), its Restricted Subsidiaries may (a) pay dividends on its Capital Stock within 60 days of the declaration thereof if, on the declaration date, such dividends could have been paid in compliance with this Indenture, (b) redeem, repurchase, defease, acquire or retire for value, any Indebtedness subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes with the proceeds of any Indebtedness that is Permitted Refinancing Indebtedness in respect of such subordinated Indebtedness, (c) acquire, redeem or retire Capital Stock of the Company or Indebtedness subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes in exchange for, or in connection with a substantially concurrent issuance of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or other trust established by the Company or any Subsidiary of the Company), (d) make Investments in Persons the primary businesses of which are Related Businesses (other than Investments in the Capital Stock of the Company) in an amount at any time outstanding not to exceed in the aggregate for all such Investments made in reliance upon this clause (d), the sum of (i) $35 million and (ii) an amount equal to the net reduction in Investments made by the Company and its Restricted Subsidiaries subsequent to the Issue Date in any Person resulting from payments of dividends, repayment of loans or advances, or other transfers or distributions of Property (to the extent not included in EBITDA) to the Company or any Restricted Subsidiary from any Person (but only to the extent such net reduction in Investments has not been utilized to permit a Restricted Payment pursuant to clause (c)(i) or (c)(iv) in the immediately preceding paragraph) not to exceed, in the case of clause (d)(ii), the amount of such Investments previously made by the Company and its Restricted Subsidiaries in such Person which were treated as Restricted Payments, (e) execute the Completion Guarantee and the Operating Keep-Well Agreement; PROVIDED, HOWEVER, any funding of the Completion Guarantee or the Operating Keep-Well Agreement may only be made if it complies with the immediately preceding paragraph or clause (d) in this paragraph and such funding or purchases shall count as Restricted Payments for purposes of determining such compliance, (f) execute the Operating and Maintenance Contract and



make payments pursuant thereto in an annual amount not to exceed the pro rata share of the annual operating and maintenance costs of the system allocated to the output capacity of the system leased and/or purchased by the Company and its Restricted Subsidiaries, (g) purchase or redeem Capital Stock in connection with the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management employees of Parent, the Company or one of its Subsidiaries; PROVIDED, HOWEVER, that the amount paid in connection with all such redemptions or repurchases pursuant to this clause (g) shall not exceed in any fiscal year $2 million in the aggregate, and (h) assign or otherwise transfer to GCI Transport, or any of its Subsidiaries the credit in favor of the Company and all other related rights arising from the Company's $9.1 million deposit made in connection with the Galaxy X Agreement.

Any payments made pursuant to clauses (b), (c), (f) and (h) of the immediately preceding paragraph shall be excluded from the calculation of the aggregate amount of Restricted Payments made after the Issue Date; PROVIDED, HOWEVER, that the proceeds from the issuance of Capital Stock pursuant to clause (c) of the immediately preceding paragraph shall not constitute Capital Stock Sale Proceeds for purposes of clause (c)(ii) of the first paragraph of this Section 4.13. The Company may, at the time of any Restricted Payment, designate, by delivery to the Trustee of an Officers' Certificate referencing this covenant and such designation, whether such Restricted Payment is being made in accordance with the second preceding paragraph or, if applicable, the clause of the preceding paragraph pursuant to which such Restricted Payment is being made.

SECTION 4.14. Limitation on Transactions with Affiliates. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, conduct any business or enter into or suffer to exist any transaction or series of transactions (including the purchase, sale, transfer, lease or exchange of any Property or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction") unless (a) the terms of such Affiliate Transaction are (i) set forth in writing, (ii) in the best interest of the Company or such Restricted Subsidiary, as the case may be, and (iii) no less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Company or such Restricted Subsidiary, (b) with respect to an Affiliate Transaction involving aggregate payments or value in excess of $15 million, the Board of Directors of Parent and the Company (including a majority of the disinterested members of the Board of Directors of Parent and the Company) approves such Affiliate Transaction and, in its good faith judgment, believes that such Affiliate Transaction complies with clauses (a)(ii) and (iii) of this paragraph as evidenced by a Board Resolution and (c) with respect to an Affiliate Transaction involving aggregate payments or value in excess of $25 million, the Company obtains a written opinion from an independent appraisal firm to the effect that such Affiliate Transaction is fair, from a financial point of view to the Company or such Restricted Subsidiary, as applicable.

Notwithstanding the foregoing limitation, the Company may enter into or suffer to exist the following: (i) any transaction pursuant to any contract in existence on the Issue Date on the terms of such contract as in effect on the Issue Date; (ii) any transaction or series of transactions



between the Company and one or more of its Restricted Subsidiaries or between two or more of its Restricted Subsidiaries; (iii) any Restricted Payment permitted to be made pursuant to Section 4.13; (iv) the payment of compensation (including, amounts paid pursuant to employee benefit plans) for the personal services of officers, directors and employees of Parent, the Company or any of its Restricted Subsidiaries, so long as the Board of Directors of Parent and the Company in good faith shall have approved the terms thereof and deemed the services theretofore or thereafter to be performed for such compensation or fees to be fair consideration therefor; (v) loans and advances to employees of Parent, the Company or a Restricted Subsidiary made in the ordinary course of business and consistent with past practice of Parent, the Company or such Restricted Subsidiary, as the case may be, provided, that such loans and advances do not exceed in the aggregate $5 million at any one time outstanding; (vi) any transaction pursuant to any Fiber Construction Facility Agreement; (vii) any transaction pursuant to the Galaxy X Agreement; and (viii) the Permitted Issue Date Transactions and (ix) any transaction pursuant to any Fiber Construction Agreement.

SECTION 4.15. Change of Control Offer. (a) Upon the occurrence of a Change of Control, the Company shall notify the Trustee in writing of such occurrence and shall make an offer to purchase (the "Change of Control Offer") the Notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon to the Change of Control Payment Date (as hereinafter defined) (the "Change of Control Purchase Price") in accordance with the procedures set forth in this Section 4.15.

(b) Within 30 days of the occurrence of a Change of Control, with respect to the Notes, the Company also shall (i) cause a notice of the Change of Control Offer to be sent at least once to the Dow Jones News Service or similar business news service in the United States and (ii) mail a notice by first class mail, postage prepaid, to the Trustee and to each Holder of the Notes, at his address appearing in the register of the Notes maintained by the Registrar, stating:

(1) that a Change in Control has occurred and a Change of Control Offer is being made pursuant to this Section 4.15 and that all such Notes timely tendered will be accepted for payment;

(2) the Change of Control Purchase Price and the purchase date, which shall be a Business Day, no earlier than 30 days nor later than 60 days from the date such notice is mailed (the "Change of Control Payment Date");

(3) that any Notes (or portions thereof) accepted for payment (and duly paid on the Change of Control Payment Date) pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;

(4) that any Notes (or portions thereof) not tendered will continue to accrue interest;



(5) that Holders accepting the offer to have their Notes purchased pursuant to a Change of Control Offer will be required to surrender such Notes to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day preceding the Change of Control Payment Date;

(6) that Holders will be entitled to withdraw their acceptance if the Paying Agent receives, not later than the close of business on the third Business Day preceding the Change of Control Payment Date, a facsimile transmission or letter setting forth the name of the Holder, the principal amount of such Notes delivered for purchase, and a statement that such Holder is withdrawing his election to have such Notes purchased;

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, provided that each Note purchased and each such new Note issued shall be in a principal amount in denominations of $1,000 and integral multiples thereof; and

(8) any other procedures that a Holder must follow to accept a Change of Control Offer or effect withdrawal of such acceptance.

(c) On the Change of Control Payment Date, the Company shall (a) accept for payment the Notes or portions thereof tendered pursuant to the Change of Control Offer, (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so tendered and (c) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate indicating the Notes or portions thereof tendered to the Company. The Paying Agent shall promptly mail to each holder of Notes so accepted payment in an amount equal to the purchase price for such Notes, and the Trustee shall promptly authenticate and mail to such holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered; provided that each such new Note shall be issued in an original principal amount in denominations of $1,000 and integral multiples thereof.

(d) The Company shall comply, to the extent applicable, with the requirements of Rule 14(e)-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the purchase of Notes in connection with a Change of Control Offer made pursuant to this Section 4.15. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.15 by virtue thereof.

SECTION 4.16. Limitation on Liens. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, Incur or suffer to exist, any Lien (other than Permitted Liens) upon any of its Property, whether now owned or hereafter acquired, or any interest therein, or any income or profits therefrom, unless (a) with respect to any Restricted Subsidiary, such Lien secures Indebtedness other than Guarantees of Indebtedness of the Company



or (b) effective provision has been or will be made whereby the Notes will be secured by such Lien equally and ratably with all other Indebtedness of the Company or any Restricted Subsidiary secured by such Lien; PROVIDED, HOWEVER, that no Lien may be granted with respect to Indebtedness of the Company that is subordinated to the Notes.

SECTION 4.17. Limitation on Asset Sales.

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale after the Issue Date unless (i) the Company or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the Property subject to such Asset Sale and (ii) (A) at least 80% of the consideration paid to the Company or such Restricted Subsidiary in connection with such Asset Sale is in the form of cash or cash equivalents or (B) the consideration paid to the Company or such Restricted Subsidiary is determined in good faith by the Board of Directors of Parent and the Company, as evidenced by a Board Resolution, to be substantially comparable in type to the assets being sold; PROVIDED, HOWEVER, this clause (ii) shall not apply to (1) any sales of property or equipment that have become worn out, obsolete or damaged or otherwise unsuitable for use in connection with the business of the Company or any Restricted Subsidiary, as the case may be and (2) any sales of Capital Stock of AULP on terms that are otherwise deemed fair to the Company and its Subsidiaries in the reasonable business judgment of the Board of Directors of Parent and the Company, as evidenced by a Board Resolution.

The Net Available Cash (or any portion thereof) from Asset Sales may be applied by the Company or a Restricted Subsidiary, (A) to prepay, repay or purchase Indebtedness under the Credit Facility or Indebtedness of a Restricted Subsidiary (excluding Indebtedness owed to the Company or an Affiliate of the Company); or (B) to reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Company or another Restricted Subsidiary).

Any Net Available Cash from an Asset Sale not applied in accordance with the preceding paragraph within one year from the date of such Asset Sale or the receipt of such Net Available Cash shall constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds $10 million (taking into account income earned on such Excess Proceeds), the Company will be required to make an offer to purchase (the "Prepayment Offer") the Notes, and any other Indebtedness, if any, that ranks PARI PASSU with the Notes and contains similar provisions requiring an Asset Sale prepayment offer, on a pro rata basis, at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon (if any) to the date of purchase in accordance with the procedures (including prorating in the event of oversubscription) set forth in paragraph (b) below (or, in the event of Indebtedness that is discounted, at a price of the then accreted value thereof); PROVIDED, HOWEVER, if any other such Indebtedness that ranks PARI PASSU with the Notes does not contain similar Asset Sale prepayment offer provisions with regard to the pro rata repayment of such other Indebtedness and the Notes, the Company will be required to purchase the Notes before purchasing any other such Indebtedness from such Excess Proceeds.



If the aggregate principal amount of Notes surrendered for purchase by holders thereof exceeds the amount of Excess Proceeds allocated to the Notes, then the Trustee shall select the Notes to be purchased pro rata according to principal amount or by lot with such adjustments as may be deemed appropriate by the Company so that only Notes in denominations of $1,000, or integral multiples thereof, shall be purchased. To the extent that any portion of the amount of Net Available Cash remains after compliance with the preceding sentence and, PROVIDED that all holders of Notes have been given the opportunity to tender their Notes for purchase as described in the following paragraph in accordance with this Indenture, the Company or such Restricted Subsidiary may use such remaining amount for general corporate purposes and the amount of Excess Proceeds will be reset to zero.

(b) Within five Business Days after one year from the date of an Asset Sale or the receipt of Net Available Cash therefrom, the Company shall, if it is obligated to make a Prepayment Offer, send a written notice, by first-class mail, to the holders of the Notes (the "Prepayment Offer Notice"), accompanied by such information regarding the Company and its Subsidiaries as the Company in good faith believes will enable such holders of the Notes to make an informed decision with respect to the Prepayment Offer. The Prepayment Offer Notice shall state, among other things, (1) that the Company is offering to purchase Notes pursuant to Section 4.17, (2) that any Note (or any portion thereof) accepted for payment (and duly paid on the Purchase Date (defined below)) pursuant to the Prepayment Offer shall cease to accrue interest after the Purchase Date, (3) the purchase price and purchase date, which shall be, subject to any contrary requirements of applicable law, no less than 30 days nor more than 60 days from the date the Prepayment Offer Notice is mailed (the "Purchase Date"), (4) the aggregate principal amount of Notes (or portions thereof) to be purchased, (5) that Holders electing to have a Note purchased pursuant to a Prepayment Offer will be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third Business Day prior to the Purchase Date, (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than five Business Days prior to the Purchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Notes the Holder delivered for purchase and a statement that such Holder is withdrawing his or her election to have such Note purchased, and (7) that Holders whose Notes are purchased only in part will be issued new Notes in a principal amount equal to the unpurchased portion of the Notes surrendered; PROVIDED that each Note purchased and each new Note issued shall be in an original principal amount of $1,000 or integral multiples thereof.

On or before the Prepayment Purchase Date, the Company shall (i) accept for payment Notes or portions thereof tendered pursuant to the Prepayment Offer, (ii) deposit with the Paying Agent sufficient money to pay the purchase price plus accrued interest, if any, of all Notes to be purchased and (iii) deliver to the Trustee Notes so accepted together with an Officers' Certificate stating the Notes or portions thereof being purchased by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price plus accrued interest, if any. For purposes of this Section 4.17, the Trustee shall act as the



Paying Agent. Any amounts remaining after the purchase of Notes pursuant to a Prepayment Offer shall be returned by the Trustee to the Company.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws or regulations thereunder to the extent such laws and regulations are applicable in connection with the purchase of Notes as described above. To the extent that the provisions of any securities laws or regulations conflict with the provisions relating to the Prepayment Offer, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described above by virtue thereof.

SECTION 4.18. Limitation on Restrictions on Distributions From Restricted Subsidiaries. The Company shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective, or enter into any agreement with any Person that would cause to become effective, any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock, or pay any Indebtedness or other obligation owed, to the Company or any other Restricted Subsidiary, (b) make any loans or advances to the Company or any other Restricted Subsidiary or (c) transfer any of its Property to the Company or any other Restricted Subsidiary. Such limitation will not apply (1) with respect to clauses (a), (b) and (c), to encumbrances and restrictions (i) in existence under or by reason of any agreements (not otherwise described in clause (iii)) in effect on the Issue Date, (ii) relating to Indebtedness of a Restricted Subsidiary and existing at such Restricted Subsidiary at the time it became a Restricted Subsidiary if such encumbrance or restriction was not created in connection with or in anticipation of the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company, (iii) any encumbrance or restriction pursuant to (x) the Credit Facility as in effect on the Issue Date and (y) any agreement which amends, extends, renews, refinances, replaces or refunds the Credit Facility, PROVIDED, HOWEVER, that in the case of this subclause (y), such restrictions or encumbrances are no less favorable to the holders of the Notes than those restrictions or encumbrances pursuant to the Credit Facility as in effect on the Issue Date; PROVIDED, FURTHER, HOWEVER, that in the case of subclauses (x) and (y), the provisions of the Credit Facility (A) permit (whether explicitly or as a result of the relative maturities of the Credit Facility and the Notes) distributions to the Company for the purpose of, and in an amount sufficient to fund, the payment of principal due at Stated Maturity and interest in respect of the Notes (PROVIDED, in either case, that such payment is due or to become due within 30 days from the date of such distribution) at a time when there does not exist an event which after notice or passage of time or both would permit the lenders under the Credit Facility to declare all amounts thereunder due and payable, and (B) provide that in no event shall any encumbrance or restriction pursuant to the Credit Facility prohibit distributions for Indebtedness on the Notes for more than 180 days in any consecutive 360 day period, unless (1) there exists a default under the Credit Facility resulting from any payment default under the Credit Facility when due or (2) the maturity of the Credit Facility has been accelerated, or (iv) which result from the extension renewal, refinancing, replacement, refunding or amendment of an agreement referred to in the immediately



preceding clauses (1)(i) and (ii) above and in clauses (2)(i) and (ii) below, PROVIDED, such encumbrance or restriction is no more restrictive to such Restricted Subsidiary and is not materially less favorable to the holders of Notes than those under or pursuant to the agreement evidencing the Indebtedness so extended, renewed, refinanced, replaced, refunded or amended, and (2) with respect to clause (c) only, to (i) any encumbrance or restriction relating to Indebtedness that is permitted to be Incurred and secured pursuant to Sections 4.11 and 4.16 that limits the right of the debtor to dispose of the assets or Property securing such Indebtedness, (ii) any encumbrance or restriction in connection with an acquisition of Property, so long as such encumbrance or restriction relates solely to the Property so acquired and was not created in connection with or in anticipation of such acquisition, (iii) customary provisions restricting subletting or assignment of leases of the Company or any Restricted Subsidiary and customary provisions in other agreements that restrict assignment of such agreements or rights thereunder or (iv) customary restrictions contained in asset sale agreements limiting the transfer of such assets pending the closing of such sale.

SECTION 4.19. Ownership of Significant Subsidiaries. The Company will at all times maintain, either directly or indirectly, 100% ownership of the

Capital Stock of any Person that is or becomes a Significant Subsidiary of the Company; PROVIDED, HOWEVER, that (i) the Company may, directly or indirectly, acquire after the Issue Date and thereafter maintain ownership comprising less than 100% of the Capital Stock of such Person provided such acquisition is otherwise effected in accordance with the terms of this Indenture and (ii) the Company may transfer, convey, sell or otherwise dispose of all or substantially all of the assets of a Significant Subsidiary as permitted pursuant to Section 4.17.

SECTION 4.20. Fiber Construction Agreements. The Company shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, Guarantee any Indebtedness of any Unrestricted Subsidiary or enter into any keep-well, support or other similar agreement with respect to any Unrestricted Subsidiary other than pursuant to the Fiber Construction Agreements.

The Company and the Restricted Subsidiaries may, but shall not, directly or indirectly, be required to purchase, lease or otherwise acquire output capacity of the System other than pursuant to the Capacity Lease.

The Company shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, advance Funds pursuant to the Completion Guarantee and the Operating Keep-Well Agreement unless (i) such advance is permitted by Section 4.13 and (ii) in no event shall the aggregate amount of such advances exceed $100 million.

The Fiber Construction Facility will provide that the obligation of the Company and its Restricted Subsidiaries to advance funds pursuant to the Completion Guarantee and the Operating Keep-Well Agreement will be limited to the amount that is permitted to be distributed pursuant to Section 4.13.



The Operating Keep Well Agreement will provide that no payments of the type referred to in clause (i) of the definition of "Operating Keep-Well Agreement" will be required to be made unless GCI Transport has failed to pay such amount within 5 days after demand for such payment pursuant to the GCI Transport Keep-Well Agreement and no payments of the types referred to in clause (ii) of the definition of "Operating Keep-Well Agreement" will be required unless the Fiber Construction Facility Banks have taken commercially reasonable efforts to exhaust their remedies against all assets of AULP, the Capital Stock of AULP, and demand for payment against GCI Transport under the GCI Transport Keep-Well Agreement and a filing of a claim for payment against GCI Transport under the GCI Transport Keep-Well Agreement.

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, amend, supplement or otherwise modify any term or condition of any Fiber Construction Agreement in any manner that, directly or indirectly, materially increases or adversely affects in a material manner any obligation or contingent obligation of the Company or any of its Restricted Subsidiaries under the Completion Guarantee, the Operating Keep-Well Agreement, the Operating and Maintenance Contract, the Capacity Lease or any other agreement or arrangement executed or delivered in connection with the Fiber Construction Agreements or the transactions contemplated thereby.

SECTION 4.21. Operation of Unrestricted Subsidiaries. The Company shall cause each of its Unrestricted Subsidiaries (i) to maintain continuously articles or a certificate of incorporation or, in the case of a partnership, a partnership agreement, providing that (a) such Unrestricted Subsidiary's purpose is limited and, in the case of AULP, that such purpose is limited to conducting the business contemplated by the Fiber Construction Agreements, (b) such Unrestricted Subsidiary is prohibited from engaging in any dissolution, liquidation, merger, consolidation or sale, transfer, assignment, lease, conveyance or other disposal of all or substantially all of its Property in any one transaction or series of transactions as long as any Indebtedness under the Fiber Construction Facility remains outstanding, other than (1) any such transaction with or into the Company or any of its Restricted Subsidiaries otherwise effected and in accordance with the terms of this Indenture, (2) any such transaction with or into another Unrestricted Subsidiary and (3) any such transaction which, assuming for purposes of this clause (3) only that such Unrestricted Subsidiary were a Restricted Subsidiary, would comply with Section 4.17; PROVIDED, HOWEVER, that any Net Available Cash derived therefrom may also be used to prepay, repay or purchase Indebtedness under the Fiber Construction Facility and (c) the Board of Directors of such Unrestricted Subsidiary or, in the case of a partnership, of the corporate general partner of such partnership, shall consist of not less than one independent director; (ii) to maintain separate books and records including, without limitation, separate financial statements; (iii) not to commingle any of its properties or assets with the properties or assets of the Company or any Restricted Subsidiary; (iv) to pay its liabilities, the salaries of its employees and all consultant and advisor fees and expenses directly out of funds that do not comprise in whole or in part the funds of the Company or any of its Restricted Subsidiaries and (v) otherwise to hold itself out as a separate entity.

ARTICLE 5

Successor Company

SECTION 5.01. Merger, Consolidation and Sale of Assets. The Company shall not merge or consolidate with or into any other entity (other than a merger of a wholly owned Restricted Subsidiary into the Company) or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of its Property in any one transaction or series of transactions unless: (a) the entity formed by or surviving any such consolidation or merger (if the Company is not the surviving entity) or the Person to which such sale, transfer, assignment, lease, conveyance or other disposition is made (the "Surviving Entity") shall be a corporation organized and existing under the laws of the United States of America or a State thereof or the District of Columbia and such corporation expressly assumes, by supplemental indenture in form satisfactory to the Trustee, executed and delivered to the Trustee by such corporation, the due and punctual payment of the principal of and interest on all the Notes, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture to be performed by the Company; (b) immediately before and after giving effect to such transaction or series of transactions, no Default or Event of Default shall have occurred and be continuing; (c) immediately after giving effect to such transaction or series of transactions on a pro forma basis (including, without limitation, any Indebtedness Incurred or anticipated to be Incurred in connection with such transaction or series of transactions), the Company or the Surviving Entity, as the case may be, would be able to Incur at least $1.00 of additional Indebtedness under clause (a) of the first paragraph of Section 4.11, and (d) in the case of a sale, transfer, assignment, lease, conveyance or other disposition of all or substantially all of the Company's Property, such Property shall have been transferred as an entirety or virtually as an entirety to one Person.

In connection with any consolidation, merger or transfer contemplated by this Section 5.01, the Company shall deliver, or cause to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, transfer, assignment, lease, conveyance or other disposition and the supplemental indenture in respect thereof comply with this Section 5.01, and that all conditions precedent herein provided for relating to such transaction or transactions have been complied with.

ARTICLE 6

Defaults and Remedies

SECTION 6.01. Events of Default. An "Event of Default" occurs if:

(1) the Company fails to make any payment of interest on any Note when the same becomes due and payable, whether or not such payment shall be prohibited by Article 10, and such failure continues for a period of 30 days;



(2) the Company (i) fails to make any payment of the principal of any of the Notes, when the same becomes due and payable, upon acceleration, redemption, optional redemption, required purchase or otherwise, or (ii) fails to purchase Notes when required pursuant to this Indenture or the Notes;

(3) the Company defaults in the observance or performance of any other covenant or agreement contained in this Indenture and such default continues for 30 days after written notice from the Trustee or the registered holders of not less than 25% in aggregate principal amount of the Notes then outstanding (except in the case of a default with respect to Section 5.01, which will constitute an Event of Default with such notice requirement but without such passage of time requirement);

(4) the Company or any Restricted Subsidiary defaults under any Indebtedness for borrowed money which results in acceleration of the maturity of such Indebtedness, or failure to pay any such Indebtedness when due within any applicable grace period, in a total amount greater than $15,000,000;

(5) the Company or any Restricted Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) consents to the entry of an order for relief against it in an involuntary case;

(C) consents to the appointment of a Custodian of it or for any substantial part of its property; or

(D) makes a general assignment for the benefit of its creditors;

or takes any comparable action under any foreign laws relating to insolvency;

(6) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Restricted Subsidiary in an involuntary case;

(B) appoints a Custodian of the Company or any Restricted Subsidiary or for any substantial part of its property; or

(C) orders the winding up or liquidation of the Company or any Restricted Subsidiary;



or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days; or

(7) any judgment or judgments for the payment of money in an uninsured aggregate amount in excess of $15,000,000 is rendered against the Company or any Restricted Subsidiary and is not waived, satisfied or discharged and for any period of 30 consecutive days following the entry of such judgment during which a stay of enforcement shall not be in effect.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term "Bankruptcy Law" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

A Default under clause (3) (4) or (7) is not an Event of Default until the Trustee or the Holders of at least 25% in principal amount of the Notes notify the Company of the Default and the Company does not cure such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default".

The Company shall deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event which with the giving of notice and the lapse of time would become an Event of Default under clause (3), (4) or (7), its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 6.02. Acceleration. If an Event of Default with respect to the Notes (other than an Event of Default specified in Section 6.01(5) or (6)) occurs and is continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare to be immediately due and payable the principal amount of all the Notes then outstanding, plus accrued but unpaid interest to the date of acceleration; PROVIDED, HOWEVER, that after such acceleration but before a judgment or decree based on acceleration is obtained by the Trustee, the Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal or interest, have been cured or waived as provided in this Indenture. No rescission shall affect any subsequent Default or impair any right consequent thereto. In case an Event of Default specified in Section 6.01(5) or (6) shall occur, such amount with respect to all of the Notes shall IPSO FACTO become and be immediately due and payable without any declaration or other act on the part of the Trustee or the holders of the Notes.



SECTION 6.03. Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of or interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Noteholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 6.04. Waiver of Existing Defaults. The registered holders of a majority in principal amount of the Notes then outstanding by notice to the Trustee may waive an existing Default and its consequences or compliance with any provision of this Indenture, except (i) a Default in the payment of the principal of or interest on a Note or (ii) a Default in respect of a provision that under Section 9.02 cannot be amended without the consent of each Noteholder affected. When a Default is waived, it is deemed cured, but such waiver shall not extend to any subsequent or other Default or impair any consequent right.

SECTION 6.05. Control by Majority. The Holders of a majority in principal amount of the Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 7.01, that the Trustee determines is unduly prejudicial to the rights of other Noteholders or would involve the Trustee in personal liability; provided, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action hereunder, the Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

SECTION 6.06. Limitation on Suits. No Holder will have any right to institute any proceeding with respect to this Indenture or for any remedy hereunder, unless:

(1) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of the Notes then outstanding shall have made written request and offered reasonable indemnity to the Trustee to institute such proceeding as a trustee;

(3) the Trustee shall not have received from the registered holders of a majority in aggregate principal amount of the Notes then outstanding a direction inconsistent with such request; and



(4) the Trustee shall have failed to institute such proceeding within 60 days;

PROVIDED, HOWEVER, such limitations do not apply to a suit instituted by a Holder for enforcement of payment of the principal of or interest on such Note on or after the respective due dates expressed in such Note.

SECTION 6.07. Rights of Holders To Receive Payment. Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on the Notes held by such Holder, on or after the respective due dates expressed in the Notes, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 6.08. Collection Suit by Trustee. If an Event of Default in payment of interest or principal specified in Section 7.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal and interest remaining unpaid (together with interest on such unpaid interest to the extent lawful) and the amounts provided for in Section 7.07.

SECTION 6.09. Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Holders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other Person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and its counsel, and any other amounts due the Trustee under Section 7.07.

SECTION 6.10. Priorities. If the Trustee collects any money or property pursuant to this Article 6, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.07;

SECOND: to Noteholders for amounts due and unpaid on the Notes for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest, respectively; and

THIRD: to the Company.

The Trustee may fix a record date and payment date for any payment to Noteholders pursuant to this Section. At least 15 days before such record date, the Company shall mail to each



Noteholder and the Trustee a notice that states the record date, the payment date and amount to be paid.

SECTION 6.11. Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Notes.

SECTION 6.12. Waiver of Stay or Extension Laws. The Company (to the extent it may lawfully refrain from doing so) shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE 7

## Trustee

SECTION 7.01. Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Event of Default: (1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and (2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions which are required by this Indenture to be delivered to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own wilful misconduct except that: (1) this paragraph does not limit



the effect of paragraph (b) of this Section; (2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and (3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section and to the provisions of the TIA.

SECTION 7.02. Rights of Trustee. (a) The Trustee may rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an Officers' Certificate or an Opinion of Counsel.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Trustee's conduct does not constitute wilful misconduct or negligence.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of such counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect of any action taken, omitted or



suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

SECTION 7.03. Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

SECTION 7.04. Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes, and it shall not be responsible for any statement of the Company in this Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Trustee's certificate of authentication.

SECTION 7.05. Notice of Defaults. If a Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Noteholder notice of the Default within 90 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Note (including payments pursuant to the mandatory redemption provisions of such Note, if any), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of Noteholders.

SECTION 7.06. Reports by Trustee to Holders. As promptly as practicable after each August 15 beginning with the August 15 following the date of this Indenture, and in any event prior to October 15 in each year, the Trustee shall mail to each Noteholder a brief report dated as of August 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Noteholders shall be filed with the SEC and each stock exchange (if any) on which the Notes are listed. The Company agrees to notify promptly the Trustee whenever the Notes become listed on any stock exchange and of any delisting thereof.

SECTION 7.07. Compensation and Indemnity. The Company shall pay to the Trustee from time to time such compensation as the Company and the Trustee shall agree in writing for its services. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Trustee's agents, counsel, accountants and experts. The Company shall indemnify each of the Trustee and any predecessor Trustee against any and all loss, liability, damage, claim or expense (including reasonable attorneys' fees and expenses)



incurred by it in connection with the acceptance of the administration of this trust and the performance of its duties hereunder. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee may have separate counsel and the Company shall pay the fees and expenses of such counsel. The Trustee shall not settle any such claim without the written consent (which shall not be unreasonably withheld) of the Company, provided that the giving of such consent does not conflict with the provisions of this Indenture or the TIA. The Company need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own wilful misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on Notes under Article 8 or otherwise.

The Company's payment obligations pursuant to this Section shall survive the discharge of this Indenture. When the Trustee incurs expenses after the occurrence of a Default specified in Section 6.01(5) or (6) with respect to the Company, the expenses are intended to constitute expenses of administration under Bankruptcy Law.

SECTION 7.08. Replacement of Trustee. The Trustee may resign at any time by so notifying the Company. The Holders of a majority in principal amount of the Notes may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Company shall remove the Trustee if:

(1) the Trustee fails to comply with Section 7.10;

(2) the Trustee is adjudged bankrupt or insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns, is removed by the Company or by the Holders of a majority in principal amount of the Notes and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the



Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Noteholders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.07.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 25% in principal amount of the Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Noteholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding the replacement of the Trustee pursuant to this Section, the Company's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

SECTION 7.09. Successor Trustee by Merger. If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation or banking association without any further act shall be the successor Trustee.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Trustee, and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have.

SECTION 7.10. Eligibility; Disqualification. The Trustee shall at all times satisfy the requirements of TIA Section 310(a). The Trustee shall have a combined capital and surplus of at least $50,000,000 as set forth in its most recent published annual report of condition. No obligor upon the Notes or Person directly controlling, controlled by, or under common control with such obligor shall serve as Trustee upon the Notes. The Trustee shall comply with TIA Section 310(b); provided, however, that there shall be excluded from the operation of TIA Section 310(b)(1) any indenture or indentures under which other securities or certificates of interest or participation in other securities of the Company are outstanding if the requirements for such exclusion set forth in TIA Section 310(b)(1) are met.

SECTION 7.11. Preferential Collection of Claims Against Company. The Trustee shall comply with TIA Section 311 (a), excluding any creditor relationship listed in TIA Section 311 (b). A Trustee who has resigned or been removed shall be subject to TIA Section 311 (a) to the extent indicated.



ARTICLE 8

Discharge of Indenture; Defeasance

SECTION 8.01. Discharge of Liability on Notes; Defeasance. (a) When (i) the Company delivers to the Trustee all outstanding Notes (other than Notes replaced pursuant to Section 2.06) for cancellation or (ii) all outstanding Notes have become due and payable and the Company irrevocably deposits with the Trustee funds sufficient to pay at maturity or upon redemption all outstanding Notes, including interest thereon (other than Notes replaced pursuant to Section 2.06), and if in either case the Company pays all other sums payable hereunder by the Company, then this Indenture shall, subject to Sections 8.01(c) and 8.06, cease to be of further effect. The Trustee shall acknowledge satisfaction and discharge of this Indenture on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Company.

(b) Subject to Sections 8.01 (c), 8.02 and 8.06, the Company at any time may terminate (i) all its obligations under the Notes and this Indenture ("legal defeasance option") or (ii) its obligations under any covenant under Article 4 (other than Section 4.01) and 5.01(c) and the related operation of Section 6.01(3) and the operation of Sections 6.01(4) and 6.01(5) (with respect to Restricted Subsidiaries) ("covenant defeasance option"). The Company may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default. If the Company exercises its covenant defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in Sections 6.01 (3), 6.01 (4), 6.01 (5) (with respect to Restricted Subsidiaries), 6.01 (6) (with respect to Restricted Subsidiaries) and 6.01 (7) (except to the extent covenants or agreements referenced in such Sections remain applicable).

Upon satisfaction of the conditions set forth herein and upon request of the Company, the Trustee shall acknowledge in writing the discharge of those obligations that the Company terminates.

(c) Notwithstanding clauses (a) and (b) above, the Company's obligations in Sections 2.03, 2.04, 2.05, 2.06, 7.07, 7.08, 8.04, 8.05 and 8.06 shall survive until the Notes have been paid in full. Thereafter, the Company's obligations in Sections 7.07, 8.04 and 8.05 shall survive.

SECTION 8.02. Conditions to Defeasance. The Company may exercise its legal defeasance option or its covenant defeasance option only if:



(1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Notes to maturity or an earlier redemption, as the case may be;

(2) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal and interest when due and without reinvestment on the deposited U.S. Government Obligations plus any

deposited money without investment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the Notes to maturity or redemption, as the case may be;

(3) 123 days pass after the deposit is made and during the 123-day period no Default specified in Section 6.01(5) or (6) with respect to the Company occurs which is continuing at the end of the period;

(4) the deposit does not constitute a default under any other agreement binding on the Company;

(5) the Company delivers to the Trustee an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the Investment Company Act of 1940;

(6) in the case of the legal defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from the Internal Revenue Service a ruling, or (ii) since the date of this Indenture there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Noteholders will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and defeasance and will be subject to Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred;

(7) in the case of the covenant defeasance option, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Noteholders will not recognize income, gain or loss for Federal income tax purposes as a result of such covenant defeasance and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; and

(8) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent to the defeasance and discharge of the Notes as contemplated by this Article 8 have been complied with.

SECTION 8.03. Application of Trust Money. The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to this Article 8. It shall apply the



deposited money and the money from U.S. Government Obligations through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Notes.

SECTION 8.04. Repayment to Company. The Trustee and the Paying Agent shall promptly turn over to the Company upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon written request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Noteholders entitled to the money must look to the Company for payment as general creditors.

SECTION 8.05. Indemnity for Government Obligations. The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against deposited U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations.

SECTION 8.06. Reinstatement. If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with this Article 8 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to this Article 8 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with this Article 8.

## ARTICLE 9

## Amendments

SECTION 9.01. Without Consent of Holders. The Company and the Trustee may amend this Indenture or the Notes without notice to or consent of any Noteholder:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article 5;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes; provided, however, that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code;



(4) to provide for the assumption by a successor corporation of the obligations of the Company under the Indenture;

(5) to add guarantees with respect to the Notes or to secure the Notes;

(6) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company;

(7) to comply with any requirements of the SEC in connection with qualifying this Indenture under the TIA; or

(8) to make any change that does not adversely affect the rights of any Noteholder.

After an amendment under this Indenture becomes effective, the Company is required to mail to Noteholders a notice briefly describing such amendment. However, the failure to give such notice to all Noteholders, or any defect therein, will not impair or affect the validity of the amendment.

SECTION 9.02. With Consent of Holders. The Company and the Trustee may amend this Indenture or the Notes without notice to any Noteholder but with the written consent of the Holders of at least a majority in principal amount of the Notes. However, without the consent of each Noteholder affected, an amendment may not:

(1) reduce the amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Note;

(3) reduce the principal of or extend the Stated Maturity of any Note;

(4) make any Note payable in money other than that stated in the Note;

(5) impair the right of any Noteholder to receive payment of principal of and interest on such holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's Notes;

(6) make any change in Article 10 that adversely affects the rights of any Noteholder under Article 10; or

(7) make any change in Section 6.04 or 6.07 or the second sentence of this Section.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.



An amendment under this Section that makes any change that adversely affects the rights under Article 10 of any holder of senior Indebtedness then outstanding shall not be effective as to such holder unless such holder (or any group or representative thereof authorized to give a consent on such holder's behalf) consents to such change.

After an amendment under this Section becomes effective, the Company shall mail to Noteholders a notice briefly describing such amendment. The failure to give such notice to all Noteholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 9.03. Compliance with Trust Indenture Act. Every amendment to this Indenture or the Notes shall comply with the TIA as then in effect.

SECTION 9.04. Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Note shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent or waiver is not made on the Note. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Note or portion of the Note if the Trustee receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Noteholder.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Noteholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Noteholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

SECTION 9.05. Notation on or Exchange of Notes. If an amendment changes the terms of a Note, the Trustee may require the Holder of the Note to deliver it to the Trustee. The Trustee may place an appropriate notation on the Note regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Note shall issue and the Trustee shall authenticate a new Note that reflects the changed terms. Failure to make the appropriate notation or to issue a new Note shall not affect the validity of such amendment.

SECTION 9.06. Trustee To Sign Amendments. The Trustee shall sign any amendment authorized pursuant to this Article 9 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment the Trustee shall be entitled to receive indemnity reasonably satisfactory



to it and to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such (i) amendment is authorized or permitted by this Indenture and that all conditions precedent to the execution, delivery and performance of such amendment have been satisfied; (ii) the Company has all necessary corporate power and authority to execute and deliver the amendment and that the execution delivery and performance of such amendment has been duly authorized by all necessary corporate action; (iii) the execution, delivery and performance of the amendment do not conflict with, or result in the breach of or constitute a default under any of the terms, conditions or provisions of (a) the Indenture, (b) the Certificate of Incorporation or By-Laws of the Company, (c) any law or regulation applicable to the Company, (d) any material order, writ, injunction or decree of any court or governmental instrumentality applicable to the Company or (e) any material agreement or instrument to which the Company is subject; (iv) such amendment has been duly and validly executed and delivered by the Company, and the Indenture together with such amendment constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles; and (v) the Indenture together with such amendment complies with the TIA.

SECTION 9.07. Payment for Consent. Neither the Company nor any Affiliate of the Company shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Notes unless such consideration is offered to be paid to all Holders that so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

## ARTICLE 10

### Miscellaneous

SECTION 10.01. Trust Indenture Act Controls. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by, or with another provision (an "incorporated provision") included in this Indenture by operation of, Sections 310 to 318, inclusive, of the TIA, such imposed duties or incorporated provision shall control.



SECTION 10.02. Notices. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail addressed as follows:

if to the Company:

General Communication, Inc.
2550 Denali St.
Suite 1000
Anchorage, Alaska 99503
Phone: (907) 265-5600
Fax: (907) 265-5676

Attention: Chief Financial Officer

if to the Trustee:

The Bank of New York
101 Barclay Street, Floor 21 W
New York, N .Y. 10286
Phone: (212) 815-5741
Fax: (212) 815-5915

Attention: Corporate Trust Trustee Administration

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Noteholder shall be mailed to the Noteholder at the Noteholder's address as it appears in the Note Register and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Noteholder or any defect in it shall not affect its sufficiency with respect to other Noteholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 10.03. Communication by Holders with Other Holders. Noteholders may communicate pursuant to TIA Section 312(b) with other Noteholders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).



SECTION 10.04. Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 10.05. Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the individual making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

SECTION 10.06. Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of Noteholders. The Registrar and the Paying Agent may make reasonable rules for their functions.

SECTION 10.07. Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open in the

State of New York. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 10.08. GOVERNING LAW. THIS INDENTURE AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE



PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

SECTION 10.09. No Recourse Against Others. A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Noteholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Notes.

SECTION 10.10. Successors. All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 10.11. Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture.

SECTION 10.12. Table of Contents; Headings. The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.



SECTION 10.13. Severability. In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

GCI, INC.

By:
---------------------------------------
Name:
Title:

THE BANK OF NEW YORK,
as Trustee

By:
---------------------------------------
Name:
Title:



EXHIBIT A

CUSIP No.
No.

GCI, INC.
% SENIOR NOTES DUE 2007

GCI, INC., an Alaska corporation, promises to pay to , or registered assigns, the principal sum of dollars on , 2007.

Interest Payment Dates: and , commencing , 1997.

Record Dates: and .

Additional provisions of this Note are set forth on the other side of this Note.

GCI, INC.

By:
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Executive Vice President

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Vice President

TRUSTEE'S CERTIFICATE OF AUTHENTICATION Dated: July __, 1997.

THE BANK OF NEW YORK, as Trustee, certifies that this is one of the Notes referred to in the within-mentioned Indenture.

By:
--------------------------------



Authorized Signatory



% SENIOR NOTES DUE 2007

1. Interest

GCI, Inc., an Alaska corporation (such corporation, and its successors and assigns under the Indenture hereinafter referred to, being herein called the "Company"), promises to pay interest on the principal amount of this Note at the rate per annum shown above. The Company will pay interest semiannually on and of each year. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the Issue Date. Interest will be computed on the basis of a 360 day year of twelve 30-day months. The Company shall pay interest on overdue principal at the rate borne by the Notes plus 2% per annum, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

2. Method of Payment

The Company will pay interest on the Notes (except defaulted interest) to the Persons who are registered holders of Notes at the close of business on the Record Date immediately preceding the interest payment date even if Notes are canceled after the record date and on or before the interest payment date. Holders must surrender Notes to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. Payments in respect of the Notes represented by a Global Note (including principal, premium and interest) will be made by wire transfer of immediately available funds to the accounts specified by The Depository Trust Company. The Company will make all payments in respect of a certificated Note (including principal, premium and interest), by mailing a check to the registered address of each Holder thereof; provided, however, that payments on the Notes may also be made, in the case of a Holder of at least $ aggregate principal amount of Notes, by wire transfer to a U.S. dollar account maintained by the payee with a bank in the United States if such Holder elects payment by wire transfer by giving written notice to the Trustee or the Paying Agent to such effect designating such account no later than 30 days immediately preceding the relevant due date for payment (or such other date as the Trustee may accept in its discretion).

3. Paying Agent and Registrar

Initially, The Bank of New York, a New York banking corporation ("Trustee"), will act as Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-registrar without notice.

4. Indenture

The Company issued the Notes under an Indenture dated as of July , 1997 ("Indenture"), between the Company and the Trustee. The terms of the Notes include those stated



in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb) as in effect on the date of the Indenture (the "Act"). Terms defined in the Indenture and not defined herein have the meanings ascribed thereto in the Indenture. The Notes are subject to all such terms, and Noteholders are referred to the Indenture and the Act for a statement of those terms.

The Notes are general unsecured obligations of the Company limited to $150,000,000 aggregate principal amount. The Indenture imposes certain limitations on the Company and the Restricted Subsidiaries, including the incurrence of Indebtedness and Liens, the payment of dividends on and retirements of the Capital Stock of the Company and the Restricted Subsidiaries, the sale of assets and transactions with Affiliates. In addition, the Indenture limits the ability of the Company and its Restricted Subsidiaries to restrict distributions and dividends from Restricted Subsidiaries.

5. Redemption

(a) Optional Redemption. The Notes are not redeemable prior to _________, 2002. At any time on or after ___________, 2002, the Notes are redeemable at the option of the Company, in whole or in part, on not less than 30 nor more than 60 days' notice, at the following redemption prices (expressed as percentages of principal amount), plus accrued and unpaid interest (if any) to the date of redemption:

If redeemed during the 12-month period commencing _________ of the year indicated:

| YEAR | REDEMPTION PRICE |
|---|---|
| 2002 . . . . . . . . . . . . . . . . . . . . . . . . . . . . | % |
| 2003 . . . . . . . . . . . . . . . . . . . . . . . . . . . . | % |
| 2004 . . . . . . . . . . . . . . . . . . . . . . . . . . . . | % |

and thereafter, beginning ____________, 2005 at 100% of the principal amount of the Notes.

(b) Optional Redemption Upon Public Equity Offerings. At any time, or from time to time, on or prior to ___________, 2000, the Company may, at its option, use the net cash proceeds of Public Equity Offerings to redeem up to a maximum of 331/3% of the initially outstanding aggregate principal amount of Notes at a redemption price equal to ___% of the principal amount of the Notes (determined at the redemption date), together with accrued and unpaid interest thereon to the date of redemption; PROVIDED that not less than $100 million aggregate principal amount of the Notes are outstanding following any such redemption.



In the event that less than all of the Notes are to be redeemed at any time, selection of such Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which such Notes are listed or, if such Notes are not then listed on a national securities exchange, on a PRO RATA basis, by lot or by such method as the Trustee shall deem fair and appropriate; PROVIDED, HOWEVER, that no Notes of a principal amount of $1,000 or less shall be redeemed in part; PROVIDED, FURTHER, that if a partial redemption is made with the proceeds of a Public Equity Offering, selection of the Notes or portions thereof for redemption shall be made by the Trustee only on a PRO RATA basis or on as nearly a PRO RATA basis as is practicable (subject to procedures of the Depository Trust Company "DTC"), unless such method is otherwise prohibited.

6. Notice of Redemption

Notice of redemption shall be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address. If any Note is to be redeemed in part only, the notice of redemption that related to such Notes shall state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Issuer has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture.

7. Offers to Purchase

Sections 3.15 and 3.17 of the Indenture provide that, after certain Asset Sales (as defined in the Indenture) and upon the occurrence of a Change of Control (as defined in the Indenture), and subject to further limitations contained therein, the Company will make an offer to purchase certain amounts of the Notes in accordance with the procedures set forth in the Indenture.

8. Denominations; Transfer; Exchange

The Notes are in registered form, without coupons, in denominations of $1,000 and integral multiples of $1,000. A Holder shall transfer or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not register the transfer of or exchange of any Notes for a period of 15 Business Days before the mailing of a notice of an offer to repurchase Notes or 15 Business Days before an interest payment date.

9. Persons Deemed Owners

The registered Holder of this Note may be treated as the owner of it for all purposes.



10. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its written request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

11. Discharge and Defeasance

Subject to certain conditions, the Company at any time may terminate some or all of its obligations under the Notes and the Indenture if the Company deposits with the Trustee money or U.S. Government Obligations for the payment of principal and interest on the Notes to redemption or maturity, as the case may be.

12. Amendment, Waiver

Subject to certain exceptions set forth in the Indenture, the Indenture or the Notes may be amended with the written consent of the Holders of at least a majority in principal amount of the Notes then outstanding, and any past Default, other than payment Defaults, or noncompliance with any provision may be waived with the written consent of the Holders of a majority in principal amount of the Notes then outstanding. Subject to certain exceptions set forth in the Indenture, without the consent of any Noteholder, the Company and the Trustee may amend the Indenture or the Notes to, among other things, cure any ambiguity, omission, defect or inconsistency, or to provide for the assumption by a successor corporation of the obligations of the Company under this Indenture, or to comply with Article 6 of the Indenture, or to provide for uncertificated Notes in addition to or in place of certificated Notes, or to make any other change that does not adversely affect in any material respect the rights of any Noteholder.

13. Defaults and Remedies

Under the Indenture, Events of Default include (i) default for 30 days in payment of interest on the Notes; (ii) default in payment of principal of, or premium, if any, on the Notes at maturity, upon acceleration, redemption, option redemption or otherwise, or failure by the Company to purchase Notes when required; (iii) failure by the Company or the Guarantor to comply with any other covenant or agreement in the Indenture or in the Notes and such failure continues for 30 days after written notice from the Trustee or the registered holders of not less than 25% in aggregate principal amount of the Notes then outstanding; (iv) a default under any Indebtedness for borrowed money by the Company or any Restricted Subsidiary which results in acceleration of the maturity of such Indebtedness, or failure to pay any such Indebtedness when due within any applicable grace period, in a total amount greater than $15 million; (v) certain events involving bankruptcy, insolvency or reorganization of the Company or any Restricted Subsidiary; and (vi) certain judgments or judgments for the payment of money in an uninsured aggregate amount in excess of $15 million. If an Event of Default (other than an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization with respect to the Company or any Restricted Subsidiary) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes may declare all the Notes to be due and payable immediately. Certain events involving bankruptcy, insolvency or reorganization are Events of Default which will result in the Notes being due and payable immediately upon the occurrence of such Events of Default.

Noteholders may not enforce the Indenture or the Note except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Notes unless it receives reasonable indemnity or security. Subject to certain limitations, Holders of a majority in principal amount of the Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Noteholders notice of any continuing Default (except a Default in payment of principal or interest) if it determines that withholding notice is in the interest of the Holders.

14. Trustee Dealings with the Company

Subject to certain limitations imposed by the Act, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

15. No Recourse Against Others

A director, officer, employee or stockholder, as such, of the Company or the Trustee shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Noteholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

16. Authentication

This Note shall not be valid until an authorized signatory of the Trustee (or an authenticating agent) manually signs the certificate of authentication on the other side of this Note.

17. Abbreviations

Customary abbreviations may be used in the name of a Noteholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entireties), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).



18. Indenture

Each Holder of a Note, by acceptance hereof, acknowledges and agrees to be bound by the provisions of the Indenture, as the same may be amended from time to time.

19. Governing Law

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

20. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP numbers to be printed on the Notes as a convenience to the Holders of the Notes. No representation is made as to the accuracy of such numbers as printed on the Notes and reliance may be placed only on the other identification numbers printed hereon.

The Company will furnish to any Noteholder upon written request and without charge to the Noteholder a copy of the Indenture which has in it the text of this Note in larger type. Requests may be made to: General Communication, Inc., 2550 Denali St., Suite 1000, Anchorage, Alaska 99503, Attention: Chief Financial Officer.



ASSIGNMENT FORM

To assign this Note, fill in the form below:

I or we assign and transfer this Note to

- -------------------------------------------------------------------------------

- -------------------------------------------------------------------------------

- -------------------------------------------------------------------------------

(Print or type assignee's name, address and zip code and insert assignee's social security or tax I.D. number)

and irrevocably appoint _____________________ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him or her.

Date: ------------------------ Your Signature: ------------------------------

(Sign exactly as your name appears on the other side of this Note)

Signature Guarantee: -------------------------



OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Section 4.15 or Section 4.17 of the Indenture, check the box:

Section 4.15 / /
Section 4.17 / /

If you want to elect to have only part of this Note purchased by the Company pursuant to Section 4.15 or Section 4.17 of the Indenture, state the amount in principal amount: $___________.

Date: ------------------------ Your Signature: ------------------------------

(Sign exactly as your name appears on the other side of this Note.)

Signature Guarantee: -------------------------



EXHIBIT B

GLOBAL NOTE LEGEND

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

EXHIBIT 5.1

Wohlforth, Argetsinger, Johnson & Brecht
900 West 5th Avenue, Suite 600
Anchorage, Alaska 99501

July ___, 1997

General Communication, Inc.
2550 Denali Street, Suite 1000
Anchorage, Alaska 99503

Re: Validity of Common Stock

Gentlemen and Ladies,

We have acted as special counsel to General Communication, Inc., an Alaska corporation (the "Company") in connection with its Registration Statement on Form S-3 (File No. 333-28001) relating to 13,800,000 shares ("Shares") of the Company's Class A Common Stock, no par value ("Common Stock") to be sold by the Company and certain stockholders of the Company.

We have examined the Company's certificate of incorporation, bylaws and minutes of the proceedings of the Company's board of directors authorizing the issuance of the Shares and have considered such facts and examined such questions of law as we have considered appropriate for purposes of rendering the opinion expressed below.

Based on the foregoing examination, we advise you that in our opinion the shares of Common Stock being offered pursuant to the Registration Statement have been duly authorized and when issued and sold as contemplated in the Registration Statement, will be validly issued, fully paid and nonassessable.

We consent to the filing of this opinion as an exhibit to the Registration Statement referred to above and to the reference to our firm under the heading "Legal Matters" in the Registration Statement. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933 or the rules and regulations of the Securities and Exchange Commission thereunder.

Yours truly,

CONFIDENTIAL

General Communication, Inc.
Compensation Agreement
William C. Behnke
January 1, 1997

Term:

This compensation agreement is effective January 1, 1997 through December 31, 2001.

Base Compensation:

Behnke base compensation as of January 1, 1997 is $150,000 per year. Behnke base compensation will be increased $5,000 annually on January 1, 1999, January 1, 2000 and January 1, 2001.

Incentive Compensation:

Behnke target incentive compensation will be $45,000 per year of which 22% of actual amount accrued will be paid Behnke in cash and the remaining 78% will be vested in Behnke's deferred compensation account.

Stock Options:

During 1Q97, GCI will grant Behnke an option to purchase 100,000 shares of GCI stock at an exercise price of $7.00 per share. These stock options will vest equally on January 1, 2000, January 1, 2001 and January 1, 2002.

Deferred Compensation:

A Deferred Compensation Account will be created for Behnke in the total amount of $285,000. This amount shall be paid to Behnke following termination of his employment. Forty thousand dollars ($40,000) of the total shall be vested as of December 31,1996 and additional sums shall vest as the deferred portion of Behnke's Incentive Compensation (described above) is earned. At Behnke's option the entire amount of Behnke's Deferred Compensation Account ($285,000) may be invested in GCI stock.

Behnke Outstanding Loan:

Behnke's outstanding loan will be repaid by July 1, 1997.

CONFIDENTIAL

Behnke Stock Sales:

As a matter of information Behnke expects to sell approximately 56,000 shares of GCI stock. At Behnke's option a portion of this stock may be sold to GCI (at the market price on the date of such sale) to fund an election by Behnke to have his deferred compensation account invested in GCI stock as provided above. GCI shall cooperate with Behnke to sell up to 35,000 shares of his stock in the anticipated public offering to be undertaken by GCI in 1997. Behnke anticipates using the proceeds of such sale to repay his debt to GCI, to pay the tax due on his option exercise and to fund personal cash requirements of approximately $50,000.11(1)

The above is agreed to effective January 1, 1997 pending formal approval by GCI's Board of Directors at the next scheduled meeting.

______________________________
William C. Behnke

______________________________
Ronald A. Duncan, President

| | Currently Proposed Case | Option Extension Case |
|---|---|---|
| (1) Estimated cash requirement: | | |
| Option shares exercised: | 85,190.00 | 35,500.00 |
| Times estimated price | x $8.00 | $8.00 |
| Estimated gain | $681,520.00 | $284,000.00 |
| Times tax rate | x .4 | x .4 |
| Tax | $272,608.00 | $113,600.00 |
| plus loan repayment | 120,000.00 | 120,000.00 |
| plus personal cash | 50,000.00 | 50,000.00 |

| | | |
|---|---|---|
| Total cash required | $442,608.00 | $283,600.00 |
| Divided by estimated price | 8.00 | 8.00 |
| Estimated shares to be sold | 56,326.00 | 36,450.00 |

Total deferral would be (85,190 - 35,500 =) 49,690 @ $8.00 = $ 397,520.

# INTERCONNECTION AGREEMENT

This Interconnection Agreement ("Agreement") by and between GCI Communication Corp. ("GCICC") and the Municipality of Anchorage, doing business as ATU Telecommunications ("ATU") sets forth terms and conditions for interconnection of GCICC's facilities and equipment and ATU's facilities and equipment.

The effective date of this agreement is the date it is approved by the Alaska Public Utilities Commission ("APUC"), pursuant to 3 AAC 48.390 and/or 47 USC 252.

## I. PURPOSE

(a) The purpose of this Agreement is to delineate:

(i) How interconnection will be accomplished.

(ii) The terms and conditions controlling interconnection.

(iii) The rates, charges, and payment terms for interconnection. See Exhibit A.

(iv) Any general contractual conditions.

(b) ATU and GCICC further understand that the Agreement is, at all times, subject to revisions by the APUC, FCC or other governmental authority, provided however, that, neither party will unilaterally seek to change the Agreement without also negotiating in good faith with the other.

## II. TYPE OF CONNECTION

(a) Interconnection and Reciprocal Compensation.

(i) Interconnection. GCICC will interconnect, for the transmission and routing of telephone exchange service and exchange access service at each ATU wire center, through the use of standard inter-office trunking.

(ii) Reciprocal Compensation. Compensation arrangement between GCICC and ATU for the exchange of telecommunications services on a mutual and reciprocal basis. See Exhibit B.

(b) Resale Connection.

(i) Resale interconnection. The provision to GCICC at wholesale rates of telecommunications services that ATU provides at retail to subscribers who

are not telecommunications carriers and that GCICC may resell to subscribers. See Exhibit C.

(ii) Provisioning interconnection. GCICC/ATU customer provisioning, billing and servicing standards. See Exhibit D.

(c) Unbundled Network Element interconnections.

(i) Unbundled Loop Interconnection. GCICC's access to the transmission path which provides the connection between an end-user's premises and the central office subscriber main distributing frame (or its equivalent). See Exhibit E.

(ii) Unbundled Transport interconnection. GCICC's access to the physical facilities used to connect points on telecommunications networks. See Exhibit F.

(iii) Unbundled Switching interconnection. GCICC's access to the local switching and local tandem switching residing in a central office switch and/or remote switching. See Exhibit G.

(iv) Unbundled Directory Assistance interconnection. GCICC's access to the necessary data bases, and data (including subscriber list information) used to perform directory services. See Exhibit H.

(v) Unbundled Operations Support interconnection. GCICCs access to the systems, including the necessary hardware, software and databases, used in the ordering, provisioning, maintenance, testing, billing, and updating of other network databases. See Exhibit I.

(d) Right-of-Way Access. GCICCs access to the poles, ducts, conduits, and rights-of-way of ATU. See Exhibit J.

(e) Collocation. GCICC's access for the physical placement of GCICC equipment necessary for interconnection or access to unbundled network elements at the premises of ATU and/or virtual collocation where ATU demonstrates that physical collocation is not practical for technical reasons or due to space limitations. See Exhibit K.

(f) Number portability. Provides local subscribers with the ability to change local service providers without changing their telephone numbers. See Exhibit L.



(g) Dialing parity. Permits GCICC with nondiscriminatory access to all local and other Service Codes and local and long distance NPAs and NXXs, with no unreasonable dialing delays. See Exhibit M.

(h) Notice of changes. ATU shall provide GCICC with notice regarding any network change that will affect GCICC's performance or ability to provide service or will affect ATU's interoperability with other service providers. Such notice shall be given to the public, including GCICC, pursuant to the Regulations contained at 47 C.F.R. 51.325-335, and to GCICC individually at regularly scheduled meetings between designated engineering representatives of the parties. ATU shall give notice to GCICC of its initial election of methods under 47 C.F.R. 51.329(a) and of any changes in such method.

III. RATES AND CHARGES

(a) Interconnection and Reciprocal Compensation.

(i) Interconnection. Charges for interconnection shall be at the rates set for unbundled transport, in subsection ii, below.

(ii) Reciprocal Compensation. $0.006595 per minute (plus transport).

(b) Resale Connection.

(i) Wholesale discount.

(A) January 1, 1997- December 31, 1997 8.7%

(B) January 1, 1998- December 31, 1998 17.4%

(C) January 1, 1999- December 31, 1999 26.1%

(ii) Provisioning interconnection. $10.00

(c) Unbundled Network Element interconnection rates:

(i) Unbundled Loop interconnection. $13.85 per month, unbundled two-wire loop

(ii) Unbundled Transport interconnection. See Exhibit N.



(iii) Unbundled Switching Interconnection.

(A) Local switching.

(1) $0.006595 per originating minute.

(2) Line port charges (card and slot):

| | |
|---|---|
| Res/Bus Simple | $4.27 |
| Business Complex | $5.07 |
| Centrex | $5.07 |
| ISDN | $13.02 |

(B) Local tandem switching. $0.004712 per minute (plus associated transport).

(iv) Unbundled Directory Assistance interconnection:

(A) First number (batch). $41.0600

(B) Subsequent numbers (batch). $0.0870

(v) Unbundled Operations Support interconnection. Actual electronic interface access to ATU's operations support systems (i.e. fax/printer or display/printer connectivity) shall be at the rates set for unbundled transport, in subsection ii, above.

(d) Right-of-Way Access Rates: Charges for right-of-way access shall initially be set at those contained in the current agreements between ATU and Municipal Light and Power and Chugach Electric Association.

(e) Collocation Rates (see Exhibit K):

(i) Space, per square foot: $5.00 per month.

(ii) Power, per 15 amp unit: $71.00 per month.

(f) Number portability rates (see Exhibit M): $3.00 per ported number/market share.

IV. PROPRIETARY INFORMATION

During the term of this Agreement, the parties may, but shall not generally be obligated to, disclose information to each other which they consider proprietary or confidential. Without specific prior written consent, except when required by law or court order,



neither party shall disclose to any third party, including but not limited to any competitors of GCICC or ATU, whether affiliated or unaffiliated with GCICC or ATU, any information supplied to it by the other which has been designated as confidential, and which is not otherwise generally available to the public, or is not already known to the other. This confidentiality requirement shall survive beyond the term of this Agreement and for a period of two years.

V. FORCE MAJEURE

The parties performance under this Agreement (except where required by Order of the APUC under Section 252(c)(3) of the Act) shall be excused if such non-performance is due to labor difficulties, governmental orders, equipment failure, inability or delay in securing equipment, civil commotion, acts of nature, weather conditions and other circumstances beyond the parties' reasonable control.

VI. AUDIT

Upon 30 days written notice (or such shorter period as the parties may mutually agree upon), ATU and GCICC or their authorized representatives, shall have the right to examine and audit each other, during normal business hours and at reasonable intervals, as determined by the party undergoing the audit, all such, records and accounts in the possession of the other, which contain information bearing upon the determination of the amounts payable under the rates established in Section III, above, to either party. The maximum period of any audit shall encompass is 24 months, or the period from the most recent audit, whichever is less. Not more than one audit shall be conducted in any twelve-month period during the term of this Agreement or any renewal period.

No claim or demand with respect to any audit may be made by ATU or GCICC more than two years after the date of the event which gave rise to the claim or demand.

VII. NOTICES

Except as otherwise provided in this Agreement or in the event of day-to-day operational issues set forth in the Exhibits hereto, all notices required or permitted to be given shall be made in writing and whether delivered in person, sent via facsimile ("FAX") or by certified mail, return receipt requested, postage prepaid, in any post office in the United States and addressed as set forth below. The addresses to which notices or communications may be given to either party may be changed by written notice given by such party to the other. A notice sent via FAX is effective forty-eight (48) hours after the senders receipt of a "good" transmission slip.



ATU Telecommunications
Attention: General Manager
600 Telephone Avenue
Mail Station 7
Anchorage, Alaska 99503
FAX: 907-563-2688

GCI Communication Corp.
Attention: General Manager
2550 Denali Street
Suite 1000
Anchorage, Alaska 99503
FAX: 907-265-5676

VIII. TERM

This Agreement shall continue in force from the date it is signed by both parties and approved by the APUC, and thereafter until terminated by Order of the APUC or FCC. Upon the termination as to any element herein, the parties shall negotiate in good faith to agree to a replacement agreement or agreements.

IX. APPLICABLE LAW

The validity, construction and performance of this Agreement shall be governed by and interpreted in accordance with laws of the State of Alaska.

X. LIABILITY

Each party agrees to reimburse the other party for damages to premises or equipment resulting from a party's negligence in the installation, maintenance or interconnection to or removal of facilities, services or arrangements. Each party represents that its system is constructed in accordance with all applicable laws, orders, rules and regulations, and in accordance with all applicable technical standards and specifications. Each party shall indemnify and hold the other harmless from any and all claims which arise out of the interconnections provided under this agreement, unless the claim arises out of negligent or wrongful conduct of the other party.

XI. PATENTS

(a) With respect to claims and patent infringement made by third persons, GCICC shall defend, indemnify, protect and save harmless ATU from and against all claims arising out of or based on the use of facilities and equipment or arrangements furnished under this Agreement by GCICC or its Customers.



(b) With respect to claims of patent infringement made by third persons, ATU will defend, indemnify, protect and save harmless GCICC from and against all claims arising out of or based on the use of facilities and equipment or arrangements furnished under this Agreement by ATU or its Customers.

(c) Neither Party grants to the other any license under patents nor shall any be implied or arise by estoppel in either Party's favor with respect to any circuit, apparatus, system or method used by the parties in connection with any channels, interconnection types, or arrangement furnished under this Agreement.

(d) Notwithstanding any other provisions of this agreement, the parties agree that neither party has made, and that there exists, no warranty, express or implied, that the use by either party of the other party's facilities, arrangements or services provided by the other party under this agreement shall not give rise to a claim by any third party for infringement, misuse or misappropriation of any patent or other intellectual property right of such third party.

XII. ALLOWANCE FOR INTERRUPTIONS

(a) When use of the channels, interconnection types of arrangements furnished by ATU or GCICC in accordance with this Agreement is interrupted due to trouble in such channels, interconnection types or arrangements, and such interruption is not caused by (1) gross negligence or willful misconduct of the furnishing party or its Customer or (2) the fault of facilities or equipment provided by the receiving party or its Customer, the receiving party shall, upon request, be allowed a credit which shall be in an amount equal to the pro rata monthly charges to be paid for such arrangements or facilities, including both usage sensitive and non-usage sensitive charges, specified in the body of this Agreement and the attachments, for the period which the interconnection affected by the interruption is out of service. Except in the case of gross negligence or willful misconduct, such allowance amount shall be the sole monetary remedy available for such interruption.

(b) All credits for interruption shall begin from the time the furnishing party becomes first aware of the interruption. No credit shall be required for a total amount of less than fifty dollars ($50.00), per interruption.

XIII. MISCELLANEOUS

(a) TARIFFS
In the event that any of the services provided hereunder or the charges made therefor are currently subject, or at any time become subject, to any federal, state or local regulation or tariff, then the terms and conditions of this Agreement, including the charges set forth in this Agreement and the attachments (as amended



from time to time) shall be deemed amended to conform to any conflicting terms and conditions in effect under such regulation or tariff, provided, however, that all non conflicting terms and conditions of this Agreement shall remain valid and effective.

(b) NON-WAIVER
The waiver, express or implied, by either party hereto or any rights hereunder or of any failure to perform or breach hereof by the other party hereto shall not constitute or be deemed a waiver of any right hereunder or any other. Failure to perform or breach hereof by the other party, hereto, whether of a similar or dissimilar nature.

(c) LIMITATIONS OF JOINT LIABILITY
The parties are, for purposes of this Agreement, independent contractors and nothing herein shall be construed to imply that they are partners, joint ventures or agents of one another.

(d) ASSIGNMENT
Unless allowed in writing by the other party, whose consent shall not be unreasonably withheld, any assignment of a party of its interest in any part of this Agreement or any delegation of duties under this Agreement, to other than a wholly-owned subsidiary, shall be void, and any attempt by a party to assign any part of its interest or delegate duties under this Agreement shall give the other the right immediately to request termination of this Agreement.

(e) COMPLIANCE WITH LAWS
Nothing in this Agreement shall be deemed an admission by either party hereto that any provision of state or federal law has been complied with, nor shall such Agreement, or any portion thereof, be deemed a waiver of any rights or remedies that either party may have under the state or federal law.

(f) ENTIRE AGREEMENT
This Agreement and all appendices and amendments embody the entire agreement of the parties. There are no promises, terms, conditions or obligations other than those contained herein; and this Agreement shall supersede all previous communications, representatives or agreements, either oral or written, between the parties.

(g) MODIFICATIONS
This Agreement shall only be amended, modified or changed in writing, executed by an authorized representative of the parties, with the same formality as this Agreement was executed, excluding the provision set forth by an APUC order and such writing shall be attached to this agreement as an appendix.



(h) AFFILIATE AGREEMENTS
In the event ATU enters into, or materially amends, any interconnection agreement with any affiliate, ATU will provide GCICC with a copy of the public notice of any such agreement or amendment and will agree to re negotiate this Agreement in light of such affiliate transaction, upon written request of GCICC.

IN WITNESS THEREOF, the undersigned have executed this Agreement.

| ATU TELECOMMUNICATIONS | GCI COMMUNICATION CORP. |
|---|---|
| Thomas C. Edrington<br>General Manager | G. Wilson Hughes<br>Executive Vice President &<br>General Manager |
| - -------------------------- | -------------------------- |

STATE OF ALASKA ) ) ss.
THIRD JUDICIAL DISTRICT )

The foregoing instrument was acknowledged before me on this 15th day of January 1997 by Thomas C. Edrington, General Manager on behalf of ATU Telecommunications.

------------------------------
Notary Public in and for Alaska
My Commission Expires 4/10/00

STATE OF ALASKA ) ) ss.
THIRD JUDICIAL DISTRICT )

The foregoing instrument was acknowledged before me on this 14th day of January 1997 by G. Wilson Hughes, Executive Vice President & General Manager on behalf of GCI Communication Corp.

------------------------------
Notary Public in and for Alaska
My Commission Expires --------



EXHIBIT A
CHARGES

1. ATU shall bill GCICC on a monthly basis for the services (such billings may be on various monthly cycles) and shall include sufficient detail in its invoices so that GCICC may reasonably verify the accuracy of the charges. GCICC shall pay such invoices within thirty (30) days of the statement. In the event of a dispute over the amount of the invoice, GCICC shall pay the disputed amount into an escrow account pending resolution of the dispute.

2. GCICC shall pay nonrecurring charges for interconnection services as set forth on the second sheet of this Exhibit A.

3. The monthly charges for various services will be at the rates specified in Section III. of this Agreement.

EXHIBIT A
NON-RECURRING CHARGES

| | |
|---|---|
| Loops | |
| Cross Connect Charges | $18.00 per loop |
| Plant Assignment Costs | |
| Premise Visit | $40.00 per visit |
| Service Order Charge* | $20.00 per order |
| Interface Connection Charge | $11.00 per loop |
| Local Transport / Entrance Facility | |
| Voice Grade 2 Wire | $150.05 per term |
| Voice Grade 4 Wire | $150.05 per term |
| Hi Capacity DS1 | $341.94 per term |
| Hi Capacity DS3 | 682.44 per term |
| Common Channel Signaling | |
| Network Connection | $191.06 per connection |
| Direct Trunked Transport Termination | |
| Activation of up to 24 Trunks | $61.14 per order |
| Other Switched Services | |
| Interim 900 NXX Translation | $87.92 per number |
| Auto. Testing/Transmission Path | $2.89 per month |

*Each Service Order may include up to fifty (50) loop/trunk individual orders so long as all individual orders bear the same NXX.

EXHIBIT B

Reciprocal Compensation:

Reciprocal compensation for the transport of telephone exchange service traffic (but not interexchange traffic, or exchange access traffic forwarded through the provision of interim number portability(1) will be at the rate established in this Agreement or ATU's transport of such traffic from the interconnection point between the two carriers to the ATU end office switch that directly serves the called party (or equivalent facility provided by a non-incumbent carrier), and such rate shall be charged by both GCICC and ATU on the other's traffic, measured according to normal industry standards, flowing over the interconnection between GCICC and ATU.

Reciprocal compensation for the termination of telephone exchange service traffic (but not interexchange traffic, or exchange access traffic forwarded through the provision of interim number portability) will be at the rate established in this Agreement for the switching of traffic that is subject to section 251(b)(5) at ATU's end office switch (or equivalent facility) and delivery of that traffic from that switch to the called party's premises, and such rate shall be charged by both GCICC and ATU on the other's traffic flowing over the interconnection between GCICC and ATU.

________________________

(1) "Meet-point" sharing of exchange access revenue is addressed in Exhibit L to this Agreement, addressing Number Portability.

EXHIBIT C
Resale Interconnection

GCICC shall receive, and ATU shall provide, for resale at wholesale rates any local (but not exchange access) telecommunications service that ATU provides at retail to customers who are not telecommunications carriers, including not only current tariffed services, but also any promotional services offered for a period of more than 90 days, discounted services, "grandfathered" services still being provided, bundled service offerings and special contract services.

GCICC shall not resell residential services to nonresidential end users, nor shall GCICC resell Lifeline or any other means-tested service to end users not eligible to subscribe to such service offerings.

EXHIBIT D
Provisioning interconnection

Services provided for resale shall be equal in quality, subject to the same conditions, and provided within the same provisioning time intervals that ATU provides these services to others, including end users. Support services provided relating to unbundled network elements (i.e. assignment, installation or repair) shall be equal in quality, subject to the same conditions, and provided within the same provisioning time intervals that ATU provides these services to itself or others, including end users.

ATU will furnish comparative quality of service and network performance data, reporting ATU vs. CLEC performance (average installation time, average outages, etc.) the same as or better than the information data that ATU provides to itself.

EXHIBIT E
Unbundled Loop Elements

Unbundled loops include any and all elements that provide the connection between the end user customer's premises and the central office subscriber main distributing frame (or its equivalent) serving the end user.(2) Unbundled loops must be available to support Voice Grade subscriber services and services such as ISDN, that require that facilities be free of intrusive devices such as load coils or bridge taps.(3) Loop facilities at DSO, DS1, and DS3 levels must also be made available.

1. Network Interface Device: The device used to establish connection between the end user's inside wiring and the unbundled loop element.(4)

2. Loop: The physical facility connecting the Network Interface Device to the central office subscriber main distributing frame (or its equivalent). In cases where line concentration equipment is used, such as Digital Loop Carrier (DLC) architecture, the loop is considered to be the physical facility between the Network Interface Device and the MDF at the central office (or its equivalent).(5) In cases where remote switching equipment is used, and frame space or entrance facility are not

constrained, the loop is considered to be the physical facilities between the Network Interface Device and the remote switching facility MDF (or its equivalent).

3. Diagrams GCICC 1-4 (attached) depict the beginning and ending points for an unbundled "local loop".(6)

______________________

(2) 247 C.F.R. 51.319(a): "Local Loop. The local loop network element is defined as a transmission facility between a distribution frame (or its equivalent) in an incumbent LEC central office and an end user customer premises;"
(3) A requesting carrier will bear the additional cost for optional features and functions to condition private line service/special access circuits.
(4) 47 C.F.R. 51.319(b)(1): "The network interface device network element is defined as a crossconnect device used to connect loop facilities to inside wiring."
(5) It is understood by and between GCICC and ATU, that access cannot be provided for loops carried on ATU's two existing Fujitsu Digital Loop Carrier systems, supporting approximately 960 lines. GCICC accepts this limitation as to these lines. The existing technology is dated and further deployment of DLC architecture with this limitation is not planned.
(6) Attached also is Diagram C (ATU), which depicts the situation described in footnote 4, above.

Diagrams of:

(1) Copper Pair Facilities

(2) Universal Digital Loop Carrier

(3) Integrated Digital Loop Carrier

(4) Romote Switching Center

EXHIBIT F
Unbundled Transport Elements

Unbundled transport includes any and all physical facilities (dedicated or shared), hardware and software used to connect central office switches, local tandem switches, remote switches, and other networks in any combination required to provide a requested service.(7) Such connection shall include connection to equipment designated by the requesting telecommunications carrier and the provision of requested services shall include obtaining the functionality provided by digital cross-connect systems and multiplexing systems in the same manner that the ILEC provides such functionality to interexchange carriers. Transport elements include, but are not limited to, rights-of-way, utilidors and utiliwalks, conduit, poles, physical strand support, microwave dishes and towers, as well as all radio, fiber and copper transport facilities. Such facilities may be "dark" or may include any electronics employed, whether microwave, copper or fiber based, and employing any multiplexing scheme or transmission protocol.

(7) 47 C.F.R. 51.319(d): "(1) Interoffice transmission facilities are defined as incumbent LEC transmission facilities dedicated to a particular customer or carrier, or shared by more than one customer or carrier, that provide telecommunications between wire centers owned by incumbent LECs or requesting telecommunications carriers, or between switches owned by incumbent LECs or requesting telecommunications carriers.
(2) The incumbent LEC shall:
(i) provide a requesting telecommunications carrier exclusive use of interoffice transmission facilities dedicated to a particular customer or carrier, or use of the features, functions, and capabilities of interoffice transmission facilities shared by more than one customer or carrier; (ii) provide all technically feasible transmission facilities, features, functions, and capabilities that the requesting telecommunications carrier could use to provide telecommunications services;
(iii) permit, to the extent technically feasible, a requesting telecommunications carrier to connect such interoffice facilities to equipment designated by the requesting telecommunications carrier, including, but not limited to, the requesting telecommunications carrier's collocated facilities; and
(iv) permit, to the extent technically feasible, a requesting telecommunications carrier to obtain the functionality provided by the incumbent LEC's digital cross-connect systems in the same manner that the

incumbent LEC provides such functionality to interexchange carriers;"

## EXHIBIT G
## Unbundled switching elements

Unbundled switching includes any and all elements of a central office switch and/or remote switching systems through which an end user's loop is connected to a network to create a desired communication path between the end user and another point based on signals originated by the end user.

1. Local Switching: The hardware (trunk-side and line-side access) and software necessary to create a desired communication path between the end user and another point based on signals originated by the end user.(8) Local Switching includes all features, functions, and capabilities of the switch, which include, but are not limited to the basic switching function of connecting lines to lines, lines to trunks, trunks to lines, and trunks to trunks, as well as the same basic capabilities made available to the ILEC's customers, such as a telephone number, white page listing, and dial tone and all other features that the switch is capable of providing, including but not limited to, the provision of billing information (end user and access), custom calling, custom local area signaling service features, and Centrex, as well as any technically feasible customized routing functions provided by the switch.

2. Local Tandem Switching: The hardware and software necessary to connect a central office switch to another central office switch or to another point based on routing instructions received by the local tandem switch.(9) Local Tandem Switching includes the basic switching function of connecting trunks to trunks and all other functions that are centralized in tandem switches (as distinguished from separate endoffice switches), including but not limited to call recording, the routing of calls to operator services, and signaling conversion features.

______________________

(8) 47 C.F.R. 51.319(c)(1)(i): The local switching capability network element is defined as:
(A) line-side facilities, which include, but are not limited to, the connection between a loop termination at a main distribution frame and a switch line card;
(B) trunk-side facilities, which include, but are not limited to, the connection between trunk termination at a trunk-side cross-connect panel and a switch trunk card; and
(C) all features, functions, and capabilities of the switch, which include, but are not limited to:
(1) the basic switching function of connecting lines to lines, lines to trunks, trunks to lines, and trunks to trunks, as well as the same basic capabilities made available to the incumbent LEC's customers, such as a telephone number, white page listing, and dial tone; and (2) all other features that the switch is capable of providing, including but not limited to custom calling, custom local area signaling service features, and Centrex, as well as any technically feasible customized routing functions provided by the switch."
(9) 47 C.F.R. 51.319(c)(2): Tandem Switching Capability. The tandem switching capability network element is defined as:
(i) trunk-connect facilities, including but not limited to the connection between trunk termination at a cross-connect panel and a switch trunk card;
(ii) the basic switching function of connecting trunks to trunks; and
(iii) the functions that are centralized in tandem switches (as distinguished from separate end-office switches), including but not limited to call recording, the routing of calls to operator services, and signaling conversion features;

## EXHIBIT H
## Unbundled Directory Assistance

Unbundled directory assistance includes the necessary hardware, software, and databases to perform directory services, including the publication of directories.(10)

1. Directory Platforms: The hardware and software used to provide directory services. Access to the platform, including appropriate training materials, will be provided in such a way so as to allow remote directory stations to be connected to the platform.

2. Directory Databases: The databases (in electronic form; tape, disk, or direct transfer port) with updates and input available daily with information on individual telephone numbers including the name, address, zip code, city (or other location identifier) and the ability to search for telephone numbers based on a name, address, or other location identifier.

(10) 47 C.F.R. 51.319(g): "Operator Services and Directory Assistance. An incumbent LEC shall provide access to operator service and directory assistance facilities where technically feasible."

EXHIBIT I

Unbundled Operations Support Elements

Operations support systems are each of the systems, including the necessary hardware, software and databases (where appropriate and technically feasible), used in the ordering, provisioning, maintenance, testing, billing, and updating of network databases. As discussed below under quality of services, access to each of the operations support systems shall be provided through the best means practically available, leading to the use of an electronic interface. Each operations support system must provide timely information the same as the information ATU provides to itself. In all cases, ATU should discuss with GCICC the steps necessary to, as soon as possible, provide access to electronic databases on a dedicated port basis, facilitating remote (off-site) access to said databases, where appropriate.

Definition of Ordering(11) and Provisioning:(12)

The systems, databases, and procedures in which the LEC establishes a request for service, including all features and functions, assigns telephone numbers, schedules a date and time for installation (if access to a location is required or if a service call is required to activate.. service). This includes but is not limited to input to and appropriate retrieval of data from the service order input system (DCRIS) plant assignment records and the service order dispatch system, until actual access is available. Where plant records are established and maintained in paper format only (e.g. the cable records), access to current editions of those records, on site or telephonically by GCICC, will also be provided on a routine and scheduled basis. ATU will provide input into other databases which establish directory listings, populate LIDB, and update directory services databases upon provisioning of the end user's service, until actual access by GCICC is available. Input into databases to activate features and functions ordered by the end user must also be provided to fully implement the end user's service request, until actual access is available.

(11) The FCC identified the functionality of the ordering element as including the exchange of information between LECs about current or proposed customer products and services or unbundled network elements or some combination thereof, including such information as customer data on current services, and credit and payment history. See also 4 7 C. F. R. 5/.5, Pre-ordering and ordering.

(12) The FCC identified the functionality of the ordering element as involving the exchange of information between LECs where one executes a request for a set of products and services or unbundled network elements or combination thereof from the other with attendant acknowledgments and status reports. 47 C. F. R. 5 1. 5, Provisioning.

EXHIBIT I

Definition of Billing:(13)

The information recorded by the central office, adjunct processor, or centralized recording devices relating to calls from or to an end user's loop. Billing information shall be furnished on request and shall include all information necessary to bill the end user for calls it is required to pay for and verify all information necessary to verify charges for services that GCICC is required to pay for. ATU will provide appropriate retrieval of data from the database in which the LEC stores customer information used to generate a bill to the end user based on the service and features and functions ordered by the end user, until actual access is available. Billing information used to generate a bill for or to GCICC would include, but not be limited to, data in the Automatic Message Accounting (AMA) records and the Carrier Access Billing System (CABS) databases.

Definition of Maintenance:(14)

The systems, databases, and procedures in which the LEC generates customer reported troubles, schedules appointments for work at end user premises, and schedules repair actions. Where trouble tickets are still tracked manually, access to those records regarding CLEC end users should also be provided. Access to appropriate data from databases which monitor and report on the integrity of the LEC network and can be used to inform end users of network problems impacting the end user's ability to complete calls to specific locations. Maintenance systems, databases, and procedures would include, but not be limited to, retrieval of appropriate data from the CTS (Harris) 6000 system (actual access upon partitionability), access to appropriate data from the trouble dispatch system, and a link with appropriate access levels to facilitate real-time display or printout of network conditions and fault isolation from ATU's Network Operations Center (NOC)

Definition of Testing:

The systems used by the LEC to isolate troubles and direct repair operations. The systems used by the LEC to routinely test individual parts of the network (loops, switches, transmission, and other functional parts of the network) and report on the performance of these individual parts. This section should be interpreted to require access to the systems, databases, and procedures listed above under maintenance. Line and trunk testing for GCI facilities shall be

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(13) The FCC identified the functionality of the billing element as involving the provision of appropriate usage data by one LEC to another to facilitate customer billing with attendant acknowledgments and status reports. It also involves the exchange of information between LECs to process claims and adjustments. 47 C.F.R. 51.5, Billing.

(14) The FCC identified the functionality of the maintenance and repair elements as involving the exchange of information between LECs where one initiates a request for repair of existing products and services or unbundled network elements or combination thereof from the other with attendant acknowledgments and status reports. 47 C.F.R. 51.5.



furnished on request, along with testing for any module or bay housing GCI lines and trunks, until partitioned access can be provided.

Definition of Quality of service:

Access to each of the operations support systems shall be provided through the best means practically available, leading to the use of an electronic interface. Each operations support system must provide timely information the same as or better than the information ATU provides to itself. In all cases, ATU should discuss with GCICC the steps necessary to, as soon as possible, provide access to electronic databases on a dedicated port basis, facilitating remote (off-site) access to said databases.

Services provided for resale shall be equal in quality, subject to the same conditions, and provided within the same provisioning time intervals that ATU provides these services to others, including end users. Support services provided relating to unbundled network elements (i.e. assignment, installation or repair) shall be equal in quality, subject to the same conditions, and provided within the same provisioning time intervals that ATU provides these services to itself or others, including end users.

ATU will furnish comparative quality of service and network performance data, reporting ATU vs. CLEC performance (average installation time, average outages, etc.) the same as or better than the information data that ATU provides to itself.

# EXHIBIT J

## Rights-of-Way

ATU shall provide GCICC with non-discriminatory access to any pole, duct, conduit or rights-of -way (including fee property) owned or controlled by it. Non-discriminatory access shall include any use to which ATU puts such facilities or property, including the placement of remote terminals on property owned or controlled by ATU. Access is limited to ATU's distribution networks, as opposed to granting access to every piece of equipment or real property owned or controlled by ATU.

EXHIBIT K
Collocation

GCICC is entitled to physical collocation of GCICC equipment necessary for interconnection or access to unbundled network elements within the existing structures at the East, North, Rabbit Creek, South, West, Central and O'Malley wire centers.

GCICC is entitled to virtual collocation to any remaining ATU wire centers for interconnection and access to unbundled elements.

EXHIBIT L
Number Portability

ATU and GCICC shall each provide the other with transitional number portability through the use of a Direct Inward Dialing-type solution ("DID") upon entry by GCICC into local competition in the ATU service area, until such time as the parties implement a long-term database method for number portability in that area. See explanation and diagram following.

Incremental costs of interim number portability will be computed for each local carrier at the rate of $3.00 per month per "ported" line or PBX trunk port and such rate shall be recovered from all relevant carriers based on each local exchange carrier's relative number of active telephone lines in relation to the number of active telephone lines in the market.

Interstate access charges due on traffic actually "ported" through the use of interim number portability will be divided by the parties based upon the rate component as follows: the forwarding carrier will share with the terminating carrier one-half of all rate components with the exception of the Carrier Common Line (CCL) charge which the terminating carrier will receive in full.

Intrastate access charges will also be split, with the exception that CCL (bulk bill) will not be shared. The Traffic Sensitive split will be accomplished by the forwarding carrier sharing with the terminating carrier one-half of the following:

a. (AECA Switching & Information Surcharge Rates) x (GCICC Switched Minutes) x (ATU Dist. %)
b. (AECA Dedicated Trunk Rate) x (Dedicated Trunks) x (ATU Dist. %)

DID-TYPE INTERIM NUMBER PORTABILITY

SERVICE PROVIDER PORTABILITY

The attached network diagram depicts how local and message toll traffic would be routed where DID-Type number portability is employed. The following examples should provide a clear understanding of this method of number portability.

ATU ORIGINATED LOCAL CALL

A call originating in ATUs local network to 276-1111 would be routed to the ATU local switch that is assigned the 907-276 NPA/NXX. Translations in that switch would specify that calls to 276-1111 be completed over Route N which places the call on the GCILOCAL trunk group. The digits sent to the GCI local switch would be 276-1111. GCI would maintain the 276 NXX in its local switch in addition to its own NXX code.

AT&T TERMINATING MTS CALL

An MTS call muted through AT&Ts network to 907-276-1111 would be routed to the ATU local switch that is assigned the 907-276 NPA/NXX for termination. Translations in that switch would specify that calls to 276-1111 be completed over Route N which places the call on the GCILOCAL trunk group. The digits sent to the GCI local switch would be 276-1111. GCI would maintain the 276 NXX in its local switch in addition to its own NXX code.

An MTS call muted through AT&T`s network to 907-XXX (XXX is GCI's local code) would be routed to the GCI local switch for termination.

GCI TERMINATING MTS CALL

An MTS call routed through GCI's network to 907-276-1111 would be routed to the ATU local switch that is assigned the 907-276 NPA/NXX for termination. Translations in that switch would specify that calls to 276-1111 be completed over Route N which places the call on the GCILOCAL trunk group. The digits sent to the GCI local switch would be 276-1111. GCI would maintain the 276 NXX in its local switch in addition to its own NXX code.

An MTS call routed through GCI's network to 907-XXX (XXX is GCI's local code) would be routed to the GCI local switch for termination.

EXHIBIT A
ATU OFFER ON ISSUES 10-13
DOCKET U-96-89/NOVEMBER 8, 1996
PAGE 1 OF 3 PAGES

BENEFITS OF DID-TYPE NUMBER PORTABILITY

- - SUPPORTS IMPLEMENTATION OF LONG-TERM NUMBER PORTABILITY - Performance criteria adopted by the FCC require, among other things, that any long-term number portability method:

  1. Efficiently use numbering resources - This method allows the customer to change service providers and does not require a second number in the GCI local switch.

  2. Not require end users to change their telephone numbers - This method allows the customer to change service providers and retain their telephone number.

  3. Not result in any degradation of service quality or reliability when implemented - The quality and reliability of service under this method will be no different than that enjoyed by customers who receive local service from ATU.

  This method will also minimize the amount of work required to undo temporary, or interim, routing schemes when the long-term method of portability is implemented (assumes a database methodology to determine routing).

- - EASY TO ADMINISTER - Under this method, the translations for routing and trunking are set up once. As customers choose to change service provides, the activity required to effect the change is handled through normal service order processing. A simple program change to delete the line from the ATU switch and another to invoke the routing to GCI's switch is all that is required.

- - CAN BE MEASURED - Under this method, AMA records can be generated for billing purposes.

EXHIBIT A
ATU OFFER ON ISSUES 10-13
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PAGE 2 OF 3 PAGES

Diagram of DID-Type Number Portability

EXHIBIT M
Dialing Parity

Dialing parity. The term dialing parity means that a person that is not an affiliate of a local exchange carrier is able to provide telecommunications services in such a manner that customers have the ability to route automatically, without the use of any access code, their telecommunications to the telecommunications services provider of the customer's designation from among two or more telecommunications services providers (including such local exchange carrier.)

EXHIBIT N
Unbundled Transport Rates

PRICES FOR TRANSPORT

Entrance Facility

| | |
|---|---|
| 2-Wire Voice Grade | $22.49 per term |
| 4-Wire Voice Grade | $40.41 per term |
| Hi Capacity DS1 | $107.80 per term |

| | |
|---|---|
| Three DS3's | $1,030.33 per term |
| Channel Interface Connection | $1,594.88 per term |
| **Direct Trunked Transport - Facility** | |
| Voice Grade | $1.15 per term |
| Hi Capacity DS1 | $23.53 per term |
| Hi Capacity DS3 | $225.92 per term |
| **Directed Trunked Transport - Termination** | |
| Voice Grade | $10.76 per mile/mo |
| Tandem Switched Termination | $0.00416 per access min/term |
| Tandem Switching | $0.004712 per access min/mile |
| **Multiplexing** | |
| DS3 to DS1 | $377.87 per arrngmnt |
| DS1 to Voice | $365.68 per arrngmnt |
| **Tandem Switched Transport** | |
| Tandem Switched Facility | $0.000109 per access min/mile |
| Tandem Switched Termination | $0.000416 per access min/term |
| Tandem Switching | $0.004712 per access min/mile |
| **Common Channel Signaling** | |
| Signaling Mileage Facility | $2.31 per mile |
| Signaling Mileage Termination | $21.48 per term |
| Signaling Entrance Facility | $50.88 per facility |
| STP Port | $500.54 per port |
| 800 Query | $0.008485 per query |

AMENDMENT NUMBER 6 TO THE

REVISED QUALIFIED EMPLOYEE STOCK PURCHASE PLAN
OF
GENERAL COMMUNICATION, INC.

THIS AMENDMENT is made this _____ day of _______________, 1997, by General Communication, Inc., a corporation having its principal place of business in Anchorage, Alaska (the "Company").

RECITALS

A. The Company entered into and executed the Revised Qualified Employee Stock Purchase Plan of General Communication, Inc. effective January 1, 1989, and has previously amended such plan (the "Plan").

B. Section 11.6 of the Plan provides in part as follows:

"At any time the Company may amend this Plan and Trust by action of its Board of Directors . . . ."

C. The Company now desires to amend the Plan.

AMENDMENT

NOW THEREFORE, the Company does amend the Plan as follows:

1. SECTION 10.1(d) OF THE PLAN HEREBY IS AMENDED BY THE ADDITION OF A NEW PARAGRAPH (IX) WHICH WILL READ IN ITS ENTIRETY AS FOLLOWS:

10.1(d)(ix) SPECIAL 1997 PARTICIPANT ELECTION REGARDING QUALIFYING EMPLOYER SECURITIES: Effective from January 27, 1997, until August 31, 1997, and only in connection with the public offering of common stock of General Communications, Inc. that occurs during 1997 (the "1997 Public Offering"), each Participant will be permitted to make a one-time election to sell up to 50% of the Qualifying Employer Securities held in such Participant's Account (including but not limited to the Participant's elective deferral account and Company contributions account). The election to sell such Qualifying Employer Securities shall be made pursuant to procedures promulgated by the Committee, which will be applied in a uniform and nondiscriminatory manner. The sale price for such Qualifying Employer Securities will be that price at which such common stock is offered to the general public during the 1997 Public Offering. The proceeds from the sale of such Qualifying Employer Securities thereafter may be invested as directed by such Participant pursuant to the provisions of this Section 10.1, disregarding Section 10.1(d)(ii) to the extent applicable to the Participant's special one-time election. Participant Accounts which remain invested in Qualifying Employer Securities after the 1997 Public Offering and any new investments in Qualifying Employer Securities (other than those described in the following sentence) will remain subject to the restriction on such investments provided in Section 10.1(d)(vi). Notwithstanding the foregoing and restrictions provided in Section 10.1(d)(vi), the proceeds of any sale of Qualifying Employer Securities pursuant to this subjection (ix) may be reinvested in Qualifying Employer Securities, and such restrictions will not apply to any such reinvestment or successive investment of such proceeds in Qualifying Employer Securities.

2. SECTION 10.1(d)(i) OF THE PLAN HEREBY IS DELETED IN ITS ENTIRETY AND REPLACED BY THE ADDITION OF A NEW PARAGRAPH AS FOLLOWS:

10.1(d)(i) GENERAL RULES. Effective January 1, 1995, or such later date as determined by the Plan Committee, in accordance with rules established by the Plan Committee, each Participant shall have the right to designate the investment of his Account attributable to salary reduction contributions, voluntary contributions and rollover contributions and transfers made to the Plan after such date, as provided below.

3. Any inconsistent provisions of the Plan shall be read consistent with this Amendment.

4. Except as amended above, the Company hereby affirms and readopts each and every other provision of the plan and trust.

5. Except as otherwise provided above, the effective date of this Amendment shall be May 1, 1997.

IN WITNESS WHEREOF, General Communication, Inc. has executed this Amendment by its duly authorized officers as of the _____ day of ________________, 1997.

GENERAL COMMUNICATION, INC.

ATTEST:

By:______________________________
President

By:____________________________
Secretary

# AGREEMENT REGARDING OPTIONS

This Agreement Regarding Options (this "Agreement") is entered into as of July __, 1997 by and between General Communication, Inc., an Alaska corporation (the "Company") and ______________________, an individual ("Optionee").

## RECITALS

This Agreement is entered into in connection with a public offering by the Company of approximately 7,000,000 shares of its Class A common stock, no par value ("Class A Common Stock"). In order to make available to the Company a sufficient number of shares of Class A Common Stock to complete the planned offering, Optionee desires to enter into this Agreement agreeing not to exercise their rights under the option to acquire Class A Common Stock held by Optionee included on the attached Schedule.

## AGREEMENT

For good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Company and Optionee agree as follows:

1. Optionee agrees that it will not exercise any of the options to acquire Class A Common Stock included on the attached Schedule unless and until the Company has filed with the Alaska Secretary of State an amendment to the Company's Articles of Incorporation which increases the number of shares of Class A Common Stock that the Company is authorized to issue from 50,000,000 to at least 52,000,000 (the "Amendment").

2. The Company agrees that it will use its best efforts to take all action necessary to validly file the Amendment with the Alaska Secretary of State as promptly as practicable following the execution of this Agreement, including using its best efforts to obtain the requisite approval of the Company's shareholders at its next annual meeting of shareholders, currently scheduled to be held in September 1997.

3. This Agreement will terminate on November 1, 1997 if the Company has not completed its planned public offering of approximately 7,000,000 shares of Class A Common Stock on or before such date. This Agreement is governed and interpreted by the laws of the State of Alaska, without regard to its conflict of law rules.

| [OPTIONEE] | GENERAL COMMUNICATION, INC. |
|---|---|
| By:_______________________________ | By:_______________________________ |
| Name:_____________________________ | Name:_________________________ |
| Title:____________________________ | Title:________________________ |

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Sam Cotten, Chairman
Don Schroer
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook

In the Matter of the Petition by GCI COMMUNICATION CORP. for Arbitration under Section 252 of the Telecommunications Act of 1996 with the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY a/k/a ATU TELECOMMUNICATIONS for the Purpose of Instituting Local Exchange COMPETITION

U-96-89

ORDER NO. 9

ORDER APPROVING ARBITRATED INTERCONNECTION AGREEMENT AS RESOLVED AND MODIFIED BY ORDER U-96-89(8)

BY THE COMMISSION:

INTRODUCTION

By Order U-96-89(i) , dated September 17, 1996, the Commission established arbitration procedures to consider the petition for arbitration filed by GCI COMMUNICATION CORP. (GCICC) under Section 252 of the Telecommunications Act of 1996 (The Act).(1) In its petition, GCICC requested arbitration with the MUNICIPALITY OF ANCHORAGE d/b/a ANCHORAGE TELEPHONE UTILITY a/k/a ATU TELECOMMUNICATIONS (ATU) for the purpose of instituting local exchange competition. In that Order the Commission also determined that the primary arbitrator's recommended decision would be presented to the Commission by December 1,

(1) 47 U.S.C. 151 ET SEQ. as amended by The Act.

1996. The Commission determined that it could accept, reject, or modify the recommended decision as part of the arbitration process.

On December 16, 1996, the Commission issued Order U-96-89(8) (2) resolving all open issues subject to arbitration.(3) On January 6, 1997, GCICC, ATU, and AT&T Alascom filed comments on Order U-96-89(8).

DISCUSSION

Before this Commission is the issue of whether the arbitrated interconnection agreement as decided in Order U-96-9(8) should be approved or rejected. The limited grounds for rejection are clearly set out in Section 252(e) of The Act:

> The State commission may only reject . . . an agreement (or any portion thereof) adopted by arbitration . . . if it finds that the agreement does not meet the requirements of section 251, including the regulations prescribed by the Commission pursuant to section 251, or the standards set forth in subsection (d) of this section.

47 U.S.C. 252(e)(2)(B).

The Commission observes that all issues addressed in the arbitrated interconnection agreement, SUPRA, as resolved and accepted by Order U-96-89(8) were open issues subject to arbitration by the Commission pursuant to the standards and requirements of Sections 251 and 252

(2) The Commission notes that in Order U-96-89(8) at page 23, the reference to the date that GCICC had filed its Intrastate Access Proposal was in error. The Order stated that it was filed on December 21, 1996, but the actual filing date was December 11, 1996.

(3) The Commission notes that an "Interconnection Agreement" was filed December 3, 1996, by GCICC as an appendix to its Discussion of Identified Issues. On December 12, 1996, GCICC filed an ERRATA AS TO INTERCONNECTION AGREEMENT that made corrections to Exhibits A and N of the Interconnection Agreement. GCICC represented that the corrected pages had been discussed with, and reviewed by, ATU.

of The Act. The Commission also observes that it has received no requests for reconsideration of Order U-96-89(8).

In light of the comments filed January 6, 1997, as well as review of The Act and the conclusions set out in Order U-96-89(8), the Commission finds no reason to reconsider that decision. Therefore, the arbitrated interconnection agreement in this proceeding, as modified and accepted by Order U-96-89(8), is approved.(4)

The Commission finds that the arbitrated interconnection agreement, as modified and accepted by Order U-96-89(8), is in compliance with Section 252(e) of The Act, subject to the understanding that all prices in the arbitrated interconnection agreement are temporary in nature and will require a full study based upon a cost methodology to be determined by this Commission at a later date.

________________

(4) The parties were telephonically notified of this decision on January 14, 1997.



ORDER

THE COMMISSION FURTHER ORDERS, That, the arbitrated interconnection agreement in this proceeding, modified and accepted by Order U-96-89(8), is approved.(5)

DATED AND EFFECTIVE at Anchorage, Alaska, this 14th day of January, 1997.

BY DIRECTION OF THE COMMISSION

________________

(5) The Commission notes that GCICC's "Interconnection Agreement" referenced above was not signed by the parties, nor does it contain the amendments referenced by GCICC's ERRATA or the modifications articulated by the Commission in Order U-96-89(8). The parties are required to submit a signed interconnection agreement that reflects the ERRATA and the Commission's decisions so that the interconnection agreement decided in this proceeding is contained in a single document.

AMENDMENT TO THE MCI CARRIER AGREEMENT

This Amendment to the MCI Carrier Agreement ("Amendment") is between MCI TELECOMMUNICATIONS CORPORATION ("MCI") and GENERAL COMMUNICATIONS, INC. ("Customer") with offices located at 2550 Denali Street, Suite 1000, Anchorage, Alaska 99503.

WHEREAS, MCI and Customer are parties to an MCI Carrier Agreement with an Effective Date of January 1, 1993 ("Agreement"), and

WHEREAS, MCI and Customer desire to amend the Agreement,

NOW, THEREFORE, the parties agree as follows:

1. The first sentence of the first section of Paragraph 2 shall be deleted and the following inserted in its place:

During each monthly billing period of the service term (as defined in Paragraph 11 below), Customer's Monthly Usage shall be not less than Five Hundred Fifty Thousand Dollars ($550,000) per month ("Monthly Commitment").

2. Paragraph 3(c)(1) shall be deleted and the following inserted in its place:

1. (A) Customer agrees that during each monthly billing period of the service term, Customer will purchase from MCI as a part of the overall Monthly Commitment contained in Paragraph 2, at least Fifty Thousand Dollars ($50,000) of domestic interstate MCI 800 DAL Service (net of taxes and tax-related surcharges) (hereinafter "800 DAL Subcommitment"). This 800 DAL Subcommitment shall be measured at the postalized rate per minute of $0.0789.

(B) For domestic interstate inbound services terminating via dedicated access to an MCI point of presence, Customer will pay, in addition to all applicable taxes and tax-related surcharges, the following applicable postalized rate per minute as determined by Customer's Total Monthly Usage:

| Total Monthly Usage | Postalized Rate |
|---|---|
| $ 0 to $ 550,000 | Tariff |
| $ 550,000 to $ 750,000 | $0.0789 |
| $ 750,000 to $1,000,000 | $0.0783 |
| $1,000,000 and above | $0.0778 |

(C) For any month that Customer fails to equal or exceed the 800 DAL Subcommitment, Customer will pay an underutilization charge (which Customer agrees is reasonable) equal to fifteen percent (15%) of the difference between the 800 DAL Subcommitment and Customer's Monthly Usage of MCI 800 DAL usage.

3. Paragraph 3(c)(3) shall be deleted and the following inserted in its place:

At the end of the fourth year of the service term, MCI will adjust Customer's MCI 800 DAL Service pricing to reflect the rate charged, under the MCI Carrier Program in existence at that time, a Customer who has a five (5) year, Five Hundred Fifty Thousand Dollar ($550,000) contract commitment to MCI.

4. Paragraph 3(g) is added in its entirety as follows:

(g) INTERNATIONAL PRISM I SERVICE TERMINATING IN CANADA.

1) For Canadian traffic originating via dedicated access and terminating in Canada, Customer will pay, in addition to all applicable taxes and tax-related surcharges, the following postalized rate per minute. The postalized rates provided in this Paragraph shall only be applicable for traffic delivered by Customer to MCI in Buffalo, New York; Seattle, Washington or Detroit, Michigan.

CANADIAN PRISM I RATE

$0.2300

5. The MCI Carrier Agreement MCI 800 DAL Addendum attached to this Amendment is added to and made a part of the Agreement.

6. All other terms and conditions of the Agreement remain unchanged by this Amendment and are in full force and effect.

7. If signed by Customer and returned to MCI on or before March 7, 1994, this Amendment will be effective on February 1, 1994. If this Amendment is not

signed by Customer and received by MCI on or before March 7, 1994, this Amendment will be effective on the first day of the first month following execution of this Amendment by both parties.

8. This offer shall remain open and be capable of being accepted by Customer until March 7, 1994. This Amendment together with the Agreement is the complete agreement of the parties and supersedes all other prior agreements and representations concerning its subject matter. Any further amendments must be in writing and signed by both parties.



IN WITNESS WHEREOF, the parties hereto each acting with proper authority have executed this Amendment on the date indicated below.

| MCI TELECOMMUNICATIONS CORPORATION | GENERAL COMMUNICATIONS, INC. |
|---|---|
| By: _______________________________ | By: _______________________________ |
| Its: _______________________________ | Its: _______________________________ |
| Date: _______________________________ | Date: _______________________________ |

FIFTH AMENDMENT TO THE
MCI CARRIER AGREEMENT

This FIFTH AMENDMENT TO THE MCI CARRIER SERVICES MCI CARRIER AGREEMENT ("Fifth Amendment") is between MCI TELECOMMUNICATIONS CORPORATION ("MCI") and GENERAL COMMUNICATIONS, INC. ("Customer"), with offices located at 2550 Denali Street, Suite 1000, Anchorage, Alaska 99503.

WHEREAS, Customer and MCI are parties to an MCI Carrier Services MCI Carrier Agreement with an Effective Date of January 1, 1993, which was subsequently amended by (i) an Amendment to the MCI Carrier Agreement ("First Amendment"), executed on April 20, 1994, (ii) an Amendment No. 1 ("Second Amendment"), executed on July 26, 1994, (iii) a Third Amendment ("Third Amendment"), executed on November 23, 1994, and (iv) a Fourth Amendment ("Fourth Amendment"), executed by Customer on July 31, 1995, (collectively the "Original Agreement"), and

WHEREAS, the parties desire to amend the Original Agreement,

NOW, THEREFORE, the parties agree as follows:

1. Subparagraph 2(i) shall be deleted and replaced with the following:

(i) domestic interstate MCI PRISM I Service, MCI Remote Origination Services, as defined below, MCI 800 DAL Service, MCI Connections Card Service, MCI Carrier Operator Services, MCI Debit Card Service and MCI Directory Assistance (hereinafter "MCI Services") at the rates set forth in Paragraph 3 below, before application of discounts earned hereunder, but not including any applicable taxes (and gross receipts taxes) and tax-related surcharges on MCI Services;

2. The following shall be added as new Paragraph 3(j):

(j) MCI CARRIER DEBIT CARD.

1) Customer shall utilize MCI for the debit card platform and transport of Customer's domestic interstate termination of debit card traffic. Debit card units shall be as defined in the Tariff (hereinafter "Debit Card Units"). The rate set forth herein shall include access to the MCI debit card platform, transport, order entry and debit card activation. Customer shall pay a $0.135 rate per Debit Card Unit. The rate set forth herein includes customer services. Operator services are not included. If Customer chooses to purchase MCI operator services pursuant to the terms and conditions of the Tariff, an additional $0.01 per Debit Card Unit shall be added to the rate set forth herein.

MCI CONFIDENTIAL

2) Customer's Debit Card Units will only be reduced by the Debit Card Units utilized by completed calls (calls that are answered at the ultimate destination). Customer shall receive no refund or reimbursement for unused Debit Card Units.

3) In addition to the above rates, Customer shall pay an additional Six Hundred Dollar ($600.00) charge for each customized script identifying Customer to its end user.

4) Customer shall be solely responsible for all card fulfillment and any operator service if customer does not purchase from MCI.

5) Customer shall not include MCI's name or logo on any Customer debit card.

6) Customer shall receive no refund or reimbursement for unused Debit Card Units.

7) Upon batch activation of the Debit Card PIN's, invoicing of such batch order will commence.

3. The typographical error in Amendment No. 1 ("Second Amendment"), executed July 26, 1994 is corrected to read Paragraph "3(h)" rather than 3(g)". Said Paragraph is not intended to replace Paragraph "3(g)" which was inserted as a new Paragraph in the "First Amendment" executed April 20, 1994.

4. This Fifth amendment shall be effective on the first day of the next billing cycle following Customer's signature below ("Effective Date").

Except as herein modified or amended, all of the terms, conditions and provisions contained in the Original Agreement shall remain unchanged and in full force and effect. This Fifth Amendment together with the Original Agreement is the complete agreement of the parties and supersedes all other prior agreements and representations concerning its subject matter.

This offer will remain open and be capable of being accepted by Customer until

April 1, 1996.

IN WITNESS WHEREOF, the parties hereto have executed this Fifth Amendment on the date indicated below.



| MCI TELECOMMUNICATIONS CORPORATION | GENERAL COMMUNICATIONS, INC. |
| --- | --- |
| BY: ------------------------- | BY: ------------------------- |
| PRINT: ---------------------- | PRINT: ---------------------- |
| TITLE: ---------------------- | TITLE: ---------------------- |
| DATE: ----------------------- | DATE: ----------------------- |

August 6, 1993

Mr. Ronald A. Duncan
President
General Communication Inc.
2550 Denali Street
Suite 1000
Anchorage, Alaska 99503

Dear Ron:

This letter confirms the basic terms of the agreement between MCI Telecommunications Corporation ("MCI") and General Communication Inc. ("GCI") to license GCI to use MCI's "1-800-COLLECT" servicemarks and product functionalities for GCI collect calling originating in Alaska. We have agreed to the following terms:

1. MCI will instruct the SMS (Service Management System) to deliver all "1-800-COLLECT" traffic originating from Alaska to GCI using the GCI CIC (carrier identification code). Except as noted below, GCI will carry this traffic on its network and will provide all operator service support necessary to deliver the service for interstate and intrastate calls originating in Alaska.

a. GCI will route all "1-800-COLLECT" calls that originate in Alaska and request an international termination to MCI's Tucson Operator Services center for handling by MCI. Additionally, GCI will route all "1-800-COLLECT" calls requesting foreign language assistance to MCI's Tucson center.

b. This Agreement modifies Sec. 2A(2) and implements in part Sec. 2A(4) of the Contract for Alaska Access Services made by the parties.

2. MCI will provide GCI with a non-transferrable, revokable license to offer "1-800-COLLECT" calling for calls originating in Alaska. GCI acknowledges MCI's ownership of all patent, trademark, copyright and other intellectual property rights associated with "1-800-COLLECT" servicemarks and product functionalities.

a. The license permits GCI to use the MCI-proprietary "1-800-COLLECT" product functionalities, call flow, scripting and other unique "1-800-COLLECT" operational features.

b. The license permits GCI to use the "1-800-COLLECT" and "America's Least Expensive Way To Call Someone Collect" servicemarks in billing inserts, advertising and other marketing efforts targeted at Alaska-based long distance collect callers. All use by GCI of the "1-800-COLLECT" marks in any advertising, press releases, marketing material, operator scripts and other applications must receive MCI's prior approval, which shall not be unreasonably withheld. MCI will approve or disapprove advertising and promotional materials submitted by GCI to MCI within



five business days of receipt by MCI. If MCI does not comment within the prescribed period the materials will be deemed approved.

c. This license shall terminate upon the earlier of (i) twelve (12) months after the date MCI no longer has an equity interest in GCI and, (ii) the date GCI no longer utilizes MCI for the provision of message toll services to GCI at prices and terms as favorable as the alternative GCI elects to utilize. In addition, this license is revokable by MCI upon ninety (90) days notice in the event that the "1-800-COLLECT" services and related support furnished by GCI in connection with the "1-800-COLLECT" servicemark, are no longer substantially similar or equivalent, in MCI's discretion, to MCI's "1-800-COLLECT" service and support in terms of quality and technology.

3. GCI shall be responsible for billing and collection of all "1-800-COLLECT" calls it carries that originate in Alaska. Additionally, GCI agrees to bill and collect MCI's "1-800-COLLECT" calls originating from states other than Alaska under terms of our existing billing and collection relationships and/or under terms to be mutually agreed upon by the parties.

4. GCI agrees to utilize MCI's approved format for "1-800-COLLECT" call flow, branding and scripting for all GCI "1-800-COLLECT" calls. MCI will work closely with GCI to coordinate these efforts.

5. GCI shall be responsible for filing all tariffs necessary for it to carry "1-800-COLLECT" traffic. GCI shall ensure that all intrastate and

interstate pricing for "1-800-COLLECT" calls originating in Alaska on GCI's network shall provide callers with the least expensive collect call originating from the applicable Alaska location. MCI shall use its best efforts to provide GCI with adequate information, with due regard to normal tariff and regulatory filing schedules, to allow GCI to fulfill its tariffing and regulatory obligations.

6. GCI will provide MCI with weekly reporting on all "1-800-COLLECT" traffic, including reports on call volumes, call completions, minutes, revenue, and to the best of its ability traffic passed by GCI to MCI for international completion or for language assistance, according to a mutually agreed-upon format.

7. GCI will reimburse MCI for MCI's reasonable out-of-pocket costs and expenses associated with implementing the terms of this agreement.



8. Either party may terminate this Agreement upon forty-five (45) days notice in the event that:

a. The other party violates any term of this Agreement and/or fails to observe or perform according to any provision of this Agreement.

b. The other party terminates business, or admits its inability to pay its debts as they become due, or if any bankruptcy, insolvency, dissolution or other proceeding is instituted against it or if it makes any assignment for the benefit of creditors or enters into any composition with creditors or takes any action in furtherance of any of the foregoing.

Sincerely,

-----------------------
Gerald H. Taylor

AGREED:

- ---------------------------
Ronald A. Duncan
President
General Communication Inc.

SERVICE MARK LICENSE AGREEMENT

THIS AGREEMENT, made as of the 13th day of April 1994 an effective as of the date of the last signing Party hereto (the "Effective Date"), by and between MCI Communications Corporation ("MCI"), a company incorporated in Delaware with its principal place of business at 1801 Pennsylvania Avenue, NW, Washington, DC 20006, acting through the Consumer Markets Unit of its wholly owned subsidiary, MCI Telecommunications Corporation ("MCIC"), located at 1200 South Hayes Street, Arlington, VA 22202 (hereinafter the "Licensor"), and General Communication, Inc. ("GCI"), an Alaska corporation with its principal place of business at 2550 Denali Street, Anchorage, AL 99503, (hereinafter the "Licensee").

WHEREAS, MCIC and GCI have entered into a Stock Purchase Agreement as of March 31, 1993, under which MCIC has purchased an equity ownership interest in GCI; and

WHEREAS, GCI wishes to have the right to use in Alaska in connection with providing telecommunications services the service marks "Friends & Family" and "Calling Circle," hereinafter known as "the Marks," which Marks are registered by MCI, and MCI is willing to license GCI to use the Marks subject to the terms of this Agreement.

NOW, THEREFORE, the Parties agree as follows:

1. Grant.

1.1 Licensor hereby grants to Licensee an exclusive, nontransferable license to use the Marks within the State of Alaska, but not elsewhere, in connection with the sale, provision or performance of services related to a discount program that is the same as Licensor's "Friends & Family" program, but for no other purpose, and Licensee accepts the said license subject to the following terms and conditions.

1.2 This license does not include any right of the Licensee to sublicense any of the rights granted herein to third parties or affiliates.

1.3 The license does not affect Licensor's continuing right to use, in its sole discretion, the Marks in Alaska. Nor does it affect Licensor's right to provide telecommunications service in Alaska should it become certified to do so.

1.4 The license shall be used by Licensee in connection with a program for residential customers only and not in connection with telecommunication products sold primarily to businesses.

1.5 Licensee acknowledges that the Marks are owned by Licensor, agrees that it will do nothing inconsistent with such ownership, and further agrees that all use of the marks by Licensee shall inure to the benefit of and be on behalf of Licensor. Licensee agrees that nothing in this license shall give it any right, title or interest in the Marks other than the right to use the Marks in accordance

with this license, and Licensee agrees that it will not attack the title of Licensor to the Marks or attack the validity of this license.

2. The Licensee Program.

2.1 Licensee will use the Marks in connection with its "Friends & Family" program, which will be, to the extent possible, identical with Licensor's "Friends & Family" program as it exists on the Effective Date and as it may be modified by Licensor over time. Licensee agrees that the nature and quality of all services provided by it in connection with the Marks shall conform to the standards set by and be under the control of Licensor. Licensee agrees to cooperate with Licensor in facilitating Licensor's control of such nature and quality, to permit Licensor to make reasonable inspection of Licensee's operations, and to supply Licensor with specimens of use of the Marks promptly upon Licensor's request. Licensee shall comply with all applicable laws and regulations and obtain all appropriate government approvals pertaining to the provision of services under the Marks covered by this license.

2.2 Licensee agrees to use the Marks only in the form and manner prescribed from time to time by Licensor, and not to use any other trademark or service mark in combination with any of the Marks or that is similar to the Marks without the prior written approval of Licensor.

2.3 Licensee will offer a 20 percent discount on calls originating in Alaska and terminating in Alaska or in the rest of the United States to numbers associated with customers who are members of the customer's Friends & Family "Calling Circle." Customers may have up to twenty (20) persons on their Calling Circles, who must be Licensee customers if resident in Alaska or Licensor customers if resident in the remainder of the United States. In addition Licensee's Friends & Family customers may name three foreign telephone numbers on which the Licensee customer will receive a 20 percent discount. Licensee's Friends & Family discounts need not be given in addition to other discount plans Licensee may offer. Licensee will require no sign-up or monthly fees for its program.

2.4 As the basic Licensor Friends & Family program changes over time, Licensee will change its program so that the two Friends & Family programs remain as identical as possible. For the purposes of this Agreement, the "Basic Friends & Family Program" is the standalone "Friends & Family" program, as described in MCI's FCC Tariff No. 1 as it may be amended, and does not include ancillary programs, like "Friends & Family Days" or "Best Friends," that may reference "Friends & Family" but which are not required or necessary elements of the basic "Friends & Family" program described in Section 2.3, above. If, however, Licensee does in the future wish to adapt any ancillary programs corresponding to such programs as "Friends & Family Days" or "Best Friends," it will first seek a license to do so from Licensor and, upon the grant of any such license, adapt them to remain as identical as possible with the corresponding Licensor programs. Thereafter, such additional licensed marks shall be deemed licensed Marks under this Agreement, and shall be subject to the terms and conditions of this Agreement except as may otherwise be specifically amended by the Parties in writing.



2.5 Licensee will identify in all of its marketing and advertising materials using the Marks that the Marks are registered service marks owned by Licensor, are being used under license from Licensor, and pertain to Licensor's Friends & Family program which is being made available by Licensee to its customers in Alaska.

2.6 Licensee will keep Licensor fully informed about its "Friends & Family" program and will not change its program without prior Licensor approval.

2.7 Licensee will pay reasonable cost-based fees for information, services, support and materials that it may request from MCIC and MCIC provides in connection with Licensor's Friends & Family program including services provided prior to the effective date of this Agreement. Licensor will provide appropriate detail and documentation for all charges. Licensee will pay for valid charges within thirty (30) days of receipt of Licensor's bill.

3. Control of the Use of the Marks

3.1 Licensee will submit all Licensee marketing materials, sales, print and media communications, and promotions bearing one or more of the marks to a designated point of contact at Licensor, as hereinafter provided, for approval prior to use. If Licensor (through the designated point of contact in Residential Product Marketing) does not disapprove Licensee's "Friends & Family" materials by the fifth (5th) business day after receipt by the designated point of contact such advertising and/or promotional materials will be deemed approved.

3.2 Licensee understands that the Marks are extremely valuable assets belonging to Licensor, and Licensee will not use or permit the use of the Marks in any manner whatsoever which may jeopardize their significance, distinctiveness cr validity.

4. Infringement

4.1 In the event that Licensee learns of any infringement, suspected infringement or other unauthorized use or proposed use of the Marks, Licensee shall immediately notify the Licensor who shall have the sole right and discretion to bring infringement or unfair competition proceedings or take other appropriate action involving the Marks. Licensee shall, however, take no action on its own in connection with such infringement without the prior written consent of the Licensor. Licensee agrees to give to the Licensor such assistance as may be required in any proceedings or other actions taken or instituted by the Licensor with respect to such infringement or unauthorized use.

5. Termination

5.1 This license shall terminate upon the earlier of (i) twelve (12) months after the date MCI no longer holds an equity interest in GCI or, (ii) the date GCI no longer uses MCI for the provision of message toll services to GCI . In addition, this license is revocable by MCI upon ninety (90) days written notice if, in the sole determination by MCI, Friends & Family as offered by GCI is



no longer substantially similar to MCI's Friends & Family or if the related support furnished by GCI in connection with Friends & Family is, as determined solely by MCI, not substantially similar or equivalent to the service and support in terms of quality and technology as that provided by MCI for Friends Family.

5.2 Upon termination of the Agreement Licensee agrees (a) immediately to discontinue the use of the marks and any terms confusingly similar thereto, (b) to cooperate with Licensor or its appointed agent in applying to the appropriate authorities to cancel recording of this Agreement from all government records if the Agreement is so recorded, and (c) to destroy all printed materials bearing any of the Marks thereon.

6. Provision of Data

6.1 Consistent with the requirements of the Communications Act of 1934 and all applicable governmental regulations regarding the acquisition, use and dissemination of customer information, the Parties will provided each other with customer data that is necessary and appropriate to operate the program. Data provided to either party will be erased from tapes once it is loaded into a party's system and tapes shall be returned to the sending party. At all times the data will be kept secure from theft, unauthorized use, or unauthorized copying. Each party may inspect the security arrangements of the other in this regard and make reasonable requests to ensure data security. Neither Party will use any data received from the other except as explicitly permitted by the providing party and in connection with the Marks.

7. Confidentiality

7.1 Both Parties will (a) keep confidential all proprietary information that may be supplied in connection with Licensee's use of the Marks including, without limiting the generality of the foregoing, data provided under Section 6.1, above, marketing plans, pricing change information, program change information, promotions or any other aspect of either Party's programs using the Marks, (b) protect such proprietary information from unauthorized disclosure using the same degree of care that the Receiving Party uses with its proprietary information of like importance, (c) not release or disclose such proprietary information or data to any third party, nor (d) use such information and data except as permitted under this Agreement or in a separate writing signed on behalf of the disclosing party, without the prior written permission of the other. Any violation of this Section 7.1 shall be deemed a material breach of this Agreement.

7.2 Disclosure of proprietary information shall not be precluded if such disclosure is: (a) in response to a valid order of a court or other governmental body of the United States or any political subdivision thereof; provided, however, that the Receiving Party shall first have given notice of such order to the Disclosing Party, and the Receiving Party shall, to the extent possible, make a reasonable effort to obtain a protective order requiring that the information so disc1osed be used only for the purpose for which the order was issued, or, (b) otherwise required by law or government



regulation, or, (c) already in the possession of the Receiving Party without obligation of confidence, or, (d) independently developed by the Receiving Party without access to the Disclosing Party's confidential information, (e), or becomes publicly available without breach of this Agreement, or, (f) rightfully received by the Receiving Party from a third party under no obligation of confidentiality, or, (g) released for disclosure by the Disclosing Party with its written consent, or, (h) inherently disclosed in the use of or otherwise publicly available in supporting documentation for any present or future service of the Disclosing Party.

8. Indemnification

Licensee agrees, at its own expense, to defend, indemnify and hold Licensor harmless from and against any and all claims, suits, actions, proceedings, judgments, damages, liabilities, costs and expenses (including attorneys' fees) arising from its use of the Marks and provision of telecommunications services, other than .a claim based on an assertion by a third party that Licensor does not own the Marks and/or does not have the right to grant the license set forth in Section 1.1, above.

9. Period of License

9.1 This Agreement shall continue in force without limit subject to the termination provisions contained in Section 5, above.

10. Notices

Any notice or other communications which are required or permitted under this Agreement shall be in writing and shall be deemed given only when received if delivered personally, or sent electronically or by registered or certified mail, postage prepaid, as follows:

To Licensor:

Vice President Product Marketing
MCI Telecommunications Corporation

1200 S. Hayes Street
Arlington, VA 22202

To Licensee:

Senior Vice President, Marketing Sales
General Communication Inc.
2550 Denali Street, Suite 1000
Anchorage, AL 99503

11. Assignment



11.1 This Agreement may not be assigned by the Licensee without the prior written permission of Licensor.

12. Applicable Law

12.1 The construction of this Agreement and the enforcement of its terms shall be made pursuant to the law of New York without regard to its choice of law provisions.

13. Miscellaneous.

13.1 Neither Party is an agent of the other for any purpose. Neither Party shall make any warranties or representations, or assume or create any obligations on behalf of the other.

13.2 The title of this Agreement and the headings of its Sections are inserted for convenience of reference only and shall not affect its meaning.

13.3 All obligations that by their nature survive the expiration, cancellation or termination of this Agreement shall remain in effect after its expiration, termination or cancellation.

13.4 The Parties do not intend to create an interest in any third party by this Agreement except to the extent as may be expressly provided herein.

13.5 This Agreement may only be changed or supplemented by a written amendment, executed by authorized representatives of both Parties.

13.6 Each Party agrees not to use any service or trademark of the other or of its affiliates except as provided herein, nor will either Party refer to the other or its affiliates except as provided for herein or with the prior written approval of such other Party.

13.7 If any provision of this Agreement is held to be illegal, invalid or unenforceable, the remaining terms shall not be affected. The Agreement shall be interpreted as if the illegal, invalid or unenforceable term had not been included in it, and the invalid or unenforceable provision will be replaced by a mutually acceptable provision which, being valid and enforceable, comes closest to the intention of the Parties underlying the invalid or unenforceable provision.

14. Entire Agreement.

14.1 The Parties agree that this Service Mark License Agreement is the entire and complete understanding of the Parties with respect to the subject matter hereof and supersedes all prior or contemporaneous representations, understanding or agreements written or oral pertaining to its subject matter.



IN WITNESS WHEREOF authorized agents of the Parties have executed this Service Mark License Agreement.

MCI Communications Corporation

By:
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James M. Schneider
Senior Vice President, Finance

Date: 5/3/94

General Communications. Inc.

By:
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William Behnke
Senior Vice President, Marketing

Date: 5/3/94

United States of America
Federal Communications Commission

RADIO STATION AUTHORIZATION

Commercial Mobile Radio Services
Personal Communications Service - Broadband

| | | |
|---|---|---|
| GCI COMMUNICATION CORPORATION | Call Sign: | KNLF298 |
| 2550 Denali Street, Suite 1000 | Market: | M049 |
| Anchorage, AK 99503 2781 | | ALASKA |
| | Channel Block: | B |
| | File Number: | 00095-CW-L-95 |

The licensee hereof is authorized, for the period indicated, to construct and operate radio transmitting facilities in accordance with the terms and conditions hereinafter described. This authorization is subject to the provisions of the Communications Act of 1934, as amended, subsequent Acts of Congress, international treaties and agreements to which the United States is a signatory; and all pertinent rules and regulations of the Federal Communications Commission, contained in the Title 47 of the U.S. Code of Federal Regulations.

Initial Grant Date . . . . . . . . . . . . .JUNE 23, 1995
Five-Year Build Out Date . . . . . . . . . .JUNE 23, 2000
Expiration Date. . . . . . . . . . . . . . .JUNE 23, 2005

CONDITIONS:

Pursuant to Section 309(n) of the Communications Act of 1934, as amended, (47 U.S.C. Section 309(h)), this license is subject to the following conditions: This license does not vest in the licensee any right to operate a station nor any right in the use of frequencies beyond the term thereof nor in any other manner than authorized herein. Neither this license nor the right granted thereunder shall be assigned or otherwise transferred in violation of the Communications Act of 1934, to amended (47 U.S.C. Section 151, et seq.). This license is subject in terms to the right of use or control conferred by Section 706 of the Communications Act of 1934, as amended (47 U.S.C. Section 606).

Conditions continued on Page 2.

WAIVERS:

No waivers associated with this authorization.

Issue Date: June 23, 1995
FCC Form 463a



CONDITIONS:

This authorization is subject to the condition that, in the event that systems using the same frequencies as granted herein are authorized in an adjacent foreign territory (Canada/United States), future coordination of any base station transmitters within 72 km (45 miles) of the United States/Canada border shall be required to eliminate any harmful interference to operations in the adjacent foreign territory and to ensure continuance of equal access to the frequencies by both countries.

This authorization is subject to the condition that the remaining balance of the winning bid amount will be paid in accordance with Part 1 of the Commission's rules. 47 C.F.R. Part 1.

ALASKA PUBLIC UTILITIES COMMISSION

CERTIFICATE
OF
PUBLIC CONVENIENCE AND NECESSITY

NO. 436

HAVING FOUND THAT THE GRANTEE OF THIS CERTIFICATE IS FIT, WILLING, AND ABLE TO PROVIDE THE UTILITY SERVICES APPLIED FOR AND THAT SUCH SERVICES ARE REQUIRED FOR THE CONVENIENCE AND NECESSITY OF THE PUBLIC, THE ALASKA PUBLIC UTILITIES COMMISSION, PURSUANT TO THE AUTHORITY VESTED IN IT BY AS 42.05, HEREBY ISSUES THIS CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO

GCI COMMUNICATION CORP.

AUTHORIZING IT TO OPERATE A PUBLIC UTILITY, AS DEFINED BY AS 42.05.990(4)(B) FOR THE PURPOSE OF FURNISHING

TELECOMMUNICATIONS SERVICE
(RELAY SERVICE)

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Sam Cotten, Chairman
Don Schroer
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook

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|---|---|
| In the Matter of the Application for Transfer to GCI CABLE, INC.; GCI CABLE/FAIRBANKS, INC.; and GCI CABLE/JUNEAU, INC., Certificate of Public Convenience and Necessity Nos. 143, 144, 156, 157, 158, 164, 168, 191, 245, 246, 252, 261, 287, 367, and 401(1) To Operate at Tele-communications (Cable Television) Public Utilities | U-96-43<br>ORDER NO. 1 |

ORDER APPROVING TRANSFER UPON CLOSING, SUBJECT TO CONDITIONS, AND REQUIRING FILINGS

BY THE COMMISSION:

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(1) Certificate of Public Convenience and Necessity (Certificate) Nos. 143 and 144 are held by KETCHIKAN-SITKA CABLEVISION, INC. (KSCI); Certificate No. 156 is held by ALASKAN CABLE NETWORK/JUNEAU, INC. d/b/a ALASKAN CABLE NETWORK (Alaskan Cable); Certificate Nos. 157, 158, 164, 168, 191, and 245 are held by ALASKA CABLEVISION, INC. (ACVI); Certificate Nos. 246, 261, and 287 are held by PRIME CABLE OF ALASKA, L.P. (Prime); see orig,[    ] Certificate No. 367 is held by MCCAW/ROCK SEWARD CABLE SYSTEM d/b/a SEWARD CABLEVISION (MCCAW/RII); and Certificate No. 401 is held by MCCAW/ROCK HOMER CABLE SYSTEM d/b/a HOMER CABLEVISION (MCCAW/Rock).

On May 23, 1996, GCI Cable, Inc. (GCICI); GCI Cable/Fairbanks, Inc. (GCICF); and GCI Cable/Juneau, Inc. (GCICJ),(2) (collectively, GCI Cable) filed a consolidated application to transfer to them the Certificates from the existing Certificate holders shown below.

| Certificate Number | Area Served | Transferor | Transferee |
|---|---|---|---|
| 246 | Bethel | Prime | GCICI |
| 261 | Anchorage | | |
| 287 | Kenai/Soldotna | | |
| 144 | Ketchikan | KSCI | |
| 143 | Sitka | | |
| 158 | Wrangell/Petersburg | ACVI | |
| 157 | Cordova | | |
| 191 | Valdez | | |
| 168 | Kodiak | | |
| 164 | Nome | | |
| 245 | Kotzebue | | |
| 401 | Homer | McCaw/Rock | |
| 367 | Seward | McCaw/RII | |
| 252 | Fairbanks | ACNI | GCICF |
| 156 | Juneau | Alaskan Cable | GCICJ |

Notice of the application was issued on June 17, 1996, with a closing date of July 18, 1996, for the submission of statements in favor of, or in opposition to, the application. Responses to the notice were received from Dr. Thomas Brewer, Provost, University of Alaska Anchorage; Robert P. Penzenik, Chairman, Institutional Users Consortium and Supervisor, Audio Visual & Related Services, Anchorage School District; Tom Mempton, Facility Manager, Anchorage Municipal Libraries; and the Municipality of Anchorage d/b/a Anchorage Telephone Utility a/k/a ATU Telecommunications.

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(2) GCICI, GCICF, and GCICJ are newly formed corporations wholly owned by

GCI Communication Corp. d/b/a General Communication, Inc., and GCI and "sister" corporation GCI Communication Corp.

On September 18, 1996, the Commission Staff (Staff) submitted its analysis and recommendation (Report)(3) regarding the application and filings in this proceeding. Staff's Report sets out in detail the history of the proceeding and Staff's findings and recommendations regarding disposition of the application.(4) A copy of Staff's Report is attached to this Order as an Appendix.

Staff concluded that GCI Cable, based on its application, has demonstrated that it is fit, willing, and able to operate the transferred cable television systems and that the proposed transfers are affirmatively consistent with the public interest. Thus, Staff recommended that the following transfers be approved effective upon GCI Cable's final closing of the acquisitions:

1) Certificate No. 252 from ACNI to GCICF;
2) Certificate No. 156 from Alaskan Cable to GCICJ;
3) Certificate Nos. 246, 261, and 287 from Prime to GCICI;
4) Certificate Nos. 144 and 143 from KSCI to GCICI;
5) Certificate Nos. 157, 158, 164, 168, 191, and 242 from ACVI to GCICI;
6) Certificate No. 401 from McCaw/Rock to GCICI; and
7) Certificate No. 367 from McCaw/RII to GCICI.

In addition, Staff recommended that GCICJ be required to file an adoption notice and, later, a separate tariff in its own name. Additionally, Staff recommended that GCICI, GCICJ, and GCICF each file, by March 15th of every year, an income statement and balance sheet for its respective operation.

## DISCUSSION

Based on its review of the record in this proceedings, the Commission concurs with Staff's recommendation that the proposed transfers are affirmatively consistent with the public interest and that GCICI, GCICJ, and GCICF are fit, willing, and able to operate the cable

(3) The Commission notes that n. 2 at p. 8 of Staff's Report contains an incorrect cite. In Staff's Report, the cite to "47 U.S.C. 541(b)(3)(B)" should be changed to "Sect. 303(a) of the telecommunications Act of 1996, Pub. L. No. 104-104, 56 Stat. 110, February 8, 1996."

(4) Staff's Report includes a detailed discussion of the comments received in this proceeding and GCI Cable's response to those comments, and that discussion will not be reiterated in this Order.

television systems proposed to be transferred to each. In addition, the Commission concurs with Staff's recommendation that GCICJ should be required to file an adoption notice and, later, a separate tariff in its own name and that GCICI, GCICJ, and GCICF should each be required to file annual income and balance sheets for each respective telecommunications operation.

Accordingly, the Commission will grant GCI Cable's application for transfer of the certificates effective upon the closing of the acquisitions. The Commission will also require GCICJ to file an adoption notice and, later, a separate tariff in its own name and will require GCICI, GCICJ, and GCICF to each file annual income statements and balance sheets.

The Commission has further determined that as a condition of approval of the transfers herein GCI Cable shall be obligated to terms and conditions similar to those delineated in ordering Paragraphs G and H of Order U-85-62-(3), dated March 26, 1986,(5)updated to include the current available cable channels. Those Ordering Paragraphs defined the provision of channel capacity for public, education, and governmental use in that proceeding. While Order U-85-62(3) was directed only to Certificate Nos. 261 and 287, the Commission will require GCI Cable to continue to provide the same level of public, education, and governmental use required of each Certificate under previous Commission orders.

Staff's Report is incorporated herein by reference and adopted as the Commission's findings of fact and conclusions of law.

## ORDER

THE COMMISSION FURTHER ORDERS:

1) The application by GCI Cable, Inc., GCI Cable/Fairbanks, Inc., and GCI Cable/Juneau, Inc., to transfer Certificate of Public Convenience and Necessity No. 252 from Alaskan Cable Network, Inc., to GCI Cable/Fairbanks, Inc.; Certificate of Public Convenience and Necessity No. 156 from Alaskan Cable Network/Juneau, Inc. to GCI Cable/Juneau, Inc.

(5) That Order was issued in the proceeding entitled: In the Matter of the Application for Transfer of Certificates of Public Convenience and Necessity Nos. 261 and 287 to Operate as a Telecommunications (Cable television) Public Utility from MULTIVISIONS, LTD., and from INLETVISIONS, INC., to SONIC CABLE TELEVISION OF ALASKA, INC.

Certificate of Public Convenience and Necessity Nos. 246, 261 and 287 from Prime Cable of Alaska, L.P., to GCI Cable, Inc.; Certificate of Public Convenience and Necessity Nos. 143 and 144 from Ketchikan-Sitka Cablevision, Inc., to GCI Cable, Inc.; Certificate of Public Convenience and Necessity Nos. 157, 158, 164, 168, 191, and 245 from Alaska Cablevision, Inc., to GCI Cable, Inc.; Certificate of Public Convenience and Necessity No. 401 from McCaw/Rock Homer Cable system to GCI Cable, Inc.; and Certificate of Public Convenience and Necessity No. 367 from McCaw/Rock Seward Cable System to GCI Cable, Inc., is approved effective upon closing of the acquisitions.

2) The public, education, and governmental use obligations previously imposed by the Commission upon the Certificates of Public Convenience and Necessity delineated in Ordering Paragraph No. 1 of this Order are transferred to GCI Cable, Inc., GCI Cable/Fairbanks, Inc., and GCI Cable/Juneau, Inc., and those entities shall continue to provide service under the same conditions as required by previous Commission Orders regarding those enumerated Certificates of Public Convenience and Necessity.

3) Upon closing of the acquisition of Alaskan Cable Network/Juneau, Inc., GCI Cable/Juneau, Inc., shall file an adoption notice and, within ninety days after filing that adoption notice, shall file a separate tariff in its own name.

4) GCI Cable, Inc.; GCI Cable/Fairbanks, Inc.; and GCI Cable/Juneau, Inc.; each shall file by March 15, 1997, and by March 15th of each year thereafter, its income statement and a balance sheet for its respective telecommunications (cable television) public utility operations.

5) By 4 p.m., October 23, 1996, Ketchikan-Sitka Cablevision, Inc.; Alaskan Cable Network/Juneau, Inc. d/b/a Alaskan Cable Network; Alaska Cablevision, Inc.; Prime Cable of Alaska, L.P.; Alaskan Cable Network, Inc.; McCaw/Rock Seward Cable System d/b/a Seward Cablevision; McCaw/Rock Home Cable System d/b/a Homer Cablevision; each shall return to the Commission the parchments of Certificate of Public Convenience and Necessity Nos. 143, 144, 156, 157, 158, 164, 168, 191, 245, 246, 261, 287, 252, 367, and 401, respectively.

DATED AND EFFECTIVE at Anchorage, Alaska, this 23rd day of September, 1996.

BY DIRECTION OF THE COMMISSION
(Commissioner Alyce A. Hanly,
not participating.)

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Sam Cotten, Chairman
Don Schroer
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook

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| In the Matter of the Application for Transfer to GCI Cable, Inc.: GCI CABLE/FAIRBANKS, INC.; and GCI CABLE/JUNEAU, INC., Certificate of Public Convenience and Necessity Nos. 143, 144, 156, 157, 158, 164, 168, 191, 245, 246, 252, 261, 287, 367, and 401(1) To Operate at Telecommunications (Cable Television) Public Utilities | U-96-43<br><br>ORDER NO. 2 |

ORDER GRANTING EXTENSION OF TIME AND CLARIFYING ORDER

BY THE COMMISSION:

On May 23, 1996, GCI Cable, Inc. (GCICI); GCI Cable/Fairbanks, Inc. (GCICF); and GCI Cable/Juneau, Inc. (GCICJ),(2) (collectively, Applicants) filed a consolidated application to transfer to them the Certificates from the existing Certificate holders shown below.

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(1) Certificate of Public Convenience and Necessity (Certificate) Nos. 143 and 144 are held by KETCHIKAN-SITKA CABLEVISION, INC. (KSCI); Certificate No. 156 is held by ALASKAN CABLE NETWORK/JUNEAU, INC. d/b/a ALASKAN CABLE NETWORK (Alaskan Cable); Certificate Nos. 157, 158, 164, 168, 191, and 245 are held by ALASKA CABLEVISION, INC. (ACVI); Certificate Nos. 246, 261, and 287 are held by PRIME CABLE OF ALASKA, L.P. (Prime); Certificate No. 367 is held by MCCAW/ROCK SEWARD CABLE SYSTEM d/b/a SEWARD CABLEVISION (MCCAW/RII); and Certificate No. 401 is held by MCCAW/ROCK HOMER CABLE SYSTEM d/b/a HOMER CABLEVISION (MCCAW/Rock).

(2) GCICI, GCICF, and GCICJ are newly formed corporations wholly owned by GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI and "sister" corporation GCI Communication Corp.



| Certificate Number | Area Served | Transferor | Transferee |
|---|---|---|---|
| 246 | Bethel | Prime | GCICI |
| 261 | Anchorage | | |
| 287 | Kenai/Soldotna | | |
| 144 | Ketchikan | KSCI | |
| 143 | Sitka | | |
| 158 | Wrangell/Petersburg | ACVI | |
| 157 | Cordova | | |
| 191 | Valdez | | |
| 168 | Kodiak | | |
| 164 | Nome | | |
| 245 | Kotzebue | | |
| 401 | Homer | McCaw/Rock | |
| 367 | Seward | McCaw/RII | |
| 252 | Fairbanks | ACNI | GCICF |
| 156 | Juneau | Alaskan Cable | GCICJ |

By Order U-96-43(1), dated September 23, 1996, the Commission approved, effective upon closing, the application to transfer the Certificates to Applicants. That Order also included certain conditions on approval, including the return by October 23, 1996, of the existing parchments or certificates held by Prime, KSCI, ACVI, McCaw/Rock, McCaw/RII, ACNI, and Alaskan Cable.

On September 30, 1996, the applicants requested an extension of time for the existing certificate holders to return the parchments of the respective Certificates. Applicants stated that the extension was requested because closing is scheduled for October 31, 1996, and the existing Certificate holders did not wish to return the Certificates until after closing. Applicants requested an extension of time until "30 days after closing" to return the respective parchments.

Applicants also requested a clarification of Order U-96-43(1). Applicants stated that the Order does not explicitly recognize that Prime will continue to exist after closing and will continue to hold the same assets it now holds for providing cable television service. Applicants further stated that GCICI will be the 100 percent owner of Prime and that all aspects of the management and operation of the cable system will be exactly as described in the application. The



application stated that GCICI will be totally responsible for all obligations of Prime. The Applicants also stated that GCICI intends to eliminate Prime as an entity in the foreseeable future.

Applicants stated that either of two approaches is possible to recognize the ownership structure. Applicants stated that Order U-96-43-(1) could be clarified to recognize explicitly that the Certificates should be transferred to GCICI, because of GCICI's 100 percent ownership of Prime. Alternatively, applicants stated that Order U-96-43(1) could be clarified to authorize GCICI to acquire a controlling interest in Prime with the Certificated remaining with Prime.

## DISCUSSION

The Commission has considered the request for an extension of time and determined that it should be granted. The Commission's approval of the application in Order U-96-43(1) is effective "upon closing." Until closing, it is appropriate for the existing Certificate holders to retain the parchments authorizing them to provide service. After closing, the existing Certificate holders should have reasonable period within which to return the parchments. Accordingly, the Commission will grant an extension of time until thirty days after closing for return of the parchments.

The Commission has also considered the request for classification regarding the ownership structure of Prime. The Commission recognizes that, after closing of the transaction, Prime will continue to exist and hold the assets that are used to provide cable television service and that GCICI will be the 100 percent owner of Prime. Also, as the 100 percent owner of Prime, GCICI will be totally responsible for all obligations of Prime. In addition, GCICI intends to eliminate Prime as an entity in the foreseeable future. In view of GCICI's 100 percent ownership of Prime, the Commission believes that it is appropriate to transfer the Certificates held by Prime to GCICI. Accordingly, Order U-96-43(1) is clarified to recognize that Certificates 246, 261, and 287 are transferred to GCICI, in light of its 100 percent ownership of Prime. In addition, the Commission believes GCICI should inform the Commission when it eliminates Prime as an entity and, if not done within one year of this Order, GCICI should inform the Commission of the time frame that it plans to eliminate Prime as an entity.



## ORDER

THE COMMISSION FURTHER ORDERS:

1. Within thirty days after closing of the acquisitions, Ketchikan-Sitka Cablevision, Inc.; Alaskan Cable Network/Juneau, Inc. d/b/a Alaskan Cable Network; Alaska Cablevision, Inc.; Prime Cable of Alaska, L.P.; Alaskan Cable Network, Inc.; McCaw/Row Seward Cable System d/b/a Seward Cablevision; and McCaw/Rock Homer Cable System d/b/a Homer Cablevision each shall return to the Commission the parchments of Certificate of Public Convenience and Necessity Nos. 143, 144, 156, 157, 158, 164, 168, 191, 245, 246, 252, 261, 287, 367, and 401, respectively.

2. The transfer of Certificate of Public Convenience and Necessity Nos. 246, 261, and 287 to GCI Cable, Inc., is affirmed in recognition of the ownership structure described in the body of this Order.

3. GCI Cable, Inc., shall inform the Commission when it eliminates Prime Cable of Alaska, L.P., as an entity and if it has not eliminated Prime Cable of Alaska, L.P., as an entity by October 21, 1997, GCI Cable, Inc., shall file a report by that date delineating its plans and time frame for eliminating Prime Cable of Alaska, L.P., as an entity.

DATED AND EFFECTIVE at Anchorage, Alaska, this 21st day of October, 1996.

BY DIRECTION OF THE COMMISSION

John:

GCI needs to keep you. Try the following on for size. This would be in addition to the promised options @ $3.

1. Base salary $125K - effective 7/1/92.

2. Annual cash bonus up to $30K based on company and individual performance. $25K of 1992 bonus (to be paid in January '93) would be guaranteed if we complete a refinancing and purchase the cable in 1992. Future performance targets to be negotiated.

3. Deferred compensation package worth $450K to vest over 7 years ($65K/yr.). Full face value to be paid immediately if:

    (i) you die
    (ii) your position is terminated
    (iii) GCI terminates your employment.

    If you leave voluntarily you lose unvested portion. I suggest you go talk with Don Wilson or someone of his ilk about how to design an insurance based deferred comp plan with $65K per year of funding. He can help set up a structure that will have optimum tax consequences for both you and the company.

4. Minimum 2-year commitment to GCI.

5. $100K cash signing bonus - paid at date of agreement.

6. Subject to board approval which I don't think is a problem.

7. Either way you keep your situation quiet for 60 days until I have time to deal with other executive pay problems.

Let me know.

DEFERRED COMPENSATION AGREEMENT

This Agreement entered into this 15TH day of August 1994, between GCI Communication Corp. ("GCI") and DANA L. TINDALL ("Employee").

1. In consideration of the performance of the Employee for GC1, GCI hereby agrees to pay Employee up to $50,000 as compensation in addition to the current salary and benefits now paid contingent upon the Employee exercising options as provided in the Stock Option Agreement dated June 2, 1993, between General Communication, Inc. and Employee ("Stock Option Agreement").

2. GCI shall pay Employee One Dollar ($1.00) in compensation under this Agreement for each share purchased by Employee pursuant to the Stock Option Agreement payable at the time of Issuance of the Shares. All compensation shall be subject to withholding and deductions as required by law or as established by GCI.

3. The obligation to pay compensation hereunder or any portion thereof shall terminate on the date the Stock Option Agreement terminates. In the event of employee's death, the legal or personal representative of Employee's status shall have the right to payment of the compensation hereunder on the same terms and conditions as provided in Section 2(b) of the Stock Option Agreement.

GCI COMMUNICATION CORP.

By:________________________________
John M. Lowber
Senior Vice President

EMPLOYEE:

By:________________________________
Dana L. Tindall

ADDENDUM TO GALAXY X
TRANSPONDER PURCHASE AGREEMENT
BETWEEN
GCI COMMUNICATION CORP.
AND
HUGHES COMMUNICATIONS GALAXY, INC.

This document shall constitute an Addendum to that certain Galaxy X Transponder Purchase Agreement between GCI COMMUNICATION CORP. ("Buyer") and HUGHES COMMUNICATIONS GALAXY, INC. ("HCG"), dated as of [_______________] (the "Agreement"). This Addendum amends the Agreement as indicated herein. If there is any inconsistency between this Addendum and the Agreement, then this Addendum shall prevail. This Addendum is being executed concurrently and is dated as of even date with, and is an integral part of, the Agreement. Any reference to the "Agreement" shall refer collectively to the Agreement and this Addendum. Terms not otherwise defined herein shall have the meanings set forth in the Agreement.

1. A NEW SECTION 22 IS ADDED HEREBY:

22. INTERIM CAPACITY: Buyer shall lease from HCG, and HCG shall lease to Buyer, five (5) U.S.-Mode C-Band transponders on a satellite commonly known as "Galaxy IX", which shall be located at 123DEG. West Longitude orbital location, from the date on which transponder service on Galaxy IX shall commence (as determined by HCG in its sole discretion) through the Delivery of Galaxy X, at a Monthly Lease Rate of $65,000 per transponder per month, payable in advance on the first day of each month. Provided that the Galaxy X Delivery has not occurred on or before September 1, 1998, then HCG shall lease to Buyer, and Buyer shall lease from HCG, another U.S.-Mode C-Band transponder on Galaxy IX (thereby a total number of six (6) transponders) from September 1, 1998 through the Galaxy X Delivery. Provided that the Galaxy X Delivery has not occurred on or before September 1, 1999, HCG shall lease to Buyer, and Buyer shall lease from HCG, another U.S.-Mode C-Band transponder on Galaxy IX (thereby a total number of seven (7) transponders) from September 1, 1999 or September 1, 2000, at Buyer's sole option, through the Galaxy X Delivery. Buyer may elect to take Transponder Nos. 6 and 7 early with thirty (30) days advance notice to HCG. The Monthly Lease Rate for the sixth and seventh Galaxy IX transponders shall be $75,000 per transponder per month, payable in advance on the first day of each month. Buyer shall notify HCG in writing of its decision to elect either September 1, 1999 or September 1, 2000 as the start date for the lease of the seventh (7th) transponder on or before March 1, 1999. If Buyer does not provide HCG with such written notice, then Buyer shall be deemed to have elected the September 1, 2000 date. If Buyer elects or is deemed to have elected the September 1, 2000 date, then Buyer shall pay to HCG $500,000 either concurrently with Buyer's written notice or on March 1, 1999, respectively. However, the parties agree that the Monthly Lease Rate per each transponder shall increase to $105,000 as of the date on which Galaxy X suffers a launch failure or March 1, 1998, whichever occurs first. The lease of the Galaxy IX transponders shall be governed by the terms and conditions of the Agreement regarding use of the Transponders, including Sections 7, 8, 9 and 10 and any other then-effective HCG's standard provisions applicable to the lease or use of capacity on Galaxy IX. The condition precedent to the interim capacity on Galaxy IX as set forth in this Section 22 shall be the successful launch and operation of Galaxy IX.

In the event that Galaxy X is not Delivered into orbit on or before December 31, 1998, or the launch thereof is a failure, AND NO REPLACEMENT IS CONTEMPLATED, Buyer shall take all six of its Galaxy X C-Band Transponders on Galaxy IX instead (all six (6) as a group in either U.S.-Mode or Alaska-Mode), at the Monthly Lease Rate of $90,000 per Transponder per month, for a Lease Term commencing on the date of such Delivery or launch failure and terminating on the twelfth anniversary of the Delivery of Galaxy IX, and the Capacity of Buyer on Galaxy IX shall continue as a Lease and not a Purchase. In that event, Buyer agrees to execute any and all necessary documents to convert the Purchase of Transponders on Galaxy X to a Lease of the same amount of Capacity on Galaxy IX. Alternatively, Buyer shall have the right to convert the lease of such Galaxy IX transponders to a purchase. The purchase price shall be an amount representing $105,000 per month discounted at 12% per annum, compounded monthly, based on the then-remaining life of Galaxy IX. The TT&C fee and the in-orbit warranty fee shall be included in the purchase price. The purchase of the Galaxy IX transponders shall be governed by HCG's then-effective standard Galaxy IX purchase agreement.

IN WITNESS WHEREOF, each of the parties hereto has duly executed and delivered this Addendum.

| GCI COMMUNICATION CORP. | HUGHES COMMUNICATIONS GALAXY, INC. |
|---|---|
| By:_______________________________ | By:_______________________________ |

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|---|---|
| Its: Sr. Vice President | Its: Sr. Vice President |
| Date: 95 August 24 | Date: 8/24/95 |

STATE OF ALASKA

THE ALASKA PUBLIC UTILITIES COMMISSION

Before Commissioners: Sam Cotten, Chairman
Alyce A. Hanley
Dwight D. Ornquist
Tim Cook
James M. Posey

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| In the Matter of the Application by GCI COMMUNICATION CORP. d/b/a GENERAL COMMUNICATION, INC., and d/b/a GCI for a Certificate of Public Convenience and Necessity to Operate as a Telecommunications (Local Exchange) Public Utility Service in and around Anchorage and Hope, Alaska | U-96-24<br>ORDER NO. 1 |

ORDER APPROVING APPLICATION, SUBJECT TO CONDITIONS:
REQUIRING FILING: AND APPROVING PROPOSED
TARIFF ON AN INCEPTION BASIS

BY THE COMMISSION:

On March 15, 1996, GCI COMMUNICATION CORP. d/b/a GENERAL COMMUNICATION, INC., and d/b/a GCI (GCI), a previously certificated intrastate interexchange (IXC) telecommunications provider, filed an application for a certificate of public convenience and necessity (certificate) to operate as a telecommunications (local exchange) public utility in an around Anchorage and Hope, Alaska. GCI's local exchange service would be in competition with that of the Municipality of Anchorage d/b/a Anchorage Telephone Utility a/k/a ATU Telecommunications (ATU) within ATU's local exchange service area.



The application was noticed to the public on March 29, 1996, with a closing date of May 6, 1996, for submission of statements in support of, or in opposition to, the application. On May 5, 1996, the Alaska Telephone Association (ATA) filed comments which, in part, stated that it did not oppose GCI's application, but would oppose entry absent goals and policies that protect the public interest and that are not consistent with the Telecommunications Act of 1996 (the Act).(1) On May 6, 1996, ATU filed comments stating that it conditionally supported GCI's application. ATU stated that it did not oppose GCI's application subject to the Commission establishing appropriate conditions that protect consumers and ATU.

On May 6, 1996, Matanuska Telephone Association, Inc. (MTA), filed comments stating that it did not oppose GCI's application, but opposed GCI's request for a waiver of the Commission's service standards, and supported ATU's suggestion that the Commission develop specific goals and objectives to guide the development of a competition marketplace. Also on May 6, 1996, Alascom, Inc. d/b/a AT&T Alascom (AT&T Alascom) filed comments stating, in part, that it did not oppose GCI's application.

On May 17, 1996, GCI filed its reply to the comments of ATA, ATU, MTA, and AT&T Alascom. In its reply GCI requested early approval of its application, stating that none of the commentors

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(1)47 U.S.C.A. 151 et seq. as amended by the Act.



had raised any significant factual or legal objection to GCI's application.

The Commission Staff (Staff) reviewed the application and comments received in this proceeding and on September 24, 1996, submitted its analysis and recommendation (Report) thereon. A copy of Staff's Report is attached to this Order as an Appendix.

Staff's Report sets out in detail the history of the proceeding, the public noticing of and the responses to the application, and Staff's findings and recommendations regarding disposition of the application. Among other things, Staff concluded that GCI has demonstrated that it is fit, willing, and able to provide local exchange services within the requested area. Staff recommended that GCI's application for a certificate to furnish telecommunications (local exchange) service be approved with conditions.

Additionally, Staff recommended that the tariff GCI filed September 13, 1996, be approved on an inception basis. Staff's recommended conditions of certification were that GCI:

1. be required to maintain separate records and books for its local exchange operation;

2. inform the Commission when GCI begins providing local exchange service;

3. inform the Commission prior to beginning service of the manner in which number portability will be provided;



4. provide local exchange service area wide, upon request and to the extent technically feasible, to all customers in the same service classification and within its authorized service area;

5. file quarterly reports containing: the number of its access lines, classified by residential and business, a) that are provided over its local exchange facilities, b) that are provided over the facilities of an affiliate of the local operation, and c) that are provided over the facilities of other carriers; a statement of revenues and operating expenses associated with the local exchange services; and a progress report regarding the installation of facilities used to furnish local exchange services; and

6. file annual reports for its local exchange operation as required by AS 42.05.451(b).

DISCUSSION

Based on its review of the record in this proceeding the Commission concurs with Staff's conclusion that the proposed service is required for the public convenience and necessity and that GCI has made a showing that it is fit, willing, and able to provide that service. Further, the Commission has determined that GCI's proposed local exchange tariff filed September 13, 1996, should be approved on an inception basis. In addition, the



Commission concurs with the conditions that Staff recommended be placed on the certificate.

Accordingly, the Commission accepts Staff's recommendation to approve GCI's application subject to the following conditions.

1. GCI must maintain separate records and books for its local exchange operation.

2. GCI must inform the Commission when the utility begins providing local exchange service.

3. GCI must inform the Commission prior to beginning service of the method by which the utility will provide number portability.

4. GCI must provide local exchange service area wide, upon request and to the extent technically feasible, to all customers in the same service classification and within its authorized service area.

5. GCI must file quarterly reports containing:

a. the number of its access lines, classified by residential and business, that are provided over its local exchange facilities;

b. the number of its access lines that are provided over the facilities of an affiliate of the local operation;



c. the number of its access lines that are provided over the facilities of other carriers;

d. a statement of revenues and operating expenses associated with the local exchange services; and

e. a progress report regarding the installation of facilities used to furnish local exchange services.

6. GCI must file annual reports for its local exchange operations as required be AS 42.05.451(b).

Before GCI may provide local exchange services, it must have on file with the Commission an approved tariff for intrastate IXC access and, thus, will be required to make that filing and gain Commission approval of the access tariff before providing local exchange service. The Commission notes that on December 11, 1996, GCI and ATU filed an intrastate access charge proposal. The proposal contained the following agreements.

1. GCI agreed to accurately report all IXC conversation minutes to the Alaska Exchange Carriers Association (AECA) Common Line Pool as if those minutes originated or terminated on ATU.

2. GCI agreed to charge IXCs the AECA tariffed traffic sensitive rates and pay all required revenues to the AECA. ATU would then recompense GCI by paying to GCI the following, and pool participants other that ATU would retain all distributions from the pools.



a. (AECA Switching & Information Surcharge Rates) X (GCI Switched Minutes) X (ATU Distribution Percentage); and

b. (AECA Dedicated Trunk Rate) X (Dedicated Trunks) X (ATU Distribution Percentage).

3. Terms of the proposal are to extend to the date of state reform or December 31, 1997, whichever occurs first.

4. Number Portability: GCI also agreed to use the methodology specified above to determine the traffic sensitive access revenue for intrastate toll traffic for transiting both GCI and ATU networks. The rate charged would be the same as in (2) (a) above, except multiplied by 0.5. Nontraffic sensitive revenue would not be shared.

By Order U-96-98 (i),(2) dated December 16, 1996, the Commission, among other things, resolved arbitrated issues in that proceeding and accepted the primary arbitrator's award in Issue No. 10 regarding intrastate access charges, as refined by the Commission's adoption of GCI's intrastate access charge proposal. The Commission stated in that Order that acceptance of the proposal was subject to the express condition that, for the purpose of

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(2) That Order was issued in the proceeding entitled: IN THE MATTER OF THE PETITION BY GCI COMMUNICATION CORP. FOR ARBITRATION UNDER SECTION 252 OF THE TELECOMMUNICATIONS ACT OF 1996 WITH THE MUNICIPALITY OF ANCHORAGE D/B/A ANCHORAGE TELEPHONE UTILITY A/K/A ATU TELECOMMUNICATIONS FOR THE PURPOSE OF INSTITUTING LOCAL EXCHANGE COMPETITION.



establishing the services eligible for resale in the future, no issue should be considered to have been finally determined or adjudicated by virtue of its acceptance of the Proposal. Based on its review of the record in Docket U-96-89, the Commission has determined that the access tariff GCI is required to file in this proceeding should reflect the terms and conditions of the intrastate access charge proposal referenced above.

Staff's Report is incorporated herein by reference and adopted as the Commission's findings of fact and conclusions of law.

ORDER

THE COMMISSION FURTHER ORDERS:

1. The application filed by GCI Communication Corp. d/b/a General Communication Inc., and d/b/a GCI for a certificate of public convenience and necessity for authority to operate as a telecommunications (local exchange) public utility within the specific service area described in Attachment WEM-1 of the Appendix attached hereto is approved, subject to the following conditions.

a. GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI shall maintain separate records and books for its local exchange operation.

b. GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI shall notify the Commission when the utility begins providing local exchange service.



c. Prior to beginning service, GCI Communication Corp. d/b/a General Communications, Inc., and d/b/a GCI shall notify the Commission of the manner in which the utility will provide number portability.

d. GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI shall provide local exchange service area wide, upon request and to the extent technically feasible, to all customers in the dame service classification and within its authorized service area.

e. GCI Communications Corp. d/b/a General Communication, Inc., and d/b/a GCI shall file quarterly reports with the Commission containing:

i. the number of its access lines, classified by residential and business, that are provided over its local exchange facilities;

ii. the number of its access liens that are provided over the facilities of an affiliate of the local operations;

iii. the number of its access lines that are provided over the facilities of other carriers;

iv. a statement of revenues and operating expenses associated with the local exchange services; and

v. a progress report regarding the installation of facilities used to furnish local exchange services.



f. GCI Communication Corp. d/b/a General Communication, Inc., and d/b/a GCI shall file with the Commission annual reports for the utility's local exchange operation as required by AS 42.05.451(b).

2. By 4 p.m., March 6, 1997, GCI Communication Corp. d/b/a General Communication, and d/b/a GCI shall file with the Commission an access tariff that reflects the terms and conditions of the intrastate access charge proposal filed by the parties in Docket U-96-89, as refined by the Commission's adoption ot that proposal in Order U-96-89(8) and as more fully delineated in the body of the Order.

3. The proposed tariff filed by GCI Communication Corp. d/b/a General Communications, Inc., and d/b/a GCI on September 13, 1996, is approved on an inception basis.(3)

DATED AND EFFECTIVE at Anchorage, Alaska, this 4th day of February, 1997.

BY DIRECTION OF THE COMMISSION
(Commissioner James M. Posey,
not participating.)

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(3)A Validated copy of the approved tariff will be forwarded to the utility by the Commission Staff under separate cover.

CREDIT LYONNAIS NEW YORK BRANCH
NATIONSBANK OF TEXAS, N.A.
TD SECURITIES (USA) INC.

as of July 3, 1997

General Communication, Inc.
2550 Denali Street, Suite 1000
Anchorage, Alaska 99503-2781

Attention: John M. Lowber
Senior Vice President & Chief Financial Officer

Dear Sirs:

You have advised us that General Communication, Inc. ("GCI") proposes to form a partnership to be known as the Alaska United Partnership (the "Borrower"), whose purpose will be the construction, ownership and operation of an undersea fiber optic telecommunications cable connecting Fairbanks, Anchorage and Juneau, Alaska to the lower 48 states (the "Project"). You have also advised us that in order to finance the Project, the Borrower, which initially will be a wholly owned subsidiary of GCI, will require a construction and term loan facility in the amount of $75 million (the "Facility").

We are pleased to advise you of the commitments of (i) Credit Lyonnais New York Branch ("Credit Lyonnais") to act as Administrative Agent for the Facility, (ii) NationsBank of Texas, N.A. ("NationsBank") to act as Syndication Agent for the Facility, (iii) TD Securities (USA) Inc. ("Toronto Dominion") to act as Documentation Agent for the Facility, and (iv) Credit Lyonnais, NationsBank and Toronto Dominion (collectively, the "Banks") to each provide $25 million of the Facility (i.e. $75 million in the aggregate), subject to the terms and conditions set forth or referred to herein and in the Summary of Terms and Conditions attached hereto as Exhibit A (the "Term Sheet").

The Banks will manage and structure the Facility and arrange for the syndication of the Facility. You agree to actively assist the Banks in achieving a syndication (which may be

completed before or after execution of the definitive documentation in respect of the Facility) which is satisfactory to the Banks. This will be accomplished by a variety of means, including (i) direct contact during the syndication between you, your officers and representatives and the proposed syndicate lenders, (ii) if deemed necessary by the Banks, your active participation in the preparation of a syndication book satisfactory to the Banks and (iii) if deemed necessary by the Banks, participation in one or more bank meetings. To assist the Banks in the syndication efforts, you agree promptly to provide, and to cause your advisors to provide, the Banks and the proposed syndicate lenders upon request with all information deemed reasonably necessary by the Banks to successfully complete the syndication, including but not limited to, all information, projections and valuations prepared by you or your advisors, or prepared on your or their behalf relating to the Borrower, the Project or the transactions described herein. The parties hereto hereby agree that the syndication of the Facility will not occur until after completion of the syndication of the new bank credit facility for GCI Holdings, Inc. In addition, you hereby agree that in the event syndication is completed after the execution of the definitive documentation in respect of the Facility, you shall negotiate in good faith, execute and deliver such amendments to the definitive documentation as a lender may reasonably request.

It is understood and agreed that Credit Lyonnais as Administrative Agent, NationsBank as Syndication Agent, and Toronto Dominion as Documentation Agent, will be the only agents for the Facility and that no additional agents or co-agents will be appointed unless agreed to by the Banks. You also agree that to the extent any syndication prior to execution of definitive loan documentation results in commitments in excess of the full amount of the Facility, the Banks may reduce their commitments accordingly. It is understood and agreed that the Banks will manage all aspects of the syndication, including decisions as to when the Banks shall approach the proposed syndicate lenders and when the Banks shall accept their commitments, and further including any naming rights, lender selection and the final allocations of the commitments among the syndicate lenders. It is understood that no proposed syndicate lender in the Facility will receive compensation from the Borrower or its affiliates outside of the terms contained herein in order to obtain its commitment to participate in this financing.

No Bank shall be responsible for the failure of any other Bank to honor its commitment set forth herein, nor shall the commitment of any Bank be increased as a result of the failure of any such other Bank to honor its commitment; PROVIDED that such failure (i) shall relieve the non-defaulting Banks of all obligations with respect to the Facility, unless the non-defaulting Banks shall in their sole discretion agree otherwise in writing following any such default and (ii) shall not relieve the defaulting Bank of any of its obligations with respect to its commitment for the Facility.

As consideration for the Banks' commitments hereunder and agreements to manage, structure and syndicate the Facility and for their work in connection with the Facility, you hereby agree to pay to each of the Banks (i) an upfront fee of 1-1/8% of such Bank's commitment hereunder (i.e. an upfront fee of $281,500 to each Bank), payable upon the execution of the definitive credit agreement in respect of the Facility and (ii) the fees and other



consideration specified in the Term Sheet. In addition, you hereby agree to pay to Credit Lyonnais the fees and other consideration specified in that certain separate letter agreement dated the date hereof between Credit Lyonnais on the one hand, and you on the other hand, concerning fees relating to the transaction contemplated hereby (the "Fee Letter"). The fees and other consideration specified in the Fee Letter shall be payable as set forth in the Fee Letter. All of the fees and other consideration specified in this paragraph shall be paid in immediately available funds, and once paid, shall not be refundable under any circumstances.

The effectiveness of this letter agreement is subject to each of the Banks executing this letter agreement or a counterpart hereof.

The Banks' commitments hereunder are subject to the negotiation, execution and delivery of definitive documentation with respect to the Facility in form and substance satisfactory to each of them and the other syndicate lenders. The Banks' commitments hereunder are also subject to (x) there not having occurred and continuing to exist (and there being no likelihood, in the good faith judgment of the Banks, of the occurrence of) a material disruption or a material adverse change in the financial or capital markets and (y) a material adverse change not having occurred in the business, assets, property, condition, financial or otherwise, or prospects of GCI or the Borrower. The terms and conditions of the Banks' commitments hereunder and of the Facility are not limited to the terms and conditions set forth herein and in the Term Sheet (such additional terms and conditions to be in the nature of elaboration in documentation and consistent with transactions of this type). Those matters which are not covered by or made clear under the provisions hereof and of the Term Sheet are subject to the mutual approval and agreement of the Banks and the Borrower (it being understood that any terms and conditions reflecting such matters shall not be inconsistent with the terms and conditions set forth herein and in the Term Sheet).

Each of the Banks has reviewed certain information about GCI, the Borrower and the Project which you have furnished to us. You agree promptly to provide each of the Banks upon request with all additional information deemed necessary by any of them, including but not limited to information prepared by you or your advisors, or prepared on your or their behalf. If the Banks' continuing review of materials about GCI, the Borrower and the Project discloses information, or the Banks otherwise discover information not previously disclosed to them, or any information previously disclosed to the Banks proves to contain inaccuracies, any of which any of the Banks believes has a materially adverse impact on its previous assessment of GCI, the Borrower or the Project, or the financial condition, operations, assets and prospects of GCI, the Borrower or the Project, or presents material tax or litigation exposure to GCI or the Borrower, then any of the Banks may, in its sole discretion, suggest alternative financing amounts or structures that ensure adequate protection for the Banks and the other syndicate lenders or withdraw its commitment hereunder.

You hereby represent and covenant that, to the best of your knowledge, (a) all written information and data (excluding financial projections) concerning GCI, the Borrower and



the Project (the "Information"), which has been or is hereafter made available to the Banks by you or on your behalf will be complete and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading in light of the circumstances under which such statements are made and (b) all financial projections concerning GCI, the Borrower and the Project (the "Projections"), which are made available to the Banks by you or on your behalf will, unless otherwise disclosed, be prepared in good faith based upon assumptions believed by management to be reasonable. If, subsequent to making any Information or Projections available to us, you become aware of any facts which would cause the foregoing representation to no longer be true, you will promptly so notify us. In extending their commitments relating to the Facility and arranging, structuring and working with you to syndicate the Facility, the Banks will be using and relying on the Information and Projections without independent verification thereof.

By executing this letter agreement, you agree (i) to indemnify and hold harmless each of the Banks and the other syndicate lenders and their respective officers, directors, employees, agents and controlling persons from and against any and all losses, claims, damages and liabilities to which any such person may become subject arising out of or in connection with this letter agreement, the Facility or the loans, the use of any proceeds of the loans, or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing or the security given for the loans or otherwise concerning the Borrower or the Project, whether or not any of such indemnified parties is a party thereto, and to reimburse each of such indemnified parties upon demand for any legal or other expenses incurred in connection with investigating or defending any of the foregoing; PROVIDED that the foregoing indemnification will not, as to any indemnified party, apply to losses, claims, damages, liabilities or expenses to the extent arising from the willful misconduct or gross negligence of such indemnified party; and (ii) to reimburse Credit Lyonnais from time to time upon demand for all reasonable out-of-pocket expenses (including expenses of Credit Lyonnais' due diligence investigation, syndication expenses and fees and disbursements of counsel and outside consultants) incurred in connection with the Facility and the preparation of this letter agreement, the Term Sheet, the definitive documentation for the Facility and the security arrangements in connection therewith. The provisions contained in this paragraph shall remain in full force and effect whether or not definitive financing documentation shall be executed and delivered and notwithstanding the termination of this letter agreement or the commitments hereunder.

The foregoing agreement shall be in addition to any rights that any Bank or any other indemnified party may have at common law or otherwise, including, but not limited to, any right to contribution.

If for any reason the foregoing indemnification is unavailable to any party or insufficient to hold it harmless as and to the extent contemplated by the preceding paragraphs, then you shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage, liability or expense in such proportion as is appropriate to reflect the relative benefits received by you, on the one hand, and each of the Banks, the other indemnified parties and any other applicable indemnified party, as the case may be, on the other hand, and also the relative fault of you and each of the Banks, the other indemnified



parties and any other applicable indemnified party, as the case may be, as well as any other relevant equitable considerations.

You agree that this letter agreement is for your confidential use only and will not be disclosed by you to any person other than your attorneys, accountants, tax consultants and other advisors and as required by law or as compelled by legal process (and then only after giving the Banks prior notice) and on a confidential basis, except that, following your acceptance and return hereof and of the Fee Letter, you may make public disclosure of the existence and amount of the Banks' commitments and undertakings hereunder and may file a copy of this letter agreement in any public record in which it is required by law to be filed and may make such other public disclosures of the terms and conditions hereof as are required by law.

This letter agreement shall not be assignable by you without the prior written consent of the Banks, and may not be amended or any provision hereof waived or modified except by an instrument in writing signed by you and each of the Banks.

In the event that the definitive documentation relating to the Facility has not been executed on or before August 31, 1997, then this letter agreement and the commitments contained herein shall terminate, unless the Banks shall, in their sole discretion, agree to an extension; provided that nothing herein shall limit any of your rights with respect to a breach by any Bank of its commitment contained herein. Notwithstanding the foregoing, the reimbursement and indemnification provisions hereof shall survive any termination hereof.

THIS LETTER AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

This letter agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which when taken together shall constitute one and the same instrument.

Please indicate your acceptance of the terms hereof by signing in the appropriate space below and returning to Credit Lyonnais the enclosed duplicate original of this letter agreement and an accepted copy of the Fee Letter by 12:00 noon New York City time on July 7, 1997, at which time the Banks' commitments and other agreements hereunder will expire in the event that Credit Lyonnais shall not have received both of the foregoing.

Each of the Banks is pleased to have been given the opportunity to assist you in connection with the transactions contemplated herein.



Very truly yours,

CREDIT LYONNAIS NEW YORK BRANCH

By_____________________________
Name:
Title:

NATIONSBANK OF TEXAS, N.A.

By_____________________________
Name:
Title:

TD SECURITIES (USA) INC.

By_____________________________
Name:
Title:

Accepted and agreed to
as of the date first
written above:

GENERAL COMMUNICATION, INC.

By__________________________
Name:
Title:



EXHIBIT A

ALASKA UNITED LIMITED PARTNERSHIP
SUMMARY OF TERMS AND CONDITIONS

This Term Sheet is attached to and forms a part of that certain Commitment Letter dated as of July 3, 1997 between General Communication, Inc. on the one hand, and Credit Lyonnais New York Branch, NationsBank of Texas, N.A. and TD Securities (USA) Inc., on the other hand.

PROJECT: Development, construction and operation of an undersea fiber optic cable connecting Anchorage, Fairbanks and Juneau, Alaska with the Continental United States.

SPONSOR: General Communication, Inc. ("GCI").

BORROWER: "Alaska United," a limited partnership formed for the purpose of owning the Project.

CREDIT FACILITIES: A Construction and Term Loan Facility available for up to ten (10) years from the Commencement Date, subject to extension for a further two (2) years as set forth below under Final Maturity Date. Periodic draws may be made on the Credit Facilities until the Completion Date (as defined below), after which any Construction Loans outstanding are to be converted to a Term Loan of equal amount. A final draw will be permitted on the Completion Date for Project Costs incurred but not yet due and payable, the proceeds of which will be held in a segregated account pending disbursement. No further draws will be permitted after the Completion Date.

COMMITMENT AMOUNT: $75,000,000. The actual amount drawn under the Credit Facilities shall be less than the Commitment Amount to the extent costs paid by the Borrower to construct the Project (the "Cost to Construct the Project") are less than $125,000,000.

PURPOSE: To finance construction of the Project.

AGENT AND ARRANGER: Credit Lyonnais New York Branch. Commitments under the Credit Facilities shall be syndicated to institutions hereinafter referred to as the

"Lenders".

CLOSING DATE: The date on which all Conditions Precedent to Closing are satisfied.

COMMENCEMENT DATE: The earlier of the date occurring 6 months from the Closing Date and the date on which the first draw is made on the Credit Facilities, subject to satisfaction of all Conditions Precedent to Initial Draw.

COMPLETION DATE: The earlier of (1) the date on which Commercial Operations (to be defined) have first been achieved and (2) January 1, 1999.

CONVERSION DATE: The date five years from the Commencement Date.

FINAL MATURITY DATE: The date ten (10) years from the Commencement Date, on which the unpaid balance under the Credit Facilities shall become due and payable; PROVIDED, HOWEVER, that the Final Maturity Date will be extended to the date twelve (12) years from the Commencement Date if at any time between the second and fifth anniversaries of the Commencement Date, the Borrower is able to demonstrate to the satisfaction of all the Lenders that it meets the following test (the "Coverage Test"), i.e. that projected revenues to be received by the Borrower solely from "Satisfactory Capacity Commitments" will be sufficient to pay all of the Borrower's anticipated expenditures through such extended Final Maturity Date, including without limitation, all operating expenses, interest and scheduled principal installments (based on the extended amortization schedule), as and when due. The foregoing determination shall take into account any voluntary loan prepayments actually made prior to such date of determination.

SATISFACTORY CAPACITY COMMITMENTS: "Satisfactory Capacity Commitments" shall mean (i) binding contractual commitments for the sale or lease of Project capacity to third parties rated investment grade or better or otherwise satisfactory to all the Lenders, pursuant to which fixed minimum payments are required to be made on or before dates certain, and (ii) the Lease Contract between the Borrower and GCI's wholly owned second-tier subsidiary GCI Holdings, Inc. ("Holdings") as described below under "Project Agreements".

AMORTIZATION: The outstanding principal balance under the Credit Facilities shall be repaid in equal quarterly installments beginning on the Conversion Date



and continuing through the Final Maturity Date.

VOLUNTARY PREPAYMENT: All or any portion of the outstanding loans may be prepaid at any time in whole or in part at the Borrower's option, subject to payment of breakage costs for LIBOR Loans.

SPONSOR EQUITY: $50,000,000. All Sponsor Equity funds will be contributed to and expended by the Borrower prior to the disbursement of any proceeds from the Credit Facilities.

PROJECT AGREEMENTS: All agreements which pertain to the development, construction, operation and/or maintenance of the Project, including but not limited to:

1) The Lease Contract between the Borrower (as lessor), GCI Communication Corporation (as lessee) and Holdings (as guarantor of the lessee's obligations) must be for a term of at least 11 years from the Completion Date, and provide for annual rental payments to the Borrower of no less than $3,900,000.

   Events of default under the Lease Contract shall include (i) failure to make any payment under the Lease Contract within 30 days after its due date, (ii) payment default or acceleration with respect to other Indebtedness of the lessee or its parents aggregating $15,000,000 or more, (iii) any merger by Holdings with, or transfer of all or substantially all its assets to, any person other than one of its Restricted Subsidiaries, (iv) incurrence of any indebtedness which results in Senior Leverage at the time of such incurrence to be in excess of 5 to 1 at any time on or before December 31, 1999, or 3.75 to 1 at any time thereafter, and (v) other customary provisions for agreements of this type. "Senior Leverage" shall mean the ratio of total debt of Holdings and its Restricted Subsidiaries to their Consolidated EBITDA.

   The Lenders, as assignee of the Borrower, shall be entitled to exercise all customary remedies upon an event of default under the Lease Contract including (i) the right to terminate the contract and (ii) the right to require immediate payment of an amount equal to the net present value of all remaining lease payments.

2) The Operating Keep-Well Agreement of GCI Transport Company, pursuant to which it shall be obligated to pay or to make



subordinated loans or capital contributions, as they may elect, to the Borrower to pay (i) all the Borrower's operating expenses, including interest and principal, in order to avoid a payment default by the Borrower under any agreement to which the Borrower is a party (i.e. GCI Transport Company may be required to make immediate payment of any such amount which is not paid when due) (each a "Type I Payment") and (ii) the entire amount, if any, which remains unpaid under the Credit Facilities at the Final Maturity Date or upon any acceleration by reason of the occurrence of an Event of Default (the "Type II Payment"). This Agreement will contain a restriction on the ability of GCI Transport Company to pay dividends or otherwise transfer cash to Holdings or any other Affiliate (except the Borrower), except as contemplated under "Flow of Funds" below. This Agreement shall become effective on the Closing Date with mandatory payments to begin after the Completion Date.

3) The Operating Keep-Well Agreement of Holdings, which shall be identical to the Operating Keep-Well Agreement of GCI Transport Company, except that no Type I Payment will be required to be made under this agreement unless GCI Transport Company has failed to pay such amount within five (5) days after demand for such payment pursuant to its Operating Keep-Well Agreement, and no Type II Payment will be required to be made by Holdings under this agreement until the earlier of (i)

exhaustion of all remedies of the Lenders against the stock of the Borrower and all of its assets, demand for payment against GCI Transport Company under its Operating Keep-Well Agreement and the filing of a claim for payment against GCI Transport Company under such Agreement or (ii) repayment in full of Holdings' Bank Credit Facility, unless otherwise agreed to by the lenders under Holdings' Bank Credit Facility. All payments by Holdings under its Operating Keep-Well Agreement will be made as subordinated loans to the Borrower and will be subject to the Restricted Payment Limitation/Investment Baskets under the terms of the indenture relating to the Senior Notes due 2007 of GCI, Inc. (as described in the Registration Statement filed May 29, 1997) and Holdings' Bank Credit Facility, so long as any of the obligations thereunder are not paid in full.

4) A fixed price, Turnkey Construction Contract between the Borrower and Tyco SSI for construction of at least the entire undersea portion of the Project. The Turnkey Construction Contract will be negotiated on terms and conditions satisfactory to



the Agent, including provisions for payment of damages for delay or non-performance; the amount of the damages are to be per industry norms and able to be confirmed by the Lenders' Independent Engineer.

5) A Completion Guarantee by Holdings pursuant to which it shall guarantee timely completion of construction of the entire Project. The Completion Guarantee will obligate Holdings (i) to advance such funds (in excess of the Sponsor Equity Commitment and advances under the Credit Facilities) as may be necessary to pay all Project Costs and (ii) to pay liquidated damages in accordance with industry norms if the Project fails to achieve Commercial Operations by January 1 ,1999. [ALL PAYMENTS BY HOLDINGS UNDER THE COMPLETION GUARANTEE WILL BE MADE AS SUBORDINATED LOANS TO THE BORROWER AND WILL BE SUBJECT TO THE RESTRICTED PAYMENT LIMITATION/INVESTMENT BASKETS UNDER THE TERMS OF THE INDENTURE RELATING TO THE SENIOR NOTES DUE 2007 OF GCI, INC. (AS DESCRIBED IN THE REGISTRATION STATEMENT FILED MAY 29, 1997) AND HOLDINGS' BANK CREDIT FACILITY, SO LONG AS ANY OF THE OBLIGATIONS THEREUNDER ARE NOT PAID IN FULL.]

6) An Operation and Maintenance Contract between an [OPERATING SUBSIDIARY OF THE SPONSOR] (the "O&M Contractor"), which is capable of performing such services and already engaged in similar activities, and the Borrower pursuant to which the O&M Contractor shall operate and maintain the Project through the date on which final payment is made on the Credit Facilities. This Contract is effective on the Closing Date and may be enforced at the Agent's reasonable discretion.

7) Any contract to which the Borrower is a party that provides for aggregate payments of $1,000,000 or more.

PRICING: MARGINS: LIBOR + 3.00%, Prime + 1.75%.

The LIBOR margin will be reduced to the extent that the total debt of the Borrower is maintained at or below certain levels, as indicated in the following table:

| TOTAL DEBT OUTSTANDING | LIBOR MARGIN |
|---|---|



| | |
|---|---|
| $60 million or less | 2.75% |

| | |
|---|---|
| 40 million or less | 2.50 |

The Prime Rate Margin will be proportionally adjusted in each of the above cases.

COMMITMENT FEE: 0.375% p.a. on the undrawn portion of the Credit Facilities.

OTHER FEES: As per separate Commitment Letter and Fee Letter.

INTEREST RATE HEDGING: The Borrower shall enter into interest rate hedging arrangements satisfactory to the Agent on at least 50% of its debt through the first five years of the Credit Facilities if at any time the yield on the U.S. Treasury bond maturing closest to December 31, 2002 is 150 basis points higher than the yield on the same bond measured as of the Closing Date. Any of the Lenders may provide such facilities.

SECURITY STRUCTURE AND SECURITY INTEREST: The Lenders shall be granted a perfected first priority lien and security interest in all assets of the Borrower, a direct assignment of the rights of the Borrower under all Project Agreements, and a first pledge of the shares or partnership interests of the Borrower held by the Borrower's owners, including the shares of the general partner, if any.

FUNDING AND YIELD PROTECTION: The usual, including, without limitation, in respect of prepayments, changes in capital adequacy and capital requirements or their interpretation, illegality, reserves without proration or offset and other similar provisions typically found in credit facilities of this type; except that the Borrower shall only pay breakage costs resulting from prepayments.

CONDITIONS PRECEDENT TO CLOSING: The Closing Date shall be deemed to have occurred once the Conditions Precedent to Closing have been met, including but not limited to:

1) Completion of satisfactory due diligence by the Agent, including a review of the Project's assets and contracts, consultants' reports,



proforma cash flow projections, major maintenance budget, etc.;

2) Evidence satisfactory to the Agent that all permits required for the construction, testing and operation of the Project have been obtained or are being applied for in a manner that will not hinder the timely completion of the Project;

3) Delivery of the following: (i) a limited review, performed by an independent consultant, of the Alaskan communications market; (ii) a technical feasibility study of the Project; and (iii) an environmental study. Each of the above studies must be satisfactory to the Agent;

4) Delivery of a construction budget listing all costs ("Project Costs") budgeted to be incurred by the Borrower in developing and building the Project; the Agent acknowledges that costs of the Anchorage to Fairbanks segment of the Project are estimates only at this time;

5) No material adverse change shall have occurred in the financial or legal status of the Sponsor;

6) Evidence satisfactory to the Agent of Sponsor's ability to contribute Sponsor Equity as required;

7) Execution of Project Agreements and financing and

legal documentation satisfactory to the Agent and the Borrower. This will also include, but not be limited to, any subordination agreements for permitted debt (as outlined in #2 of Covenants of the Borrower) which are satisfactory to the Agent;

8) Others usual for facilities and transactions of this type, such as, legal opinions, copies of documents, receipt of lien searches and valid security interests as contemplated hereby, accuracy of representations and warranties, absence of defaults, evidence of organization and authority, and payment of fees.

ACCOUNTS: The following accounts shall be established with an institution satisfactory to the Agent. The Lenders shall maintain a first priority lien on these accounts and shall receive regular reports of account activity.

1) A Construction Account into which shall be deposited all draws on the Credit Facilities and the Sponsor Equity and from which all



budgeted and authorized Project Costs may be withdrawn;

2) An Operating Account into which shall be deposited all cash receipts of the Borrower and from which withdrawals may be made by the Borrower according to the Flow of Funds;

3) An Insurance Proceeds Account for the purpose of segregating from other revenues the proceeds of any insurance claims received by the Borrower. All or a portion of such funds may be released to the Operating Account at the Agent's reasoned discretion.

CONDITIONS PRECEDENT TO DRAWS: From the Closing Date until the Completion Date, the Borrower may draw on the Credit Facilities each month to pay for budgeted Project Costs incurred during that month subject to conditions that include, but are not limited to, the following:

1) No default or Event of Default shall have occurred within the terms of the Credit Facilities or any Project Agreement;

2) Prior disbursement of all funds committed pursuant to "Sponsor Equity," above;

3) Certification by the Lenders' Independent Engineer that all Project Costs incurred to date are reasonable, Substantial Completion and Final Completion (as such terms will later be defined) should be achieved by the dates required under relevant agreements, and sufficient funds remain funded and/or committed in order to pay all remaining Project Costs;

4) No material adverse change shall have occurred in the financial or legal status of the Borrower or the Sponsor.

FLOW OF FUNDS: Withdrawals from the Operating Account shall be made by the Borrower in the following order of priority, subject to available funds:

1) Payment of budgeted and approved operating and maintenance expenses;

2) Quarterly, interest and fees payable to the Lenders under the terms of the Credit Facilities;



3) Quarterly, payment of any scheduled amortization payment then due to the Lenders under the terms of the Credit Facilities;

4) The first $10,000,000 (determined on an aggregate cumulative basis over the life of the Credit Facilities) remaining after application to 1,2 and 3 above may be distributed by the Borrower if at that time no default or event of default is then continuing under the Credit Facilities and the Borrower is able to demonstrate that it currently meets the Coverage Test set forth above, such amount to be distributed annually;

5) Quarterly, prepayment of up to the full amount outstanding under the Credit Facilities; provided however, that after the Conversion Date, up to 50% of the amount remaining after application to 1,2, 3 and 4 above may be distributed by the Borrower if at that time no default or event of default is then continuing under the Credit Facilities and the Borrower is able to demonstrate that it currently meets the Coverage Test set forth above.

REPRESENTATIONS AND WARRANTIES: Customary for project financings of this type.

COVENANTS OF THE BORROWER: Covenants of the Borrower shall include, but shall not be limited to, the following:

1) Delivery of quarterly financial statements and audited annual financial statements of the Borrower;

2) No additional debt, except for (i) purchase money obligations aggregating, at any time, $2,000,000 in outstandings; (ii) fully subordinated loans incurred under the Operating Keep-Well Agreements and the Completion Guarantee, the terms of subordination of which must be acceptable to the Lenders.

3) No liens other than permitted liens (as such term will be defined);

4) Maintenance of insurance policies in amount and from providers satisfactory to the Agent in consultation with its Insurance Consultant;

5) Maintenance of the enforceability of all Project Contracts;

6) Project capacity to be sold at cost or higher, i.e., K units of capacity



in the Project may be sold, on a present value basis, for no less than their ratable cost c, given by the formula $c = (C \times k)/K$, where C is the Cost to Construct the Project and K is the total number of units of capacity in the Project as of the date of sale.

Reasonable exceptions shall be allowed under this covenant for the purchase of large amounts of capacity by third-parties acceptable to the Agent.

7) Other covenants customary for financings of this type.

COVENANTS OF THE SPONSOR: Covenants of the Sponsor shall include, but shall not be limited to, the following:

1) Delivery of quarterly financial statements and audited annual financial statements of the Sponsor;

2) Maintenance of no less than a 50% voting interest and a 25% equity interest in the Borrower and the Project.

EVENTS OF DEFAULT: Events of Default shall include, but shall not be limited to, the following:

1) Default in the payment of any installment of interest or principal under the Credit Facilities

which default remains unremedied more than five (5) days after demand for such payment has been made to Holdings by the Agent or the Required Lenders under the Operating Keep-Well Agreement of Holdings.

2) Failure of the Borrower to achieve Commercial Operations (to be defined) before January 1, 1999;

3) Breach of any covenant beyond that covenant's respective cure period;

4) Default by the Borrower, Holdings, GCI Communications Corporation or GCI Transport Company under the Project Agreements above;

5) Bankruptcy of the Borrower, Holdings, GCI Communications Corporation, GCI Transport Company or the Sponsor or an entity required to provide all or a portion of the Sponsor Equity.



6) Any event or circumstance, including a government act, natural disaster or change in the status of a party to a Project Agreement, that could be deemed to have a material adverse effect on the ability of the Borrower to repay the loans outstanding under the Credit Facilities.

7) Any change (made without the prior written consent of the Lenders) to the documentation relating to Holdings' Bank Credit Facility which would materially adversely affect the ability of Holdings or its Subsidiaries to fulfill their obligations under the various Project Agreements to which they are a party.

8) After the termination of Holdings' Bank Credit Facility, any breach by Holdings of certain covenants (to be specified, but specifically excluding financial covenants) contained in the credit agreement for Holdings' Bank Credit Facility as in effect prior to termination (the intention is to maintain certain affirmative and negative covenants for Holdings including, without limitation, the covenants relating to the incurrence of indebtedness, liens, investments, dividends and other similar covenants)..

REQUIRED LENDERS: 66 2/3%

GOVERNING LAW: New York State.

EXPENSES: The Borrower shall pay promptly upon notice from the Agent all reasonable expenses incurred by the Agent, its consultants and advisors in connection with the closing and syndication of this financing, whether or not closing is actually achieved. These shall include travel and documentation expenses, and customary syndication expenses. The fees of the Agent's legal counsel, Independent Engineer, Market Consultant, Environmental Consultant and Insurance Consultant are also the responsibility of the Sponsor.

The Borrower will indemnify each of the Agent and each Lender and hold it harmless from and against all costs, expenses (including reasonable fees and disbursements of counsel) and liabilities relating to or arising in connection with any enforcement of the credit agreement and any investigative, administrative or judicial proceeding (regardless of whether the Agent or such Lender is a party thereto) arising out of the proposed transactions, including the financing contemplated hereby or any transactions connected therewith, provided that the Agent or a Lender will not be indemnified for losses to the extent resulting from its gross



negligence or willful misconduct.

| | |
|---|---|
| ASSIGNMENTS AND PARTICIPATIONS: | Lenders may participate or assign all or a part of their interest under the Credit Facilities to eligible assignees; provided that, unless otherwise consented to by the Borrower and the Required Lenders, each assignment, when taken together with all other assignments with the same effective date, must result in each Lender having a commitment of at least $15,000,000.<br><br>Voting rights of participants will be limited to changes in amount, collateral provisions relating to release of all or substantially all of the collateral, interest rates, fees and maturity date. Participants will receive cost and yield protection (limited to the cost and yield protection available to the Lenders). Any assignment will be by novation and will be subject to the approval of the Agent. Assignees will assume all the rights and obligations of the assignor Lender. Each assignment will be subject to the payment of a service fee by the assigning Lender to the Agent. |
| LENDERS' COUNSEL: | Morgan, Lewis & Bockius LLP |
| MARKETING CONSULTANT: | Arthur D. Little |
| INDEPENDENT ENGINEER: | Arthur D. Little |
| INSURANCE CONSULTANT: | Sedgwick James of Tennessee, Inc. |
| ENVIRONMENTAL CONSULTANT: | Brown & Root |

[LETTERHEAD]

NATIONSBANK

July 2, 1997

Mr. John Lowber
SVP and Chief Financial Officer
General Communications, Inc.
2550 Denali St., Suite 1000
Anchorage, Alaska 99503

Re: $275,000,000 of Credit Facilities for GCI Holdings, Inc.

Dear John:

NationsBank of Texas, N.A. ("NB") as Administrative Agent, TD Securities as Syndication Agent and Credit Lyonnais New York Branch as Documentation Agent, are pleased to offer to be the agents (in such capacity, the "AGENTS") of $275,000,000 of senior credit facilities (the "FACILITIES") for GCI Holdings, Inc. (the "BORROWER"), and to offer our commitment to lend all $275,000,000 of the Facilities on a pro rata basis, upon and subject to the terms and conditions of this letter and the Summary of Terms and Conditions (herein so called) attached hereto as EXHIBIT A, and in reliance on oral and written materials and other information which the Borrower has previously provided to Agents (collectively, the "INFORMATION").

If the Borrower accepts this offer as hereinafter provided, the closing of the Facilities will be conditioned upon (i) the preparation, negotiation, execution and delivery of definitive credit documentation in form and substance reasonably satisfactory to the Agents reflecting the Summary of Terms and Conditions and containing such other terms and conditions as are usual and customary for transactions of this nature and (ii) the absence of a material adverse change in the financial condition, business operations or properties of the Borrower and any guarantor, taken as a whole, since December 31, 1996.

By acceptance of this offer, the Borrower represents and warrants that (i) the Information is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are or will be made and (ii) all financial projections that have been or are hereafter prepared by the Borrower and made available to the Agents have been or will be prepared in good faith based on reasonable assumptions. The Borrower agrees to supplement the Information and projections referred to in clauses (i) and (ii) above from time to time until closing of the Facilities so that the representation and warranty in the preceding sentence remains correct.



In connection with the Facilities, the Agents and their affiliates, intend to invite other Lenders to participate in the Facilities with a corresponding reduction in the initial commitment of the Agents. The Agents will manage all aspects of the syndication in consultation with Borrower, including the selection of potential Lenders, the timing of all offers to potential Lenders and the acceptance of commitments from Lenders, the amounts offered to potential Lenders, the compensation provided to Lenders and the allocation of titles to Lenders. In connection with such syndication, you consent to the distribution by Agents on a confidential basis to potential Lenders of the Information and other information including projections relating to Borrower, its subsidiaries and the Facilities, and you agree to provide such information and take such action as the Agents may reasonably request to assist in syndicating the Facilities, including participating in the preparation of an information memorandum and the holding of one or more meetings of potential Lenders.

By acceptance of this letter, the Borrower represents and warrants to the Agents that all historical financial statements and other information regarding the Borrower and its subsidiaries, if any, or any guarantor heretofore delivered to the Agents in connection with the Facilities are true, correct, and not misleading in any material respect and that any projections heretofore delivered to the Agents in connection with the Facilities have been prepared in good faith and based on information believed to be true, correct and not misleading in any material respect.

By acceptance of this offer, the Borrower agrees to pay the out-of-pocket costs and expenses, including reasonable attorneys' fees and expenses, incurred before or after the date hereof by the Agents in connection with the Facilities whether or not the Facilities are ever closed or a funding ever occurs under the Facilities, unless such failure to fund is due to the default by the Agents.

IN ADDITION, THE BORROWER AGREES TO INDEMNIFY AND HOLD HARMLESS THE AGENTS, AND THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND ADVISORS (EACH, AN "INDEMNIFIED PARTY") FROM AND AGAINST ANY AND ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES AND EXPENSES (INCLUDING, WITHOUT LIMITATION, FEES AND DISBURSEMENTS OF COUNSEL) WHICH MAY BE INCURRED BY OR ASSERTED OR AWARDED AGAINST ANY INDEMNIFIED PARTY, IN EACH CASE ARISING OUT OF OR IN CONNECTION WITH OR BY REASON OF, OR IN CONNECTION WITH THE PREPARATION FOR A DEFENSE OF, ANY INVESTIGATION, LITIGATION OR PROCEEDING ARISING OUT OF, RELATED TO OR IN CONNECTION WITH THE FACILITIES, INCLUDING, WITHOUT LIMITATION, ANY TRANSACTION IN WHICH THE PROCEEDS OF ANY BORROWING UNDER THE FACILITIES ARE OR ARE TO BE APPLIED, WHETHER OR NOT AN INDEMNIFIED PARTY IS A PARTY THERETO, WHETHER OR NOT THE TRANSACTIONS CONTEMPLATED HEREIN ARE CONSUMMATED, AND WHETHER OR NOT ARISING OUT OF THE NEGLIGENCE OF SUCH INDEMNIFIED PARTY, EXCEPT TO THE EXTENT SUCH CLAIM, DAMAGE, LOSS, LIABILITY OR EXPENSE IS FOUND IN A FINAL, NON-APPEALABLE JUDGMENT BY A COURT



OF COMPETENT JURISDICTION TO HAVE RESULTED FROM SUCH INDEMNIFIED PARTY'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE BORROWER WILL NOT SETTLE OR CONSENT TO JUDGMENT WITH RESPECT TO ANY SUCH INVESTIGATION, LITIGATION, OR PROCEEDING WITHOUT THE PRIOR WRITTEN CONSENT OF THE AGENTS, UNLESS SUCH SETTLEMENT OR CONSENT INCLUDES AN UNCONDITIONAL RELEASE OF EACH INDEMNIFIED PARTY.

Neither this offer nor the undertaking and commitment contained herein may be disclosed to or relied upon by any other person or entity other than your accountants, investors, attorneys and other advisors, without the prior written consent of the Agents, except that following your acceptance hereof you may make public disclosure hereof as required by law.

This letter shall be governed by, and construed in accordance with, the laws of the State of Texas without regard to the principles governing conflicts of laws. This letter may be modified or amended only in writing and signed by all parties hereto. This letter is not assignable by the Borrower without the prior written consent of the Agents. This letter supersedes and replaces any and all proposals or commitment letters previously delivered by the Agents to the Borrower relating to the Facilities. This letter may be executed in any number of counterparts, each of which shall be an original, but all of which shall constitute one instrument.

This offer will automatically expire at the close of business, 5:00 p.m. Eastern Standard Time, on July 8, 1997 unless the Borrower executes this letter and returns it, together with $100,000 in immediately available funds for each Agent as a non-refundable facility fee, to NB prior to that time (which may be by facsimile transmission), whereupon this letter shall become a binding undertaking and commitment. Thereafter, this undertaking and commitment will automatically expire at the close of business, 5:00 p.m. Eastern Standrd Time, on July 31, 1997 unless definitive credit documentation is executed and delivered prior to that time.



THIS WRITTEN AGREEMENT (WHICH INCLUDES THE SUMMARY OF TERMS AND CONDITIONS) REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Very truly yours,

NATIONSBANK OF TEXAS, N.A.,
Individually and as Administrative Agent

By: /s/ HUTCH McCLENDON
-------------------------------------
Name: Hutch McClendon
Title: Senior Vice President

NATIONSBANK CAPITAL MARKETS, INC.
Individually and as Arranger

By: /s/ THOMAS OKEL
-------------------------------------

Name: Thomas Okel
Title: Director

TD SECURITIES
Individually and as Syndication Agent

By: /s/ DAVID McCANN
-------------------------------------
Name: David McCann
Title: Managing Director



CREDIT LYONNAIS NEW YORK BRANCH
Individually and as Documentation Agent

By: /s/ MARK D. THORSHEIM
-------------------------------------
Name: Mark D. Thorsheim
Title: Vice President

Accepted and Agreed To:

GCI Holdings, Inc.

By:
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Name:
-----------------------------
Title:
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Date of Return
to NationsBank:

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July 5, 1997

SUMMARY OF TERMS AND CONDITIONS

RESTRICTED/UNRESTRICTED SUBSIDIARIES BORROWING STRUCTURE

EXHIBIT A

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SECTIONS MARKED BY *** DENOTE ALTERNATIVE PROVISIONS IF THE EQUITY IS NOT RAISED.

| | |
|---|---|
| BORROWER: | GCI Holdings, Inc. |
| GUARANTORS: | The Facilities will be guaranteed by General Communication, Inc., GCI, Inc., GCI Communication Corp., GCI Communication Services, Inc., GCI Leasing Company, Inc., GCI Cable, Inc. and its subsidiaries, and each subsequently acquired or created Restricted Subsidiary of the Borrower. |
| ADMINISTRATIVE AGENT: | NationsBank of Texas, N.A. |
| SYNDICATION AGENT: | Toronto Dominion |
| DOCUMENTATION AGENT: | Credit Lyonnais New York Branch |
| MANAGING AGENTS: | Administrative Agent, Syndication Agent and Documentation Agent. Each Managing Agent will commit $91,666,666. |
| ARRANGER: | NationsBanc Capital Markets, Inc. |
| CO-AGENTS/LENDERS: | Institutions to be determined. |
| CLOSING: | Concurrently with the closing of the $150MM of senior subordinated notes issued by GCI, Inc. and equity issuance by General Communication, Inc. |
| FACILITIES: | Tranche A: An eight year reducing revolving credit facility ("Tranche A Facility") under which Borrower |

may borrow, repay and reborrow advances in an aggregate outstanding principal amount up to $225,000,000 (the "Tranche A Commitment"). The Tranche A Commitment in effect on June 30, 2000, will automatically reduce in equal quarterly amounts by the following annual percentages of the Tranche A Commitment beginning September 30, 2000 and will reduce to zero on June 30, 2005:



| Year | Annual % |
|---|---|
| 1997 | 0.00% |
| 1998 | 0.00% |
| 1999 | 0.00% |
| 2000 | 7.50% |
| 2001 | 15.00% |
| 2002 | 20.00% |
| 2003 | 20.00% |
| 2004 | 22.50% |
| 2005 | 15.00% |

Until June 30, 2000, the Borrower may increase the Tranche A Commitment by up to $100,000,000 to refinance GCI Transport Company, provided that 1) the Borrower receives additional commitments from existing Lenders or other Lenders acceptable to the Borrower and Administrative Agent for such amount, 2) related Unrestricted Subsidiaries become Restricted Subsidiaries under the documentation for the Facilities (and the Borrower is in full compliance with all Facilities documentation both before and after giving effect to such designation), 3) all equity interests in all previously related Unrestricted Subsidiaries are pledged to the Administrative Agent to secure the Facilities, 4) all assets owned by each of the previously related Unrestricted Subsidiaries are pledged to the Administrative Agent to secure the Facilities, and 5) pro forma compliance with all covenants in the documentation through the life of the Facilities is demonstrated by financial projections for the remaining term of the Facilities and a compliance certificate in detail acceptable to the Managing Agents.

Tranche B: A 364 day revolving credit facility (the "Tranche B Facility") pursuant to which revolving loans under the Tranche B Facility may be borrowed, repaid and reborrowed up to a maximum amount outstanding at any one time of $50,000,000 (the "Tranche B Commitment") from Closing through the 364 day period subsequent to Closing (the "Conversion Date") at which time i) no further borrowings may occur, and ii) the then outstanding principal amount of all loans made under the Tranche B Facility will become a term loan (such aggregate amount of the outstanding principal amount being herein referred to as the "Tranche B Conversion Amount"). On and after the Conversion Date, the Tranche B Facility will be interest only until June 30, 2000, at which point the Tranche B Facility will be due and payable in equal quarterly installments equal to the following annual percentages of the Tranche B Conversion Amount beginning September 30, 2000 and will be due and payable in full on June 30, 2005:



| Year | Annual % |
|---|---|
| 1997 | 0.00% |
| 1998 | 0.00% |
| 1999 | 0.00% |
| 2000 | 7.50% |
| 2001 | 15.00% |
| 2002 | 20.00% |
| 2003 | 20.00% |

| | |
|---|---|
| 2004 | 22.50% |
| 2005 | 15.00% |

COMMITTED SUM: A maximum principal amount not to exceed $275,000,000 (the "Committed Sum") comprised of a $225,000,000 Tranche A Commitment and a $50,000,000 Tranche B Commitment. Lenders shall commit to a pro rata share of the Tranche A Commitment and Tranche B Commitment, respectively.

PURPOSE: To refinance existing indebtedness, for working capital and capital expenditures, up to $50,000,000 for the initial capitalization into AULP, and for other lawful corporate purposes.

SECURITY: First perfected security interest in all existing and future assets owned by the Borrower and Restricted Subsidiaries, including a pledge of all intercompany notes. Additionally, a first perfected security interest in 100% of the stock, partnership interests and other equity in and owned by the Borrower and Restricted Subsidiaries. First perfected pledge of all intercompany notes payable by AULP to the Borrower or any Restricted Subsidiary. All interest rate hedging instruments provided by the Lenders will be secured pari passu with the Facilities.

FEES - CLUB DEAL OPTION: 1) Commencing at Closing, a .375% per annum Commitment Fee on the unused portion of the Tranche A Commitment shall be payable pro rata to the Lenders on the last day of each calendar quarter, and continuing until the Tranche A Commitment has been terminated.

2) Commencing at Closing, a .125% per annum Commitment Fee on the unused portion of the Tranche B Commitment shall be payable pro rata to the Lenders on the last day of each calendar quarter and continuing until the Conversion Date.

3) A non-refundable Facility Fee of 1.00% to be paid at Closing on the Tranche A Commitment. A non-refundable Facility Fee of .75% to be paid at Closing on the Tranche B Commitment, with another .25% on the Tranche B Commitment to be paid upon the initial draw of the Tranche B Facility. $100,000 of the above described Facility Fee will be due and payable on the date the commitment letter is executed by the Borrower and such fee is non-refundable.

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INTEREST AND PAYMENT DATES: At the Borrower's option, advances under the Facilities shall bear interest at either LIBOR (shall mean the Reserve Adjusted LIBOR rate as determined by the Administrative Agent) or Base Rate (shall mean the greater of the Federal Funds Effective Rate plus 50 b.p.s. and the Prime Rate of NationsBank of Texas, N.A.), plus their respective Applicable Margins.

The Applicable Margin shall be based on the Borrower's Total Debt/Annualized Operating Cash Flow as of the end of the most recently completed fiscal quarter of the Borrower as follows:

| RATIO | LIBOR | BASE RATE |
|---|---|---|
| > 7.50x | 2.500% | 1.375% |
| < 7.50x > or = 7.00x | 2.375% | 1.250% |
| < 7.00x > or = 6.50x | 2.250% | 1.125% |
| < 6.50x > or = 6.00x | 1.875% | 0.750% |
| < 6.00x > or = 5.50x | 1.625% | 0.500% |
| < 5.50x > or = 5.00x | 1.375% | 0.250% |
| < 5.00x > or = 4.50x | 1.125% | 0.000% |
| < 4.50x > or = 4.00x | 1.000% | 0.000% |
| < 4.00x | 0.750% | 0.000% |

If Senior Debt/Annualized Operating Cash Flow is greater than or equal to 3.5x and for so long as it remains greater than or equal to 3.5x, each of the above listed interest rate margins will increase in each case by .125% per annum.

Following the occurrence of and during the continuation of an event of default, interest on the outstanding principal balance of the loans shall be 2.00% over the rate otherwise applicable thereto ("Default Rate").

MANDATORY PREPAYMENTS/ COMMITMENT REDUCTIONS:

VOLUNTARY:
COMMITMENT REDUCTIONS: Permitted without penalty or premium, in amounts to be determined upon three business day's prior written notice.

PREPAYMENTS: Permitted without penalty or premium (except breakage), in agreed to minimum amounts (and upon three business day's prior written notice for LIBOR repayments.) Unless there exists no default or event of default, voluntary prepayments will repay outstanding amounts under the Tranche A Facility and Tranche B Facility (if prior to the Conversion Date). If there exists a default or event of default, all voluntary prepayments will reduce the Tranche A Commitment and either i) prior to the Conversion Date, reduce the Tranche B Commitment, or ii) on and after the Conversion Date, repay outstanding amounts under the Tranche B Facility, pro rata, in the inverse order of reductions or installments, as applicable.



MANDATORY:
1) OUTSTANDINGS IN EXCESS OF COMMITMENTS. Borrower shall immediately prepay outstandings under the Tranche A Facility to the extent such outstandings exceed the Tranche A Commitment. Prior to the Conversion Date, Borrower shall immediately prepay outstandings under the Tranche B Facility to the extent such outstandings exceed the Tranche B Commitment.

2) ASSET SALES. 100% of the net proceeds from any asset sale by the Borrower or any of its Restricted Subsidiaries shall be applied as follows:

a) so long as there exists no default or event of default, up to an agreed amount of net proceeds from permitted and agreed to assets sales over the life of the Facilities will reduce outstandings only under the Tranche A Facility, and if prior to the Conversion Date, reduce outstandings under the Tranche B Facility.

b) up to an agreed amount of net proceeds from permitted and agreed to assets sales over the life of the Facilities (and, so long as there exists no default or event of default, in excess of the net proceeds used in a) above) will reduce the Tranche A Commitment and either i) if prior to the Conversion Date, reduce the Tranche B Commitment, or ii) on and after the Conversion Date, repay outstanding amounts under the Tranche B Facility, pro rata, in the inverse order of reductions or installments, as applicable.

3) ADDITIONAL INDEBTEDNESS. So long as there exists no default or event of default, and if Total Debt/Annualized Operating Cash Flow is less than 5.00x, 100% of net proceeds from the issuance of permitted subordinated debt by the Borrower (this provision not permitting the issuance of such indebtedness) will be used to reduce outstandings under the Tranche A Facility and, if prior to the Conversion Date, reduce outstandings under the Tranche B Facility. If Total Debt/Annualized Operating Cash Flow is greater than or equal to 5.00x or if there exists a default or event of default, 100% of net proceeds from the issuance of permitted subordinated debt by the Borrower will be used to reduce the Tranche A Commitment and either i) if prior to the

Conversion Date, reduce the Tranche B Commitment, or ii) on and after the Conversion Date, repay outstanding amounts under the Tranche B Facility, pro rata, in the inverse order of reductions or installments, as applicable.

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4) ADDITIONAL EQUITY ISSUANCES. So long as there exists no default or event of default, 50% of the proceeds from any equity issuances (excluding the contemplated equity issuance that will be done simultaneously with these Facilities) in excess of $50,000,000 by the Borrower, any of its Restricted Subsidiaries, GCI, Inc. or General Communication, Inc. will reduce the outstandings under the Tranche A Facility and, if prior to the Conversion Date, reduce outstandings under the Tranche B Facility. If there exists a default or event of default, 100% of the proceeds from any additional equity issuances by the Borrower, any of its Restricted Subsidiaries, GCI, Inc. or General Communication, Inc. will reduce the Tranche A Commitment and either i) if prior to the Conversion Date, reduce the Tranche B Commitment, or ii) on and after the Conversion Date, repay outstanding amounts under the Tranche B Facility, pro rata, in the inverse order of reductions or installments, as applicable.

5) DISTRIBUTIONS FROM AULP. So long as there is no default or event of default, any distribution from AULP will reduce the outstandings under the Tranche A Facility and, if prior to the Conversion Date, reduce outstandings under the Tranche B Facility. If there exists a default or event of default, 100% of any distribution from AULP will reduce the Tranche A Commitment and either i) if prior to the Conversion Date, reduce the Tranche B Commitment, or ii) on and after the Conversion Date, repay outstanding amounts under the Tranche B Facility, pro rata, in the inverse order of reductions or installments, as applicable.

REPRESENTATIONS AND WARRANTIES: The definitive loan documentation shall contain representations and warranties which are usual and customary for transactions of this nature and similar to existing loan documentation, for the Borrower, its Restricted Subsidiaries, GCI, Inc. and General Communication, Inc.

AFFIRMATIVE COVENANTS: The definitive loan documentation shall contain affirmative covenants which are usual and customary for transactions of this nature and similar to existing loan documentation, for the Borrower, its Restricted Subsidiaries, GCI, Inc. and General Communication, Inc.

INTEREST RATE PROTECTION: Within 60 days of Closing, the Borrower shall be required to enter into interest rate protection agreements with a Lender in an amount not less than 50% of Total Debt on such date for a period of not less than three years.

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NEGATIVE COVENANTS: The definitive loan documentation shall contain negative covenants which are usual and customary for transactions of this nature and similar to existing loan documentation for the Borrower and its Restricted Subsidiaries, including limitations on liens, loans, except with respect to AULP, as provided below, indebtedness (other than an agreed upon basket of indebtedness subordinated to the Facilities on terms and conditions, and pursuant to documentation, acceptable to the Administrative Agent and each Lender and the AULP capital lease), investments except with respect to AULP and as provided below, change of management, change of control, transactions with affiliates (all of which must be on an arms length basis except with respect to AULP, as provided below), dividends, distributions (refer to Restricted Payments below) or stock repurchases, restrictive agreements, material agreements except with respect to AULP, as provided below, mergers and acquisitions, sale of assets and changes in business.

RESTRICTED PAYMENTS/ INVESTMENTS: No dividends, distributions, payments to affiliates, except with respect to: a) AULP, as provided below; b) payments of principal or interest on any indebtedness other than the Facilities may be made by the Borrower or any of its Restricted Subsidiaries provided that, if there exists no default or event of default both before and after giving affect to any such payment, the Borrower and its Restricted Subsidiaries may declare and make dividends to the extent there is cash interest due on the permitted senior subordinated notes issued by GCI, Inc.; provided further that in no event shall such dividend be prohibited in excess of 180 consecutive days in any one year period unless there exists a payment default (whether by acceleration or otherwise); and c) dividend, distribution, payments made or investments in related businesses by the Borrower and its Restricted Subsidiaries from Excess Cash Flow, so long as i) it is after 6/30/00, ii) there exists no default or event of default both before and after giving affect to any such dividend, distribution or payment or investment and iii) Total Debt/Annualized Operating Cash Flow is below 5.0x both before and after giving affect to any such dividend, distribution or payment or investment, in an aggregate amount of $15,000,000 over the term of the Facilities.

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PROJECT FINANCING: In connection with the Project Financing, the Borrower or any of its Restricted Subsidiaries may enter into the Project Agreements on terms and conditions, and subject to documentation, acceptable to the Managing Agents. All advances by the Borrower or any Restricted Subsidiaries to AULP (other than actual lease payments) shall be loans made pursuant to intercompany promissory notes in the form satisfactory to the Administrative Agent and such notes shall be pledged to the Administrative Agent and the Lenders to secure the Facilities pursuant to documentation acceptable to the Administrative Agent. The maximum amount of loans made pursuant to the Operating Keep-Well Agreement (which includes coverage of interest, principal, completion guarantee etc.) shall not exceed $73,000,000 in the aggregate over the life of the Facilities. The maximum amount of lease payments made pursuant to the Lease Contract shall not exceed $28,000,000 over the life of the Facilities. The maximum amount of operating and maintenance payments made pursuant to the Operating and Maintenance Contract shall not exceed $17,000,000 over the life of the Facilities. No other payments, loans, distributions or amounts of any kind from the Borrower or any Restricted Subsidiary to AULP shall be payable at any time for any reason and no loan or advance (not including lease payments) may be made to AULP if there exists a default or event of default. Neither the Borrower nor any Restricted Subsidiary shall enter into any guaranty of the Project Financing, or enter into any keepwell or other agreement which provides for the payment by the Borrower and/or Restricted Subsidiaries of any amount in excess of the three maximum amounts set forth above. Neither the Borrower nor any Restricted Subsidiary shall be obligated to purchase any excess capacity under any lease with AULP which would result in lease payments exceeding the amount set forth above. Lenders under the Project Financing must exhaust their remedies against all assets of AULP, any other collateral, any guarantor, and GCI Transport Company before pursuing any rights or remedies against the Borrower, any Restricted Subsidiary, or any of their assets under any Project Agreement or otherwise. Upon the execution of the initial documentation of the Project Financing, no change or amendment, or any consent to, or waiver with respect to any provision of any such documentation which is material and adverse to the interests of the Lenders, shall be made without the prior written consent of the Majority Lenders. AULP shall not incur any other indebtedness or liens other than Project Financing except for purchase money obligations aggregating $2,000,000, at any time, as permitted in the Project Financing documents. AULP shall not make any investment, any distribution or dividend, or any loan or advance to any person except as permitted in the AULP Summary of Terms and Conditions, dated June {24}, 1997. The Borrower and/or its Restricted Subsidiaries shall make the initial $50,000,000 investment in AULP at Closing. AULP shall provide the Lenders with all financial information

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provided to the Lenders under the Project Financing, and all other information requested by the Lenders from time to time. Administrative Agent shall receive immediate notice of any breach, default or event of default under the Project Financing, or any material adverse change or other development under the Project Financing. The lease agreement between AULP, the Borrower and/or any Restricted Subsidiary, each Project Agreement and all documentation relating to the Project Financing must be pursuant to terms negotiated at arms length and be customary and usual for the industry. Other terms of the Project Financing will be in accordance with that certain Summary of Terms and Conditions, dated June {24}, 1997. Other terms and conditions will be required upon review of the Project Financing documentation.

FINANCIAL COVENANTS: SENIOR DEBT TO ANNUALIZED OPERATING CASH FLOW - Borrower shall not permit the ratio of Senior Debt to Annualized Operating Cash Flow to be greater than the following ratios during the following periods:

| Period | Ratio |
|---|---|
| Closing through 3/31/99 | 3.50x |
| 4/1/99 through 12/31/99 | 3.00x |
| 1/1/00 through 12/31/00 | 2.50x |
| 1/1/01 and thereafter | 2.00x |

TOTAL DEBT TO ANNUALIZED OPERATING CASH FLOW - Borrower shall not permit the ratio of Total Debt to Annualized Operating Cash Flow to be greater than the following ratios during the following periods:

| Period | Ratio |
|---|---|
| Closing through 3/31/98 | 7.00x |
| 4/1/98 through 3/31/99 | 6.50x |
| 4/1/99 through 12/31/99 | 6.00x |
| 1/1/00 and thereafter | 5.50x |

ANNUALIZED OPERATING CASH FLOW TO INTEREST EXPENSE - Borrower shall maintain a ratio of Annualized Operating Cash Flow to annualized trailing two quarter Interest Expense which is greater than or equal to the following schedule:

| Period | Ratio |
|---|---|
| Closing through 12/31/98 | 1.50x |
| 1/1/99 and thereafter | 2.00x |

ANNUALIZED OPERATING CASH FLOW TO PRO FORMA DEBT SERVICE Borrower shall maintain a ratio of Annualized Operating Cash Flow to Pro Forma Debt Service which is greater than or equal to 1.25x.

ANNUALIZED OPERATING CASH FLOW TO FIXED CHARGES - Commencing January 1, 2000, Borrower shall maintain a ratio of Annualized Operating Cash Flow to Fixed Charges which is greater than or equal to the following schedule:

| Period | Ratio |
|---|---|
| 1/1/00 through 3/31/03 | 1.00x |
| 4/1/03 and thereafter | 1.05x |

CAPITAL EXPENDITURES LIMITATION (will only apply for the first three years after Closing)-

| Period | Ratio |
|---|---|
| 1997 (Closing through 12/31/97) | $55MM |
| 1998 | $90MM |
| 1999 | $65MM |

Any unused amount of the capital expenditure limitation may be carried over for one additional year only.

***SENIOR DEBT TO ANNUALIZED OPERATING CASH FLOW - Borrower shall not permit the ratio of Senior Debt to Annualized Operating Cash Flow to be greater than the following ratios during the following periods:

| Period | Ratio |
|---|---|
| Closing through 3/31/99 | 4.50x |
| 4/1/99 through 12/31/99 | 4.00x |
| 1/1/00 through 12/31/00 | 3.50x |
| 1/1/01 through 12/31/01 | 3.00x |
| 1/1/02 and thereafter | 2.00x |

***TOTAL DEBT TO ANNUALIZED OPERATING CASH FLOW - Borrower shall not permit the ratio of Total Debt to Annualized Operating Cash Flow to be greater than the following ratios during the following periods:

| Period | Ratio |
|---|---|
| Closing through 3/31/98 | 7.75x |
| 4/1/98 through 12/31/98 | 7.50x |
| 1/1/99 through 6/30/99 | 7.00x |
| 7/1/99 through 12/31/99 | 6.00x |
| 1/1/00 and thereafter | 5.50x |

***ANNUALIZED OPERATING CASH FLOW TO INTEREST EXPENSE - Borrower shall maintain a ratio of Annualized Operating Cash Flow to annualized trailing two quarter Interest Expense which is greater than or equal to the following schedule:

| Period | Ratio |
|---|---|
| Closing through 12/31/98 | 1.40x |
| 1/1/99 and thereafter | 2.00x |

***ANNUALIZED OPERATING CASH FLOW TO PRO FORMA DEBT SERVICE Borrower shall maintain a ratio of Annualized



Operating Cash Flow to Pro Forma Debt Service which is greater than or equal to the following schedule:

| Period | Ratio |
|---|---|
| Closing through 3/31/98 | 1.05x |
| 4/1/98 through 12/31/98 | 1.15x |
| 1/1/99 and thereafter | 1.25x |

***ANNUALIZED OPERATING CASH FLOW TO FIXED CHARGES - Commencing January 1, 2000, Borrower shall maintain a ratio of Annualized Operating Cash Flow to Fixed Charges which is greater than or equal to 1.00x.

***CAPITAL EXPENDITURES LIMITATION (will only apply for the first three years after Closing)-

| Period | Ratio |
|---|---|
| 1997 (Closing through 12/31/97) | $55MM |
| 1998 | $90MM |
| 1999 | $65MM |

Any unused amount of the capital expenditure limitation may be carried over for one additional year only.

MAJORITY LENDERS: Lenders holding at least 67% of all the Committed Sum.

EVENTS OF DEFAULT: The definitive loan documentation shall contain events of default which are usual and customary for transactions of this nature and similar to existing loan documentation for the Borrower, its Restricted Subsidiaries, GCI, Inc. and General Communication, Inc. including nonpayment when due, breach of representations, warranties or covenants, breach of other material agreements, material undischarged judgments, bankruptcy or insolvency, cross-default to all other debt, change of control and/or management, and any breach of any Project Agreement, including each lease agreement, or intercompany note between the Borrower, any Restricted Subsidiary and AULP.



CONDITIONS PRECEDENT: Lenders shall have no obligation to make any advance unless and until Borrower has executed and delivered to Administrative Agent definitive loan documentation and supporting resolutions, incumbency certificates and opinions of counsel in form and substance satisfactory to Lenders reflecting this Summary of Terms and Conditions; Borrower shall be in compliance with all credit agreement covenants; no material adverse change in the Borrower's and its Restricted Subsidiaries' consolidated business, assets or financial condition since December 31, 1996; GCI, Inc. has issued $150MM of senior subordinated notes, the terms of which must be satisfactory to the Lenders, and the net proceeds of such debt issuance must be downstreamed into GCI Holdings, Inc. as equity; any proceeds raised by General Communications, Inc.'s primary equity offering must be downstreamed to the Borrower at Closing; any affiliate transactions with Unrestricted Subsidiaries must be satisfactory to the Administrative Agent, and containing such other terms and conditions as are usual and customary for transactions of this nature for the Borrower and its Restricted Subsidiaries. Additionally, the Project Financing must be consummated on terms and conditions, and pursuant to documentation, acceptable to the Managing Agents. The undersea fiber survey will be sold to AULP for fair value.

GCI SATELLITE COMPANY: The Lenders will agree to negotiate in good faith with the Borrower and its Restricted Subsidiaries when presented with the proposed financing of GCI Satellite Company.

EXPENSES: Whether or not the Facilities are closed, Borrower shall reimburse the Administrative Agent and Arranger for all costs and expenses, including reasonable attorneys' fees and expenses, incurred by the Administrative Agent and Arranger in connection with the preparation, negotiation, execution, delivery, syndication, and administration of the Facilities, and Borrower shall reimburse each Lender for all costs and expenses including reasonable attorneys' fees and expenses, incurred by such Lender in connection with the enforcement and collection of the obligations of

Borrower.

ASSIGNMENTS AND PARTICIPATIONS: Borrower may not assign its rights or obligations under the Facilities without the prior written consent of the Lenders. Each Lender shall have the right to sell participations in the Facilities. Subject to the consent of Borrower and Administrative Agent, Lenders may assign all or part of the Facilities in minimum amounts of $10,000,000 to one or more financial institutions. Administrative Agent shall be paid a processing fee of $3,000 in connection with each assignment.

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AMENDMENTS AND WAIVERS: With the consent of Majority Lenders; provided that amendments or waivers relating to interest rates, fees, payment amounts and dates and collateral shall require the consent of all Lenders.

WAIVERS AND CONSENTS: Borrower shall submit itself to the nonexclusive jurisdiction of federal and state courts sitting in Texas, and Borrower, Administrative Agent and Lenders shall waive the right to a jury trial in any proceeding relating to the Facilities.

GOVERNING LAW: Texas

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DEFINITIONS:
"Annualized Operating Cash Flow" means Operating Cash Flow for the most recently completed two fiscal quarters multiplied by two.

"AULP" means the Alaska United Limited Partnership.

"Excess Cash Flow" means Operating Cash Flow minus the sum of Interest Expense, scheduled repayments of principal of Total Debt, restricted payments or loans to AULP made with cash from operations, capital expenditures financed with cash from operations, working capital and taxes paid or accrued.

"Fixed Charges" means the sum of cash Interest Expense, plus scheduled repayments of principal of Total Debt, plus cash taxes paid, plus cash payments (other than lease payments to AULP) made to Unrestricted Subsidiaries, plus capital expenditures (capital expenditures will not be included in the covenant while the maximum capital expenditure covenant is in effect), all during the preceding fiscal quarters from the date of determination.

"Interest Expense" means for the period of determination, all interest expense and commitment fees and other fees, except facility fees, incurred with respect to Total Debt, whether accrued or paid, for the Borrower, its Restricted Subsidiaries and GCI, Inc.

"Operating Cash Flow" means the net income of the Borrower and its Restricted Subsidiaries (determined in accordance with GAAP), excluding extraordinary gains/losses, plus the sum of depreciation and amortization, Interest Expense, cash taxes, deferred taxes and any other non-cash charges for the period of determination.

"Pro Forma Debt Service" means the sum of cash Interest Expense (using the interest rate in effect on the date of determination to calculate), plus scheduled repayments of principal of Total Debt, all during the four succeeding fiscal quarters from the date of determination.

"Project Financing" means that certain construction and term loan financing provided to AULP in an amount up to an aggregate amount of $75,000,000, by all or any portion of the Lenders under the Facilities with Credit Lyonnais as the agent, pursuant to which AULP will develop, construct and operate an undersea fiber optic cable connecting Anchorage, Fairbanks and Juneau, Alaska with the continental United States.

"Project Agreements" means those agreements defined as such in that certain Alaska United Limited Partnership Summary of Terms and Conditions, dated June

{24}, 1997, including the Lease Contract, Operating and Maintenance Contract and the Operating Keep-Well Agreement.

"Restricted Subsidiaries" include GCI Communication Corp., GCI Communication Services, Inc., GCI Leasing Company, Inc., GCI Cable, Inc., and any other direct or indirect subsidiary of any of the above, and any subsidiary of the Borrower created after the date hereof, unless such subsidiary is an "Unrestricted Subsidiary"

"Senior Debt" means all obligations which would be classified on a balance sheet as debt for borrowed money or for the deferred purchase price of property (including capital lease obligations and contingent obligations), and all reimbursement obligations for standby letters of credit of the Borrower and its Restricted Subsidiaries.



"Total Debt" means all obligations which would be classified on a balance sheet as debt for borrowed money or for the deferred purchase price of property (including capital lease obligations and contingent obligations), and all reimbursement obligations for standby letters of credit of the Borrowers, its Restricted Subsidiaries or GCI, Inc.

"Unrestricted Subsidiaries" means GCI Transport Company, GCI Satellite Company, GCI Fiber Company, Fiber Hold Company, Alaska United Partnership, and any other newly formed direct or indirect subsidiary of the Borrower that is either 1) a wholly owned subsidiary of any of the preceding Unrestricted Subsidiaries, or 2) agreed upon in writing to be designated as an Unrestricted Subsidiary by the Borrower and the Majority Lenders.

EXHIBIT 11.1

STATEMENTS RE COMPUTATION
OF EARNINGS PER SHARE

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 1996 | 1995 | 1994 |
| | (IN THOUSANDS) | | |
| **Primary Earnings Per Share** | | | |
| Net earnings | 7,462 | 7,502 | 7,134 |
| **Shares** | | | |
| Weighted average number of common shares outstanding | 26,498 | 23,723 | 23,199 |
| Add-dilutive effect of options and warrants | 1,170 | 703 | 884 |
| Weighted average number of common and common equivalent shares outstanding | 27,668 | 24,426 | 24,083 |
| Net earnings per common share | 0.27 | 0.31 | 0.30 |
| **Fully Dilutive Earnings Per Share** | | | |
| Net Earnings | 7,462 | 7,502 | 7,134 |
| **Shares** | | | |
| Weighted average number of common shares outstanding | 26,498 | 23,723 | 23,199 |
| Add-dilutive effect of options and warrants | 1,457 | 771 | 888 |
| Weighted average number of common and common equivalent shares outstanding | 27,955 | 24,494 | 24,807 |
| Net earnings per common share | 0.27 | 0.31 | 0.30 |

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

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

The audits referred to in our report dated February 21, 1997 included the related financial statement schedule as of December 31, 1996, and for each of the years in the three-year period ended December 31, 1996, included in the registration statement. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, based on our audits and the report of the other auditors, the financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the use of our reports included herein and to the reference to our firm under the headings "Selected Consolidated Financial Data" and "Experts" in the Prospectus.

/s/ KPMG PEAT MARWICK LLP

Anchorage, Alaska
July 7, 1997

EXHIBIT 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated March 18, 1996 (except for the last paragraph of Note 7, as to which the date is September 9, 1996) with respect to the financial statements of Prime Cable of Alaska, L.P. and our report dated February 9, 1996 (except for Note 13, as to which the date is March 14, 1996) with respect to the combined financial statements of the Alaskan Cable Network, both of which reports are included in Amendment No. 1 to the Registration Statement (Form S-3 No. 333-28001) and related Prospectus of General Communication, Inc. for the registration of 13,800,000 shares of its Class A Common Stock, and to the use of our report dated February 14, 1997, with respect to the consolidated financial statements of GCI Cable, Inc. and Subsidiaries (not presented separately herein).

/s/ ERNST & YOUNG, LLP

Austin, Texas
July 3, 1997

EXHIBIT 23.3

CONSENT OF INDEPENDENT ACCOUNTANTS

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

We hereby consent to the use of our report dated February 27, 1996 regarding Alaska Cablevision, Inc., and to the reference to our Firm under the heading "Experts" in the Registration Statement on Form S-3 for an equity offering by General Communication, Inc.

/s/ CARL & CARLSEN

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CARL & CARLSEN

Edmonds, Washington
July 7, 1997

EXHIBIT 23.5

Sherman & Howard, L.L.C.
633 Seventeenth St., Suite 3000
Denver, Colorado 80202
(303) 297-2900

July 7, 1997

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20540

Re: General Communication, Inc.

Ladies and Gentlemen:

We consent to the use of our name under "Legal Matters" on page 101 of the prospectus included in the Form S-3 Registration Statement of General Communication, Inc., Registration No. 333-28001.

Very truly yours,

/s/ Sherman & Howard

BYLAWS

OF

GCI, INC.

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## ARTICLE I
## OFFICES

The principal office of GCI, Inc. (the "Corporation") shall be located in Anchorage, Alaska. The Corporation may have such other offices, either within or without the State of Alaska, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

The registered office of the Corporation required by the Alaska Corporations Code to be maintained in the State of Alaska may be, but need not be, identical with the principal office in the State of Alaska, and the address of the registered office may be changed from time to time by the Board of Directors.

## ARTICLE II
## SHAREHOLDERS' MEETINGS

Section 1. ANNUAL MEETING. The annual meeting of the Shareholders shall be held in the month of June of each year, for the purpose of electing Directors and for the transaction of such other business as may come before the meeting. If the election of Directors shall not be held on the day designated for the annual meeting of the Shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the Shareholders as soon thereafter as it conveniently may be held.

(a) Meetings of the Shareholders shall be presided over by the President or by any officer or Director or person selected at any time by the President to act as Chairman, or if he is not present or available or makes no selection, then by the Chairman of the Board of Directors. If neither the President nor the Chairman of the Board of Directors is present and no selection has been made, a Chairman should be chosen by a majority in interest of the Shareholders present in person or by proxy at the meeting and entitled to vote thereat.

(b) The Secretary of the meeting shall be the Secretary of the Corporation or an Assistant Secretary, or if none of such officers is present, any person appointed by the Chairman of the meeting.

Section 2. SPECIAL MEETINGS. Special meetings of the Shareholders for any purpose or purposes, unless otherwise prescribed by statute, may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than one-tenth of all the outstanding shares of the corporation entitled to vote at the meeting.



Section 3. PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Alaska, as the place of meeting called by the Board of Directors. A waiver of notice signed by all Shareholders entitled to vote at a meeting may designate any place, either within or without the State of Alaska, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation in the State of Alaska.

Section 4. NOTICE OF MEETING. Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than twenty (20) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the persons calling the meeting, to each Shareholder of record entitled to vote at such meeting. If mailed, the notice is considered delivered when deposited with postage prepaid in the United States mail addressed to the shareholder at the address of the shareholder as it appears on the stock transfer book of the corporation, or, if the shareholder has filed with the secretary of the corporation a written request that notice be mailed to a different address, addressed to the shareholder at the new address.

Section 5. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders or any adjournment thereof, or Shareholders entitled to receive payment of a dividend, or in order to make a determination of Shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, seventy (70) days. If the stock transfer books shall be closed for the purpose of determining Shareholders entitled to notice of or to vote at a meeting of Shareholders, such books shall be closed for at least twenty (20) days immediately preceding such meeting.

Instead of closing the stock transfer books, the Board of Directors may fix a date as the record date for any such determination of Shareholders. This record date shall be not more than sixty (60) days, and in case of a meeting of Shareholders not less than twenty (20) days, prior to the date on which the particular action requiring such determination of Shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of Shareholders entitled to notice of or to vote at a meeting of Shareholders, or Shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring the dividend is adopted is, as the case may be, the record date for the determination of Shareholders. When a determination of Shareholders entitled to vote at any meeting of Shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.



Section 6. VOTING LISTS. At least twenty (20) days before each meeting of the Shareholders, the officer or agent having charge of the stock transfer books for shares of the Corporation shall make a complete list of the Shareholders entitled to vote at each meeting of Shareholders or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be kept on file at the registered office of the corporation and is subject to inspection by a Shareholder or the agent or attorney of a Shareholder at any time during the usual business hours for a period of twenty (20) days before the meeting. Such list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any Shareholder during the whole time of the meeting.

Section 7. QUORUM. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders. If a quorum is present, the affirmative vote of the majority of shares represented at the meeting and entitled to vote on the subject matter is the act of the Shareholders unless the vote of a greater number or voting by class is required by the articles of incorporation, bylaws or the Alaska Corporations Code.

The Shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Shareholders to leave less than a quorum, if any action taken other than adjournment is approved by at least a majority of shares required to constitute a quorum.

If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 8. PROXIES. At all meetings of Shareholders, a Shareholder may vote in person or by proxy executed in writing by the Shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. A proxy continues in full force and effect until revoked by the person executing it, however, no proxy shall be valid after eleven (11) months from the date of its execution, unless such proxy qualifies as an irrevocable proxy as defined within AS 10.06.418(e).

Section 9. VOTING OF SHARES. An outstanding share, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of Shareholders, except as may be otherwise provided in the articles of incorporation.



Section 10. VOTING OF SHARES BY CERTAIN HOLDERS.

(a) Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provisions, as the board of directors of such corporation may determine.

(b) Shares held by an administrator, executor, guardian or conservator may be voted by such person, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by the trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

(c) Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer into his name if authority to transfer the shares is contained in an appropriate order of the court by which such receiver was appointed.

(d) A Shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(e) Neither treasury shares, nor shares of its own stock held by the Corporation in a fiduciary capacity, nor shares held by another corporation if a majority of the shares entitled to vote for the election of directors of the other corporation is held by the Corporation, may be voted at a meeting or counted in determining the total number of outstanding shares.

Section 11. INFORMAL ACTION BY SHAREHOLDERS. Any action required to be taken at a meeting of the Shareholders, or any other action which may be taken at a meeting of the Shareholders, may be taken without a meeting by written consent, identical in content setting out the action taken, signed by all of the Shareholders entitled to vote on the action.

## ARTICLE III
## BOARD OF DIRECTORS

Section 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors.

Section 2. NUMBER, TENURE AND QUALIFICATIONS. The number of Directors of the Corporation shall be not less than one (1) nor more than nine (9); unless the Corporation, now or at any time in the future, has three (3) or more Shareholders in which case the Corporation shall have not fewer than three (3) directors; or unless the Corporation has



only two (2) Shareholders, in which case the Corporation shall have at least two (2) directors. Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been elected and qualified. Directors need not be residents of the State of Alaska or Shareholders of the Corporation. The initial number of Directors shall be five (5).

Section 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of the Shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Alaska, for the holding of additional regular meetings without other notice than such resolution.

Section 4. SPECIAL MEETINGS.

(a) Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, a Vice President, the Secretary, or a Director or such person authorized to call the meeting may fix the time and place for holding the meeting, either inside or outside the State of Alaska.

(b) Notice of any special meeting shall be given at least ten (10) days prior thereto by written notice delivered personally or mailed to each Director at his business address, or at least seventy-two (72) hours before the meeting by electronic means, personal messenger, or comparable person-to-person communication. If mailed by certified mail, such notice shall be deemed to be delivered when deposited in the United States mail properly addressed, with postage thereon prepaid. Any Director may waive notice of any meeting. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 5. QUORUM. A majority of the presently qualified Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice; provided, further, that where there are only two Directors, both shall be necessary to constitute a quorum.

Section 6. MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 7. ATTENDANCE AT MEETINGS. The Board of Directors may conduct a meeting of the Board by communicating simultaneously with each other by means of



conference telephones or similar communications equipment and any action taken at such meeting shall not be invalidated by reason of the fact that the respective members of the Board were not assembled together in one place at the time of taking such action or conducting such business.

Section 8. VACANCIES. Where a vacancy created by the removal of a Director is pursuant to AS 10.06.460 or 10.06.463, such vacancies occurring on the Board may be filled only by a vote of the Shareholders. Any other vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any directorship to be filled by reason of an increase in the number of Directors may be filled by election by the Board of Directors for a term of office continuing only until the next election of Directors by the Shareholders. In no case may a vacancy continue longer than six (6) months or until the next annual meeting, whichever occurs first.

Section 9. COMPENSATION. By resolution of the Board of Directors, each Director may be paid his or her expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a stated salary as Director or a fixed sum for attendance at each meeting of the Board of Directors or both. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 10. PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his/her dissent shall be entered in the minutes of the meeting or unless he/she shall file a written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 11. REMOVAL OF DIRECTORS. Any Director may be removed with or without cause, at any time, by a vote of the Shareholders holding a majority of the shares then issued and outstanding, at any special meeting called for that purpose, or at the annual meeting. Except as otherwise prescribed by statute, a Director may be removed for cause by a vote of the majority of the entire board. Prior to vote by the Board on the question of removal of any Director for cause, such Director must be given written notice of the reasons for such action.

Section 12. RESIGNATION. A Director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary, or the Board of Directors of the Corporation, unless the notice specifies a later time for the effectiveness of the resignation.



If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 13. VOTING BY INTERESTED DIRECTORS. No Director may vote upon any matter in which he has an adverse or personal interest, unless such interest has been fully disclosed to the Board of Directors and the Board of Directors, by majority of vote without the interested Director voting, permits such interested Director to vote.

Section 14. ACTION BY DIRECTORS WITHOUT A MEETING. Action required or permitted to be taken by the Board or a committee designated by the Board may be taken without a meeting on written consents, identical in consent, setting out the action taken and signed by all the members of the Board or the committee. The written consents shall be filed with the minutes. The consents have the same effect as an unanimous vote.

## ARTICLE IV
## OFFICERS

Section 1. NUMBER. The officers of the Corporation shall be a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary.

Section 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the Shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 3. REMOVAL. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.



Section 5. PRESIDENT. The President shall be the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. He shall, when present, preside at all meetings of the Shareholders and of the Board of Directors. He may sign, with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors, or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 6. VICE PRESIDENTS. In the absence of the President or in the event of his death, inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation; and shall perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 7. THE SECRETARY. The Secretary shall:

(a) keep the minutes of the proceedings of the Shareholders and of the Board of Directors in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law;

(c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized;

(d) keep a register of the post office address of each Shareholder which shall be furnished to the Secretary by such Shareholder;

(e) sign with the President, or a Vice President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;

(f) have general charge of the stock transfer books of the Corporation; and



(g) in general perform all duties incident to the office of the Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 8. THE TREASURER. The Treasurer shall:

(a) have charge and custody of and be responsible for all funds and securities of the Corporation;

(b) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected; and

(c) in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

Section 9. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President or a Vice President certificates for shares of the Corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President of the Board of Directors.

Section 10. SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

## ARTICLE V
## LIMITATION OF LIABILITY AND INDEMNIFICATION OF DIRECTORS, OFFICERS AND AGENTS OF THE CORPORATION

Section 1. LIMITATION OF LIABILITY. No person shall be liable to the Corporation for any loss or damage suffered by it on account of any action taken or omitted to be taken in good faith, as a Director, member of a Committee or Officer of the Corporation, if such person exercised or used the same degree of care and skill, including reasonable inquiry, as a prudent person would have exercised or used under the circumstances in the conduct



of his/her own affairs. Without limitation on the foregoing, any such person shall be deemed to have exercised or used such degree of care and skill if such action were taken or omitted in reliance in good faith upon advice of counsel for the Corporation, or the books of account or other records of the Corporation, or reports or information made or furnished to the Corporation by any officials, accountants, engineers, agents or employees of the Corporation, or by an independent Certified Public Accountant or auditor, engineer, appraiser, or other expert employed by the Corporation and selected with reasonable care by the Board of Directors, by any such committee or by an authorized officer of the Corporation.

Section 2. RIGHT OF INDEMNIFICATION. Each Director, member of a Committee, Officer, Agent and Employee of the Corporation, and each former director, member of a committee, officer, agent and employee of the Corporation, and any person who may have served at its request as a director, officer, agent or employee of another Corporation in which it is a creditor, and his heirs and personal representative shall be indemnified by the Corporation against all loss or damage suffered and all costs and expenses imposed upon or incurred by him in connection with or arising out of any action, suit or proceedings (whether civil or criminal in nature) in which he may be involved, to which he may be a party by reason of being or having been (or his personal representative or estate having been) such director, member of a committee, officer, agent or employee, except in relation to matters as to which he shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in performance of his duty; provided, however, that the Corporation shall be given reasonable notice of the institution of such action, suit or proceedings; and in the event the same shall be settled in whole or in part, the Corporation or its counsel shall consent to such settlement if it be determined by its counsel or found by a majority of the Board of Directors then in office and not involved in such controversy, that such settlement is to the best interest of the Corporation and that the person to be indemnified was not guilty of negligence or misconduct in performance of duty.

Indemnification (unless ordered by the court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the director, officer, employee or committee member has met the applicable standard of conduct. This determination shall be made (a) by the Board of Directors, by a majority vote of a quorum consisting of directors who were not parties to the action or proceeding; or (b) by independent legal counsel in a written opinion, either (i) if such a quorum is not obtainable, or (ii) if a quorum of disinterested directors so requests such a written opinion; or (c) by approval of the outstanding shares.

Section 3. RIGHTS CUMULATIVE. The provisions of this Article V shall not be deemed exclusive or in limitation of, but shall be cumulative of and in addition to any other limitations of liability, indemnities, and rights to which such Director, member of a Committee, Officer, Agent or other person may be entitled under Alaska Statute, these



Bylaws or pursuant to any agreement or resolution of the Board of Directors or of the Shareholders, or otherwise.

## ARTICLE VI
## CONTRACTS, LOANS, CHECKS, DEPOSITS AND COMPENSATION

Section 1. CONTRACTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 2. LOANS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

## ARTICLE VII
## CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or one of its employees. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person or entity to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled; except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.



All shares issued by the Corporation shall contain a legend on the certificates stating substantially the following:

> The shares represented by this certificate have not been registered under any federal or state securities law. They have been acquired for investment and may not be transferred without an effective registration statement pursuant to such laws or an opinion of counsel satisfactory to the corporation that registration is not required.

Section 2. TRANSFER OF SHARES. Transfer of any shares of the Corporation shall be done in compliance with all federal, state and local securities laws, and any transfer of in violation thereof is void. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by its legal representative, who shall furnish proper evidence of authority to transfer filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The entity or person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

## ARTICLE VIII
## TAXABLE YEAR AND ACCOUNTING PERIOD

The taxable year and accounting period of the Corporation shall begin on January 1 and end on December 31, unless changed by resolution of the Board of Directors.

## ARTICLE IX
## DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in cash, property, or its own shares, except when the Corporation is insolvent, or when the dividend would render the Corporation insolvent, or when the dividend is contrary to restrictions contained in the Articles of Incorporation.

## ARTICLE X
## CORPORATE SEAL

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation and the state of incorporation and the words "Corporate Seal."

## ARTICLE XI



## WAIVER OF NOTICE

Whenever any notice is required to be given to any Shareholder or Director of the Corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of the Alaska Corporation Code, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

## ARTICLE XII
## AMENDMENTS

Except as may be provided in the Articles, these Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board of Directors.

## ARTICLE XIII
## EXECUTIVE COMMITTEE

Section 1. APPOINTMENT. The Board of Directors, by resolution adopted by a majority of the full board, may designate two (2) or more of its members to constitute an Executive Committee. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of

Directors, or any member thereof, of any responsibility imposed by law.

Section 2. AUTHORITY. Except as limited by the Articles or AS 10.06.468, the Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee.

Section 3. TENURE AND QUALIFICATIONS. Each member of the Executive Committee shall hold office until the next regular annual meeting of the Board of Directors following his designation and until his successor is designated as a member of the Executive Committee and is elected and qualified.

Section 4. MEETINGS. Regular meetings of the Executive Committee may be held without notice at such times and places as the Executive Committee may fix from time to time by resolution. Special meetings of the Executive Committee may be called by any member thereof upon not less than five (5) days' notice, stating the place, date and hour of the meeting, which notice may be written or oral, and if mailed by certified mail, shall be deemed to be delivered when deposited in the United States mail addressed to the member of the Executive Committee at his business address, postage prepaid. Any member of the Executive Committee may waive notice of any meeting, and no notice of any meeting need be given to any member thereof who attends in person. The notice of



a meeting of the Executive Committee need not state the business proposed to be transacted at the meeting.

Section 5. QUORUM. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business at any meeting thereof, and action of the Executive Committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

Section 6. ACTION WITHOUT A MEETING. Any action that may be taken by the Executive Committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so to be taken, shall be signed by all of the members of the Executive Committee before such action be taken further. The Executive Committee can validly conduct a meeting by communicating simultaneously with each other by means of conference telephones or similar communications equipment.

Section 7. VACANCIES. Any vacancy in the Executive Committee may be filled by a resolution adopted by a majority of the full Board of Directors.

Section 8. RESIGNATIONS AND REMOVAL. Any member of the Executive Committee may be removed at any time, with or without cause, by resolution adopted by a majority of the full Board of Directors. Any member of the Executive Committee may resign from the Executive Committee at any time by giving written notice to the President or Secretary of the Corporation and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 9. PROCEDURE. The Executive Committee shall elect a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these Bylaws. It shall keep regular minutes of its proceedings and report the same to the Board of Directors for its information at the meeting thereof held next after the proceedings shall have been taken.



## ARTICLE XIV
## CONDUCT OF MEETINGS

All meetings conducted under these Bylaws shall be governed in accordance with ROBERTS RULES OF ORDER.

We, the undersigned, hereby certify that the foregoing Bylaws for governing the operation and management of GCI, Inc., were duly adopted by the Directors by unanimous written consent, effective as of _______________, 1997.

------------------------------------
John M. Lowber, Secretary

APPROVED:

- ----------------------------
Ronald A. Duncan, President

BYLAWS

OF

GCI HOLDINGS, INC.

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ARTICLE I
OFFICES

The principal office of GCI Holdings, Inc. (the "Corporation") shall be located in Anchorage, Alaska. The Corporation may have such other offices, either within or without the State of Alaska, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

The registered office of the Corporation required by the Alaska Corporations Code to be maintained in the State of Alaska may be, but need not be, identical with the principal office in the State of Alaska, and the address of the registered office may be changed from time to time by the Board of Directors.

ARTICLE II
SHAREHOLDERS' MEETINGS

Section 1. ANNUAL MEETING. The annual meeting of the Shareholders shall be held in the month of June of each year, for the purpose of electing Directors and for the transaction of such other business as may come before the meeting. If the election of Directors shall not be held on the day designated for the annual meeting of the Shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the Shareholders as soon thereafter as it conveniently may be held.

(a) Meetings of the Shareholders shall be presided over by the President or by any officer or Director or person selected at any time by the President to act as Chairman, or if he is not present or available or makes no selection, then by the Chairman of the Board of Directors. If neither the President nor the Chairman of the Board of Directors is present and no selection has been made, a Chairman should be chosen by a majority in interest of the Shareholders present in person or by proxy at the meeting and entitled to vote thereat.

(b) The Secretary of the meeting shall be the Secretary of the Corporation or an Assistant Secretary, or if none of such officers is present, any person appointed by the Chairman of the meeting.

Section 2. SPECIAL MEETINGS. Special meetings of the Shareholders for any purpose or purposes, unless otherwise prescribed by statute, may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than one-tenth of all the outstanding shares of the corporation entitled to vote at the meeting.



Section 3. PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Alaska, as the place of meeting called by the Board of Directors. A waiver of notice signed by all Shareholders entitled to vote at a meeting may designate any place, either within or without the State of Alaska, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation in the State of Alaska.

Section 4. NOTICE OF MEETING. Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than twenty (20) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the persons calling the meeting, to each Shareholder of record entitled to vote at such meeting. If mailed, the notice is considered delivered when deposited with postage prepaid in the United States mail addressed to the shareholder at the address of the shareholder as it appears on the stock transfer book of the corporation, or, if the shareholder has filed with the secretary of the corporation a written request that notice be mailed to a different address, addressed to the shareholder at the new address.

Section 5. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders or any adjournment thereof, or Shareholders entitled to receive payment of a dividend, or in order to make a determination of Shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, seventy (70) days. If the stock transfer books shall be closed for the purpose of determining Shareholders entitled to notice of or to vote at a meeting of Shareholders, such books shall be closed for at least twenty (20) days immediately preceding such meeting.

Instead of closing the stock transfer books, the Board of Directors may fix a date as the record date for any such determination of Shareholders. This record date shall be not more than sixty (60) days, and in case of a meeting of Shareholders not less than twenty (20) days, prior to the date on which the particular action requiring such determination of Shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of Shareholders entitled to notice of or to vote at a meeting of Shareholders, or Shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring the dividend is adopted is, as the case may be, the record date for the determination of Shareholders. When a determination of Shareholders entitled to vote at any meeting of Shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.



Section 6. VOTING LISTS. At least twenty (20) days before each meeting of the Shareholders, the officer or agent having charge of the stock transfer books for shares of the Corporation shall make a complete list of the Shareholders entitled to vote at each meeting of Shareholders or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be kept on file at the registered office of the corporation and is subject to inspection by a Shareholder or the agent or attorney of a Shareholder at any time during the usual business hours for a period of twenty (20) days before the meeting. Such list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any Shareholder during the whole time of the meeting.

Section 7. QUORUM. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders. If a quorum is present, the affirmative vote of the majority of shares represented at the meeting and entitled to vote on the subject matter is the act of the Shareholders unless the vote of a greater number or voting by class is required by the articles of incorporation, bylaws or the Alaska Corporations Code.

The Shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Shareholders to leave less than a quorum, if any action taken other than adjournment is approved by at least a majority of shares required to constitute a quorum.

If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 8. PROXIES. At all meetings of Shareholders, a Shareholder may vote in person or by proxy executed in writing by the Shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. A proxy continues in full force and effect until revoked by the person executing it, however, no proxy shall be valid after eleven (11) months from the date of its execution, unless such proxy qualifies as an irrevocable proxy as defined within AS 10.06.418(e).

Section 9. VOTING OF SHARES. An outstanding share, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of Shareholders, except as may be otherwise provided in the articles of incorporation.



Section 10. VOTING OF SHARES BY CERTAIN HOLDERS.

(a) Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the bylaws of such corporation may prescribe, or, in the absence of such provisions, as the board of directors of such corporation may determine.

(b) Shares held by an administrator, executor, guardian or conservator may be voted by such person, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by the trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

(c) Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer into his name if authority to transfer the shares is contained in an appropriate order of the court by which such receiver was appointed.

(d) A Shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(e) Neither treasury shares, nor shares of its own stock held by the Corporation in a fiduciary capacity, nor shares held by another corporation if a majority of the shares entitled to vote for the election of directors of the other corporation is held by the Corporation, may be voted at a meeting or counted in determining the total number of outstanding shares.

Section 11. INFORMAL ACTION BY SHAREHOLDERS. Any action required to be taken at a meeting of the Shareholders, or any other action which may be taken at a meeting of the Shareholders, may be taken without a meeting by written consent, identical in content setting out the action taken, signed by all of the Shareholders entitled to vote on the action.

ARTICLE III
BOARD OF DIRECTORS

Section 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by its Board of Directors.

Section 2. NUMBER, TENURE AND QUALIFICATIONS. The number of Directors of the Corporation shall be not less than one (1) nor more than nine (9); unless the Corporation, now or at any time in the future, has three (3) or more Shareholders in which case the Corporation shall have not fewer than three (3) directors; or unless the Corporation has



only two (2) Shareholders, in which case the Corporation shall have at least two (2) directors. Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been elected and qualified. Directors need not be residents of the State of Alaska or Shareholders of the Corporation. The initial number of Directors shall be five (5).

Section 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of the Shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Alaska, for the holding of additional regular meetings without other notice than such resolution.

Section 4. SPECIAL MEETINGS.

(a) Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, a Vice President, the Secretary, or a Director or such person authorized to call the meeting may fix the time and place for holding the meeting, either inside or outside the State of Alaska.

(b) Notice of any special meeting shall be given at least ten (10) days prior thereto by written notice delivered personally or mailed to each Director at his business address, or at least seventy-two (72) hours before the meeting by electronic means, personal messenger, or comparable person-to-person communication. If mailed by certified mail, such notice shall be deemed to be delivered when deposited in the United States mail properly addressed, with postage thereon prepaid. Any Director may waive notice of any meeting. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 5. QUORUM. A majority of the presently qualified Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice; provided, further, that where there are only two Directors, both shall be necessary to constitute a quorum.

Section 6. MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 7. ATTENDANCE AT MEETINGS. The Board of Directors may conduct a meeting of the Board by communicating simultaneously with each other by means of



conference telephones or similar communications equipment and any action taken at such meeting shall not be invalidated by reason of the fact that the respective members of the Board were not assembled together in one place at the time of taking such action or conducting such business.

Section 8. VACANCIES. Where a vacancy created by the removal of a Director is pursuant to AS 10.06.460 or 10.06.463, such vacancies occurring on the Board may be filled only by a vote of the Shareholders. Any other vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any directorship to be filled by reason of an increase in the number of Directors may be filled by election by the Board of Directors for a term of office continuing only until the next election of Directors by the Shareholders. In no case may a vacancy continue longer than six (6) months or until the next annual meeting, whichever occurs first.

Section 9. COMPENSATION. By resolution of the Board of Directors, each Director may be paid his or her expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a stated salary as Director or a fixed sum for attendance at each meeting of the Board of Directors or both. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 10. PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his/her dissent shall be entered in the minutes of the meeting or unless he/she shall file a written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 11. REMOVAL OF DIRECTORS. Any Director may be removed with or without cause, at any time, by a vote of the Shareholders holding a majority of the shares then issued and outstanding, at any special meeting called for that purpose, or at the annual meeting. Except as otherwise prescribed by statute, a Director may be removed for cause by a vote of the majority of the entire board. Prior to vote by the Board on the question of removal of any Director for cause, such Director must be given written notice of the reasons for such action.

Section 12. RESIGNATION. A Director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary, or the Board of Directors of the Corporation, unless the notice specifies a later time for the effectiveness of the resignation.

If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 13. VOTING BY INTERESTED DIRECTORS. No Director may vote upon any matter in which he has an adverse or personal interest, unless such interest has been fully disclosed to the Board of Directors and the Board of Directors, by majority of vote without the interested Director voting, permits such interested Director to vote.

Section 14. ACTION BY DIRECTORS WITHOUT A MEETING. Action required or permitted to be taken by the Board or a committee designated by the Board may be taken without a meeting on written consents, identical in consent, setting out the action taken and signed by all the members of the Board or the committee. The written consents shall be filed with the minutes. The consents have the same effect as an unanimous vote.

## ARTICLE IV
## OFFICERS

Section 1. NUMBER. The officers of the Corporation shall be a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any two (2) or more offices may be held by the same person, except the offices of President and Secretary.

Section 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the Shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 3. REMOVAL. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.



Section 5. PRESIDENT. The President shall be the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. He shall, when present, preside at all meetings of the Shareholders and of the Board of Directors. He may sign, with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors, or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 6. VICE PRESIDENTS. In the absence of the President or in the event of his death, inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation; and shall perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 7. THE SECRETARY. The Secretary shall:

(a) keep the minutes of the proceedings of the Shareholders and of the Board of Directors in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law;

(c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized;

(d) keep a register of the post office address of each Shareholder which shall be furnished to the Secretary by such Shareholder;

(e) sign with the President, or a Vice President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;

(f) have general charge of the stock transfer books of the Corporation; and



(g) in general perform all duties incident to the office of the Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 8. THE TREASURER. The Treasurer shall:

(a) have charge and custody of and be responsible for all funds and securities of the Corporation;

(b) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected; and

(c) in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

Section 9. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President or a Vice President certificates for shares of the Corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President of the Board of Directors.

Section 10. SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

## ARTICLE V
## LIMITATION OF LIABILITY AND INDEMNIFICATION OF DIRECTORS, OFFICERS AND AGENTS OF THE CORPORATION

Section 1. LIMITATION OF LIABILITY. No person shall be liable to the Corporation for any loss or damage suffered by it on account of any action taken or omitted to be taken in good faith, as a Director, member of a Committee or Officer of the Corporation, if such person exercised or used the same degree of care and skill, including reasonable inquiry, as a prudent person would have exercised or used under the circumstances in the conduct



of his/her own affairs. Without limitation on the foregoing, any such person shall be deemed to have exercised or used such degree of care and skill if such action were taken or omitted in reliance in good faith upon advice of counsel for the Corporation, or the books of account or other records of the Corporation, or reports or information made or furnished to the Corporation by any officials, accountants, engineers, agents or employees of the Corporation, or by an independent Certified Public Accountant or auditor, engineer, appraiser, or other expert employed by the Corporation and selected with reasonable care by the Board of Directors, by any such committee or by an authorized officer of the Corporation.

Section 2. RIGHT OF INDEMNIFICATION. Each Director, member of a

Committee, Officer, Agent and Employee of the Corporation, and each former director, member of a committee, officer, agent and employee of the Corporation, and any person who may have served at its request as a director, officer, agent or employee of another Corporation in which it is a creditor, and his heirs and personal representative shall be indemnified by the Corporation against all loss or damage suffered and all costs and expenses imposed upon or incurred by him in connection with or arising out of any action, suit or proceedings (whether civil or criminal in nature) in which he may be involved, to which he may be a party by reason of being or having been (or his personal representative or estate having been) such director, member of a committee, officer, agent or employee, except in relation to matters as to which he shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in performance of his duty; provided, however, that the Corporation shall be given reasonable notice of the institution of such action, suit or proceedings; and in the event the same shall be settled in whole or in part, the Corporation or its counsel shall consent to such settlement if it be determined by its counsel or found by a majority of the Board of Directors then in office and not involved in such controversy, that such settlement is to the best interest of the Corporation and that the person to be indemnified was not guilty of negligence or misconduct in performance of duty.

Indemnification (unless ordered by the court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the director, officer, employee or committee member has met the applicable standard of conduct. This determination shall be made (a) by the Board of Directors, by a majority vote of a quorum consisting of directors who were not parties to the action or proceeding; or (b) by independent legal counsel in a written opinion, either (i) if such a quorum is not obtainable, or (ii) if a quorum of disinterested directors so requests such a written opinion; or (c) by approval of the outstanding shares.

Section 3. RIGHTS CUMULATIVE. The provisions of this Article V shall not be deemed exclusive or in limitation of, but shall be cumulative of and in addition to any other limitations of liability, indemnities, and rights to which such Director, member of a Committee, Officer, Agent or other person may be entitled under Alaska Statute, these



Bylaws or pursuant to any agreement or resolution of the Board of Directors or of the Shareholders, or otherwise.

## ARTICLE VI
## CONTRACTS, LOANS, CHECKS, DEPOSITS AND COMPENSATION

Section 1. CONTRACTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 2. LOANS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

## ARTICLE VII
## CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or one of its employees. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person or entity to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled; except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.



All shares issued by the Corporation shall contain a legend on the certificates stating substantially the following:

> The shares represented by this certificate have not been registered under any federal or state securities law. They have been acquired for investment and may not be transferred without an effective registration statement pursuant to such laws or an opinion of counsel satisfactory to the corporation that registration is not required.

Section 2. TRANSFER OF SHARES. Transfer of any shares of the Corporation shall be done in compliance with all federal, state and local securities laws, and any transfer of in violation thereof is void. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by its legal representative, who shall furnish proper evidence of authority to transfer filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The entity or person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

## ARTICLE VIII
## TAXABLE YEAR AND ACCOUNTING PERIOD

The taxable year and accounting period of the Corporation shall begin on January 1 and end on December 31, unless changed by resolution of the Board of Directors.

## ARTICLE IX
## DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in cash, property, or its own shares, except when the Corporation is insolvent, or when the dividend would render the Corporation insolvent, or when the dividend is contrary to restrictions contained in the Articles of Incorporation.

## ARTICLE X
## CORPORATE SEAL

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation and the state of incorporation and the words "Corporate Seal."

## ARTICLE XI



## WAIVER OF NOTICE

Whenever any notice is required to be given to any Shareholder or Director of the Corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of the Alaska Corporation Code, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

## ARTICLE XII
## AMENDMENTS

Except as may be provided in the Articles, these Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board of Directors.

## ARTICLE XIII
## EXECUTIVE COMMITTEE

Section 1. APPOINTMENT. The Board of Directors, by resolution adopted by a majority of the full board, may designate two (2) or more of its members to constitute an Executive Committee. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

Section 2. AUTHORITY. Except as limited by the Articles or AS 10.06.468, the Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee.

Section 3. TENURE AND QUALIFICATIONS. Each member of the Executive Committee shall hold office until the next regular annual meeting of the Board of Directors following his designation and until his successor is designated as a member of the Executive Committee and is elected and qualified.

Section 4. MEETINGS. Regular meetings of the Executive Committee may be held without notice at such times and places as the Executive Committee may fix from time to time by resolution. Special meetings of the Executive Committee may be called by any member thereof upon not less than five (5) days' notice, stating the place, date and hour of the meeting, which notice may be written or oral, and if mailed by certified mail, shall be deemed to be delivered when deposited in the United States mail addressed to the member of the Executive Committee at his business address, postage prepaid. Any member of the Executive Committee may waive notice of any meeting, and no notice of any meeting need be given to any member thereof who attends in person. The notice of



a meeting of the Executive Committee need not state the business proposed to be transacted at the meeting.

Section 5. QUORUM. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business at any meeting thereof, and action of the Executive Committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

Section 6. ACTION WITHOUT A MEETING. Any action that may be taken by the Executive Committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so to be taken, shall be signed by all of the members of the Executive Committee before such action be taken further. The Executive Committee can validly conduct a meeting by communicating simultaneously with each other by means of conference telephones or similar communications equipment.

Section 7. VACANCIES. Any vacancy in the Executive Committee may be filled by a resolution adopted by a majority of the full Board of Directors.

Section 8. RESIGNATIONS AND REMOVAL. Any member of the Executive Committee may be removed at any time, with or without cause, by resolution adopted by a majority of the full Board of Directors. Any member of the Executive Committee may resign from the Executive Committee at any time by giving written notice to the President or Secretary of the Corporation and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 9. PROCEDURE. The Executive Committee shall elect a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these Bylaws. It shall keep regular minutes of its proceedings and report the same to the Board of Directors for its information at the meeting thereof held next after the proceedings shall have been taken.



## ARTICLE XIV
## CONDUCT OF MEETINGS

All meetings conducted under these Bylaws shall be governed in accordance with ROBERTS RULES OF ORDER.

We, the undersigned, hereby certify that the foregoing Bylaws for governing the operation and management of GCI Holdings, Inc., were duly adopted by the Directors by unanimous written consent, effective as of _______________, 1997.

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John M. Lowber, Secretary

APPROVED:

- ----------------------------
Ronald A. Duncan, President

# ARTICLES OF INCORPORATION

# OF

# GCI HOLDINGS, INC.

We, the undersigned natural persons over the age of eighteen (18) years, acting as incorporators of a corporation under the Alaska Corporation Code, AS 10.06, do hereby adopt the following Articles of Incorporation for such corporation.

## ARTICLE I - NAME

The name of the corporation ("Corporation") is: GCI HOLDINGS, INC.

## ARTICLE II - PURPOSES AND POWERS

The purpose for which the Corporation is organized is to provide telecommunication and cable business services, and in general, to pursue any lawful purpose authorized under the Alaska Corporations Code.

The Corporation shall have and may exercise all of the general powers of a natural person, including those provided in AS 10.06.010, as amended, and may transact any or all lawful business for which corporations may be incorporated under the Alaska Corporations Code.

## ARTICLE III - REGISTERED OFFICE AND AGENT

The address of the Corporation's registered office and the name of its registered agent is Hartig, Rhodes, Norman, Mahoney & Edwards, P.C., 717 "K" Street, Anchorage, AK 99501.

## ARTICLE IV - CAPITAL

The Corporation shall have the authority to issue ten thousand (10,000) shares of no par value stock. These shares shall be common voting shares, each share having one (1) vote.

## ARTICLE V - NO PRESUMPTIVE RIGHTS



Pursuant to AS 10.06.210(a)(1)(B), no holder of any stock of the Corporation shall be entitled to purchase, subscribe for or otherwise acquire, as a matter of right, any new or additional shares of stock, of any class, in the Corporation, any options or warrants to purchase, subscribe for or otherwise acquire any new or additional shares in the Corporation, or any shares, bonds, notes, debentures, or other securities convertible into or carrying options or warrants to purchase, subscribe for or otherwise acquire any such shares.

## ARTICLE VI - NO CUMULATIVE VOTING

Pursuant to AS 10.06.420(d), shareholders shall not cumulate their votes, but must vote shares held by them for as many persons as there are directors to be elected.

## ARTICLE VII - POWER TO REDEEM SHARES

Pursuant to AS 10.06.325, the Corporation has the power on majority vote of the shareholders, to redeem, in whole or in part, any class of outstanding shares.

## ARTICLE VIII - QUORUM OF SHAREHOLDERS

A quorum for the conducting of any shareholder business shall be fifty-one percent (51%) of all outstanding shares that are entitled to vote.

## ARTICLE IX - INITIAL DIRECTORS

The initial number of directors of the Corporation shall be five (5). The names and addresses of the initial directors, who shall serve until the first annual meeting of shareholders or until their successors are elected and qualified are as follows:

Ronald A. Duncan
2550 Denali Street, Suite 1000
Anchorage, AK 99503

Larry E. Romrell
4643 S. Ulster, Suite 400
Denver, CO 80237

Donne F. Fisher



4643 S. Ulster, Suite 400
Denver, CO 80237

Robert M. Walp
2550 Denali Street, Suite 1000
Anchorage, AK 99503

Carter Page
c/o Semaphore Partners
8101 Prentice Plaza
Suite M-200
Englewood, CO 80111

The number of directors may be increased or decreased from time to time by an amendment of the Bylaws; but no decrease shall have the effect of shortening the term of any incumbent director. The directors may fill any vacancy on the board created by reason of removal or retiring of any director.

ARTICLE X - ALIEN AFFILIATES

The Corporation is not affiliated with any nonresident alien or a corporation whose place of incorporation is outside the United States (as defined in AS 10.06.990(2) and (3)).

ARTICLE XI - LIABILITY OF DIRECTORS

The directors of the Corporation shall not be liable to the Corporation for monetary damages for a breach of fiduciary duty except for:

(1) A breach of a director's duty of loyalty to the Corporation;

(2) Acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; or

(3) A transaction from which the director derives an improper personal benefit.

ARTICLE XII - BYLAWS



The initial Bylaws of the Corporation shall be adopted by the Board of Directors, and the power to alter, amend or repeal the Bylaws shall be reserved to the board. The Bylaws may contain any provision for the regulation and management of the affairs of the Corporation not inconsistent with the Alaska Corporation Code or with these Articles of Incorporation.

ARTICLE XIII - DURATION

The duration of the Corporation shall be perpetual.

ARTICLE XIV - EFFECTIVE DATE

These Articles will be effective upon filing.

IN WITNESS WHEREOF, I have signed these Articles this _____ day of May, 1997.

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Robert B. Flint

IN WITNESS WHEREOF, I have signed these Articles this _____ day of May, 1997.

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Bonnie J. Paskvan

STATE OF ALASKA )
) ss.
THIRD JUDICIAL DISTRICT )

ROBERT B. FLINT says on oath or affirms that he has read the foregoing ARTICLES OF INCORPORATION OF GCI HOLDINGS, INC., and believes all statements made in the document are true and correct.

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Notary Public in and for the State of Alaska
My commission expires: ----------------------

STATE OF ALASKA )
) ss.
THIRD JUDICIAL DISTRICT )

BONNIE J. PASKVAN says on oath or affirms that she has read the foregoing ARTICLES OF INCORPORATION OF GCI HOLDINGS, INC., and believes all statements made in the document are true and correct.

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Notary Public in and for the State of Alaska
My commission expires: ----------------------