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

FORM 10-K

(Mark One)

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

For the fiscal year ended December31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934 NO FEE REQUIRED

For the transition period from to

Commission file number 000-28167

Alaska Communications Systems Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**52-2126573** (I.R.S. Employer Identification No.)
600 Telephone Avenue **Anchorage, Alaska** (Address of principal executive offices)	**99503-6091** (Zip Code)

(907)297-3000
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	

Securities registered pursuant to Section12(g) of the Act:

Title of each class

Common Stock, Par Value $.01 per Share

Indicate by check mark whether the registrant (1)has filed all reports required to be filed by Section13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12months (or such shorter period that the registrant was required to file such reports), and (2)has been subject to such filing requirements for the past 90days.

Yes XNo

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of RegulationS-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form10-K or any amendment to this Form10-K. X

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on March18, 2002, was approximately $78,625,761 computed upon the basis of the closing sales price of the Common Stock on that date . For purposes of this computation, shares held by directors (and shares held by any entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of March18, 2002, there were outstanding 31,758,876 shares of Common Stock, $.01 par value, of the registrant.

Documents Incorporated by Reference

Portions of the proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation14A for the registrant's 2002 annual meeting of stockholders are incorporated by reference into Part III of this Form10-K.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2001

PART I

Item1. Business

Forward Looking Statements and Analysts' Reports

This Form10-K and future filings by Alaska Communications Systems Group, Inc. ("ACS Group" or the "Company") on Forms 10-K, 10-Q and 8-K and future oral and written statements by the Company and its management may include certain "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995, including (without limitation) statements with respect to anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, pricing plans, acquisition and divestitive opportunities, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation. Words such as "aims," "anticipates," "believes," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "should," and "will," and variations of these words and similar expressions, are intended to identify these forward-looking statements. These forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. Forward-looking statements by the Company and its management are based on estimates, projections, beliefs and assumptions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information, or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of important factors. Examples of these factors include (without limitation) rapid technological developments and changes in the telecommunications industries; ongoing deregulation (and the resulting likelihood of significantly increased price and product/service competition) in the telecommunications industry as a result of the Telecommunications Act of 1996 (the "1996 Act") and other similar federal and state legislation and the federal and state rules and regulations enacted pursuant to that legislation; regulatory limitations on the Company's ability to change its pricing for communications services; the possible future unavailability of Statement of Financial Accounting Standards ('SFAS") No.71 to the Company's wireline subsidiaries; and possible changes in the demand for the Company's products and services. In addition to these factors, actual future performance, outcomes and results may differ materially because of other, more general, factors including (without limitation) changes in general industry and market conditions and growth rates; changes in interest rates or other general national, regional or local economic conditions; governmental and public policy changes; changes in accounting policies or practices adopted voluntarily or as required by accounting principles generally accepted in the United States of America; and the continued availability of financing in the amounts, at the terms and on the conditions necessary to support the Company's future business.

Investors should also be aware that while ACS Group does, at various times, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that ACS Group agrees with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of ACS Group.

Introduction

ACS Group was formed in 1998 by Fox Paine Company, members of the former senior management team of Pacific Telecom, Inc., and other experienced telecommunications industry executives. In May 1999, the Company acquired Century Telephone Enterprises, Inc.'s Alaska properties ("CenturyTel's Alaska Properties") and Anchorage Telephone Utility or ATU (collectively the "Predecessor Entities"). CenturyTel's Alaska Properties were the incumbent provider of local telephone services in Juneau, Fairbanks and more than 70 rural communities in Alaska and provided Internet services to customers statewide. CenturyTel's Alaska Properties included ACS of Fairbanks, Inc., ACS of Alaska, Inc., and ACS of the Northland, Inc. ATU was the largest local exchange carrier ("LEC") in Alaska and provided local telephone and long distance services primarily in Anchorage and cellular services statewide. ATU provided long distance services through ATU Long Distance, Inc. and cellular services through MACtel, Inc. These companies are now known as ACS of Anchorage, Inc., ACS Long Distance, Inc. and ACS Wireless, Inc. On October29, 1999, the Company changed its name from ALEC Holdings, Inc. to Alaska Communications Systems Group, Inc.

The consolidated financial statements for ACS Group represent the operations principally of the following entities:

•Alaska Communications Systems Group, Inc.

•Alaska Communications Systems Holdings, Inc. ("ACS Holdings")

•ACS of Alaska, Inc. ("ACSAK")

•ACS of the Northland, Inc. ("ACSN")

•ACS of Fairbanks, Inc. ("ACSF")

•ACS of Anchorage, Inc. ("ACSA")

•ACS Wireless, Inc. ("ACSW")

•ACS InfoSource, Inc. ("ACSIS")

•ACS Internet, Inc. ("ACSI")

•ACS Long Distance, Inc. ("ACSLD")

•ACS Television, L.L.C. ("ACSTV")

ACS Group is the leading diversified, facilities-based telecommunications provider in Alaska, offering local telephone, cellular, long distance, data and Internet services to business and residential customers throughout the state. ACS Group is the largest telecommunications provider in Alaska using its own network facilities to provide full service end-to-end communications to its customers.

At various times, ACS Group evaluates opportunities for establishing or acquiring other telecommunications businesses through acquisitions or otherwise in Alaska and elsewhere in the United States, and may make investments in such businesses in the future. ACS Group has focused its attention on local telephone, cellular, directory, Internet, and interexchange businesses.

Local Telephone . With over 330,000 access lines, representing approximately 68% of the access lines provisioned in Alaska, ACS Group is the largest LEC in Alaska and the 14th largest in the U.S. The Company provides service to most of the state's major population centers, including Anchorage, Juneau and Fairbanks.

Cellular . ACS Group is the largest and only statewide provider of cellular services in Alaska, currently serving approximately 80,000 subscribers. Its cellular network covers over 468,000 residents, including all major population centers and highway corridors. The Company has upgraded to a fully digital network in substantially all of its service areas.

Directory . ACS Group, through its subsidiary ACSIS, is the largest provider of published directory advertising in Alaska. The Company serves approximately 12,000 advertisers through eight regional directories tailored to serve the needs of each of its local exchange markets. ACS Group also provides an online directory product and other specialized advertising vehicles to its customers.

Internet . ACS Group is the second largest provider of Internet access services in Alaska with over 46,000 customers. ACS Group offers dedicated and dial-up Internet access and digital subscriber line, (“DSL”) Internet access to its customers.

Interexchange. ACS Group provides long distance and other interexchange services to over 65,000 customers in Alaska. ACS Group has migrated long distance traffic from leased circuits onto its own network infrastructure where possible, principally between its major markets of Anchorage, Fairbanks and Juneau.

Other. ACS Group provides wireless cable television services in the Fairbanks and Anchorage service areas over UHF frequencies. ACS Group is evaluating opportunities to expand its offering of wireless cable television services.

Products, Services and Revenue Sources

ACS Group offers a broad portfolio of telecommunications services to residential and business customers in its markets. The Company believes that, as the communications marketplace continues to converge and competition continues to enter the market, the ability to offer an integrated package of communications products will provide a distinct competitive advantage, as well as increase customer loyalty, and thereby decrease customer turnover. The Company complements its local telephone services by actively marketing its cellular, directory, Internet, interexchange and other service offerings.

Profit or loss and total assets for each of the Company’s segments is disclosed in Note 15 “Business Segments” of the Alaska Communications Systems Group, Inc. Consolidated Financial Statements. The following table sets forth the components of ACS Group’s consolidated revenues for the years ended December31, 2001 and December31, 2000 and pro forma combined revenues for the year ended December31, 1999 (dollars in millions). For the year ended December 31, 1999, the combined revenues represents the historical combined revenues of the Predecessor Entities— prior to their ownership by ACS Holdings, from January1, 1999 through May14, 1999, plus the consolidated results of ACS Holdings from May15, 1999 through December31, 1999.

	Revenue for the Year Ended December 31,					
	2001 Consolidated		2000 Consolidated		1999 Proforma Combined	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenue by Source:						
Local network service	$ 96.3	29.0 %	$ 94.1	30.1 %	$ 94.5	31.5 %
Network access	103.0	31.0	105.2	33.6	105.4	35.1
Deregulated and other revenue	22.1	6.7	23.0	7.3	22.5	7.5
Local telephone	221.4	66.8	222.3	71.0	222.4	74.2
Cellular	40.4	12.2	39.5	12.6	36.0	12.0
Directory	33.9	10.2	29.1	9.3	26.6	8.9
Internet	13.7	4.1	9.2	2.9	4.9	1.6
Interexchange	21.3	6.4	11.8	3.8	9.6	3.2
Other	1.0	0.3	1.1	0.4	0.4	0.1
Total	$ 331.7	100.0 %	$ 313.0	100.0 %	$ 299.9	100.0 %

Local Telephone

The Company provides local telephone service through its four LECs. Local telephone revenue consists of local network service, network access (including universal service revenue), and deregulated and other revenue, each of which is described below.

Local Network Service

Basic Local Network Service . Basic local network service enables customers to originate and receive telephone calls within a defined “exchange” area. The Company provides basic local services on a retail basis to residential and business customers, generally for a fixed monthly charge. The maximum amount that can be charged to a customer for basic local services is determined by rate proceedings involving the Regulatory Commission of Alaska (“RCA”). The Company charges business customers higher rates to recover a portion of the costs of providing local service to residential customers, as is customary in the industry. On average, U.S. business rates for basic local services have been over two times the rates of residential customers. Basic local service also includes non-recurring charges to customers for the installation of new products and services and recurring charges for enhanced features such as call waiting and caller identification.

At December31, 2001, approximately 57% of ACS Group’s retail access lines served residential customers and 43% served business customers. Currently, monthly charges for basic local service for residential customers range from $9.42 to $16.30 in ACS Group’s service areas compared to the national average for urban areas of $13.70. Monthly charges for business customers range from $17.65 to $35.00 in ACS Group’s service areas compared to the national average for urban areas of $33.88. In November 2001, the Company was authorized by the RCA to increase on an interim basis certain rates in its largest market, Anchorage, by 24%. As a result, the Company increased residential service rates in Anchorage from $9.70 to $12.05 per month. See “Business — Regulation” for further discussion of regulatory matters including the Company’s local network service rate proceedings.

The table below sets forth the annual growth in access lines for ACS Group and its Predecessor Entities from December31, 1997 to December31, 2001. The number of access lines shown for 1997 includes approximately 37,000 access lines that were acquired by CenturyTel’s Alaska Properties as part of its acquisition of the City of Fairbanks Telephone Operation in October 1997. The number of access lines shown represents all revenue producing access lines connected to both retail and wholesale customers .

	As of December 31,				
	2001	**2000**	**1999**	**1998**	**1997**
Retail access lines	261,002	272,936	281,726	266,704	275,549
Wholesale access lines	22,859	17,303	15,680	13,010	5,106
Unbundled network elements	49,062	39,221	28,202	20,680	2,700
Total Local Telephone Access Lines	332,923	329,460	325,608	300,394	283,355
Percentage Growth	1.1 %	1.2 %	8.4 %	6.0 %	19.2 %

On June1, 1999, as part of the consolidation of its operating and billing systems, ACS Group conformed the methodology by which the number of access lines is calculated across all of its local exchanges to that previously used for CenturyTel’s Alaska Properties. The Company intends to use the method used to calculate access lines in service for CenturyTel’s Alaska Properties to calculate its access lines in all future periods. In the table above, for the year ended December31, 1999, the Company shows ATU’s number of access lines calculated using this method. If the number of ATU’s access lines in service at December31, 1998 was computed under this same method, the number of access lines at ATU would increase by 4,940 and the total number of access lines would equal 305,334 and the combined growth percentage would be 7.8% for 1999. Due to limited data available to ACS Group, no adjustments to the access lines in service for 1997 have been computed.

Management believes that future access line growth is dependent on among other things, the economic outlook in Alaska and the United States, the impact of technology and competition on line demand and population growth in the Company’s service areas.

Competitive Local Network Service. The Company also provides interconnection through wholesale access to its basic local service and through leasing unbundled network elements (“UNEs”) to its competitors as required by the 1996 Act. Revenues for these services are included in local network service revenues. The Company provided 68,068 lines to competitors in the Anchorage service area on either a wholesale or UNE basis as of December31, 2001. In November of 2001 the Company was authorized by the RCA to implement an interim and refundable rate increase of $1.07 per UNE loop for its Anchorage serving area, increasing the total rate to $14.92 from $13.85. The RCA has also lifted the Company's rural exemption for the Fairbanks and Juneau serving areas and awarded interconnection rates to a competitor on a UNE basis of $19.19 and $16.71, respectively. The Company believes the UNE rates in place in all of its markets are below its embedded and forward looking cost and are therefore non-compensatory. As of December31, 2001, the Company provided 3,853 lines to competitors in the Fairbanks service area on either a wholesale or UNE basis. The Company has not yet provided lines on either a wholesale or UNE basis to competitors in Juneau, although competition is expected in 2002. See "Business — Regulation" for further discussion of regulatory matters, including interconnection under the 1996 Act.

While there is some seasonality in local network service, represented primarily by reduced line demand in the Alaskan winter as seasonal workers leave the state, operating results for local telephone services are not materially impacted by seasonal factors.

Network Access

Network access services arise in connection with the origination and termination of long distance, or toll, calls and typically involve more than one company in the provision of such long distance service on an end-to-end basis. Since toll calls are generally billed to the customer originating the call, a mechanism is required to compensate each company providing services relating to the call. This mechanism is the access charge, which the Company bills to each interexchange carrier for the use of its facilities to access the customer. The Company also receives universal service revenue, which it includes in its reported network access revenue. These components of network access revenue are described below.

Intrastate Access Charges . ACS Group generates intrastate access revenue when an intrastate long distance call that involves an ACS Group LEC and an interexchange carrier is originated and terminated within the same state. The interexchange carrier pays the Company an intrastate access payment for either terminating or originating the call. The Company records the details of the call through its carrier access billing system and receives the access payment from the interexchange carrier. The Company also provides billing and collection ("BC") services for interexchange carriers through negotiated BC agreements for certain types of toll calls placed by the Company's local customers. ACS Group's LECs in competitive areas are under their own stand-alone tariffs for intrastate access. In non-competitive areas, ACS Group's LECs participate in a statewide tariff and access charge pooling arrangement that is administered by the Alaska Exchange Carriers Association ("AECA"). The access charge for ACS Group's intrastate service is regulated by the RCA.

Interstate Access Charges . ACS Group generates interstate access revenue when an interstate long distance call is originated from an Alaskan local calling area served by an ACS Group LEC and is terminated in a local calling area in another state, and vice versa. The Company bills interstate access charges in a manner similar to intrastate access charges. However, interstate access charges are regulated by the Federal Communications Commission ("FCC") rather than the RCA. ACS Group's LECs participate in a nationwide tariff and access charge pooling arrangement that is administered by the National Exchange Carrier Association ("NECA") for all ACS Group's LECs except ACSA. ACSA participates in the NECA common line tariff, but has its own interstate access tariff for traffic sensitive and special access services.

Universal Service Revenue. Universal service revenue supplements the amount of local service revenue the Company receives to ensure that basic local service rates for customers in high cost rural areas are not significantly higher than rates charged in lower cost urban and suburban areas. The 1996 Act prescribed new standards applicable to universal service, including mechanisms for defining the types of services to be provided as part of a universal service program, specific goals or criteria applicable to universal service programs, new qualifications for receipt of universal service funding and new requirements for contributions to universal service funding. The FCC, in conjunction with a federal-state joint board composed of FCC and state commission members, has been working since passage of the 1996 Act to implement these new statutory provisions. The FCC has chosen to address universal service matters, initially for non-rural telephone companies, and subsequently for rural telephone companies. While new cost-identification models for non-rural local carriers were adopted effective on January1, 2000, similar models for rural carriers were rejected by the FCC, leaving previous Universal Service Fund ("USF") calculations in place. While the Joint Board and the FCC continue to examine modifications to the universal service funding mechanisms, it is unlikely that any changes will have a near-term impact on ACS Group's revenue.

Operating results for network access services are not materially impacted by seasonal factors.

Deregulated and Other Revenue

Deregulated and other revenues consist of BC contracts, space and power rents, pay telephone service, customer premise equipment sales, and other miscellaneous revenues generated by the Company's LECs. ACS Group seeks to capitalize on its local presence and network infrastructure by offering these additional services to customers and interexchange carriers. Deregulated and other revenue is generally not subject to seasonal impacts on operating results.

Cellular

ACS Group's cellular business is currently managed separately from its LEC business and is subject to a different regulatory framework and cost structure. Cellular services are provided statewide under the ACS Wireless brand name . The primary sources of cellular revenue include subscriber access charges, airtime usage, toll charges, connection fees, roaming revenues, and enhanced features, such as caller identification and call waiting. A subscriber may purchase services separately or may purchase rate plans that package these services in different ways to fit different calling patterns and desired features.

The table below sets forth the annual growth in the number of cellular subscribers served and total covered population for ACS Group and its Predecessor Entities from December31, 1997 to December31, 2001.

	As of December 31,				
	2001	2000	1999	1998	1997
Estimated covered population	468,622	462,057	460,802	460,162	453,361
Ending subscribers	80,120	75,933	73,068	66,572	55,131
Ending penetration	17.1 %	16.4 %	15.9 %	14.5 %	12.2 %

Although ACS Group has achieved cellular penetration rates of approximately 17% in Anchorage, 19% in Fairbanks and 20% in the Kenai peninsula, penetration rates in the Company's other service areas are significantly lower. Management believes there are opportunities to improve the penetration rates of its cellular operations in Southeastern Alaska, and in particular, Juneau. Management also believes that the market for cellular services will continue to grow with the expansion of the cellular industry as a whole.

ACS Group also owns 10 megahertz E Block PCS licenses covering Anchorage, Fairbanks and Juneau which were purchased by CenturyTel's Alaska Properties in 1997 and acquired by the Company when it purchased CenturyTel's Alaska Properties on May14, 1999. Management is analyzing the build out of these licenses and technical alternatives for using this spectrum to enhance the Company's service offerings in its overall business.

Cellular revenue declines in the winter months and increases in the summer months due to Alaska's northern latitude and the wide swing in available daylight and changes in weather patterns between summer and winter and their effect on business, tourism and subscriber calling patterns . However, operating results for cellular services are not materially impacted by seasonal factors.

Directory

ACS Group is the largest provider of yellow page advertising directories in the State of Alaska . The Company currently publishes eight different books in its local telephone markets throughout the state . Directory advertising revenues are derived by ACS Group principally from yellow pages advertising in the local telephone books of each of the Company's local exchange service areas. The Company provides this service under a contractual arrangement with a directory publishing company. Directory advertising is billed in conjunction with local telephone service under a BC agreement. ACS Group competes for directory advertising services with at least one other publisher in substantially all of its service areas. Directory revenues are not materially effected by seasonality.

Internet

ACS Group provides Internet access services to approximately 46,000 customers as of December31, 2001. In order to offer Internet access, the Company provides local dial-up telephone numbers for its customers. ACS Group also offers high speed DSL to its customers in its major LEC service territories. These local dial-up numbers and dedicated DSL connections allow customers access, through a modem connection on their computer, to a series of computer servers ACS Group owns and maintains. These servers allow customers to access their e-mail accounts and to be routed to local access points that connect customers to the Internet. ACS Group charges customers either a flat rate for unlimited Internet usage or a usage sensitive rate, which, in either case, can be billed on customers' local telephone bills. Operating results for Internet access services are not materially impacted by seasonal factors.

Interexchange

Long Distance Services. ACS Group's predecessors began offering long distance services on a resale basis in October 1997, primarily in Anchorage. The Company currently has approximately 65,000 long distance customers and less than 10% of total long distance revenues in Alaska. Before August 1998, CenturyTel's Alaska Properties were precluded from entering the long distance business by a non-competition agreement with ATT Alascom which was signed when Pacific Telecom sold Alascom, Inc. to ATT in 1995.

In April 1999, ACS Group entered into a settlement agreement with General Communication, Inc. ("GCI") under which the Company agreed to enter into a number of new business arrangements and to settle a number of outstanding disputes, including GCI's opposition to ACS Group's acquisitions of CenturyTel's Alaska Properties and ATU. As part of this agreement and to support other aspects of the Company's business strategy, ACS Group purchased from GCI $19.5million of fiber capacity for high-speed links within Alaska and for termination of traffic in the lower 49 states. Subsequently, the Company entered into an amendment to the purchase agreement with GCI, whereby, among other things, ACS Group agreed to purchase additional capacity for $19.5 million. The Company fulfilled this commitment to purchase additional capacity on January12, 2001.

ACS Group is subject to numerous conditions imposed by the RCA and, to a lesser degree, by the FCC on the manner in which the Company conducts its long distance operations. The restrictions are intended to prohibit cross-subsidization from the regulated LEC to the long distance affiliate and discrimination against other long distance providers in favor of a LEC's long distance affiliate. Among the conditions applied to ACS Group's long distance affiliate are those which:

- require the Company to hold all books and records, management, employees and administrative services separate, except that services may be provided among affiliates through arm's length affiliated interest agreements,
- prohibit ACSA, ACSAK, ACSN and ACSF from bundling local and intra-state long distance services until competition develops in their local markets and
- prevent the Company from joint ownership of telephone transmission or switching facilities with the LEC and from using the LEC's assets as collateral for its own indebtedness.

Although there is some seasonal impact on customer usage patterns for long distance, operating results are not materially impacted by seasonal factors.

Other

ACS Group owns ACSTV, a wireless cable television provider. ACSTV provides wireless cable television services over assigned UHF frequencies to approximately 1,900 customers in the Company's Anchorage and Fairbanks service areas. ACS Group is evaluating opportunities to expand its offering of wireless cable television services.

Network Facilities

As of December31, 2001, ACS Group owned 66 host switches serving over 330,000 access lines. All of the Company's access lines are served by digital switches provided predominately by Nortel Networks. ACS Group's switches are linked through a combination of extensive aerial, underground and buried cable, including 640 sheath miles of fiber optic cable, as well as digital microwave and satellite links. The Company has 100% single-party services (one customer per access line), and believes substantially all of its major switches have current generic software upgrades installed, allowing for the full range of enhanced customer features.

ACS Group has integrated numerous network elements to offer a variety of services and applications that meet the increasingly sophisticated needs of customers. These elements include Signal System 7 signaling networks, voice messaging platforms, digital switching, DSL and, in some communities, integrated service digital network access. As the telecommunications industry experiences significant changes in technology, customer demand and competition, the Company intends to introduce additional enhancements.

Network operations and monitoring are provided by ACS Group's network operating control center located in Anchorage. The network operating control center has technicians staffed seven days a week, 24 hours a day. The Company also has customer care call center facilities in Anchorage and Fairbanks along with additional customer care facilities in Juneau, Sitka, Kenai/Soldotna and Kodiak. All of these facilities offer extended business hours to efficiently handle customer inquiries and orders for service.

ACS Group's cellular operations consist of three digital switching centers, 94 cell sites and four repeaters covering substantially all major population centers and highway corridors in Alaska plus one analog switch and cell site covering Barrow, Alaska. The Company uses Ericsson switches and radios for its cellular operations. The Company's switching and cell site infrastructure is linked by fiber and digital microwave. ACS Group's network operating control center located in Anchorage also supports all cellular switches in ACS Group's markets. Customer care centers are located in Anchorage, Fairbanks, Juneau and Kenai/Soldotna.

The Company is enhancing its network to accommodate developing products and technology. The Company is working with Cisco Systems and other vendors to implement a Multi-Protocol Label Switching over Asynchronous Transfer Mode network or MPLS/ATM. ACS Group believes the implementation of an MPLS/ATM network will enhance its capability to provide a complete suite of converged telecommunications, data and video services and achieve significant operating efficiencies. The Company completed the first phase of the implementation in 2001. Core MPLS/ATM nodes were installed in Anchorage, Fairbanks, Kenai, Juneau and Seattle. ACS Group expects to complete the implementation of its MPLS/ATM network early in the second quarter of 2002.

Completion of the MPLS/ATM network will enable the Company to provide an array of products and services over Internet Protocol or IP. ACS Group currently offers a variety of products and services and will be able to converge them all over its MPLS core network:

- virtual private networks,
- virtual private lines,
- voice over IP services,
- transparent local area networks (LAN),

- proprietary LANs and wide area networks (WAN),
- high speed Internet access,
- managed services,
- video and
- video conferencing.

Customers

ACS Group has three basic types of customers for the services of its LECs:

- business and residential customers located in their local service areas that pay for local phone service,
- interexchange carriers that pay for access to long distance calling customers located within the Company’s local service areas and
- competitive local exchange carriers (“CLECs”) that pay for wholesale access to the Company’s network in order to provide competitive local service on either a wholesale or UNE basis as prescribed under the 1996 Act.

Approximately 57% of ACS Group’s retail access lines served residential customers, while 43% served business customers.

ACS Group also has approximately 80,000 cellular subscribers, 46,000 Internet subscribers and 65,000 long-distance subscribers consisting substantially of retail residential and business consumers.

No single ACS Group customer represented more than 10% of its total 2001 consolidated revenue.

Competition

Local Telephone Service

Incumbent local exchange carriers (“ILECs”) may be subject to any of three types of competition:

- facilities-based competition from providers with their own local service network,
- resale competition from resale interconnection, or providers who purchase local service from the ILEC at wholesale rates and resell these services to their customers and
- competition from UNE interconnection, that is, providers who lease UNEs from the ILEC.

The geographic characteristics of rural areas presently make the entrance of most facilities-based competitors uneconomical because of the significant capital investment required and the limited market size. Therefore, ACS Group believes competition is likely to come from resale interconnection or UNE interconnection. However, in the future, competition though other means, such as cable or wireless telephony may become economically feasible. There are no regional Bell operating companies in Alaska.

In September 1997, GCI and ATT Alascom, the two largest long distance carriers in Alaska, began providing competitive local telephone services in Anchorage. GCI competes principally through UNE interconnection with ACSA facilities, while ATT Alascom competes primarily by reselling ACSA’s services. Competition is based upon price and pricing plans, types of services offered, customer service, billing services, and quality and reliability of service. GCI has focused principally on advertising discount plans for bundled services. ATT Alascom’s strategy has been to resell ACSA’s service as part of a package of local and long distance services. As a result, ACSA now has approximately 43% competitive market penetration as of December31, 2001. The Company expects GCI and ATT Alascom to continue to compete for local telephone business.

As “rural telephone companies” under the 1996 Act, ACS Group’s rural LECs have historically been exempt from the obligation to lease their facilities or resell their services on a wholesale discount basis to CLECs seeking interconnection. However, on June30, 1999 the Alaska Public Utilities Commission (“APUC”) ordered these exemptions terminated for certain rural service areas of ACS Group, and on October11, 1999, the RCA, which replaced the APUC on July1, 1999, sustained the APUC’s order. As a result, ACS Group’s rural LECs entered into interconnection arbitration with GCI. This arbitration resulted in arbitration agreements for certain rural service areas of ACS Group. See “Business — Regulation” for further discussion.

In October 2000, the RCA approved interconnection agreements under the 1996 Act ACSF, ACSN and ACSAK and GCI for its Fairbanks and Juneau markets. Commencing in April 2001, the Company received its first orders for resale of local services in Fairbanks. As of December31, 2001, ACS Group estimates that it now has approximately 90% market share in Fairbanks. Through December31, 2001, GCI has competed in Fairbanks primarily through reselling ACSF and ACSN services, however, the Company expects GCI to compete in this market primarily through UNE interconnection in the future. ACSAK has experienced no competition in its Juneau market as of February 2002, although the Company anticipates competition in the future. While GCI claims the right to resell local service in portions of the ACSN territory, it has yet to place any orders to do so.

ACS Group expects increasing competition from providers of various services that provide users the means to bypass its network. Long distance companies may construct, modify or lease facilities to transmit traffic directly from a user to a long distance company. Cable television companies also may be able to modify their networks to partially or completely bypass the Company’s local network.

In addition, while cellular telephone services have historically complemented traditional LEC services, the Company anticipates that existing and emerging wireless technologies may increasingly compete with LEC services. For example, ATT had introduced its fixed wireless product to the Anchorage market. Although ATT’s fixed wireless product was subsequently abandoned, communications technology manufacturers continue to work on alternatives to traditional LEC service. At this time it is not possible to predict the impact of this product on the Company’s share of the local market. Technological developments in cellular telephone features, personal communications services, digital microwave and other wireless technologies are expected to further permit the development of alternatives to traditional wireline services.

Cellular Services

The wireless telecommunications industry is experiencing significant technological change, as evidenced by the increasing pace of improvements in the capacity and quality of digital technology, shorter cycles for new products and enhancements, and changes in consumer preferences and expectations. ACS Group believes that the demand for wireless telecommunications services is likely to increase significantly as equipment costs and service rates continue to decline and equipment becomes more convenient and functional. Competition is based on price, quality, network coverage, packaging features and brand reputation. In addition, there are six PCS licensees in each of the Company’s cellular service areas. ACS Group holds PCS licenses covering Anchorage, Fairbanks and Juneau. ACS Group currently competes with at least one other wireless provider in each of its cellular service areas, including ATT Wireless Services, Alaska DigiTel, and Dobson Communications. At least one new wireless competitor is expected to enter the Alaska market in 2002. The Company believes that the unique and vast terrain and the high cost of PCS system buildout make entrance into markets outside Anchorage uneconomical at this time.

As the market for simple cellular voice services approaches maturity, providers are experiencing downward pressure on price. ACS Group is positioning itself to offset this impact by bringing new higher margin services to market. By developing products for targeted market segments, the Company is leveraging the advantage in market share and geographical coverage to attract new customers and increase monthly revenues from existing customers. The Company continuously evaluates new service offerings in order to differentiate it from its competitors, produce additional revenues and increase margins.

Internet Services

The market for Internet access services is highly competitive in most markets in the state. There are few significant barriers to entry, and the Company expects that competition will intensify in the future. ACS Group currently competes with a number of established online services companies, interexchange carriers, local exchange carriers with Internet subsidiaries, satellite service providers and cable television companies. The Company believes that its ability to compete successfully will depend upon a number of factors, including the reliability and security of its network infrastructure, the ease of access to the Internet, and the pricing policies of its competitors. During 2001, the Company continued to feature its DSL services in Anchorage, Fairbanks, Juneau, Kenai/Soldotna, Homer and Sitka, Alaska for both residential and business applications.

Long Distance Services

The long distance telecommunications market is highly competitive. Competition in the long distance business is based primarily on price, although branding, customer service, billing services and quality play a role in customer's choices to some extent. The Company currently offers long distance service to customers located primarily in the more populous communities within its service territory. ATT Alascom and GCI are currently the two major competing long distance providers in Alaska. The Company currently has less than 10% of total long distance revenues in Alaska. The Company provides traditional "1" direct distance dialing (DDD), toll-free services, calling cards and private line services for data and voice applications. In Spring 2001, the Company discontinued its long distance "Infinite Minutes" program, and introduced several new flat-fee programs marketed as "Easy Choices." The new programs allow customers to purchase interstate minutes of use in blocks of time for a single monthly fee. ACS Group expects to continue offering innovative products of this nature in the future.

Sales and Marketing

The Predecessor Entities have historically conducted their sales and marketing operations for each of their respective products on a stand-alone basis, with each product line having its own sales force and marketing department. ACS Group has consolidated its product and service offerings under the "Alaska Communications Systems" and "ACS" brands, subject to regulatory and strategic business considerations.

Key components of the Company's sales and marketing strategy include:

- establishing name recognition of the ACS brand across all product and service offerings,
- marketing current and future service offerings aggressively,
- providing simplified packaged service offerings,
- centralizing marketing functions,
- improving quality, reliability and customer service,
- developing and delivering to the market new products and services in line with strategic goals, and
- enhancing direct sales efforts.

ACS Group believes that it can leverage its position as an integrated, one-stop provider of telecommunications services with strong positions in local access, cellular, directory, Internet, and interexchange long distance and data markets. By pursuing, within the bounds of any applicable regulatory constraints, a marketing strategy that takes advantage of these characteristics and that facilitates cross-selling and packaging of its products and services, the Company believes it can increase penetration of new product offerings, improve customer retention rates, increase its share of its customers' overall telecommunications expenditures, and achieve continued revenue and operating cash flow growth.

ACS Group has begun, to a limited extent, within regulatory bounds, marketing local telephone services in attractively priced, packaged service offerings with cellular, long distance and Internet services. ACS Group believes packaged offerings are popular with customers because they allow customers to enjoy pricing for a number of services at a substantial discount to *a la carte* pricing of individual services. Subject to regulatory limitations, the Company intends to expand this strategy, which it expects will increase the average revenue per customer, and result in a more loyal and satisfied customer base and in reduced churn.

The Company has established a sales and marketing organization where marketing strategies are centralized and sales functions are based locally. To enhance its direct selling efforts, the Company has established additional customer and retail service centers in its larger service areas, such as Juneau and Kenai/Soldotna, and intends to enhance its call center operations through a combination of technology investments, training, and incentive compensation programs for call center employees.

Employees

ACS Group considers employee relations to be good. As of December31, 2001, the Company employed a total of 1,168 regular full-time employees, 924 of whom were represented by the International Brotherhood of Electrical Workers, Local 1547 (“IBEW”). On November2, 1999, the IBEW membership for ACS Group ratified the terms of a master collective bargaining agreement that governs the terms and conditions of employment for all IBEW represented employees working for ACS Group in the State of Alaska. The master agreement embraces a labor-management relationship that is founded on trust, cooperation and shared goals. The November 1999 agreement, which expires December31, 2006, provides for wage increases up to 4% in specified years based on the annual increases in the consumer price index for Anchorage as reported by the U.S. Department of Labor CPI-U. The last wage increase under the agreement was implemented in July 2001 and the next scheduled wage review is in January 2003. The master agreement also limits ACS Group’s health and welfare contributions for represented employees to 4% annually. There have been no work stoppages or strikes, and none are anticipated.

ACS Group also enjoys good relations with the non-represented employee group. Non-represented employees qualify for wage increases based on individual and Company performance, and key employees are also eligible for performance-based incentives and equity compensation. Additionally, ACS Group provides a total benefits package, including health, welfare, and retirement components, that is competitive in ACS Group’s market.

Regulation

Overview

The Company's local telephone operating subsidiaries, ACSA, ACSF, ACSAK, and ACSN, are each "telecommunications carriers" and ILECs under the Communications Act of 1934 (the "Communications Act"), which was amended by the 1996 Act, and are subject to the jurisdiction of the FCC and the RCA. ACSLD, ACS Group's long distance subsidiary, is also subject to both the FCC and RCA's regulatory jurisdiction. ACS Group's cellular and PCS companies are also subject to FCC jurisdiction because they are telecommunications carriers and because they hold FCC-issued licenses.

Federal Regulation

Under the federal regulatory scheme, ILECs are required to comply with the Communications Act and the applicable rules and regulations of the FCC. In substantially overhauling the Communications Act, the 1996 Act was intended to, among other things, eliminate unproductive regulatory burdens and promote competition. Despite this, telecommunications carriers are still subject to extensive ongoing regulatory requirements. For instance, ACS Group's ILEC subsidiaries are required to maintain accounting records in accordance with the Uniform System of Accounts, to structure interstate access charges according to FCC rules, and to charge for interstate services at a rate of return not to exceed a rate prescribed by the FCC. The FCC also must give prior consent to transfers of control and assignments of radio frequency licenses. The FCC requires ILECs providing interstate access services to file tariffs with the FCC reflecting the rates, terms and conditions of those services. These tariffs are subject to review and potential objection by the FCC or third parties. Additionally, all of the Company's LECs are "ILECs" within the meaning of the 1996 Act. As such, they are subject to various additional requirements under the 1996 Act, including specific interconnection duties such as providing requesting telecommunications carriers with UNEs and wholesale discounted end user services for resale.

As of 2001, long distance companies are precluded from filing tariffs for interstate domestic services. Similar detariffing of international services will be implemented in early 2002. Federal tariffing has been replaced with Internet web site posting of offers, terms and prices. ACSLD's interstate services were fully detariffed prior to the end of 2000.

State Regulation

Telecommunications companies subject to the RCA's jurisdiction are required to obtain certificates of public convenience and necessity prior to operating as a public utility in Alaska. The RCA is responsible for approving new certificates and any transfers of existing certificates. In addition, the RCA is responsible for implementing a portion of the competitive requirements of the 1996 Act, as well as for regulating intrastate access and rates for local and other services of local telephone companies. After passage of the 1996 Act, the RCA's predecessor, APUC, adopted a plan to address competition issues across Alaska. The APUC established multiple dockets to investigate different competition-related issues, including revising local and long distance market structures, reforming its intrastate access charge system and establishing a state universal service fund. In addition to its preliminary actions to mandate access charge depooling for ILECs operating in competitive markets, the RCA made operational the new Alaska Universal Service Fund ("AUSF"). In a subsequent rulemaking, the RCA revised its eligibility standards for companies receiving high-cost switching support from the AUSF. These new rules resulted in a loss of support to ACS Group's rural affiliates. Rather than seeking interim local relief for this cost recovery shift, ACS Group has opted to include consideration of this issue in the more comprehensive rate proceedings described below.

In connection with regulatory approval of ACS Group's acquisitions of CenturyTel's Alaska Properties and ATU in 1999, the APUC imposed several conditions on its operating companies. Among those conditions was a requirement that ACSA, ACSF, ACSAK, and ACSN each file revenue requirement, cost of service and rate design studies no later than July 2001. All of these companies except ACSF were also required to file updated depreciation analyses concurrently with the rate case filings. The revenue requirement studies were subsequently bifurcated from the cost of service and rate design studies. In conformance with RCA orders, all revenue requirement studies and testimonies have been filed. Following a hearing and decisions as to revenue requirements, the companies will file their cost of service and rate design studies and testimony. In addition, restrictions were placed on the ability of ACS Group's LECs to bundle service offerings with ACSLD.

Having secured both LEC certification and interconnection agreements to serve the local exchange markets in Juneau and Fairbanks, Alaska, and numerous smaller communities in Alaska, GCI's CLEC operation has been designated an "Eligible Telecommunications Carrier" ("ETC") by the RCA for Juneau, Fairbanks and Fort Wainwright. ETC designation is an essential first step in securing "portable" or shared universal service support. ACS Group's operating companies are currently designated as ETCs in the same markets for which GCI has received this designation.

Under existing FCC regulations, ILECs may seek, through filings with state commissions, the disaggregation of study areas into multiple zones for purposes of universal service support. The ACS Group of companies currently receiving such support are reviewing opportunities for such disaggregation and may file such plans during 2002.

Cost Recovery and Revenue Recognition

As a regulated common carrier, the operating subsidiary companies of ACS Group have the right to an opportunity to set maximum rates at a level that allows the Company to recover the reasonable costs incurred in the provision of regulated telecommunications services and to earn a reasonable rate of return on the investment required to provide these services.

These costs are recovered through:

- monthly charges to end users for basic local telephone services and enhanced service offerings,
- access charges to interexchange carriers for originating and terminating interstate and intrastate interexchange calls, along with an end-user access charge referred to as a Subscriber Line Charge
- interconnection charges, wholesale service charges, UNE charges, and other rates to competing carriers interconnecting with the Company's networks or reselling its services and
- high-cost support mechanisms, such as the federal Universal Service Fund and the AUSF.

In conjunction with the recovery of costs and establishment of rates for regulated services, a LEC must first determine its aggregate costs and then allocate those costs between regulated and nonregulated services. After identifying the regulated costs of providing local telephone service, a LEC must allocate those costs between state and federal jurisdictions and among its various interstate and intrastate services. This process is complicated by the necessity to allocate specific pieces of plant and equipment to a particular service because a LEC's plant and equipment are utilized for different jurisdictional services, such as local telephone and interstate and intrastate access. This process is referred to as "separations" and is governed primarily by the FCC's rules and regulations. The underlying legal purpose of separations rules is to define how a carrier's expenses are allocated and recovered from federal and state jurisdictions. The FCC is considering whether to modify or eliminate the current separations process. This decision could indirectly increase or reduce earnings of carriers subject to separations rules by reallocating costs between the federal and state jurisdictions. However, maximum rates for regulated services and the amount of high-cost support are set by the FCC with respect to interstate services and by the RCA with respect to intrastate services.

Interstate End-User Rates

The deployment of the local telephone network from the switching facility to the customer is known as the "local loop" and is one of the most significant costs incurred by a LEC in providing telephone service. The FCC has established a rate structure that provides for the recovery of a portion of the cost of the local loop allocated to the interstate jurisdiction directly from the end user customer through the assessment of a subscriber line charge. The remaining portion of the local loop costs are recovered from interstate access charges to an interexchange carrier or, in some circumstances, from the federal Universal Service Fund. The FCC recently increased the cap for subscriber line charges assessed by the Company's LECs as part of a comprehensive review of its rules that also lowered carrier-paid interstate access charges and created explicit universal service support for interstate-allocated local loop costs.

As a result of the market and geographic conditions in rural areas, the costs of providing local loop and switching services are often higher than in urban areas. In the absence of an accommodation in the FCC rules to address this fact, a substantial portion of the costs of smaller LECs would remain allocated to the intrastate jurisdiction placing substantial pressure on such carriers to charge higher rates for intrastate services. Accordingly, the FCC provides for additional interstate cost recovery by eligible telecommunications carriers through the federal Universal Service Fund. The federal Universal Service Fund is available to carriers whose local loop costs are significantly above the national average as calculated pursuant to FCC rules. Recent FCC rulings have made this high-cost support available to a competitive carrier, on an averaged per line basis, for those lines serving customers switching to the competitive carrier. See "Promotion of Universal Service," below.

Interstate Access Rates

Interstate access rates are developed on the basis of a LEC's measurement of its interstate costs for the provision of access service to interexchange carriers divided by its projected demand for access service. The resulting rates are published in a company's interstate access tariff and filed with the FCC, at which time they are subject to challenge by third parties and to review by the FCC.

The FCC recognized that this rate making and tariff filing process may be administratively burdensome for small LECs. Accordingly, the FCC established NECA, in 1983 to, among other things, develop common interstate access service rates, terms and conditions. NECA develops interstate access rates on the basis of data that are provided individually by participating LECs and blended to yield average rates. These rates are intended to generate revenue equal to the aggregate costs plus a return on the investment of all of the participants. Currently, the authorized maximum rate of return used in setting interstate access rates is 11.25%.

On August24, 2000, GCI filed a formal complaint with the FCC under various provisions of the Communications Act (as amended), alleging that ACSA (formerly known as ATU) exceeded its federally authorized rates of return related to the 1997-1998 monitoring period. The principal issue raised in the complaint focuses on the proper jurisdictional recognition (federal versus state) of minutes of use associated with Internet service provider traffic. On January24, 2001, the FCC issued an order finding for GCI on the matter and ordering the Company to pay GCI approximately $2.7million plus interest. The Company has filed an appeal in the United States Court of Appeals for the District of Columbia Circuit and the FCC issued a stay concerning the obligation to pay GCI during the pendency of the appeal. The Company believes it has adhered to applicable legal requirements and is actively defending its position, but cannot predict the ultimate outcome of the proceedings. Amounts potentially refundable under the FCC's order are fully reserved at December31, 2001. GCI has also raised the same issues for the subsequent 1999-2000 monitoring period, the resolution of which will be determined by the outcome of the pending appeal of the FCC's decision concerning the 1997-1998 monitoring period.

Individual participating LECs are likely to have costs of providing service that are either higher or lower than the revenues generated by applying the overall NECA tariff rate. To rectify this result, the revenues generated by applying the NECA rates are pooled from all of the participating companies and redistributed on the basis of each individual company's costs. The result of this process not only eliminates the burden of individual tariff filing, but also produces a system in which small companies can share and spread risk. For example, if a smaller LEC filed its own tariff and subsequently suffered the loss of major customers that utilize interstate access service, the LEC could suffer significant under-recovery of its costs. In the NECA pool environment, the impact of this loss is reduced because it is spread over all of the pool participants.

NECA operates separate pools for traffic sensitive costs, which are primarily switching costs, and non-traffic sensitive costs, which are primarily loop costs. Companies are also free to develop and administer their own interstate access charges if the choose not to participate in the pools. ACS Group's rural LECs participate in both the traffic sensitive and non-traffic sensitive NECA pools. ACSA files its own traffic sensitive access tariffs with the FCC but participates in the NECA non-traffic sensitive pool.

On October26, 2000, the FCC granted the petition of a subsidiary of ACS Group, ACSA (previously filed under the name of ATU), seeking a waiver of certain federal access charge rules. The effect of the waiver is to permit ACSA pricing flexibility through the ability to offer term and volume discount pricing in connection with its switched access services. The FCC waiver was granted, in part, upon findings concerning the level of competition in the Anchorage marketplace, as demonstrated in the record of the proceedings.

End User Local Rates

The levels of rates charged to end-users for the provision of basic local service are generally subject to rate-of-return regulation administered by the RCA. Local rates have historically been set at a level that will allow recovery of embedded costs for local service divided by the number of services and customers. Competitive forces, however, may prevent local rates from being sufficient to recover costs for local service in the future. Recognized costs include an allowance for a rate of return on investment in plant used to provide local service. Rate cases are typically infrequent, carrier-initiated and require the carrier to meet substantial burdens of proof. The last APUC-authorized rates of return were 12.55% and 11.70% for ACSAK and ACSN, respectively. These rates were ordered in 1989. ACSA's last authorized rate of return was 8.97% for retail local exchange and 10.85% for intrastate access, ordered in 1991. ACSF was previously not regulated by the APUC and instead was regulated by the City of Fairbanks Public Utilities Board. As a condition of the acquisition of the City of Fairbanks Telephone Operation by a predecessor company, the APUC required that a general rate proceeding be initiated for ACSF by June 1999. This proceeding has been delayed and combined with revenue requirement studies filed by all ACS Group's affiliate LECs on July1, 2001. A hearing commenced on the revenue requirement for these LECs on March4, 2002. After a decision is rendered on the LEC's revenue requirements, the LECs will file cost of service and rate design studies and testimony and have a second hearing that will result in adjudicated rates. In the meantime, the RCA, on November15, 2001, approved an interim and refundable rate increase for ACSA of 24% for most services.

Competitive Local Exchange Regulations

The former APUC adopted regulations to govern competition in the local exchange marketplace. The transitional regulations provide for, among other things:

- initial classification of all ILECs, including the Company's rural properties and ACSA, as dominant carriers,
- symmetrical requirements that all carriers, both dominant and nondominant, offer all retail services for resale at wholesale rates,
- substantial dominant carrier pricing flexibility in competitive areas, under which carriers may reduce retail rates, offer new or repackaged services and implement special contracts for retail service upon 30days' notice. Only rate increases affecting existing services are subject to full cost support showings for LECs in areas with local competition and
- application limited initially to the ACSA market, and in February 2002, extended to the ACSF market. ACSAK and ACSN anticipate filing petitions with the RCA to extend application upon the commencement of facilities-based competition.

Intrastate Access Rates

In the past, the APUC had required all local companies in Alaska to pool their access costs and has set an annual statewide average price for access service. Each LEC charges interexchange carrier fees for originating or terminating long distance calls on its network based on the statewide average cost of access rather than on its individual costs of access. Access revenues are collected in a pool administered by the AECA and then redistributed to the LECs based on their actual costs. With the passage of the 1996 Act and increased competition in the local exchange market, the APUC began a process of reforming intrastate access charges.

Under recent revisions to the Alaska access system, LECs not yet subject to local competition continue to participate in the AECA pool. Participants in this pool recover their costs based on the embedded cost of services most recently authorized by the RCA. In the event of competitive entry into a dominant incumbent carrier's service area, these revisions also require the dominant LEC to exit the pool and initiate separate access charge tariffs. Dominant LECs subjected to competitive entry have the right to propose that their access charges be based on market rates. The RCA is currently advancing a proceeding to examine whether changes to the current annual process for establishing access charges are warranted. The RCA issued a new access charge reform Notice of Inquiry in early 2001 which will target further substantive changes in access charge derivation.

An additional consequence of this access reform is the continued removal of subsidies implicit in access pricing. The RCA, for example, has adopted regulations which limit switching support to local companies with access lines of 20,000 or less. This change has reduced the amount of AUSF which the Company's rural LECs receive and the resulting cost recovery shift will be addressed in the local service rate cases commenced in 2001.

The AUSF serves as a complement to the federal Universal Service Fund, but must meet federal statutory criteria concerning consistency with federal rules and regulations. Currently, the AUSF subsidizes a portion of higher cost carriers' switching costs, and the costs of lifeline service, which supports rates of low income customers. Recent proposals have targeted the AUSF as a source of funding for cost shifts that are likely to occur as a result of in-state access charge reform. It is unclear the degree to which the AUSF might be used to absorb cost shifts that result if federal universal service support is scaled back in the future.

The Telecommunications Act of 1996

Among other things, the 1996 Act was enacted to enhance competition without jeopardizing the availability of nationwide universal service at affordable rates. These two objectives have resulted in a complex set of rules intended to promote competitive entry in the provision of local telephone services except where entry would adversely affect the provision of universal service or the public interest.

Promotion of Local Service Competition and Rural Exemptions

The 1996 Act made competitive entry into the local telephone business more attractive to other carriers by removing barriers to competition. In order to promote competition, the 1996 Act established new interconnection rules generally requiring LECs to allow competing carriers to interconnect with their local networks. Congress recognized, however, that when the desire to promote competition conflicted with the ability of existing carriers to provide universal service to higher cost customers, LECs classified as "Rural Telephone Companies" should be exempted from interconnection requirements until the continuation of the exemption was no longer required by the public interest, as defined in the 1996 Act.

Under the 1996 Act, all LECs, including both ILECs and new competitive carriers, are required to:

- offer reasonable and nondiscriminatory resale of their telecommunications services,
- ensure that customers can keep their telephone numbers when changing carriers,
- ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing,
- provide access to telephone poles, ducts, conduits and rights of way, to the extent required by the Communications Act, and

- compensate competitors for the costs of transporting and terminating telecommunications traffic.

The 1996 Act also requires ILECs to:

- negotiate in good faith the terms and conditions of interconnection with any competitive carrier making a request for same,
- interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point,
- unbundle and provide nondiscriminatory access to UNEs, such as local loops, switches and transport facilities, at nondiscriminatory rates and on nondiscriminatory terms and conditions, unless such carriers are exempt as rural telephone companies,
- offer resale interconnection at wholesale rates,
- provide reasonable notice of changes in the information necessary for transmission and routing of services over the ILEC's facilities or in the information necessary for interoperability and
- provide for the physical collocation of equipment necessary for interconnection or access to UNEs at the premises of the ILEC, at rates, terms and conditions that are just, reasonable and nondiscriminatory.

In order to implement interconnection requirements, ILECs generally enter into negotiated interconnection arrangements with competing carriers. ILECs may also offer interconnection tariffs, available to all competitors.

Competitors are required to compensate a LEC for the cost of providing interconnection services. In the case of resale interconnection, the rules provide that the rates charged should be on a wholesale basis and reflect the current retail rates of the ILEC, excluding the portion of costs avoided by the ILEC. In the case of UNE interconnection, rates are based on costing methodologies that employ a forward-looking economic cost pricing methodology known as Total Element Long Run Incremental Cost ("TELRIC").

On January25, 1999, in ATT Corp. et al. v. Iowa Utilities Board et al. 525 U.S. 366 (1999), the U.S. Supreme Court affirmed the FCC's authority to develop national pricing guidelines, but the Supreme Court did not evaluate the substance of these rules. Some ILECs argued that the FCC improperly placed upon them the burden of proof in rural exemption proceedings and improperly defined the meaning of the term "not unduly economically burdensome" as used in the 1996 Act. In addition, some ILECs argued that the FCC's forward-looking TELRIC pricing methodology does not allow adequate compensation for the provision of UNEs.

On July18, 2000, in Iowa Utilities Board, et al. v. Federal Communications Commission 219 F.3d 744 (8th Cir. 2000) ("Iowa II"), the Eighth Circuit Court of Appeals ordered some of these FCC rules to be vacated on the grounds they were inconsistent with the 1996 Act. The Eighth Circuit said the FCC's rural exemption rules were contrary to the plain language of the 1996 Act. On March5, 2001, the ACS Group's rural LECs petitioned the FCC to adopt a new national rule consistent with the Iowa II decision, placing the burden of proof on CLECs in proceedings to terminate a company's rural exemption. On August27, 2001, the FCC denied the petition, explaining it was unnecessary as the FCC is already bound by the Iowa II decision. The ACS Group rural companies requested reconsideration of that decision on September26, 2001 and the matter is still pending.

As to the FCC's TELRIC pricing methodology, the Eighth Circuit in Iowa II upheld the use of a forward-looking economic model but vacated the FCC's rule requiring the pricing model to assume a hypothetical network based upon the most efficient technology currently available and the lowest cost network configuration.

On September22, 2000, the Eighth Circuit stayed that portion of its mandate which vacated the FCC hypothetical network rule (set out at 47 C.F.R. 51.505(b)(1)). This suspension was ordered by the Court to permit parties to the proceeding to seek review of its Iowa II decision by the U.S. Supreme Court.

On January22, 2001, the U.S. Supreme Court granted *certiorari* to review the Eighth Circuit's decision requiring the FCC to vacate its hypothetical network rule. The Eighth Circuit did not suspend other portions of its decision, including those portions vacating FCC rules addressing the "rural exemption" provisions of 47 U.S.C. 251(f)(1), and the U.S. Supreme Court declined to review the Eighth Circuit's rural exemption decision.

Subsequent to staying its mandate concerning the hypothetical network rule, on January8, 2001, the Eighth Circuit, in Southwestern Bell v. Missouri Public Service Commission, 2001 W.L. 13289 (8th Cir. 2001), vacated an interconnection agreement approved by the Missouri PSC on the grounds that it relied on the hypothetical network rule that the Eighth Circuit had previously found invalid. The Eighth Circuit, in that case, specifically held that despite staying its mandate in Iowa II, all interconnection agreements must be based on use of a pricing methodology that is consistent with the court's ruling in Iowa II.

The 1996 Act also specifies that resale and UNE rates are to be negotiated among the parties, or, if the parties fail to reach an agreement, arbitrated by the relevant state regulatory commission. Once the parties have come to agreement, the proposed rates are subject to final approval by the state regulatory commission.

In January 1997, ACSA's predecessor, ATU, entered into an interconnection agreement with GCI, which provides for resale and UNE interconnection, and with ATT Alascom, which provides for resale interconnection. Neither interconnection agreement contained a defined term or a termination date. Near the end of 1999, the Company notified GCI and ATT of its view that the interconnection agreements pertaining to ACSA had reached the end of a reasonable period of availability. In January of 2000, the Company filed a motion with the RCA to reopen the original GCI arbitration proceedings involving ACSA for the purpose of establishing an appropriate forward looking cost model and the re-pricing various interconnection services and UNEs in the Anchorage market. The RCA subsequently granted the essence of the Company's motion and has reopened the docket for such purposes. No action was taken in 2000. On October25, 2001, the RCA granted ACSA an interim UNE rate increase of $1.07, bringing the UNE rate up from $13.85 to $14.92. The Company expects the RCA to hold hearings and adjudicate final Anchorage UNE rates during 2002.

Certain of ACS Group's local operating utilities, ACSAK, ACSN, and ACSF, are defined as "rural telephone companies" under the 1996 Act. As rural telephone companies, they were granted rural exemptions from the requirements relating to both resale interconnection and UNE interconnection. The rural exemptions were to continue until the APUC or the RCA determined that interconnection was technically feasible, not unduly economically burdensome and consistent with the 1996 Act's universal service provisions.

On June30, 1999, the APUC issued an order terminating the rural exemptions of ACSN, ACSAK and ACSF. On October11, 1999, the RCA affirmed the APUC's order. As a result, these rural LECs are no longer exempt from the 1996 Act's interconnection requirements applicable to ILECs, and the Company's competitors immediately requested interconnection agreements.

Separately, on September1, 1999, ACS Group filed petitions with the RCA seeking suspension or modification of interconnection duties and addressing market structure reforms for the Fairbanks and Juneau-Douglas markets. In those petitions, the Company's rural LECs proposed tariffed terms and conditions, including pricing, for resale of their services at wholesale discounts, for certain UNEs, and for the interconnection of their facilities and those of CLECs in the Fairbanks and Juneau-Douglas markets, effective January1, 2000. Further, as part of that proposal, ACS Group also requested that the RCA permit its LECs to operate subject to competitive regulation and that the RCA remove or reduce other regulatory limitations in those markets, effective January1, 2001. Subsequently, on October26, 1999, the RCA dismissed the Company's petitions seeking to establish open competitive markets in Fairbanks and Juneau through tariffed interconnection terms and conditions.

On November10, 1999, the Company filed a formal appeal of the RCA's order terminating the rural exemptions in the Alaska Superior Court. On November12, 1999, the Company filed a parallel appeal of the RCA's order dismissing its petitions for tariffed interconnection in the Alaska Superior Court. The issues in the case were fully briefed during the year 2000. The court denied the Company's request to stay the RCA's order terminating the rural exemptions on February9, 2001 and subsequently upheld the RCA's orders on November26, 2001. The Company filed an appeal with the Alaska Supreme Court on December26, 2001. Although ACS Group believes that the appeals are well founded, it cannot predict the timing and outcome of this litigation. The Company believes that the RCA's order is inconsistent with the pronouncements of the Eighth Circuit and that tariffing terms and conditions for interconnection will promote more open competitive markets and thus eventually promote regulatory flexibility and/or reduced regulation.

Subsequent to terminating the rural exemptions for the Fairbanks, Juneau-Douglas and ACSN's Glacier State study area markets, the Company entered into unsuccessful negotiations for interconnection agreements with GCI. Interconnection issues, including the pricing for UNEs, were subject to an RCA arbitration during the year 2000. On September5, 2000, the RCA issued orders largely ratifying the findings of the arbiter in these interconnection arbitration proceedings involving the Company and GCI. On September25, 2000, the Company filed a protective appeal in the State Superior Court and a complaint in the Federal District Court for the District of Alaska, alleging various errors in the RCA orders. On October5, 2000, the RCA issued final orders affirming the interconnection agreements arbitrated in these proceedings. Although ACS Group believes that its appeal and complaint are well founded, it cannot predict the timing and outcome of this litigation. The Company has and will continue to vigorously defend its proposed cost models and interconnection charges but it cannot be certain that it will be able to charge rates that provide fair compensation for providing UNEs and/or schedule discounted resale services.

In 1999, the Company also received requests for interconnection from Alaska Fiber Star, L.L.C. ("AFS"). In 2000, the Company executed interconnection agreements with AFS with terms tied to the Company's interconnection agreements with GCI. The Company expects other interconnection requests in the future as evidenced by the Anchorage interconnection request received from TelAlaska Long Distance, Inc. ("TALD") on October17, 2001. The RCA ordered ACSA to provide TALD with the terms and conditions set forth in the AFS agreement in February 2002.

The rural exemption previously enjoyed by ACS Group's ACSF, ACSAK and ACSN have been lifted by the RCA, with the exception of the Company's Sitka study area within ACSN. The loss of the rural exemptions, absent compensating measures, such as rate increases or market structure reforms, including the replacement of implicit subsidies by explicit support mechanisms, rate deaveraging, or regulatory flexibility, could adversely affect the Company's operating results.

Promotion of Universal Service

While the 1996 Act promoted Congress' policy of ensuring that affordable service is provided to consumers universally in rural, high-cost areas of the country, the 1996 Act altered the framework for providing universal service by:

•providing for the identification of those services eligible for universal service support,

•requiring the FCC to make implicit subsidies explicit,

•expanding the types of communications carriers required to pay universal service contributions and

•allowing CLECs to be eligible for funding.

These and other provisions were intended to make provision of universal service support compatible with a competitive market.

Pursuant to the 1996 Act, federal Universal Service Fund payments are only available to carriers that are designated as eligible telecommunications carriers by a state public utilities commission. In areas served by rural LECs, the 1996 Act provides that a state public utilities commission may designate more than one eligible telecommunications carrier, in addition to the ILEC, only after determining that the designation of an additional eligible telecommunications carrier is consistent with the public interest. As a result, an incumbent rural LEC has an opportunity to maintain its status as the sole recipient of federal Universal Service Fund payments in its service area, even if it is subsequently subjected to competition. The RCA, however, has granted GCI's request that it be designated an eligible telecommunications carrier in Fairbanks, Juneau, and Fort Wainwright, all of which are currently served by the Company's subsidiaries. The addition of a second eligible telecommunications carrier in the service areas of ACS Group's properties could have the effect of reducing the amount of funds available from the federal Universal Service Fund and could materially adversely affect the Company's ability to achieve a reasonable rate of return on the capital invested in its network.

The FCC has adopted new universal service rules for non-rural LECs, such as ACSA, effective January1, 2000. These rules, like those previously in effect, provide no federal universal service fund support to ACSA.

Rules for rural telephone companies are still being developed by the FCC, in consultation with a Federal-State Joint Board on Universal Service ("Joint Board"). The RCA Chairman is a member of this Joint Board, and the Company's remaining LEC subsidiaries are rural telephone companies as defined in the 1996 Act. On May23, 2001, after considering recommendations from the Joint Board and a Rural Task Force formed to study universal service issues, the FCC issued rules that, for an interim period of five years, will: (1)increase the overall funding of the universal service support fund for high-cost rural carriers; (2) permit disaggregation of universal service support so that greater amounts of support would be targeted to the highest-cost areas the rural carrier serves; and (3)create additional support for significant investments in rural telecommunications plant and equipment.

Because the operating subsidiary companies of ACS Group provide interstate and international services, they are required to contribute to the federal Universal Service Fund a percentage of their revenue earned from their interstate and international services. Although the Company's rural LECs receive subsidies from the federal Universal Service Fund, they cannot be certain of how, in the future, the Company's contributions to the fund will compare to the subsidies they receive from the fund.

FCC Regulation of Wireless Services

The FCC regulates the licensing, construction, operation, acquisition and sale of personal communications services and cellular systems in the United States. All cellular and personal communications services licenses have a 10-year term, at the end of which they must be renewed. Licenses may be revoked for cause, and license renewal applications may be denied if the FCC determines that renewal would not serve the public interest. In addition, all personal communications services licensees must satisfy certain coverage requirements. Licensees that fail to meet the coverage requirements may be subject to forfeiture of the license.

The FCC restricts the amount of wireless spectrum that a single entity may hold in a market. Currently, the FCC's rules prohibit an entity from holding more than 55 MHz of spectrum in any particular market, but this rule will sunset on January1, 2003, at which time there will be no upper limit on the amount of commercial mobile radio service (CMRS)spectrum a single entity may hold.

The Communications Act preempts state and local regulation of the entry of, or the rates charged by, any provider of commercial mobile radio service which includes personal communications services and cellular services and the FCC does not regulate such rates. The FCC imposes, however, a variety of additional regulatory requirements on commercial mobile radio service operators. For example, CMRS operators must be able to transmit 911 calls from any qualified handset without credit check or validation, are required to provide the location of the 911 caller, within an increasingly narrow geographic tolerance over time, and in the future, will be required to provide 911 service for individuals with speech and hearing disabilities.

FCC Regulation of Interstate Long Distance Services

The Company's interstate long distance services are currently not subject to rate regulation by the FCC, and the Company is not required to obtain FCC authorization for the installation, acquisition or replacement of its domestic interexchange network facilities. However, the Company must comply with the requirements of common carriage under the Communications Act. ACSLD is subject to the general requirement that its charges and terms for its telecommunications services be "just and reasonable" and that it not make any "unjust or unreasonable discrimination" in its charges or terms, as well as to a number of other requirements of the Communications Act and the FCC's rules. The FCC has jurisdiction to act upon complaints against any common carrier for failure to comply with its statutory obligations, and it has recently levied substantial fines on carriers that have engaged in "slamming," which is the industry term for unauthorized switching of a customer's telecommunications service provider.

In 1996, the FCC issued an order that required nondominant interexchange carriers, like ACSLD, to cease filing tariffs for its domestic interexchange services. The order required mandatory detariffing and gave carriers nine months to withdraw federal tariffs and move into contractual relationships with their customers. This order subsequently was upheld by the United States Court of Appeals for the District of Columbia Circuit. As a result, all interstate interexchange carriers, including ACSLD, were required to detariff contract-type interstate, interexchange services by January31, 2001, and were required to detariff interstate consumer long distance services by April30, 2001. These rules also require ACSLD to post the rates, terms, and conditions of its service on its Internet web site, and engage in other public disclosure activities. The FCC has recently adopted rules that require nondominant international carriers to detariff international services. ACSLD timely complied with these FCC requirements.

FCC Policy on Internet Services

The 1996 Act establishes a distinction between telecommunications services, which are regulated by the FCC, and information services, which remain unregulated. ACS Group's Internet services are considered information services and are not regulated by the FCC. Because the regulatory boundaries in this area are somewhat unclear and subject to dispute, however, the FCC could seek to characterize some of the Company's information services as "telecommunications services." If that happens, those services would become subject to FCC regulations. The impact of a reclassification of ACS Group's Internet services is difficult to predict.

In June 2000, the United States Court of Appeals for the Ninth Circuit held that ATT's high-speed Internet access service, delivered using cable television facilities, constituted both a "telecommunications" and an "information" service. In response to this holding, in September 2000, the FCC launched a proceeding to examine whether providers of high-speed Internet access over such cable facilities should be required to provide "open access" to their facilities to competing Internet service providers on a nondiscriminatory basis. If the FCC implements such a requirement, the Company may be able to supplement its own high-speed Internet access offerings by obtaining access to GCI's high-speed Internet access cable lines for its own Internet service provider.

Other Regulatory Proceedings

In addition to the foregoing matters, a number of other FCC, state and judicial proceedings are currently pending or may be initiated in the future which could materially affect the Company's business. Some of these proceedings include:

- The 1996 Act placed statutory restrictions on the ability of telecommunications carriers to use and disclose certain types of customer information in marketing different types of services. The U.S. Court of Appeals for the Tenth Circuit has held that the FCC's rule limiting the ILEC's ability to do so without obtaining affirmative consent from the customer was an unconstitutional abridgment of the carrier's freedom of speech. In June 2000, the United States Supreme Court denied a petition to review the Tenth Circuit's decision. On September7, 2001, the FCC released an order clarifying the requirements for a carrier to obtain customer consent to the use of such information, including the use of procedures under which the customer must affirmatively request protection of this information.

- The FCC has adopted new rules designed to make it easier for customers to understand the bills of telecommunications carriers. These new rules, among other things, establish certain requirements regarding the formatting of bills and the information that must be included on bills. In response to several petitions for reconsideration, in March 2000, the FCC largely reaffirmed its rules.
- The FCC has adopted an order that requires telecommunications service providers to make their services accessible to individuals with disabilities, if readily achievable. It is unclear the effect that this order will have on ACS Group’s businesses.
- The FCC has ordered telecommunications service providers to provide law enforcement personnel with a sufficient number of ports and technical assistance in connection with wiretaps. In August 2000, the United States Court of Appeals for the District of Columbia Circuit vacated portions of these FCC rules and remanded the matter to the FCC for further consideration. The FCC has not yet taken action on remand. The Company cannot predict its costs of complying with these rules at this time.
- The USA Patriot Act, signed into law in late 2001, imposes additional duties on the Company to make information available to law enforcement personnel.

The foregoing is not an exhaustive list of proceedings that could materially affect ACS Group’s business. The Company cannot predict the outcome of these or any other proceeding before the FCC, the RCA or the courts.

Environmental Regulations

ACS Group’s operations are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to, hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner or operator of property and a generator of hazardous wastes, the Company could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. The Company believes, however, that its operations are in substantial compliance with applicable environmental laws and regulations.

Many of ACS Group’s properties formerly contained, or currently contain, underground and above ground storage tanks used for the storage of fuel or wastes. Some of these tanks have leaked. The Company believes that known contamination caused by these leaks has been, or is being, investigated or remediated. The Company cannot be sure, however, that it has discovered all contamination or that the regulatory authorities will not request additional remediation at sites that have previously undergone remediation.

ACS Group’s cellular and television operations are also subject to regulations and guidelines that impose a variety of operational requirements relating to radio frequency emissions. The potential connection between radio frequency emissions and negative health effects, including some forms of cancer, has been the subject of substantial study by the scientific community in recent years. To date, the results of these studies have been inconclusive. Although the Company has not been named in any lawsuits alleging damages from radio frequency emissions, it is possible it could be in the future, particularly if scientific studies conclusively determine that radio frequency emissions are harmful.

Item2. Properties

At December31, 2001, ACS Group’s telecommunications network includes over 640 sheath miles of fiber optic cable, over 189 switching facilities and a statewide cellular network. In addition, the Company purchased fiber capacity in May of 1999 and in January of 2001 for high-speed links within Alaska and for termination of traffic in the lower 49 states. The Company plans to continue enhancing its network to meet customer demand for increased bandwidth and advanced services. See “Business — Network Facilities.”

Local Telephone. ACS Group’s primary local telephone properties consist of 189 switching facilities. The Company owns most of its administrative and maintenance facilities, customer service center, central office and remote switching platforms and transport and distribution network facilities. The Company’s local telephone assets are located in Alaska.

ACS Group’s transport and distribution network facilities include a fiber optic backbone and copper wire distribution facilities that connect customers to remote switch locations or to the central office and to points of presence or interconnection with interexchange carriers. These facilities are located on land pursuant to permits, easements, right of ways or other agreements.

Cellular. ACS Group has three cellular switches, 94 cell sites and four repeaters covering substantially all major population centers and highway corridors in Alaska plus one analog switch and cell site covering Barrow, Alaska. In most cases, the Company leases the land on which these sites are located.

Internet. ACS Group has point of presence facilities in over 25 communities serving the majority of Alaska’s populated areas. These communities are linked over both owned and leased facilities to the Internet at Seattle, Washington.

Interexchange . ACS Group is a facilities based interexchange carrier . The Company has invested in fiber optic capacity through an indefeasible right of use that provides bandwidth between the Company’s Anchorage, Fairbanks, and Juneau locations and Seattle, Washington . The Company also leases transport facilities and has arrangements with other interexchange carriers to terminate traffic in the lower 49 states.

Substantially all of the Company’s assets (including those of its subsidiaries) are pledged as collateral for its senior obligations. See Note 7 “Long-term Obligations” to the Alaska Communications Systems Group, Inc. Consolidated Financial Statements for further discussion.

Item3. Legal Proceedings

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

Some of the legal proceedings involving regulatory matters are described under “Business — Regulation.” In addition, a class action lawsuit was filed against the Company on March14, 2001 . The litigation alleges various contract and tort claims concerning the Company’s decision to terminate its Infinite Minutes long distance plan . Although the Company believes this suit is without merit and intends to vigorously defend its position, it is impossible to determine at this time the actual number of plaintiffs or the claims that will actually continue to be in dispute.

Item4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2001.

PART II

Item5. Market for Registrant's Common Equity and Related Stockholder Matters

ACS Group's common stock, $.01 par value, was first listed on the NASDAQ National Market on November18, 1999 under the symbol "ALSK." Prior to November18, 1999, there was no public market for ACS Group's Common Stock . The following table sets forth quarterly market price ranges for ACS Group's Common Stock in 2001 and 2000:

2001 Quarters	High	Low
1st	$ 7.38	$ 4.53
2nd	$ 9.81	$ 4.06
3rd	$ 9.26	$ 6.50
4th	$ 8.22	$ 6.50

2000 Quarters	High	Low
1st	$ 16.75	$ 12.06
2nd	$ 14.50	$ 9.88
3rd	$ 11.00	$ 5.44
4th	$ 9.00	$ 4.63

The approximate number of holders of record of Common Stock as of February 22, 2002 was 39. Management believes that actual holders exceed 1,500, including those held in the broker/dealers name on behalf of their clients.

Dividends

ACS Group has never declared or paid any cash dividends on its common stock. The Company intends to retain its earnings, if any, to finance the development and expansion of its business, and, therefore, it does not anticipate paying any cash dividends in the foreseeable future. Moreover, the Company's ability to declare and pay cash dividends on its common stock is restricted by covenants in its bank credit agreement and in the indentures governing its senior discount debentures and senior subordinated notes.

Stock Offerings

During 1999 the Company issued 21,829,273 shares of stock under Rule144 under the Securities Act of 1933. On May14, 1999, the Company sold 20,082,871 shares of common stock to Fox Paine Capital, its affiliates and members of management for proceeds of $121.2million, which was used, together with proceeds of debt issued, to acquire the Predecessor Entities . On May14, 1999, the Company also issued detachable warrants which were convertible into 828,261 shares of common stock at an exercise price of $.01 per share to a lender in connection with the issuance of $25.0million in senior discount debentures which was also used to fund the acquisitions. The warrants were converted in a roll-up transaction into 827,670 shares of stock on November18, 1999 in connection with the Company's initial public offering. Subsequent to the acquisitions and prior to its initial public offering, the Company also issued 1,746,402 shares of common stock to certain members of management and Cook Inlet Region, Inc. for proceeds of $10.4million which was used to fund ACS Group's capital expenditures.

During 1999 ACS Group offered to the public 10,000,000 shares of its common stock . The effective date of the Company's registration statement (File #333-88753) filed on FormS-1 under the Securities Act of 1933, as amended, relating to ACS Group's initial public offering of common stock was November 17, 1999. Goldman, Sachs Co., Donaldson, Lufkin and Jenrette, CIBC World Markets, Deutsche Banc Alex. Brown, and Hambrecht Quist led the underwriting syndicate. The offering commenced on November18, 1999 and closed on November 23, 1999, resulting in aggregate gross

proceeds of $140.0million. ACS Group's net proceeds from the offering were $127.9million. Approximately $9.1million of offering expenses was attributable to underwriting discounts.

Proceeds of the offering were fully expended as of January12, 2001. The proceeds were applied as follows:

- $10.6million of the proceeds was used to retire 35% of the Company's senior discount debentures, including a $1.3million premium for early retirement,
- $25.0million was used to repay outstanding obligations under the Company's senior revolving credit facility and
- $92.3million was used to fund capital expenditures and operations.

On December3, 1999 the Company registered 6,021,489 shares under various employee and non-employee stock option plans and an employee stock purchase plan (File # 333-92091) on FormS-8 under the Securities Act of 1933. As of March18, 2002, 3,655,817 option grants are outstanding under the employee stock option plans and 435,838 options have been exercised and converted into shares of the Company's common stock. As of March18, 2002, 51,542 shares have been awarded under the non-employee stock plan, of which 31,719 were elected to be deferred. As of March18, 2002, 217,569 shares have been issued under the employee stock purchase plan. See Note 13, "Stock Incentive Plans" to the Alaska Communications Systems Group, Inc. Consolidated Financial Statements for further discussion.

Item6. Selected Financial Data

SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth selected historical consolidated financial data of ACS Group. Consider the following points in connection with the table:

- The selected historical consolidated operating data for the year ended December31, 1999 represents the consolidated results of ACS Group from May15, 1999 through December31, 1999. Certain reclassifications have been made to the 1999 consolidated operations to conform to the current presentation of ACS Group's consolidated operations.
- "EBITDA" is net income before interest expense, taxes on income, depreciation and amortization and extraordinary items. EBITDA is not intended to represent cash flow from operations as defined under accounting principles generally accepted in the United States of America and should not be considered as an alternative to net income as an indicator of the Company's operating performance or cash flows. EBITDA is presented because management believes it is a useful financial performance measure for comparing companies in the telecommunications industry in terms of operating performance and ability to satisfy debt service, capital expenditures and working capital requirements.
- "EBITDA margin" is EBITDA divided by total operating revenues.

The selected historical consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements of ACS Group and the related notes. See Index to Financial Statements and Schedule which appears on page F-1 hereof.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC. AND SUBSIDIARIES
For the Years Ended December31, 2001, 2000 and 1999
(dollars in thousands, except per share amounts)

	2001	2000	1999
Operating Data:			
Operating revenues:			
Local telephone	$ 221,411	$ 222,268	$ 142,255
Cellular	40,398	39,490	24,836
Directory	33,870	29,156	16,896
Internet	13,724	9,170	2,853
Interexchange	21,316	11,778	5,946
Other	960	1,131	359
Total operating revenues	331,679	312,993	193,145
Operating expenses:			
Local telephone	120,659	130,875	98,663
Cellular	24,153	24,641	15,494
Directory	14,490	14,001	7,603
Internet	15,677	11,785	5,121
Interexchange	29,509	19,749	9,185
Other	1,852	1,458	486
Unusual charges	—	5,288	—
Depreciation and amortization	79,811	72,265	40,306
Total operating expenses	286,151	280,062	176,858
Operating income	45,528	32,931	16,287
Other income and expense:			
Interest expense	(60,283)	(64,710)	(39,624)
Interest income and other	3,252	6,680	1,023
Equity in income (loss)of investments	70	(303)	(198)
Total other income (expense)	(56,961)	(58,333)	(38,799)
Loss before income taxes and extraordinary item	(11,433)	(25,402)	(22,512)
Income tax benefit	195	197	301
Loss from continuing operations	(11,238)	(25,205)	(22,211)
Extraordinary item — early extinguishment of debt	—	—	(3,267)
Net loss	$ (11,238)	$ (25,205)	$ (25,478)
Loss per share — basic and diluted:			
Loss from continuing operations	$ (0.36)	$ (0.77)	$ (0.95)
Extraordinary item	—	—	(0.14)
Net loss	$ (0.36)	$ (0.77)	$ (1.09)
Weighted average shares outstanding	31,523	32,654	23,396
Other Financial Data:			
Cash provided by operating activities	$ 74,979	$ 48,194	$ 44,033
Cash used by investing activities	(94,483)	(74,699)	(774,653)
Cash provided (used)by financing activities	(1,380)	(13,593)	832,614

EBITDA	128,661	111,573	57,418
EBITDA margin	38.8 %	35.6 %	29.7 %
Capital expenditures	(87,582)	(72,253)	(74,828)
Other Data (end of period)			
Access lines in service	332,923	329,460	325,608
Cellular subscribers	80,120	75,933	73,068
Cellular penetration	17.1 %	16.4 %	15.9 %
Balance Sheet Data (end of period)			
Total assets	$ 901,514	$ 908,285	$ 934,443
Long-term debt including current portion	611,250	614,004	612,756
Stockholders' equity	191,687	215,380	247,968

SELECTED HISTORICAL COMBINED FINANCIAL DATA— CENTURYTEL'S ALASKA PROPERTIES

The following table sets forth selected historical combined financial data of CenturyTel's Alaska Properties. Consider the following points in connection with the table:

- The Company derived the selected historical combined financial data for each of the two years in the period ended December31, 1998 and as of December31, 1997 and 1998 from the audited combined financial statements and the related notes of CenturyTel's Alaska Properties.
- CenturyTel acquired its Alaska properties on December1, 1997 as part of its acquisition of Pacific Telecom. This acquisition was accounted for as a purchase, resulting in a pushdown of $248million of goodwill to CenturyTel's Alaska Properties.
- The selected historical combined financial data for the 11-month period ended November30, 1997 has been presented on Pacific Telecom's basis of accounting, while the selected historical combined financial data as of December31, 1998 and 1997, the one-month period ended December31, 1997 and the year ended December 31, 1998 have been presented on CenturyTel's basis of accounting.
- The selected historical combined financial data of CenturyTel's Alaska Properties include the results of the City of Fairbanks Telephone Operation from October6, 1997, the date of its acquisition. This acquisition was accounted for as a purchase.
- On December31, 1997, the cellular operations in Fairbanks were sold to ATU. The Fairbanks cellular property had 5,497 subscribers at the time of the sale.

	CenturyTel's Alaska Properties		
		Century Telephone Enterprises, Inc.	Pacific Telecom
	Year Ended 1998	Dec. 1, 1997 to Dec 31, 1997	Jan. 1, 1997 to Nov. 30, 1997
	(Dollars in Thousands)		
Operating Data:			
Operating revenues:			
Local telephone	$ 121,933	$ 10,255	$ 79,330
Cellular	2,576	181	5,120
Total operating revenues	124,509	10,436	84,450
Operating expenses:			
Local telephone	72,008	6,434	42,404
Cellular	2,128	147	3,082
Depreciation and amortization	30,459	2,466	15,823
Total operating expenses	104,595	9,047	61,309
Operating income	19,914	1,389	23,141
Interest expense, net	(1,405)	(171)	(2,169)
Other income (expense)	356	53	(298)
Income before income taxes	18,865	1,271	20,674
Income taxes	9,218	736	7,746
Net income	$ 9,647	$ 535	$ 12,928
Other Financial Data:			
Cash provided by operating activities	$ 38,291	$ 5,588	$ 21,213
Cash used by investing activities	(26,664)	(3,279)	(13,554)
Cash used by financing activities	(6,770)	(2,563)	(8,209)
EBITDA	50,729	3,908	38,666
EBITDA margin	40.7 %	37.4 %	45.8 %
Capital expenditures	26,799	1,825	14,575
Other Data (end of period):			
Access lines in service	131,858	124,869	—
Cellular subscribers	2,945	2,096	—
Cellular penetration	5.2 %	3.7 %	—
Balance Sheet Data (end of period):			
Total assets	$ 472,660	$ 459,175	—
Long-term debt including current portion	43,408	42,950	—
Stockholders' equity	400,962	391,314	—

SELECTED HISTORICAL FINANCIAL DATA— ATU

The following table sets forth selected historical financial data of ATU. Consider the following points in connection with the table:

- ACS Group derived the selected historical financial data for each of the two years in the period ended December31, 1998 and as of December31, 1997 and 1998 from the audited financial statements and the related notes of ATU.
- “Other income (expense)” includes the equity in earnings (losses)from minority investments.
- During the periods presented, ATU was a public utility of the Municipality of Anchorage and was exempt from federal and state taxes on income.
- Net cash data includes information from ATU financial statements prepared in accordance with governmental accounting standards. Under Governmental Accounting Standards Board (GASB) Statement No.20, *Accounting And Financial Reporting For Proprietary Funds And Other Governmental Entities That Use Proprietary Fund Accounting,* ATU applied all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB)Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins, unless they conflict with or contradict GASB pronouncements. ATU followed the provisions of GASB Statement No.27 to account for pension and post-retirement costs, which differs from FASB Statement No.87 and FASB Statement No.106 regarding the methodology for calculation of such costs and how they are recorded and disclosed. It is not practicable to quantify the differences between the statements without an additional complete actuarial valuation because the actuarial calculations for FASB Statement No.87 purposes require different assumptions and represent different measurement basis. Other differences between GASB and FASB have been evaluated and have been determined not to be material for the periods presented.

	ATU	
	1998	1997
	(Dollars in Thousands)	
Operating Data:		
Operating revenues:		
Local telephone	$ 121,057	$ 116,555
Cellular	29,225	21,845
Long distance	6,815	1,541
Total operating revenues	157,097	139,941
Operating expenses:		
Local telephone	74,240	74,994
Cellular	19,961	14,455
Long distance	10,395	4,644
Depreciation and amortization	29,608	26,839
Total operating expenses	134,204	120,932
Operating income	22,893	19,009
Interest expense, net	(6,427)	(6,768)
Other income (expense)	(2,896)	(123)
Income before income taxes	13,570	12,118
Income taxes	—	—
Net income	$ 13,570	$ 12,118
Other Financial Data:		
Cash provided by operating activities	$ 53,207	$ 46,641
Cash used by investing activities	(5,659)	(3,665)
Cash used by financing activities	(33,580)	(46,916)
EBITDA	49,605	45,725
EBITDA margin	31.6 %	32.7 %
Capital expenditures	29,644	35,187
Other Data (end of period):		
Access lines in service	168,536	158,486
Cellular subscribers	63,627	53,035
Cellular penetration	15.8 %	13.3 %
Balance Sheet Data (end of period):		
Total assets	$ 350,245	$ 323,124
Long-term debt including current portion	172,521	151,945
Stockholders' equity	141,884	136,414

Item7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements and Analysts' Reports

This Form10-K and future filings by the Company on Forms 10-K, 10-Q and 8-K and future oral and written statements by the Company and its management may include, certain "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995, including (without limitation) statements with respect to anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, pricing plans, acquisition and divestitive opportunities, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation. Words such as "aims," "anticipates," "believes," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "should," and "will," and variations of these words and similar expressions, are intended to identify these forward-looking statements. These forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections . Forward-looking statements by the Company and its management are based on estimates, projections, beliefs and assumptions of management and are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information, or otherwise.

Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by the Company and its management as a result of a number of important factors. Examples of these factors include (without limitation) rapid technological developments and changes in the telecommunications industries; ongoing deregulation (and the resulting likelihood of significantly increased price and product/service competition) in the telecommunications industry as a result of the 1996 Act and other similar federal and state legislation and the federal and state rules and regulations enacted pursuant to that legislation; regulatory limitations on the Company's ability to change its pricing for communications services; the possible future unavailability of SFAS No.71 to the Company's wireline subsidiaries; and possible changes in the demand for the Company's products and services. In addition to these factors, actual future performance, outcomes and results may differ materially because of other, more general, factors including (without limitation) changes in general industry and market conditions and growth rates; changes in interest rates or other general national, regional or local economic conditions; governmental and public policy changes; changes in accounting policies or practices adopted voluntarily or as required by accounting principles generally accepted in the United States of America; and the continued availability of financing in the amounts, at the terms and on the conditions necessary to support the Company's future business.

Investors should also be aware that while ACS Group does, at various times, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential information . Accordingly, investors should not assume that ACS Group agrees with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of ACS Group.

Introduction

This discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information included elsewhere in this Form10-K.

Alaska Communications Systems Group

ACS Group was formed in 1998 by Fox Paine Company, members of the former senior management team of Pacific Telecom, Inc., and other experienced telecommunications industry executives. In May 1999, the Company acquired CenturyTel's Alaska Properties and Anchorage Telephone Utility or ATU . CenturyTel's Alaska Properties were the incumbent provider of local telephone services in Juneau, Fairbanks and more than 70 rural communities in Alaska and provided Internet services to customers statewide. CenturyTel's Alaska Properties included ACS of Fairbanks, Inc., ACS of Alaska, Inc., and ACS of the Northland, Inc. ATU was the largest LEC in Alaska and provided local telephone and long distance services primarily in Anchorage and cellular services statewide. ATU provided long distance services through ATU Long Distance, Inc. and cellular services through MACtel, Inc . These companies are now known as ACS of Anchorage, Inc., ACS Long Distance, Inc. and ACS Wireless, Inc. On October 29, 1999, the Company changed its name from ALEC Holdings, Inc. to Alaska Communications Systems Group, Inc.

The consolidated financial statements for ACS Group represent the operations principally of the following entities:

- Alaska Communications Systems Group, Inc.
- Alaska Communications Systems Holdings, Inc.
- ACS of Alaska, Inc.
- ACS of the Northland, Inc.
- ACS of Fairbanks, Inc.
- ACS of Anchorage, Inc.
- ACS Wireless, Inc.
- ACS Long Distance, Inc.
- ACS Television, L.L.C.
- ACS Internet, Inc.
- ACS InfoSource, Inc.

Prior to the consummation of the acquisitions of CenturyTel's Alaska Properties and ATU in May 1999, ACS Group had no operations.

Today, ACS Group generates revenue primarily through:

- the provision of local telephone services, including:

    - basic local service to retail customers within ACS Group's service areas,
    - wholesale service to CLECs,
    - network access services to interexchange carriers for origination and termination of interstate and intrastate long distance phone calls,
    - enhanced services,
    - ancillary services, such as BC, and • universal service payments;

- the provision of cellular services;

- the provision of directory advertising;

- the provision of Internet services; and
- the provision of interexchange network long-distance and data services.

ACS Group also recognizes its proportionate share of the net income or loss of its minority-owned investments.

Within the telecommunications industry, LECs have historically enjoyed stable revenue and cash flow from local exchange operations resulting from the need for basic telecommunications services, the highly regulated nature of the telecommunications industry and, in the case of rural LECs, the underlying cost recovery settlement and support mechanisms applicable to local exchange operations. Basic local service is generally provided at a flat monthly rate and allows the user to place unlimited calls within a defined local calling area. Access revenues are generated by providing interexchange carriers access to the LEC's local network and its customers. Universal service revenues are a subsidy paid to rural LECs to support the high cost of providing service in rural markets. Other service revenue is generated from ancillary services, enhanced services and Internet access.

Changes in revenue are largely attributable to changes in the number of access lines, local service rates and minutes of use. Other factors can also impact revenue, including:

- intrastate and interstate revenue settlement methodologies,
- authorized rates of return for regulated services,
- whether an access line is used by a business or residential subscriber,
- intrastate and interstate calling patterns,
- customers' selection of various local rate plan options,
- selection of enhanced calling services, such as voice mail, or other packaged products, such as cellular and Internet and
- other subscriber usage characteristics.

LECs have three basic tiers of customers:

- business and residential customers located in their local service areas that pay for local phone service,
- interexchange carriers that pay for access to long distance calling customers located within its local service areas and
- CLEC's that pay for wholesale access to the Company's network in order to provide competitive local service on either a wholesale or UNE basis as prescribed under the 1996 Act.

LECs provide access service to numerous interexchange carriers and may also bill and collect long distance charges from interexchange carrier customers on behalf of the interexchange carriers. The amount of access charge revenue associated with a particular interexchange carrier varies depending upon long distance calling patterns and the relative market share of each long distance carrier.

ACS Group's local service rates for end users are authorized by the RCA. Authorized rates are set by the FCC and the RCA for interstate and intrastate access charges, respectively, and may change from time to time.

Critical Accounting Policies and Accounting Estimates

Management is responsible for the financial statements presented elsewhere in this 10-K and has evaluated the accounting policies used in their preparation. Management believes these policies to be reasonable and appropriate. The Company's significant accounting policies are described in Note 1 in the Notes to the Consolidated Financial Statements elsewhere in this 10-K. The following discussion identifies those accounting policies that management believes are critical in the preparation of the Company's financial statements, the judgements and uncertainties affecting the application of those policies, and the possibility that materially different amounts would be reported under different conditions or using different assumptions.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting the financial statements are those related to the realizable value of accounts receivable, long-lived assets, income taxes and network access revenue reserves. Actual results may differ from those estimates.

Access revenues are recognized when earned. The Company participates in toll revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the RCA within the intrastate jurisdiction and the FCC within the interstate jurisdiction. Much of the interstate access service revenue is initially recorded based on estimates. These estimates are derived from interim financial statements, available separations studies and the most recent information available about achieved rates of return. These estimates are subject to adjustment in future accounting periods as refined operational information becomes available. To the extent that disputes arise over revenue settlements, the Company's policy is to defer revenue collected until settlement methodologies are resolved and finalized. At December31, 2001, the Company had recorded liabilities of $31.7million related to potentially refundable access revenue, of which $18.0million relates to a pending complaint of alleged over-earnings. If the Company thought it was more likely than not that it will prevail on this complaint, its previously reported net losses for the three years ended December31, 2001 would decrease by up to $18.0million and its accumulated deficit would decrease from $61.9million to $43.9million.

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes reflect the temporary differences between the financial and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is more likely than not that such deferred tax assets will not be realized. If the Company thought it was more likely than not that all of its deferred tax assets would be realized in future periods, the Company's previously reported net losses for the three years ended December31, 2001 would decrease by up to $21.8million and its accumulated deficit would decrease from $61.9million to $38.2million.

The local telephone exchange operations of the Company account for costs in accordance with the accounting principles for regulated enterprises prescribed by Statements of Financial Accounting Standards ("SFAS") No.71, *Accounting for the Effects of Certain Types of Regulation.* This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, under SFAS No.71, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Depreciable lives of plant and equipment approximate their estimated economic lives. Unregulated revenues and costs incurred by the local telephone exchange operations and non-regulated operations of the Company are not accounted for under SFAS No.71 principles. Management believes that the effect of adopting SFAS No.101, *Regulated Enterprises — Accounting for the Discontinuation of Application of FASB Statement No.71,* would not be material to the Company's financial position, results of operations or cash flows.

Results of Operations

The following unaudited table summarizes ACS Group's operations for the years ended December31, 2001, 2000 and 1999. For the year ended December31, 1999, the summary information represents the historical combined operating results of the Predecessor Entities — prior to their ownership by ACS Group, from January1, 1999 through May14, 1999, plus the consolidated results of ACS Group from May15, 1999 through December31, 1999. Certain reclassifications have been made to the 2000 consolidated and 1999 combined operations to conform to the current presentation of ACS Group's consolidated operations.

	Year Ended December 31,		
	Consolidated		Combined
	2001	2000	1999
		(in thousands)	
Operating revenues:			
Local telephone:			
Local network service	$ 96,270	$ 94,098	$ 94,499
Network access revenue	102,977	105,172	105,366
Deregulated revenue and other	22,164	22,998	22,494
Total local telephone	221,411	222,268	222,359
Cellular	40,398	39,490	36,041
Directory	33,870	29,156	26,615
Internet	13,724	9,170	4,948
Interexchange	21,316	11,778	9,587
Other	960	1,131	359
Total operating revenues	331,679	312,993	299,909
Operating expenses:			
Local telephone	120,659	130,875	146,858
Cellular	24,153	24,641	23,748
Directory	14,490	14,001	13,342
Internet	15,677	11,785	7,612
Interexchange	29,509	19,749	14,023
Other	1,852	1,458	486
Unusual charges	—	5,288	—
Depreciation and amortization	79,811	72,265	63,487
Total operating expenses	286,151	280,062	269,556
Operating income	45,528	32,931	30,353
Other income and expense:			
Interest expense	(60,283)	(64,710)	(44,150)
Interest income and other	3,252	6,680	3,496
Equity in income (loss)of investments	70	(303)	(1,569)
Total other income (expense)	(56,961)	(58,333)	(42,223)
Loss before income taxes and extraordinary item	(11,433)	(25,402)	(11,870)
Income tax (expense)benefit	195	197	(3,643)
Loss from continuing operations	(11,238)	(25,205)	(15,513)
Extraordinary item — early extinguishment of debt	—	—	(3,267)
Net loss	$ (11,238)	$ (25,205)	$ (18,780)

Twelve Months Ended December31, 2001 Compared to Twelve Months Ended December31, 2000

Operating Revenues

Operating revenues increased $18.7million, or 6.0%, for the year ended December31, 2001 compared to the year ended December31, 2000. Cellular, Directory, Internet and interexchange revenues increased compared to the prior period.

Local Telephone

Local telephone revenues, which consist of local network service, network access revenue, and deregulated revenues and other, decreased $0.9million, or 0.4%, for the year ended December31, 2001 compared to the same period in 2000.

The local network service component of local telephone revenues was $96.3 million during 2001 compared with $94.1million during 2000. Revenue increased $2.2million or 2.3% from the prior year, while average access lines in service increased 1.1% to 331,192. The net increase was due primarily to lower charges for uncollectible accounts as the Company improved its collection processes. The charges for uncollectible accounts recorded against local network service revenue in 2000 were $2.7million in excess of those recorded during 2001, accounting for more than 100% of the increase in local network service revenue.

The Company continued to experience loss of retail market share for local network service in its Anchorage and Fairbanks service areas during the year. Generally, when the Company loses a retail local network service line to a competitor, it continues to provide the line to the competitor on a wholesale basis at reduced revenue per line. Management believes that the continuing loss of market share experienced in Anchorage and Fairbanks is partially attributable to below cost interconnection rates for UNEs currently in place. The RCA has approved arbitrated interconnection rates for UNEs for the Company's Juneau market which management believes are below cost, although there has been no competitive market penetration in Juneau through February 2002. During the second quarter of 2001, the Company reopened interconnection proceedings for its Anchorage market and filed for an interim and refundable UNE rate increase of approximately $10 per month per loop. On October25, 2001, the RCA granted ACSA an interim and refundable UNE rate increase of $1.07, bringing the UNE rate up from $13.85 to $14.92. The Company expects the RCA to hold hearings and adjudicate final Anchorage UNE rates during 2002. See "Business — Regulation" under Item1 of Part I of this report for further discussion.

The Company believes it is also earning less than its required rate of return for local network service in several of its markets and filed local service rate cases for all of its LEC businesses with the RCA on July2, 2001 aimed at making up this deficiency. Subsequently, in October 2001, the Company filed for interim and refundable local service rates in its Anchorage market in order to expedite a partial recovery of the total revenue deficiency. On November15, 2001 the RCA approved an interim and refundable rate increase for ACSA of 24% for certain services. This interim and refundable rate increase is expected to generate approximately $4.0million in annual revenue requirement. See "Business — Regulation" under Item1 of Part I of this report for further discussion.

Network access revenues decreased by $2.2million, or 2.1%, from $105.2 million in 2000 to $103.0million in 2001. Network access revenues are based on a regulated return on rate base and recovery of allowable expenses associated with the origination and termination of toll calls. The decrease in network access revenues from the corresponding period in 2000 is due primarily to changes relating to cost allocation factors, rate base, expenses and a shift from retail lines to UNEs as a result of competition, from period to period. Management expects that network access revenues will decline as a component of local telephone revenues for the foreseeable future.

Deregulated and other revenues, which declined $0.8million, or 3.6% from 2000, consists principally of BC services, space and power rents, deregulated equipment sales, paystation revenues, regulated directory listing revenue, and other miscellaneous telephone revenues. The decline in deregulated and other revenue was due primarily to a $2.2million reduction in deregulated equipment sales in 2001 offset by a $1.2million increase in space and power rents over 2000.

Cellular

Cellular revenues increased $0.9million, or 2.3%, to $40.4million for the year ended December31, 2001 compared to $39.5million for the year ended December31, 2000. This growth in revenue is due to growth in average cellular subscribers to 78,027 in 2001 from 74,501 in 2000, or 4.7%, and a decrease in average revenue per unit, or ARPU, from $44.17 in 2000 to $43.15 in 2001. The decrease in ARPU is the result of competitive digital statewide and national pricing programs implemented during 2001 that offer more minutes and free features than the previous plans for the same price, coupled with other sales promotions. These competitive plans have resulted in increased total revenues and market share but lower revenue per unit.

Directory

Directory revenues increased by $4.7million, or 16.2%, from $29.2million in 2000 to $33.9million in 2001. This growth reflects improved penetration and revenue per advertiser for the current directory phone book cycles compared with 2000. Management expects the growth in directory revenues to slow as competing directories and other advertising vehicles, such as the Internet, television and radio, compete for this business and the market matures.

Internet

Internet revenues increased from $9.2million in 2000 to $13.7million in 2001 — an increase of $4.5million, or 49.7%. This increase is primarily due to the additional revenues from Internet Alaska, Inc. (“IAI”), which was acquired in June of 2000 and MosquitoNet, which was acquired in July of 2001. Internet revenues were also favorably impacted by growth in DSL subscribers. On December10, 2001, the Company entered into a five year contract with the State of Alaska to provide a broad range of telecommunications services, many of which will be provided over an IP network or supported by a service center owned and operated by ACSI. Accordingly, the Company anticipates revenues for this segment will increase in future periods.

Interexchange

Interexchange revenues increased from $11.8million in 2000 to $21.3 million in 2001 — an increase of $9.5million, or 81.0%. The increase was due to growth in long distance subscribers from 57,537 in 2000 to 65,705 in 2001. The Company also experienced growth in long distance minutes of use from 95.3 million in 2000 to 219.6million in 2001. The growth in both subscribers and minutes of use was due to high customer acceptance of and satisfaction with the Company’s flat rate long distance product offerings, which it began rolling out in the fourth quarter of 2000.

Other

Other revenues, which consist principally of wireless cable television, decreased marginally from 2000 to 2001.

Operating Expenses

Operating expenses increased $6.1million, or 2.2%, from $280.1million for the year ended December31, 2000 to $286.2million for the year ended December31, 2001. Operating expenses decreased as a percentage of operating revenues from 89.5% in 2000 to 86.3% in 2001.

Local Telephone

The components of local telephone expense are plant specific operations, plant non-specific operations, customer operations, corporate operations and property and other operating tax expense.

Depreciation and amortization associated with the operation of the local telephone segment is included in total depreciation and amortization. Local telephone expense decreased from $130.9million for the year ended December31, 2000 to $120.7million for the year ended December31, 2001 — a decrease of $10.2million or 7.8%. As a percentage of local telephone revenue, local telephone expense decreased from 58.9% for 2000 to 54.5% for 2001. These results reflect continued improvements in the Company's cost structure, including workforce reductions, benefits derived from the deployment of information systems, and other synergies realized through the consolidation of the operations the Company acquired in 1999.

Cellular

Cellular expense decreased $0.5million, or 2.0%, for the year ended December31, 2001 compared to the year ended December31, 2000. Cellular expense was 62.4% of cellular revenues for 2000 and 59.8% of cellular revenues for 2001.

Directory

Directory expenses increased $0.5million from $14.0million in 2000 to $14.5million in 2001. As a percent of directory revenue, expenses were 42.8% for 2001 compared to 48.0% for 2000. This margin improvement is due to stable fixed cost combined with increasing directory revenue.

Internet

Internet expenses increased by $3.9million, or 33.0%, and decreased as a percentage of revenue from 128.5% in 2000 to 114.2% in 2001. The increase in Internet expenses was due principally to the acquisition in June of 2000 of IAI and the acquisition in July, 2001 of MosquitoNet, for which comparable costs are not included for the full year of 2000. Costs associated with developing the Company's statewide Internet infrastructure, preparation for providing services under the State of Alaska telecommunications contract, and the rollout of the Company's DSL product also contributed to the increase in Internet expense. On December10, 2001, the Company entered into a five year contract with the State of Alaska to provide a broad range of telecommunications services, many of which will be provided over an IP network or supported by a service center owned and operated by ACSI. Accordingly, the Company anticipates expenses for this segment will increase in future periods.

Interexchange

Interexchange expenses increased by $9.8million, or 49.4%, and decreased as a percentage of revenue from 167.7% in 2000 to 138.4% in 2001. The majority of this increase was the result of additional traffic sensitive costs incurred as a result of the increase in customers and minutes of use with the rollout of the Company's flat rate calling plans as discussed under interexchange service revenues.

Unusual charges

During the year ended December31, 2000, ACS Group recorded $5.3million of unusual charges, consisting of the write-off of approximately $1.5million of costs related to the attempted acquisition of Matanuska Telephone Association, $0.8million in a legal settlement and $3.0million related to severance and restructuring plans. Employee force reductions resulting from these restructuring plans are expected to total approximately 200 by their completion, of which approximately 150 were completed by December31, 2001.

Depreciation and Amortization

Depreciation and amortization expense increased $7.5million, or 10.4%, due principally to increases in plant in service for the year ended December 31, 2001 over the corresponding period of 2000. Depreciation and amortization expense includes $7.7million of goodwill amortization for each of 2001 and 2000. The Company adopted on January1, 2002, SFAS No.142, *Goodwill and Intangible Assets* . Goodwill will no longer be amortized in 2002 and will instead be subjected to an annual impairment test, the effect of which the Company is currently evaluating.

Interest Expense and Interest Income and other

Interest expense decreased $4.4million, or 6.8%, for the year ended December31, 2001 compared to the year ended December31, 2000, principally as a result of market effects on the Company's variable interest rate debt. Interest income and other also declined by $3.4million, or 51.3%, as a result of a lower average invested cash balance and lower market interest rates during 2001 compared to 2000.

Income Taxes

ACS Group has fully reserved the income tax benefit resulting from the consolidated losses it has incurred since May14, 1999 — the date of the acquisition of substantially all of its operations.

Net Loss

The decrease in net loss is primarily a result of the factors discussed above.

Twelve Months Ended December31, 2000 Compared to Twelve Months Ended December 31, 1999

Operating Revenues

Operating revenues increased $13.1million, or 4.4%, for the year ended December31, 2000 compared to the year ended December31, 1999. Cellular, directory, Internet and interexchange network and other revenues all increased compared to the prior period.

Local Telephone

Local telephone revenues, which consist of local network service, network access revenue, and deregulated and other revenues, was essentially flat for the year ended December31, 2000 compared to the same period in 1999.

The local network service component of local telephone revenues was $94.1 million during 2000 compared with $94.5million during 1999. Revenue decreased $0.4million or 0.4% from the prior year, despite growth in average total access lines in service of 4.6% and increased penetration of enhanced features. The net decrease was due primarily to charges for uncollectible accounts and increased market penetration of lower margin wholesale lines in the Anchorage market. The charges for uncollectible accounts recorded against local network service revenue in 2000 were $4.1million in excess of those recorded during 1999, accounting for more than 100% of the decrease in local network service revenue. Management has taken aggressive steps to address collection issues and expects charges for uncollectible accounts will be reduced in the future. Management also believes that the continued loss of market share experienced in the Anchorage market is attributable to below cost interconnection rates for UNEs currently in place.

Network access revenues decreased by $0.2million, or 0.2%, from $105.4 million in 1999 to $105.2million in 2000. Network access revenues were reduced by $3.6million in the third quarter of 2000 as a result of a complaint filed with the FCC during the third quarter alleging that one of the Company's subsidiaries exceeded its federally authorized rate of return. See "Business — Regulatory" under Item1 of Part I of this report for further discussion of this matter. Network access revenues are based on a regulated return on rate base and recovery of allowable expenses associated with the origination and termination of toll calls. The decrease in telephone access revenues from the corresponding period in 1999 is due primarily to changes relating to cost allocation factors, rate base, expenses, and a shift from retail lines to UNEs as a result of competition, from period to period. Management expects that network access revenues will decline as a component of local telephone revenues for the foreseeable future.

Deregulated and other revenues, which grew $0.5million, or 2.2% over 1999, consists principally of BC services, space and power rents, deregulated equipment sales, paystation revenues and other miscellaneous telephone revenues. The revenue increase was due primarily to increased deregulated equipment sales in 2000.

Cellular

Cellular revenues increased $3.4million, or 9.6%, to $39.5million for the year ended December31, 2000 compared to $36.0million for the year ended December31, 1999. This growth in revenue is due to growth in average cellular subscribers to 74,501 in 2000 from 69,820 in 1999, or 6.7%, and an increase in average revenue per unit from $43.02 in 1999 to $44.17 in 2000. The increase in average revenue per unit is due to the rollout of statewide digital service during 2000 and the introduction of new statewide and national pricing programs.

Directory

Directory revenues increased by $2.6million from $26.6million in 1999 to $29.2million in 2000. This growth corresponds with the growth in average access lines in service during 2000 over 1999 from 313,001 during 1999 to 327,534 during 2000, or an increase of 4.6%, combined with additional penetration for the current directory phone book cycles.

Internet

Internet revenues increased from $4.9million in 1999 to $9.2million in 2000 — an increase of $4.3million, or 85.3%. This increase is primarily due to the additional revenues from IAI, which was acquired in June of 2000. Internet revenues were also impacted by growth in DSL and dial-up subscribers.

Interexchange

Interexchange revenues increased from $9.6million in 1999 to $11.8 million in 2000 — an increase of $2.2million, or 22.9%. Long distance revenues increased due to increases in long distance minutes of use from 67.7 million to 95.3million and increases in circuit rent revenues, coupled with the rollout of competitive long-distance product offerings.

Other

Other revenues, which increased $0.8million compared to 1999, consist principally of television revenues from ACSTV. The Company included ACSTV in its consolidated revenues for the full year of 2000 compared to three months for 1999, accounting for substantially all of the increase.

Operating Expenses

Operating expenses increased $10.5million, or 3.9%, from $269.6million for the year ended December31, 1999 to $280.1million for the year ended December31, 2000. As a percentage of operating revenues, operating expenses decreased from 89.9% in 1999 to 89.5% in 2000.

Local Telephone

The components of local telephone expense are plant specific operations, plant non-specific operations, customer operations, corporate operations and property and other operating tax expense. Depreciation and amortization associated with the operation of the local telephone segment is included in total depreciation and amortization. Local telephone expenses decreased from $146.9million for the year ended December31, 1999 to $130.9million for the year ended December31, 2000 — a decrease of $16.0million or 10.9%. During 1999, the Company incurred one-time and transaction related costs associated with the acquisitions of the Predecessor Entities of $7.1million. The Company also incurred $5.7million of compensation expense related to telephone operations as a result of options granted below fair value at the date of grant, which vested fully upon the completion of ACS Group’s initial public offering. Adjusted for these non-recurring items, telephone operating expenses would have been $134.1million for 1999. As a percentage of local telephone revenue, local telephone expense decreased from 60.3% for 1999, adjusted for the non-recurring items, to 58.9% for 2000. This change in local telephone expense as a percentage of local telephone revenue improved despite approximately $4.1million in charges for uncollectible accounts recorded against revenues during 2000 in excess of those recorded during 1999, as previously discussed. During 2000, ACS Group also incurred $1.1million of local telephone expense resulting from interconnection proceedings with CLECs for which comparable costs were not incurred during the corresponding year of 1999.

Cellular

Cellular expenses increased $0.9million, or 3.8%, for the year ended December31, 2000 compared to the year ended December31, 1999. Cellular expense was 65.9% of cellular revenues for 1999 and 62.4% of cellular revenues for 2000.

Directory

Directory expenses increased $0.7million, or 4.9%, from $13.3million in 1999 to $14.0million in 2000. As a percentage of revenue, directory expenses were 48.0% for 2000 compared to 50.1% for 1999.

Internet

Internet expenses increased by $4.2million, or 54.8%, and decreased as a percentage of revenue from 153.8% in 1999 to 128.5% in 2000. The increase in Internet expenses was due to the acquisition in June of 2000 of IAI for which comparable costs are not included for 1999, and costs associated with developing the Company's statewide Internet infrastructure and the rollout of the DSL product.

Interexchange

Interexchange expenses increased by $5.7million, or 40.8%, and increased as a percentage of revenue from 146.3% in 1999 to 167.7% in 2000. The majority of this increase was the result of additional circuit and other costs associated with developing the Company's statewide network and increases in minutes of use for long distance as discussed above.

Other

Other expenses, which consist principally of wireless cable expenses, increased due to the acquisition of ACSTV, which was completed in September 1999.

Unusual charges

During the year ended December31, 2000, ACS Group recorded $5.3million of unusual charges, consisting of the write-off of approximately $1.5million of costs related to the attempted acquisition of Matanuska Telephone Association, $0.8million in a legal settlement and $3.0million related to severance and restructuring plans. Employee force reductions resulting from these restructuring plans are expected to total approximately 200 by their completion, of which approximately 100 were completed by December31, 2000.

Depreciation and Amortization

Depreciation and amortization expense increased $8.8million, or 13.8%, due principally to increases in plant in service for the year ended December 31, 2000 over the corresponding period of 1999.

Interest Expense, Interest Income and Other

Interest expense increased $20.6million, or 46.6%, for the year ended December31, 2000 as compared to the year ended December31, 1999 . This increase is due to $611.6million of debt incurred by ACS Group in connection with the acquisitions on May14, 1999 of substantially all of its operations.

Interest income and other increased $3.2million, or 91.1%, as a result of increases in invested cash resulting from the Company's initial public offering completed during November 1999.

Income Taxes

ACS Group has fully reserved the income tax benefit resulting from the consolidated losses it has incurred since May14, 1999 — the date of the acquisition of substantially all of its operations. Income taxes reflected in the combined financial statements are substantially those of the Predecessor Entities.

Net Loss

The increase in net loss is primarily a result of the factors discussed above.

Liquidity and Capital Resources

ACS Group has satisfied its operational and capital cash requirements primarily through internally generated funds, the sale of stock and debt financing. For the twelve months ended December31, 2001 the Company's cash flows from operating activities were $75.0million. At December31, 2001, the Company had approximately $31.2million in net working capital, with approximately $41.0million represented by cash and cash equivalents and $6.9 million of restricted cash. As of December31, 2001 the Company had $75.0 million of remaining capacity under its revolving credit facility, representing 100% of available capacity.

The Company has a $435.0million bank credit agreement ("Senior Credit Facility"), $150.0million in 9.375% senior subordinated notes due 2009 and $17.3million in 13% senior discount debentures due 2011, representing substantially all of the Company's long-term debt of $611.3million as of December31, 2001. Interest on ACS Group's senior subordinated notes and senior discount debentures is payable semiannually. Interest on borrowings under the Senior Credit Facility is payable monthly, quarterly or semi-annually at the Company's option. The Senior Credit Facility requires 1% annual principal payments commencing on May14, 2002, with balloon payments in each of 2006, 2007, and 2008. The Senior Credit Facility contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and the payment of dividends, and requires the Company to achieve certain financial ratios. See Note 7 "Long-term Obligations" in the Notes to Consolidated Financial Statements included elsewhere in this 10-K.

The Company employs an interest rate hedge transaction, which fixes at 5.99% the underlying variable rate on one-half of the borrowings under the Senior Credit Facility, or $217.5million, expiring in June 2002. The buyer has the right at their option to extend the agreement for an additional two years, and, based on current market interest rates, management expects this option to be exercised, extending the contract to June 2004. The underlying variable rate for the Senior Credit Facility is based on the London Interbank Offer Rate ("LIBOR"), which is adjusted at each monthly, quarterly or semi-annual rollover date.

The local telephone network requires the timely maintenance of plant and infrastructure. The Company believes its local network is of high quality, is technically advanced and will have relatively predictable annual capital needs. The Company's historical capital expenditures have been significant. The construction and geographic expansion of ACS Group's cellular network has required significant capital. The implementation of the Company's interexchange network and data services strategy is also capital intensive. In 1999, the Company purchased fiber capacity for $19.5million, which was funded with monies borrowed to finance the 1999 acquisitions. Capital expenditures for 2000 were $72.3million, including $3.2million in capital leases. Capital expenditures for 2001 were $87.6million, including $19.5million for additional fiber capacity and $15million for an IP based network and service center. The Company anticipates capital spending for 2002 of approximately $85 million, including approximately $20 to $25million necessary to meet its obligations under a material contract with the State of Alaska and approximately $7million for the buildout of PCS licenses. The Company intends to fund its future capital expenditures with cash on hand, through internally generated cash flows, and if necessary, through additional borrowings under the revolving credit facility.

ACS Group's capital requirements may change, however, due to, among other things: the Company's decision to pursue specific acquisition opportunities, changes in technology, the effects of competition or changes in the Company's business strategy. ACS Group's ability to satisfy its capital requirements will be dependent upon its future financial performance, which is, in turn, subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control.

On July6, 2001, ACS Group acquired the assets and business of Internet Plus. L.L.C., dba MosquitoNet, a Fairbanks based Internet service provider with approximately 5,000 customers. The acquisition was funded entirely with cash on hand.

The Company has entered into an agreement with a third party to provide to that party a financing commitment for an amount ranging from $10million to $15 million contingent upon the third party achieving certain objectives. Such financing would be in the form of an unsecured loan. The Company believes such financing may occur during 2002 and it intends to fund it with cash on hand and cash flow from operations.

ACS Group believes that it will have sufficient working capital provided by operations and available borrowing capacity under the existing revolving credit facility to service its debt and fund its operations, capital expenditures and other obligations over the next 12months. ACS Group's ability to satisfy its capital requirements will be dependent upon its future financial performance, which is, in turn, subject to future economic conditions and to financial, business, regulatory and other factors, many of which are beyond the Company's control.

Effect of New Accounting Standards

On June29, 2001, the FASB approved for issuance SFAS No.141, *Business Combinations,* which supercedes APB Opinion No, 16, *Business Combinations* and SFAS No.38, *Accounting for Preacquisition Contingencies of Purchased Enterprises.* This statement establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No.141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. The adoption of this statement did not have a material impact on the Company's financial position, results of operations or cash flows.

On June29, 2001, the FASB approved for issuance SFAS No.142, *Goodwill and Intangible Assets* , which supercedes APB Opinion No.17, *Intangible Assets* . SFAS No.142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead will be tested for impairment at least annually in accordance with the provisions of SFAS No.142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No.121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of* .

The Company adopted SFAS No.142 effective January1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June30, 2001, but before SFAS No.142 was adopted, were not amortized. Goodwill and intangible assets acquired in business combinations completed before July1, 2001 were amortized in accordance with the appropriate pre-SFAS No.142 accounting literature. Upon adoption of SFAS No.142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No.142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No.142's transitional goodwill impairment evaluation, SFAS No.142 will require the Company to perform an assessment of whether there is an indication that goodwill impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No.141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company 's statement of earnings.

At the date of adoption of SFAS No.142, the Company had unamortized goodwill of $250,495 and unamortized identifiable intangible assets of $26,784, all of which will be subject to the transition provisions of SFAS No.142. Amortization expense related to goodwill was $7,741, $7,510 and $4,243, for the years ended December31, 2001, 2000 and 1999, respectively. Because of the extensive effort needed to comply with adopting SFAS No.142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial position, results of operations and cash flows at the date of this report, including whether the Company will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

On August15, 2001, the FASB issued SFAS No.143, *Accounting for Asset Retirement Obligations*, which is effective for the Company's fiscal year beginning January1, 2003. This statement requires, among other things, the accounting and reporting of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. The Company has not yet determined the impact of the adoption of this standard on its financial position, results of operations and cash flows.

On October3, 2001, the FASB issued SFAS No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which is effective for the Company's fiscal year beginning January1, 2002. This statement addresses accounting and reporting of all long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means. The Company is evaluating the impact of the adoption of this statement on its financial position, results of operations and cash flows.

Outlook

ACS Group expects the demand for telecommunications services in Alaska to grow, particularly as a result of:

- continuing growth in demand for core telephone services and enhanced service offerings,
- increased line demand from expected growth in the Alaskan economy and population growth in ACS Group's service areas,
- increasing demand for private network services by government and business in the Company's service areas,
- increasing demand for cellular services and
- growth in demand for DSL and Internet access services due to higher business and consumer bandwidth needs for Internet and data services.

The Company believes that it will be able to capitalize on this demand through its diverse service offerings on its owned facilities and new sales and marketing initiatives directed toward basic, enhanced and data services.

There are currently a number of regulatory proceedings underway at the state and federal levels that could have a significant impact on the Company's operations. The Company cannot predict with certainty the impact of current or future regulatory developments on any of its businesses. See "Business — Regulation" under Part I, Item1 of this report for further discussion.

The telecommunications industry is extremely competitive, and ACS Group expects competition to intensify in the future. As an ILEC, the Company faces competition mainly from resellers, local providers who lease its UNEs and, to a lesser degree, from facilities-based providers of local telephone services. In addition, as a result of the RCA's recent affirmation of the APUC's termination of the Company's rural exemptions, ACS Group may be required to provide interconnection elements and/or wholesale discounted services to competitors in all or some of its rural service areas. Moreover, while cellular telephone services have historically complemented traditional LEC services, the Company anticipates that existing and emerging wireless technologies may increasingly compete with LEC services. In cellular services, ACS Group currently competes with at least one other cellular provider in each of its cellular service areas. In long distance, the Company currently has less than 10% of total long distance revenues in Alaska and faces competition from the two major long distance providers in Alaska. In the highly competitive business for Internet access services, ACS Group currently competes with a number of established online service companies, interexchange carriers and cable companies.

The telecommunications industry is subject to continuous technological change. ACS Group expects that new technological developments in the future will generally serve to enhance its ability to provide service to its customers. However, these developments may also increase competition or require the Company to make significant capital investments to maintain its leadership position in Alaska.

On December10, 2001, the Company entered into a material contract with the State of Alaska to provide it with comprehensive telecommunications services. The Company expects that this contract will generate approximately $92million in revenues over its term, including an estimated $10million in 2002. The contract also obligates the Company to provide customer premise and other capital assets to the state estimated to require an investment of $25 to $30million over the term of the agreement, including $20 to $25million during 2002. The contract has been filed as Exhibit10.11 to this 10-K.

Impact of Inflation

The effect of inflation on ACS Group's financial results has not been significant in the periods presented.

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Item7A. Quantitative and Qualitative Disclosures about Market Risk

The Company has issued senior discount debentures, senior subordinated notes and has entered into a bank credit facility. These on-balance sheet financial instruments, to the extent they provide for variable rates of interest, expose the Company to interest rate risk, with the primary interest rate risk exposure resulting from changes in LIBOR or the prime rate, which are used to determine the interest rates that are applicable to borrowings under the Company's bank credit facilities. The Company uses derivative financial instruments, specifically an interest rate swap agreement, to partially hedge variable interest transactions. The Company's derivative financial instrument transaction has been entered into for hedging purposes only. The terms and characteristics of the derivative financial instruments are matched with the underlying on-balance sheet instrument and do not constitute speculative or leveraged positions independent of these exposures.

The information below provides information about the Company's sensitivity to market risk associated with fluctuations in interest rates as of December 31, 2001. To the extent that the Company's financial instruments expose the Company to interest rate risk, they are presented within each market risk category in the table below. The table presents principal cash flows and related expected interest rates by year of maturity for the Company's bank credit facilities, senior subordinated notes, senior discount debentures, and capital leases and other long-term obligations outstanding at December31, 2001. Weighted average variable rates for the bank credit facilities are based on implied forward rates in the LIBOR yield curve as of December31, 2001. For the interest rate swap agreement, the table presents the notional amount and the related reference interest rates by year of maturity. The Company assumed that an option to extend the term of the swap by two years would be exercised based on the LIBOR rates in effect at December31, 2001 and the implied forward yield curve. Fair values included herein have been determined based on (i)the carrying value for the bank credit facility at December31, 2001, as interest rates are reset periodically; (ii)quoted market prices for senior subordinated notes; (iii)by discounting expected cash flows to their present value for the senior discount debentures using the Company's estimated current borrowing cost for subordinated debt; and (iv)quoted prices from a financial institution for the Company's swap agreement. Alaska Communications Systems Group, Inc.'s Consolidated Financial Statements contain descriptions of the senior discount debentures, senior subordinated notes, credit facility, capital leases and other long-term obligations and the interest rate swap agreement and should be read in conjunction with the table below.

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
				(dollars in thousands)				
Interest Bearing Liabilities:								
Bank credit facility— tranche A	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 144,000	$ —	$ 150,000	$ 150,000
Average interest rate (variable)	4.42 %	6.34 %	7.96 %	8.42 %	8.63 %	—	5.96 %	
Bank credit facility— tranche B	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 142,500	$ 150,000	$ 150,000
Average interest rate (variable)	5.17 %	7.09 %	8.71 %	9.17 %	9.39 %	9.52 %	8.17 %	
Bank credit facility— tranche C	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 128,250	$ 135,000	$ 135,000
Average interest rate (variable)	5.42 %	7.34 %	8.96 %	9.42 %	9.64 %	9.83 %	8.43 %	
Senior subordinated notes	$ —	$ —	$ —	$ —	$ —	$ 150,000	$ 150,000	$ 148,500
Average interest rate (fixed)	9.38 %	9.38 %	9.38 %	9.38 %	9.38 %	9.38 %	9.38 %	
Senior discount debentures	$ —	$ —	$ —	$ —	$ —	$ 17,313	$ 17,313	$ 21,212
Average interest rate (fixed)	13.00 %	13.00 %	13.00 %	13.00 %	13.00 %	13.00 %	13.00 %	
Capital leases and other long-term	$ 756	$ 652	$ 701	$ 771	$ 842	$ 7,881	$ 11,603	$ 11,603
Average interest rate (fixed)	8.67 %	8.58 %	8.55 %	8.51 %	8.46 %	9.31 %	8.68 %	
Interest Rate Derivatives:								
Variable to Fixed Interest Rate Swap								
Notional amount			$ 217,500					$ 11,437
Fixed Rate Payable	5.99 %	5.99 %	5.99 %	—	—	—	5.99 %	

Weighted average Variable Rate Receivable	2.17 %	4.09 %	5.56 %	—	—	—	3.94 %

The information below provides information about the Company's sensitivity to market risk associated with fluctuations in interest rates as of December 31, 2000. To the extent that the Company's financial instruments expose the Company to interest rate risk, they are presented within each market risk category in the table below. The table presents principal cash flows and related expected interest rates by year of maturity for the Company's bank credit facilities, senior subordinated notes senior, senior discount debentures, and capital leases and other long-term obligations outstanding at December31, 2000. Weighted average variable rates for the bank credit facilities are based on implied forward rates in the LIBOR yield curve as of December31, 2000. For the interest rate swap agreement, the table presents the notional amount and the related reference interest rates by year of maturity. Fair values included herein have been determined based on (i)the carrying value for the bank credit facility at December31, 2000, as interest rates are reset periodically; (ii)quoted market prices for senior subordinated notes; (iii)by discounting expected cash flows to their present value for the senior discount debentures using the Company's estimated current borrowing cost for subordinated debt; and (iv)quoted prices from a financial institution for the Company's swap agreement. Alaska Communications Systems Group, Inc.'s Consolidated Financial Statements contain descriptions of the senior discount debentures, senior subordinated notes, credit facility, capital leases and other long-term obligations and the interest rate swap agreement and should be read in conjunction with the table below.

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
				(dollars in thousands)				
Interest Bearing Liabilities:								
Bank credit facility— tranche A	$ —	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 144,000	$ 150,000	$ 150,000
Average interest rate (variable)	8.50 %	8.41 %	8.81 %	9.09 %	9.24 %	9.32 %	8.89 %	
Bank credit facility— tranche B	$ —	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 144,000	$ 150,000	$ 150,000
Average interest rate (variable)	8.75 %	8.66 %	9.06 %	9.34 %	9.49 %	9.65 %	9.16 %	
Bank credit facility— tranche C	$ —	$ 1,350	$ 1,350	$ 1,350	$ 1,350	$ 129,600	$ 135,000	$ 135,000
Average interest rate (variable)	9.00 %	8.91 %	9.31 %	9.59 %	9.74 %	9.93 %	9.41 %	
Senior subordinated notes	$ —	$ —	$ —	$ —	$ —	$ 150,000	$ 150,000	$ 126,375
Average interest rate (fixed)	9.38 %	9.38 %	9.38 %	9.38 %	9.38 %	9.38 %	9.38 %	
Senior discount debentures	$ —	$ —	$ —	$ —	$ —	$ 17,313	$ 17,313	$ 21,665
Average interest rate (fixed)	13.00 %	13.00 %	13.00 %	13.00 %	13.00 %	13.00 %	13.00 %	
Capital leases and other long-term	$ 2,869	$ 845	$ 664	$ 722	$ 794	$ 8,747	$ 14,641	$ 14,641
Average interest rate (fixed)	8.47 %	8.60 %	8.56 %	8.54 %	8.50 %	10.36 %	8.85 %	
Interest Rate Derivatives:								
Variable to Fixed Interest Rate Swap								
Notional amount	$ —	$ 217,500	$ —	$ —	$ —	$ —		$ (1,243)
Fixed Rate Payable	5.99 %	5.99 %	—	—	—	—	5.99 %	
Weighted average Variable Rate Receivable	5.75 %	5.66 %	—	—	—	—	5.72 %	

Item8. Financial Statements and Supplementary Data

Consolidated financial statements of Alaska Communications Systems Group, Inc. and Subsidiaries are submitted as a separate section of this Form10-K . See Index to Consolidated Financial Statements and Schedule, which appears on page F-1 hereof.

Item9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item10. Directors and Executive Officers of the Registrant

Except for the following information regarding ACS Group's executive officers and directors, the information required by this item will be included in ACS Group's definitive proxy statement for its 2002 Annual Meeting of Stockholders (the "Proxy Statement"), or by an amendment to this report to be filed on or before April30, 2002 and such information is incorporated herein by reference.

Executive Officers and Directors of the Registrant

Set forth below are the executive officers and directors of ACS Group as of the date hereof:

Name	Age	Position
Charles E. Robinson	68	Chairman and Chief Executive Officer
Wesley E. Carson	51	President and Chief Operating Officer
Kevin P. Hemenway	41	Senior Vice President, Chief Financial Officer, and Treasurer
Kathryn Anderson	50	Senior Vice President, Sales and Marketing
Leonard A. Steinberg	48	Vice President, General Counsel and Corporate Secretary
Carl H. Marrs	53	Director
Byron I. Mallott	59	Director
W. Dexter Paine, III	41	Director
Saul A. Fox	48	Director
Wray T. Thorn	30	Director
Brian Rogers	51	Director

Charles E. Robinson , ACS Group's Chairman and Chief Executive Officer since May 1999, has over four decades of experience in the telecommunications industry. Mr.Robinson was instrumental in creating Alaska's long distance communications systems, including the White Alice Communications System, beginning in the late 1950's. Between 1979 and 1982, Mr.Robinson served as President of Alascom, the state's primary long distance carrier at the time. Under his guidance, Alascom developed the first statewide long distance service network in Alaska, connecting with more than 27 independent local companies. Mr.Robinson served as President and Chief Operating Officer of Pacific Telecom from 1981 until its sale to CenturyTel in 1997 and was appointed Chairman and Chief Executive Officer in 1989. Mr.Robinson remained as President and Chief Executive officer at Pacific Telecom until February 1999. Mr.Robinson has been a member of the National Security Telecommunications Advisory Committee for the last 18years, having been appointed by President Reagan. Mr.Robinson has also served on the Board of Directors of the United States Telecommunications Association from 1993 to 1995 and from 1999 to the present. Since January 2000, Mr.Robinson has served on the Board of Directors of WJ Communications, Inc.

Wesley E. Carson , ACS Group's President and Chief Operating Officer, has been with the Company since its inception. Mr.Carson has held his current position since January 2002, prior to that Mr.Carson was President and Chief Administrative Officer. On October7, 1999, Mr.Carson (previously an Executive Vice President) was appointed President and Chief Operating Officer, and served in that capacity until becoming the Chief Administrative Officer in November 2000. Mr.Robinson had previously held the title of President. Mr.Carson has over 20years of telecommunications experience. He began his career in telecommunications in 1980 with TRT Telecommunications Corporation, an international data and voice carrier located in Washington, D.C. that was acquired by Pacific Telecom in 1988. From 1989 to 1998, Mr.Carson served as the Vice President of

Human Resources for Pacific Telecom. From July 1998 to May 1999, Mr. Carson served as the Executive Vice President of LEC Consulting. Mr.Carson holds a B.A. in International Relations from Brigham Young University, a Master of Public Administration degree from the University of Illinois-Springfield and a J.D. from Georgetown University.

Kevin P. Hemenway is Senior Vice President, Treasurer and Chief Financial Officer, a position he has held since November 2000. Mr.Hemenway joined ACS Group as Vice President and Treasurer in July 1999 and served in that capacity until assuming his current role. Mr.Hemenway has over 10years of prior experience in the telecommunications industry. Before joining the Company, Mr. Hemenway served as the Chief Financial Officer and Treasurer of Atlantic Tele-Network, Inc. based in the U.S. Virgin Islands. From January 1990 to October 1998, as an independent consultant, Mr.Hemenway performed financial, accounting, management and rate making consulting services for the telecommunications industry, principally for Atlantic Tele-Network, Inc. and its subsidiaries. From 1986 through 1989, Mr.Hemenway was employed by Deloitte Touche LLP as a CPA and manager, performing both audit and consulting services and from 1983 to 1986, was employed by Grant Thornton as a CPA and senior staff accountant. Mr.Hemenway graduated from Creighton University in 1982 with a B.S.B.A., majoring in accounting, and is a non-practicing CPA certificate holder registered in the State of Nebraska.

Kathryn Anderson is Senior Vice President, Sales and Marketing, a position she has held since joining the Company in December 2001. Prior to joining ACS Group, she was President of Pescatore Systems International, LLC, a management consulting company that specializes in marketing and strategic planning for Internet technology and information systems companies. In 2000, Kathy served as President and COO of the Metrus Group, a consulting firm specializing in Strategic Performance Measurement. Prior to establishing her consultancy, Ms. Anderson was a vice president at ATT, serving in each of the three pre-trivestiture units: Lucent, NCR, and ATT. Most recently with ATT, she was Vice President of Business Internet Services from 1997 to 1998. In that role, she had responsibility for product marketing, product management, and service planning. Ms Anderson has 27years in the telecommunications and computer industries, including several years in Bell Laboratories and over 10years as a senior executive in marketing, strategy, and product development roles. Ms. Anderson holds a Bachelor of Science degree in Mathematics from Arizona State University and a Master of Science in Computer Science from Rutgers University. She completed the Harvard Business School Advanced Management Program, a three month general management course for executives, in 1995.

Leonard A. Steinberg is Vice President, General Counsel and Corporate Secretary, a position he has held since January 2001. Mr.Steinberg left private practice in June 2000 to join ACS Group as a Senior Attorney in the Corporate Legal Department. From 1998 to 2000, Mr.Steinberg used his expertise in regulatory and administrative matters to represent telecommunications and energy clients of Brena, Bell Clarkson, P.C., an Anchorage, Alaska law firm. Prior to that, Mr.Steinberg was a Partner in the firm of Hoise, Wes, Sacks Brelsford with offices in Anchorage, Alaska and San Francisco, California. Mr. Steinberg practiced in the firm’s Anchorage office from 1996-1998 and in the firm’s San Francisco office from 1988-1996 where he primarily represented large clients in oil and gas royalty and tax disputes. Mr.Steinberg holds a Masters in Public Administration degree from Harvard University’s Kennedy School of Government, Masters of Business Administration degree from U.C. Berkeley’s Haas School of Business and a J.D. from the University of California’s Hastings College of Law.

Carl H. Marrs , a director since July 1999, is President and Chief Executive Officer of Cook Inlet Region, Inc. Mr.Marrs has been with of Cook Inlet Region, Inc. for approximately 25years. During that period Mr.Marrs has been employed in a series of management positions, culminating in his appointment as President in 1986. Mr.Marrs attended the Stanford University School of Business for Executives in 1983 and the Amos Tuck School of Business at Dartmouth College in 1986.

Byron I. Mallott , a director since January 2000, is the President and Chief Executive Officer of the First Alaskans Institute. From 1995 until January 2000, Mr.Mallott served as the Executive Director of the Alaska Permanent Fund Corporation. Prior to joining the Alaska Permanent Fund Corporation, Mr.Mallott served in various capacities, including Director, Chairman and President and Chief Executive Officer of

Sealaska Corporation over a period of nearly 20years. Mr.Mallott has also served in various political appointments and elected positions.

W.Dexter Paine, III , a director since July 1998, was a co-founder and has been President of Fox Paine Company since its inception in 1997. From 1994 until founding Fox Paine, Mr.Paine served as a senior partner of Kohlberg Company. Prior to joining Kohlberg Company, Mr.Paine served as a general partner at Robertson Stephens Company. Mr.Paine has a B.A. in economics from Williams College. Since January 2000, Mr.Paine has served as the Chairman of the Board of Directors of WJ Communications, Inc.

Saul A. Fox , a director since May 1999, was a co-founder and has been Chief Executive Officer of Fox Paine Company since its inception in 1997. From 1984 until founding Fox Paine Company, Mr.Fox was at Kohlberg Kravis Roberts Co ("KKR"). Mr.Fox was a senior general partner of KKR prior to retiring from the firm to form Fox Paine Company. Prior to joining KKR, Mr. Fox was an attorney at Latham Watkins, a law firm headquartered in Los Angeles, California. Mr.Fox has a B.S. in communications and computer science from Temple University and a J.D. from the University of Pennsylvania Law School. Since January 2000, Mr.Fox has served on the Board of Directors of WJ Communications, Inc.

Wray T. Thorn , a director since January 2000, has also been a director with Fox Paine Company since January 2000. From 1996 until joining Fox Paine Company, Mr.Thorn was a principal and founding member of Dubilier Company. Prior to joining Dubilier Company, Mr.Thorn was an associate in the Acquisition Finance Group of Chase Securities, Inc. Mr.Thorn is a graduate of Harvard University. Since January 2000, Mr.Thorn has served on the Board of Directors of WJ Communications, Inc.

Brian Rogers , a director since February 2001, is currently Principal Consultant and Chief Financial Officer for Information Insights, Inc., a management and public policy consulting firm. Mr.Rogers served as Vice President of Finance for the University of Alaska Statewide System from 1988 to 1995. Mr.Rogers is a former state legislator, who served in the Alaska State House of Representatives from 1979 to 1982. Mr.Rogers chaired the State of Alaska Long-Range Planning Commission during 1995 and 1996, and currently, as a Regent of the University of Alaska, serves as a member of the University's Finance and Audit Committee. He holds a Master in Public Administration degree from the Kennedy School of Government, Harvard University.

John R. Ayers , Executive Vice President and Chief Operating Officer since November 2000, retired in May 2001.

Item11. Executive Compensation

The information required by this item will be included in ACS Group's definitive Proxy Statement, and such information is incorporated herein by reference.

Item12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item will be included in ACS Group's definitive Proxy Statement, and such information is incorporated herein by reference.

Item13. Certain Relationships and Related Transactions

The information required by this item will be included in ACS Group's definitive Proxy Statement, and such information is incorporated herein by reference.

PART IV

Item14. Exhibits, Financial Statement Schedules, and Reports on Form8-K

(1. *Financial Statements*
a
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The Consolidated financial statements of ACS Group are submitted as a separate section of this Form10-K. See Index to Consolidated Financial Statements and Schedule which appears on page F-1 hereof.

2. *Financial Statement Schedule*

Financial statement schedules for ACS Group and its subsidiaries are submitted as a separate section of this Form10-K. See Index to Consolidated Financial Statements and Schedule which appears on page F-1 hereof.

(*Reports on Form8-K*
b
)

No reports on Form8-K were filed during the quarter ended December31, 2001.

(*Exhibits*
c
)

Exhibit No.	Description
2.1	Purchase Agreement, dated as of August14, 1998, as amended, by and among ALEC Acquisition Sub Corp., CenturyTel of the Northwest, Inc. and CenturyTel Wireless, Inc.*
2.2	Asset Purchase Agreement, dated as of October20, 1998, by and between Alaska Communications Systems, Inc. and the Municipality of Anchorage*
3.1	Amended and Restated Certificate of Incorporation of the Registrant*****
3.2	Amended and Restated By-Laws of the Registrant*****
4.1	Specimen of Common Stock Certificate*****
4.2	Stockholders' Agreement, dated as of May14, 1999, by and among the Registrant and the Investors listed on the signature pages thereto*
4.3	First Amendment to Stockholders' Agreement, dated as of July6, 1999, by and among the Registrant and the Stockholders listed on the signature pages thereto*
4.4	Second Amendment to Stockholders' Agreement, dated as of November 16, 1999 by and among the Registrant and the Stockholders listed on the signature pages thereto*****
4.5	Indenture, dated as of May14, 1999, by and between Alaska Communications Systems Holdings, Inc., the Guarantors (as defined therein) and IBJ Whitehall Bank Trust Company*
4.6	Purchase Agreement, dated as of May11, 1999, by and among Alaska Communications Systems Holdings, Inc., the Guarantors, Chase Securities Inc., CIBC World Markets Corp. and Credit Suisse First Boston Corporation*
4.7	Indenture, dated as of May14, 1999, by and between the Registrant and The Bank of New York*
4.8	First Amendment, dated as of October29, 1999, to Indenture listed as ExhibitNo.4.7**
4.9	Form of Second Amendment dated as of November17, 1999 to Indenture listed as ExhibitNo.4.7*****
4.10	Purchase Agreement, dated as of May11, 1999, by and among the Registrant, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc. and DLJ ESC II, L.P.*
10.1	Exchange and Registration Rights Agreement, dated as of May14, 1999, by and among Alaska Communications Systems Holdings, Inc., the Guarantors, Chase Securities Inc., CIBC World Markets Corp. and Credit Suisse First Boston Corporation*

Exhibit No.	Description
10.2	Exchange and Registration Rights Agreement, dated as of May14, 1999, by and among the Registrant, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc. and DLJ ESC II L.P.*
10.3	Credit Agreement, dated as of May14, 1999, by and among Alaska Communications Systems Holdings, Inc., the Registrant, the financial institutions Lenders party thereto, The Chase Manhattan Bank, Credit Suisse First Boston and Canadian Imperial Bank of Commerce*
10.4	Amendment No.1, dated as of October19, 1999 to Credit Agreement listed as ExhibitNo.10.3**
10.5	Employment Agreement, dated as of March12, 1999, by and among Alaska Communications Systems Holdings, Inc., the Registrant and Charles E. Robinson*
10.6	Employment Agreement, dated as of March12, 1999, by and among Alaska Communications Systems Holdings, Inc., the Registrant and Wesley E. Carson*
10.7	ALEC Holdings, Inc. 1999 Stock Incentive Plan*
10.8	Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan*****
10.9	Alaska Communications Systems Group, Inc. 1999 Non-Employee Director Compensation Plan*****
10.10	Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan*****
10.11	Comprehensive Telecommunications Service Agreement Number 99-123-A between the State of Alaska and Alaska Communications Systems Group, Inc., dated as of December10, 2001
21.1	Subsidiaries of the Registrant
23.1	Consent of Deloitte Touche LLP relating the audited financial statements of Alaska Communications Systems Group, Inc.
24.1	Powers of Attorney (included on signature page)***

* Filed as an exhibit to the Registrant's Registration Statement on FormS-4 file No.333-82361 and incorporated by reference thereto.

** Filed as an exhibit to the Registrant's Form8-K filed on November5, 1999 and incorporated by reference thereto.

*** Previously filed on October8, 1999 and incorporated by reference thereto.

**** Previously filed on November1, 1999 and incorporated by reference thereto.

***** Previously filed as an exhibit to the Registrant's Registration Statement on FormS-1/A file No.333-888753 filed on November17, 1999 and incorporated by reference thereto.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

Signature	Title	Date
/s/ Charles E. Robinson Charles E. Robinson	Chief Executive Officer and Chairman of the Board	March 29, 2002
/s/ Wesley E. Carson Wesley E. Carson	President and Chief Operating Officer	March 29, 2002
/s/ Kevin P. Hemenway Kevin P. Hemenway	Senior Vice President, Chief Financial Officer and Treasurer (Principal Accounting Officer)	March 29, 2002
/s/ Kathryn Anderson Kathryn Anderson	Senior Vice President, Sales and Marketing	March 29, 2002
/s/ Leonard A. Steinberg Leonard A. Steinberg	Vice President, General Counsel and Corporate Secretary	March 29, 2002
/s/ Carl A. Marrs Carl A. Marrs	Director	March 29, 2002
/s/ Byron I. Mallott Byron I. Mallott	Director	March 29, 2002
/s/ Brian Rogers Brian Rogers	Director	March 29, 2002
/s/ W. Dexter Paine, III W. Dexter Paine, III	Director	March 29, 2002
/s/ Saul A. Fox Saul A. Fox	Director	March 29, 2002
/s/ Wray T. Thorn Wray T. Thorn	Director	March 29, 2002

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Alaska Communications Systems Group, Inc.
Anchorage, Alaska

We have audited the consolidated balance sheets of Alaska Communications Systems Group, Inc. and Subsidiaries (the "Company") as of December31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits included the financial statement schedule listed in Item 14(a)2 of Form10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Alaska Communications Systems Group, Inc. and Subsidiaries as of December31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE TOUCHE LLP

Portland, Oregon
February19, 2002

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Balance Sheets
December31, 2001 and 2000
(In Thousands Except Per Share Amounts)

		2001		2000
Assets				
Current assets:				
Cash and cash equivalents	$	41,012	$	61,896
Restricted cash		6,932		—
Accounts receivable-trade, net of allowance of $4,944 and $9,831		46,912		46,337
Materials and supplies		8,723		11,103
Prepayments and other current assets		6,032		4,304
Total current assets		109,611		123,640
Investment		—		1,370
Property, plant and equipment		1,036,829		953,557
Less: Accumulated depreciation and amortization		557,849		492,822
Property, plant and equipment, net		478,980		460,735
Goodwill, net of accumulated amortization of $19,494 and $11,753		250,495		258,236
Other assets		62,428		64,304
Total assets	$	901,514	$	908,285
Liabilities and Stockholders' Equity				
Current liabilities:				
Current portion of long-term obligations	$	4,823	$	2,586
Accounts payable-affiliate		1,303		1,145
Accounts payable, accrued and other current liabilities		63,081		58,115
Advance billings and customer deposits		9,190		8,689
Total current liabilities		78,397		70,535
Long-term obligations, net of current portion		606,427		611,418
Unamortized investment tax credits		—		197
Other deferred credits and long-term liabilities		25,003		10,755
Commitments and contingencies		—		—
Stockholders' equity:				
Preferred stock, no par, 5,000 authorized, no shares issued and outstanding		—		—
Common stock, $.01 par value; 145,000 shares authorized, 33,221 and 33,000 shares issued and 31,688 and 31,468 outstanding, respectively		332		330
Treasury stock, 1,532 shares at cost		(9,735)		(9,735)
Paid in capital in excess of par value		276,840		275,468
Accumulated deficit		(61,921)		(50,683)
Accumulated other comprehensive loss		(13,829)		—
Total stockholders' equity		191,687		215,380
Total liabilities and stockholders' equity	$	901,514	$	908,285

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Operations
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

	2001	2000	1999
Operating revenues:			
Local telephone	$ 221,411	$ 222,268	$ 142,255
Cellular	40,398	39,490	24,836
Directory	33,870	29,156	16,896
Internet	13,724	9,170	2,853
Interexchange	21,316	11,778	5,946
Other	960	1,131	359
Total operating revenues	331,679	312,993	193,145
Operating expenses:			
Local telephone	120,659	130,875	98,663
Cellular	24,153	24,641	15,494
Directory	14,490	14,001	7,603
Internet	15,677	11,785	5,121
Interexchange	29,509	19,749	9,185
Other	1,852	1,458	486
Unusual charges	—	5,288	—
Depreciation and amortization	79,811	72,265	40,306
Total operating expenses	286,151	280,062	176,858
Operating income	45,528	32,931	16,287
Other income and expense:			
Interest expense	(60,283)	(64,710)	(39,624)
Interest income and other	3,252	6,680	1,023
Equity in income (loss)of investments	70	(303)	(198)
Total other income (expense)	(56,961)	(58,333)	(38,799)
Loss before income taxes and extraordinary item	(11,433)	(25,402)	(22,512)
Income tax benefit	195	197	301
Loss from continuing operations	(11,238)	(25,205)	(22,211)
Extraordinary item — early extinguishment of debt	—	—	(3,267)
Net loss	$ (11,238)	$ (25,205)	$ (25,478)
Loss per share — basic and diluted:			
Loss from continuing operations	$ (0.36)	$ (0.77)	$ (0.95)
Extraordinary item	—	—	(0.14)
Net loss	$ (0.36)	$ (0.77)	$ (1.09)
Weighted average shares outstanding	31,523	32,654	23,396

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Stockholders' Equity
Years Ended December31, 2001, 2000 and 1999
(In Thousands, Except Per Share Amounts)

	Common Stock	Treasury Stock	Paid in Capital in Excess of Par	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity
Balance, December31, 1998	$ —	$ —	$ —	$ —	$ —	$ —
Net loss	—	—	—	(25,478)	—	(25,478)
Issuance of 32,657 shares of common stock, $.01 par	327	—	261,885	—	—	262,212
Fair value of warrants issued in conjunction with long term debt	—	—	5,089	—	—	5,089
Stock based compensation	—	—	6,145	—	—	6,145
Balance, December31, 1999	327	—	273,119	(25,478)	—	247,968
Net loss	—	—	—	(25,205)	—	(25,205)
Issuance of 343 shares of common stock, $.01 par	3	—	2,349	—	—	2,352
Purchase of 1,532 shares of treasury stock	—	(9,735)	—	—	—	(9,735)
Balance, December31, 2000	330	(9,735)	275,468	(50,683)	—	215,380
Components of Comprehensive loss:						
Net loss	—	—	—	(11,238)	—	(11,238)
Minimum pension liability adjustment	—	—	—	—	(2,392)	(2,392)
Interest rate swap marked to market	—	—	—	—	(11,437)	(11,437)
Total comprehensive loss						(25,067)
Issuance of 220 shares of common stock, $.01 par	2	—	1,372	—	—	1,374
Balance, December31, 2001	$ 332	$ (9,735)	$ 276,840	$ (61,921)	$ (13,829)	$ 191,687

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Cash Flows
Years Ended December31, 2001, 2000 and 1999
(In Thousands)

	2001	2000	1999
Cash Flows from Operating Activities:			
Net loss	$ (11,238)	$ (25,205)	$ (25,478)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	79,811	72,265	40,306
Amortization of debt issuance costs	4,360	4,573	3,193
Amortization of deferred compensation — stock options	—	—	6,145
Investment tax credits	(195)	(197)	(301)
Capitalized interest	(1,416)	(1,096)	(860)
Other deferred credits	418	(1,141)	2,987
Changes in components of working capital:			
Accounts receivable and other current assets	95	(5,649)	3,154
Accounts payable and other current liabilities	5,530	3,560	15,544
Other	(2,386)	1,084	(657)
Net cash provided by operating activities	74,979	48,194	44,033
Cash Flows from Investing Activities:			
Construction and capital expenditures, net of capitalized interest	(87,582)	(69,101)	(74,088)
Proceeds from liquidation of minority interest investment	1,370	—	—
Issuance of note receivable from officer	(339)	—	—
Cost of acquisitions, net of cash received	(1,000)	(5,598)	(697,732)
Placement of funds in escrow	(6,932)	—	—
Other assets	—	—	(2,833)
Net cash used by investing activities	(94,483)	(74,699)	(774,653)
Cash Flows from Financing Activities:			
Proceeds from the issuance of long-term debt	—	—	616,597
Payments on long-term debt	(2,754)	(6,210)	(12,590)
Debt issuance costs	—	—	(37,900)
Issuance of common stock and warrants	1,374	2,352	266,507
Purchase of treasury stock	—	(9,735)	—
Net cash provided (used)by financing activities	(1,380)	(13,593)	832,614
Increase (decrease)in cash	(20,884)	(40,098)	101,994
Cash and cash equivalents at beginning of the year	61,896	101,994	—
Cash and cash equivalents at the end of the year	$ 41,012	$ 61,896	$ 101,994
Supplemental Cash Flow Data:			
Interest paid	$ 51,716	$ 59,672	$ 31,840
Income taxes paid	—	—	—
Supplemental Noncash Transactions:			
Property acquired under capital leases	$ —	$ 3,152	$ 740
Note payable in connection with acquisition	—	2,250	—
Minimum pension liability adjustment	2,392	—	—
Interest rate swap marked to market	11,437	—	—

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

1. DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alaska Communications Systems Group, Inc. and Subsidiaries (the “Company” or “ACS Group”) (formerly ALEC Holdings, Inc.), a Delaware corporation, is engaged principally in providing local telephone, wireless, Internet and interexchange network and other services to its customers in the State of Alaska through its telecommunications subsidiaries. The Company was formed in October of 1998 for the purpose of acquiring and operating telecommunications properties.

The accompanying consolidated financial statements for the Company are as of December31, 2001 and 2000 and for the years ended December31, 2001, 2000 and 1999 and represent the operating results principally of the following legal entities from the date of their respective acquisition (see Note 2, Acquisitions):

- Alaska Communications Systems Group, Inc.
- Alaska Communications Systems Holdings, Inc. (“ACS Holdings”)
- ACS of Alaska, Inc. (“ACSAK”)
- ACS of the Northland, Inc. (“ACSN”)
- ACS of Fairbanks, Inc. (“ACSF”)
- ACS of Anchorage, Inc. (“ACSA”)
- ACS Wireless, Inc. (“ACSW”)
- ACS Long Distance, Inc. (“ACSLD”)
- ACS Television, L.L.C. (“ACSTV”)
- ACS Internet, Inc.
- ACS InfoSource, Inc.

Prior to the completion of the acquisitions on May14, 1999, the Company’s balance sheet was comprised of 100 shares of common stock and the Company had no operations.

A summary of significant accounting policies followed by the Company is set forth below:

Basis Of Presentation

The consolidated financial statements include all majority-owned subsidiaries. All significant intercompany balances have been eliminated. Certain reclassifications have been made to the 1999 and 2000 financial statements to make them conform to the current presentation.

Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting the financial statements are those related to the realizable value of accounts receivable, materials and supplies, long-lived assets, income taxes and network access revenue reserves. Actual results may differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated balance sheets and statements of cash flows, the Company generally considers all highly liquid investments with a maturity at acquisition of three months or less to be cash equivalents.

Restricted Cash

The Company placed in escrow restricted cash as a judicial requirement of an appeal of a claim. This claim is expected to be adjudicated in 2002. In the event the Company prevails, the restriction will be lifted, otherwise, the cash will be paid to the claimant. Liabilities associated with this claim are recorded in the Company's accounts payable, accrued and other current liabilities.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Materials and Supplies

Materials and supplies are carried in inventory at the lower of weighted average cost or market.

Investments

Investments in unconsolidated subsidiaries and other investees in which the Company has 20% to 50% interest or otherwise exercises significant influence are accounted for under the equity method.

The Company's investment at December31, 2000 consisted of a 47% ownership in Alaska Network Services, Inc. (ANS)carried at equity with a carrying value of $1,370. ANS by vote of its Board of Directors elected in 2000 to wind up its operations, distribute its net assets, and dissolve. During 2000, the Company wrote down its investment in ANS to its expected realizable value. The dissolution of ANS was completed during 2001 and the Company received a $1,440 cash payment from the distribution of ANS' net assets.

As of December31, 2001, the Company had no investment in unconsolidated subsidiaries.

Property, Plant and Equipment

Telephone plant is stated substantially at original cost of construction. Telephone plant retired in the ordinary course of business, together with cost of removal, less salvage, is charged to accumulated depreciation with no gain or loss recognized. Renewals and betterments of telephone plant are capitalized while repairs, as well as renewals of minor items, are charged to operating expense as incurred. The Company provides for depreciation of telephone plant on the straight-line method, using rates approved by the regulatory authorities. The composite annualized rate of depreciation for all classes of property, plant, and equipment was 7.0%, 6.6% and 6.5% for 2001, 2000 and 1999, respectively.

Non-Telephone plant is stated at purchased cost and, when sold or retired, a gain or loss is recognized. Depreciation of such property is provided on the straight-line method over its estimated service life ranging from two to 20 years.

The company is the lessee of equipment and buildings under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for 2001, 2000 and 1999.

Cellular, PCS, and UHF Licenses

Cellular, PCS, and UHF licenses are stated at purchased cost. Amortization is computed on the straight-line method over an estimated useful life of 40 years. These licenses are renewable at the Company's option in perpetuity. The amortization expense for 2001, 2000 and 1999 was $619, $606 and $347, respectively.

Goodwill

Goodwill represents the excess of cost of companies acquired over the fair value of their net assets at dates of acquisition. Goodwill associated with the purchase of telephone properties is amortized on the straight-line method over 40years. Goodwill associated with non-regulated properties is amortized using the straight-line method over 15years. The amortization expense for 2001, 2000 and 1999 was $7,741, $7,510 and $4,243, respectively.

Debt Issue Costs

Legal, accounting and financing fees, printing costs, and other expenses associated with the senior credit facility, senior subordinated notes, and discount debentures are being amortized using the straight-line method over the term of the debt, which approximates the effective interest method. Amortization expense included in interest expense for 2001, 2000 and 1999 was $4,360, $4,573 and $2,899, respectively.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasury Stock

During 2000, the Company was authorized by its Board of Directors to repurchase up to $10,000 of its common stock, to be completed by December31, 2000. ACS Group acquired 1,532 shares of its common stock for $9,735. This treasury stock is being held for general corporate purposes.

Revenue Recognition

Substantially all recurring service revenues are billed one month in advance and are deferred until earned. Nonrecurring and usage sensitive revenues are billed in arrears and are recognized when earned. Additionally, the Company establishes estimated bad debt reserves against uncollectible revenues incurred during the period. During 2001, 2000 and 1999, no customer accounted for more than 10% of the consolidated revenues of the Company.

In October and November 2001, under two separate regulatory orders, ACSA was authorized to implement interim and refundable rate increases for both loop rental rates on unbundled network elements and for local service revenue. The Company recognized $465 of revenue during 2001 associated with these rate increase authorizations. Management believes that it is unlikely the Company will have a refund obligation associated with these interim rate increases.

Access revenues are recognized when earned. The Company participates in toll revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the Regulatory Commission of Alaska (“RCA”) within the intrastate jurisdiction and the Federal Communications Commission (“FCC”) within the interstate jurisdiction. Much of the interstate access service revenue is initially recorded based on estimates. These estimates are derived from interim financial statements, available separations studies and the most recent information available about achieved rates of return. These estimates are subject to adjustment in future accounting periods, as refined operational information becomes available. To the extent that disputes arise over revenue settlements, the Company’s policy is to defer revenue collected until settlement methodologies are resolved and finalized. At December31, 2001 and 2000, the Company had liabilities of $31,748 and $17,009, respectively, related to refundable access revenue.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes reflect the temporary differences between the financial and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is more likely than not that such deferred tax assets will not be realized. One of the acquired companies had a remaining unamortized regulatory investment tax credit of $695 at May14, 1999, of which $195, $197, $301 was amortized against income in 2001, 2000, and 1999, respectively.

Regulatory Accounting and Regulation

The local telephone exchange operations of the Company account for costs in accordance with the accounting principles for regulated enterprises prescribed by Statement of Financial Accounting Standards (“SFAS”) No.71, *Accounting for the Effects of Certain Types of Regulation.* This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, under SFAS No.71, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Depreciable lives of plant and equipment approximate their estimated economic lives. As of December31, 2001, the Company had deferred as a regulatory asset $1,080 of costs incurred in connection with regulatory rate making proceedings, which will be amortized in future periods. If the Company were not following SFAS 71, these costs would have been charged to expense in the current year. Non-regulated revenues and costs incurred by the local telephone exchange operations and non-regulated operations of the Company are not accounted for under SFAS No.71 principles. The Company believes that the effect of adopting SFAS No.101, *Regulated Enterprises — Accounting for the Discontinuation of Application of FASB Statement No.71,* would not be material to the Company’s financial position, results of operations or cash flows.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Regulatory Accounting and Regulation (Continued)

The local telephone exchange activities of the Company are subject to rate regulation by the FCC for interstate telecommunication service, and the RCA for intrastate and local exchange telecommunication service. The Company, as required by the FCC, accounts for such activity separately. Long distance services of the Company are subject to rate regulation as a non-dominant interexchange carrier by the FCC for interstate telecommunication services and the RCA for intrastate telecommunication services.

Cellular, directory and Internet operations are not subject to rate regulation.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of property, plant and equipment and intangibles if events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable on the undiscounted cash flow basis of the underlying business.

Comprehensive Income (Loss)

The Company's comprehensive loss is equal to its net loss for 2000 and 1999. For 2001, the Company has provided an income tax valuation allowance equal to the income tax benefit resulting from its other comprehensive loss.

Earnings Per Share

Basic earnings per share are calculated using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are calculated using the weighted average of number of common stock outstanding during the period and dilutive common equivalent shares from stock options and warrants calculated using the treasury stock method. Due to the Company's reported net loss, common equivalent shares, which consisted of 3,606, 3,998 and 3,154 options granted to employees, were anti-dilutive for the years ended December31, 2001, 2000 and 1999, respectively. For 1999 earnings per share is based on the weighted average number of shares of common stock outstanding from May14, 1999 through December31, 1999. The weighted average number of shares outstanding during 1999 is calculated from May14, 1999 because the Company had no significant operations or outstanding shares prior to that date.

Recent Accounting Pronouncements

On June29, 2001, the Financial Accounting Standards Board ("FASB") approved for issuance SFAS No.141, *Business Combinations*, which supercedes APB Opinion No, 16, *Business Combinations* and SFAS No.38, *Accounting for Preacquisition Contingencies of Purchased Enterprises.* This statement establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June30, 2001. SFAS No.141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. The adoption of this statement did not have a material impact on its financial position, results of operations or cash flows.

On June29, 2001, the FASB approved for issuance SFAS No.142, *Goodwill and Intangible Assets*, which supercedes APB Opinion No.17, *Intangible Assets.* SFAS No.142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead will be tested for impairment at least annually in accordance with the provisions of SFAS No.142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No.121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of.*

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

The Company adopted SFAS No.142 effective January1, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a business combination completed after June30, 2001, but before SFAS No.142 was adopted, were not amortized. Goodwill and intangible assets acquired in business combinations completed before July1, 2001 were amortized in accordance with the appropriate pre-SFAS No.142 accounting literature. Upon adoption of SFAS No.142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No.142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with SFAS No.142's transitional goodwill impairment evaluation, SFAS No.142 will require the Company to perform an assessment of whether there is an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation in accordance with SFAS No.141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. This second step is required to be completed as soon as possible, but not later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle on the Company's statement of earnings.

At the date of adoption of SFAS No.142, the Company had unamortized goodwill in the amount of $250,495 and unamortized identifiable intangible assets in the amount of $26,784, all of which are subject to the transition provisions of SFAS No.142. Amortization expense related to goodwill was $7,741, $7,510 and $4,243, for the years ended December31, 2001, 2000 and 1999, respectively. Because of the extensive effort needed to comply with adopting SFAS No.142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial position, results of operations and cash flows at the date of this report, including whether it will be required to recognize any transitional impairment losses as a cumulative effect of a change in accounting principle.

On August15, 2001, the FASB issued SFAS No.143, *Accounting for Asset Retirement Obligations*, which is effective for the Company's fiscal year beginning January1, 2003. This statement requires, among other things, the accounting and reporting of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. The Company has not yet determined the impact of the adoption of this standard on its financial position, results of operations and cash flows.

On October3, 2001, the FASB issued SFAS No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which is effective for the Company's fiscal year beginning January1, 2002. This statement addresses accounting and reporting of all long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means. The Company is evaluating the impact of the adoption of this statement on its financial position, results of operations and cash flows.

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2. ACQUISITIONS

On May14, 1999, the Company acquired ACS Holdings who acquired Century Telephone Enterprise, Inc.'s Alaska holdings, including ACSAK, ACSN, ACSF, Pacific Telecom of Alaska PCS, Inc., and Pacific Telecom Cellular of Alaska, Inc., excluding the assets, liabilities and equity of Alaska RSA#1 (collectively, "CenturyTel's Alaska Properties"). On the same date, ACS Holdings also acquired from the Municipality of Anchorage ACSA and its subsidiaries, ACSW and ACSLD (collectively, "ATU"). These holdings include local area exchange service, long distance service, Internet service and cellular operations throughout rural Alaska and Anchorage. Both acquisitions were accounted for under the purchase method of accounting. The financial statements reflect the allocation of the purchase price and assumption of certain liabilities and include the operating results of both ATU and CenturyTel's Alaska Properties from the date of acquisition. In total, the Company paid Century Telephone Enterprise $411,784 for the stock of CenturyTel's Alaska Properties and the Municipality of Anchorage $265,115 for the ATU assets. Acquisition expenses totaling $19,216 were also allocated to the purchase price.

The following reflects the allocation of the purchase price and the sources of funds to finance the purchase.

	CenturyTel Alaska Properties	ATU	Total
Current assets	$ 16,882	$ 42,146	$ 59,028
Property, plant and equipment	157,758	248,648	406,406
Other assets	13,680	20,665	34,345
Liabilities assumed	(19,746)	(41,177)	(60,923)
Net assets acquired	168,574	270,282	438,856
Goodwill	250,323	6,936	257,259
Total cost of acquisition	418,897	277,218	696,115
Acquisition expenses	(7,113)	(12,103)	(19,216)
Total purchase price paid	$ 411,784	$ 265,115	$ 676,899

Net assets acquired were purchased for cash provided from the following sources:

Senior credit facility revolving loan	$ 6,700
Senior credit facility term loans	435,000
9-3/8% senior subordinated notes due 2009	150,000
13% senior discount debentures due 2011	19,911
Issuance of common stock and warrants	126,289
Total sources	$ 737,900

These sources also provided $12,601 of working capital and included $48,400 of transaction fees and expenses.

The following are the unaudited pro forma results for the year ended December31, 1999, giving effect to the acquisitions as if they had occurred at the beginning of that period.

	1999
Revenues	$ 299,909
Loss from continuing operations	(26,749)
Net loss	(30,016)

Loss from continuing operations per share	$	(0.82)
Net loss per share (basic and dilutive)	$	(0.92)

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2. ACQUISITIONS (Continued)

On September30, 1999, the Company acquired a majority interest in Alaskan Choice Television, L.L.C., ("ACTV"'). The cash purchase price was approximately $1,900. On February14, 2000, the Company purchased the remaining one-third interest of ACTV for $3,042, including a $2,250 note payable. This acquisition has been accounted for using the purchase method and its operating results have been included in the consolidated statement of operations from the date of acquisition. This acquisition is not included in the pro forma results above, as it would not have had a significant effect.

On June16, 2000, the Company acquired a 100% interest in Internet Alaska, Inc. It previously held a minority interest of 28.5%. On July6, 2001, The Company acquired the assets and business of Internet Plus. L.L.C., dba MosquitoNet, a Fairbanks based Internet service provider with approximately 5,000 customers. These acquisitions have been accounted for using the purchase method and the operating results from these acquisitions have been included in the consolidated statement of operations from the dates of acquisition. Pro forma information is not provided since the impact of these acquisitions does not have a material effect on the Company's financial position, results of operations and cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable — trade consists of the following at December31, 2001 and 2000:

	2001	2000
Accounts receivable — trade:		
Customers	$ 33,613	$ 39,594
Connecting companies	13,822	13,410
Other	4,421	3,164
	51,856	56,168
Less allowance for doubtful accounts	4,944	9,831
Accounts receivable — trade, net	$ 46,912	$ 46,337

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consists of the following at December31, 2001 and 2000:

	2001	2000
Property, plant, and equipment:		
Land, buildings and support assets	$ 178,736	$ 150,363
Central office switching and transmission	309,291	285,466
Outside plant cable and wire facilities	486,352	455,213
Cellular switching and transmission systems	40,224	33,803
Other	2,359	1,631
Construction work in progress	19,867	27,081
	1,036,829	953,557
Less accumulated depreciation and amortization	557,849	492,822
Property, plant and equipment, net	$ 478,980	$ 460,735

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4. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is a summary of property held under capital leases included in the above property, plant and equipment:

	2001	2000
Property held under capital leases:		
Land, buildings and support assets	$ 13,318	$ 13,305
Outside plant cable and wire facilities	2,710	2,710
	16,028	16,015
Less accumulated depreciation and amortization	4,810	3,609
Property held under capital leases, net	$ 11,218	$ 12,406

Amortization of assets under capital leases included in depreciation expense in 2001, 2000 and 1999 is $1,202 $1,008 and $331, respectively.

The Company leases various land, buildings, right-of-ways, and personal property under operating lease agreements. Rental expenses under operating leases for 2001, 2000 and 1999 were $3,971, $4,055 and $1,030, respectively. Future minimum payments under these leases for the next five years and thereafter are as follows:

2002	$ 2,598
2003	2,461
2004	1,482
2005	976
2006	817
Thereafter	2,968
	$ 11,302

5. OTHER ASSETS

Other assets consist of the following at December31, 2001 and 2000:

	2001	2000
Debt issue costs, net of accumulated amortization of $12,126 and $7,766, respectively	$ 25,768	$ 30,128
Cellular, PCS, and UHF licenses, net of accumulated amortization of $1,572 and $953, respectively	24,324	24,943
Other intangible assets, net of accumulated amortization of $1,258 and $642, respectively	2,460	2,082
Prepaid pension asset	3,775	3,862
Intangible asset — pension	1,754	—
Deferred charges and other assets	4,347	3,289
Other assets	$ 62,428	$ 64,304

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6. ACCOUNTS PAYABLE, ACCRUED AND OTHER CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at December31, 2001 and 2000:

	2001	2000
Accounts payable — trade	$ 10,138	$ 23,754
Accrued payroll, benefits, and related liabilities	8,379	7,048
Accrued personal time off	5,207	5,241
Accrued interest	7,269	3,357
Refundable access revenue	22,688	6,756
Other	9,400	11,959
Accrued and other current liabilities	$ 63,081	$ 58,115

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December31, 2001 and 2000:

	2001	2000
Senior credit facility term loan — tranche A	$ 150,000	$ 150,000
Senior credit facility term loan — tranche B	150,000	150,000
Senior credit facility term loan — tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	150,000
13% senior discount debentures due 2011	17,313	17,313
Original issue discount — 13% senior discount debentures due 2011	(2,666)	(2,950)
Capital leases and other long-term obligations	11,603	14,641
	611,250	614,004
Less current portion	4,823	2,586
Long-term obligations, net of current portion	$ 606,427	$ 611,418

The aggregate maturities of long-term obligations for each of the five years and thereafter subsequent to December31, 2001 are as follows:

2002	$ 4,823
2003	4,717
2004	4,766
2005	4,837
2006	147,408
Thereafter	444,699
	$ 611,250

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7. LONG-TERM OBLIGATIONS (Continued)

Senior Credit Facility

On May14, 1999, the Company entered into a credit agreement with a syndicate of commercial banks which provide the Company's senior credit facility. The senior credit facility provides $435million of term loans and a revolving credit facility with a $75million line of credit. The Company's obligations under the senior credit facility are unconditionally and irrevocably guaranteed, joint and severally, by the Company and its subsidiaries, and secured by collateral that includes substantially all of the Company and its subsidiaries' assets. The senior credit facility contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and the payment of dividends, and requires the Company to achieve certain financial ratios. As of December31, 2001 and 2000 the Company was in compliance with all of the covenants of the senior credit facility.

The tranche A term loan of $150million is repayable in annual principal payments of 1% of outstanding principal commencing on May14, 2002 with the balance due on November14, 2006. The loan bears interest at an annual rate equal (at the Company's option) to: (1)an adjusted London inter-bank offered rate ("LIBOR") plus 2.25% or (2)a rate equal to 1.75% plus the greater of the administrative agent's prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%, in each case subject to reduction based on the Company's financial performance. The rate of interest in effect at December 31, 2001 and 2000 was 4.69% and 9.25%, respectively, and is based on the LIBOR rate option.

The tranche B term loan of $150million is repayable in annual principal payments of 1% of outstanding principal commencing on May14, 2002 with the balance due on November14, 2007. The loan bears interest at an annual rate equal (at the Company's option) to: (1)LIBOR plus 3.00% or (2)a rate equal to 2.00% plus the greater of the administrative agent's prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%. The rate of interest in effect at December31, 2001 and 2000 was 5.44% and 9.50%, respectively, and is based on the LIBOR rate option.

The tranche C term loan of $135million is repayable in annual principal payments of 1% of outstanding principal commencing on May14, 2002 with the balance due on May14, 2008. The loan bears interest at an annual rate equal (at the Company's option) to: (1)LIBOR plus 3.25% or (2)a rate equal to 2.25% plus the greater of the administrative agent's prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%. The rate of interest in effect at December31, 2001 and 2000 was 7.1% and 9.75%, respectively, and is based on the LIBOR rate option.

The senior credit facility also provides a revolving credit facility in the amount of $75million which is available, in part, for up to $25million in letters of credit and up to $10million in the form of swingline loans. This revolving facility is available for seven years and outstanding balances thereunder will bear interest at an annual interest rate option equivalent to that provided under tranche A. There were no amounts outstanding under this revolving credit facility as of December31, 2001 and 2000.

On July24, 1999 the Company entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. This agreement fixed at 5.99% the underlying variable rate on one-half of the borrowings under the senior credit facility, or $217.5million, for a three-year period. The buyer has the right, at their option, to extend the agreement for an additional two years. The differential to be paid or received is recorded as interest expense in the consolidated statement of operations in the period in which it is recognized. The Company is exposed to credit losses from counterparty nonperformance, but does not anticipate any such nonperformance.

Senior Subordinated Notes

On May14, 1999, the Company issued $150million in aggregate principal amount of 9 3/8 % senior subordinated notes due 2009. Interest on the notes is payable semi-annually on May15 and November15. The notes will mature on May 15, 2009, and are redeemable, in whole or in part, at the option of the Company, at any time on or after May15, 2004 at 104.688% of the principal amount declining to 100% of the principal amount on or after May15, 2007. The notes contain a number of restrictive covenants, including covenants limiting incurrence of debt and the payment of dividends. As of December31, 2001 and 2000 the Company was in compliance with all the covenants of the notes.

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7. LONG-TERM OBLIGATIONS (Continued)

Senior Discount Debentures

On May14, 1999 the Company issued $46.9million in aggregate principal amount of senior discount debentures due 2011 and 828 warrants, for gross proceeds of $25million. As amended on October29, 1999, interest accrues at 13.00% and is payable at the Company's option semiannually on May15 and November15, commencing May15, 2000 until May15, 2004 when the Company will be required to semiannually pay interest. After the consummation of the Company's offering of common stock, in December 1999 the Company redeemed 35% ($9,321) of the aggregate principal amount of the discount debentures original issues, at a price equal to their accreted value plus a premium of one year's interest at the stated rate. The debentures will mature on May15, 2011, and are redeemable, in whole or in part, at the option of the Company, at any time on or after May15, 2004 at 106.5% of the principal amount declining to 100% of the principal amount on or after May15, 2009. The debentures contain a number of restrictive covenants, including covenants limiting incurrence of debt and the payment of dividends. As of December31, 2001 and 2000 the Company was in compliance with all the covenants of the debentures.

The original issue discount of $5,089 resulted from the issuance of detachable warrants in connection with the 13.00% senior discount debentures. These detachable warrants were exercisable into 828 shares of common stock at any time from May14, 1999 through May15, 2011 at $0.01 per share. The original issue discount represents the difference between the exercise price and the fair value of the underlying shares at the date of issue. On November 18, 1999, these warrants were exercised in a roll-up transaction resulting in 828 shares of stock being issued.

Capital leases and other long-term obligations

The Company has entered into various capital leases and other debt agreements totaling $11,603 and $14,641 with a weighted average interest rate of 8.74% and 8.91% at December31, 2001 and 2000, respectively.

8. OTHER DEFERRED CREDITS AND LONG-TERM LIABILITIES:

Deferred credits and other long-term liabilities consist of the following at December31, 2001 and 2000:

	2001	2000
Refundable access revenue	$ 9,060	$ 10,253
Interest rate swap	11,437	—
Additional pension liability	4,147	—
Other deferred credits	359	502
Total deferred credits and other long-term liabilities	$ 25,003	$ 10,755

9. LOCAL TELEPHONE OPERATING REVENUE

Local telephone operating revenues consisted of the following for the years ended December31, 2001, 2000 and 1999:

	2001	2000	1999
Local network service	$ 96,270	$ 94,098	$ 59,891
Network access revenue	102,977	105,172	67,174
Deregulated revenue and other	22,164	22,998	15,190
Total local telephone operating revenues	$ 221,411	$ 222,268	$ 142,255

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10. UNUSUAL CHARGES

During 2000, the Company recorded $5,288 of unusual charges, consisting of the following:

	2000
Costs incurred in attempted acquisition	$ 1,451
Severance and restructuring costs	3,019
Legal settlement	818
	$ 5,288

During 2000, the Company attempted to acquire the Matanuska Telephone Association, a cooperative telephone association located in Alaska. The acquisition was subject to approval by a vote of the membership of the cooperative association requiring a super majority, which was held in September of 2000. The membership of the association voted to approve the acquisition but failed to achieve the required super majority. The Company had incurred $1,451 of legal, consulting and other out of pocket costs associated with the attempted acquisition which were charged to expense during September 2000.

The Company recorded $3,019 related to severance and restructuring charges under several plans adopted during 2000. Employee force reductions resulting from these restructuring plans are expected to total approximately 200 by their completion and include employee groups located in Alaska within the local telephone, cellular and Internet operations. The Company expects these plans to be completed by September30, 2002. The plans also called for the closure of a branch operation in Vancouver, Washington, which was completed during the second quarter of 2001. As of December31, 2001, $2,267 has been paid under the plans and approximately 150 employees have been terminated.

In December 2000, the Company settled out of court a claim by a vendor that arose from an undisclosed contractual obligation it incurred in the purchase of the Company’s operations in May 1999, resulting in a charge to expense of $818.

11. INCOME TAXES

The Company’s combined federal income and state effective income tax rate from continuing operations was a benefit of 1.7%, 0.8% and 1.3% in 2001, 2000 and 1999, respectively. The difference between taxes calculated as if the statutory federal rate of 34% was applied to loss from continuing operations before income tax and the recorded tax benefit is reconciled as follows:

	2001	2000	1999
Computed federal income taxes at the 34% statutory rate	$ (3,887)	$ (8,891)	$ (7,774)
Increase (reduction) in tax resulting from			
State income taxes (net federal benefit)	(733)	(1,494)	(1,407)
Original issue discount interest	182	211	908
Amortization of investment tax credits	(195)	(197)	(301)
Valuation allowance — book net operating loss	4,161	10,205	7,965
Other	277	(31)	308
Total income tax benefit	$ (195)	$ (197)	$ (301)

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11. INCOME TAXES (Continued)

The benefit for income taxes is summarized as follows:

	2001	2000	1999
Current:			
Federal income tax	$ —	$ —	$ —
State income tax	—	—	—
Total current	—	—	—
Deferred:			
Federal income tax	—	—	—
State income tax	—	—	—
Total deferred	—	—	—
Amortization of investment tax credits	(195)	(197)	(301)
Total income tax benefit	$ (195)	$ (197)	$ (301)

The effect of significant items comprising the Company's net deferred tax liability at 34% were as follows:

	2001	2000	1999
Deferred tax liabilities — long-term:			
Property, plant and equipment	$ (20,380)	$ (16,338)	$ (4,427)
Intangibles	(13,105)	(7,235)	(80)
Other	—	(169)	—
Total long-term deferred tax liabilities	(33,485)	(23,742)	(4,507)
Deferred tax assets:			
Current:			
Accrued compensation	4,081	5,329	1,433
Accrued bad debts	2,172	4,825	997
Deferred investment tax credit	—	80	162
Regulatory liabilities FASB 109	—	70	113
Minimum pension liability adjustment	957	—	—
Interest rate swap mark to market	4,575	—	—
Extraordinary net operating loss	—	—	1,343
Other	622	—	—
Total current deferred tax assets	12,407	10,304	4,048
Long-term:			
Net operating loss carryforwards from operations	50,284	32,598	10,042
Original issue discount	—	503	—
Total long-term deferred tax assets	50,284	33,101	10,042
Total deferred tax assets	62,691	43,405	14,090
Valuation allowance	(29,206)	(19,513)	(9,308)
Net deferred tax asset	$ —	$ 150	$ 275

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11. INCOME TAXES (Continued)

The company has available at December31, 2001 unused operating loss carryforwards of $125,710 that may be applied against future taxable income and that expire as shown below. Per the schedule below the total Net Operating Loss (“NOL”) is made up of NOLs generated by the consolidated group and NOLs obtained with the 2000 acquisition of Internet Alaska. The Internet Alaska NOLs are limited by special rules known as Separate Return Limitation Year or SRLY rules. SRLY NOLs can only be used in year that both the Consolidated Group and the entity that created the SRLY NOLs have taxable income. The tax benefits derived from the utilization of the SRYL NOLs will reduce goodwill.

Year of Expiration	Internet Alaska's SRLY	Unused Operating Loss Carryforwards	Total Unused Operating Loss Carryforwards
2017	$ 27	$ —	-$27
2018	328	—	328
2019	852	20,390	21,242
2020	2,631	57,655	60,286
2021	—	43,827	43,827
	$ 3,838	$ 121,872	$ 125,710

12. EXTRAORDINARY ITEM

On December3, 1999 the Company retired 35% ($9,321) of the senior discount debentures due in 2011 with a portion of the proceeds from its initial public offering (“IPO”) of common stock in November 1999. The Company paid a premium of 13% of the retired principal in the amount of $1,219. Additionally, 35% of the debt issue costs and original issue discount resulting from the warrants associated with the senior discount debentures were written off in the amounts of $294, and $1,754, respectively. The transaction resulted in an extraordinary charge of $3,267 ($0.14 per share). The income tax benefit of $1,343 was offset by a valuation allowance.

13. STOCK INCENTIVE PLANS

Under various plans, ACS Group, through the Compensation Committee of the Board of Directors, may grant stock options, stock appreciation rights and other awards to officers, employees and non-employee directors. At December31, 2001, ACS Group has reserved a total of 6,060 shares of authorized common stock for issuance under the various plans. In general, options under the plans vest ratably over three, four or five years and the plans terminate in approximately 10years.

The Company applies Accounting Principles Board Opinion No.25 *“Accounting for Stock Issued to Employees,”* in accounting for its plans. Accordingly, no compensation cost has been recognized for options with exercise prices equal to or greater than fair value on the date of grant. Compensation cost charged to operations in 1999 was $6,145. No compensation costs were charged to operations in 2001 or 2000. If compensation costs had been determined consistent with SFAS No.123 *“Accounting for Stock-Based Compensation,”* the Company’s net loss and net loss per share on a pro forma basis for 2001, 2000 and 1999 would have been as follows:

		2001	2000	1999
Net loss:				
	As reported	$ (11,238)	$ (25,205)	$ (25,478)
	Pro forma	(12,706)	(26,867)	(26,144)
Net loss per share — basic and diluted:				
	As reported	$ (0.36)	$ (0.77)	$ (1.09)
	Pro forma	(0.40)	(0.82)	(1.12)

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13. STOCK INCENTIVE PLANS (Continued)

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for grants:

	2001	2000	1999
Risk free rate	4.45 %	5.50 %	5.50 %
Dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility factor	55.2 %	52.5 %	40.3 %
Expected option life (years)	5.9	6.1	7.0

ALEC Holdings, Inc. 1999 Stock Incentive Plan

ACS Group has reserved 3,410 shares under this plan, which was adopted in connection with the completion of the acquisitions on May14, 1999 (see Note 2, Acquisitions). At December31, 2001 4,003 options have been granted, 1,112 have been forfeited, 356 have been exercised and 519 are available for grant under the plan. The plan allows forfeited options to be reissued. The plan will terminate on May14, 2009.

Information on outstanding options for the years ended December31, 2001, 2000 and 1999 is summarized as follows:

	2001		2000		1999	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding January 1	2,906	$ 6.05	3,154	$ 6.15	—	$ —
Granted	75	7.00	505	5.50	3,423	6.15
Exercised	(119)	6.07	(198)	6.15	(39)	6.15
Canceled or expired	(327)	6.01	(555)	6.08	(230)	6.15
Outstanding December 31	2,535	6.09	2,906	6.05	3,154	6.15
Options exercisable at December 31	1,802	6.10	1,541	6.12	1,255	6.15
Weighted average fair value of options granted		4.00		3.09		3.88

The outstanding options at December31, 2001 have the following characteristics:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$5.50 - $7.00	2,535	6.90	$ 6.09	1,802	$ 6.10

Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan

The Company has reserved 1,500 shares under this plan, which was adopted by ACS Group in November 1999 in connection with its IPO. At December31, 2001 1,432 options have been granted, 352 have been forfeited, 9 have been exercised and 420 are available for grant under the plan. The plan allows forfeited options to be reissued. The term of options granted under the plan may not exceed 10years. Unless otherwise determined by the Compensation Committee of the Board of Directors, options will vest ratably on each of the first four anniversaries after the grant date and will have an exercise price equal to the fair market value of the common stock on the date of grant.

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13. STOCK INCENTIVE PLANS (Continued)

No shares were awarded under this plan during 1999. Information on outstanding options for the year December31, 2001 and 2000 is summarized as follows:

	2001		2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding January 1	1,092	$ 11.53	—	$ —
Granted	185	6.74	1,247	11.86
Exercised	(9)	5.50	—	—
Canceled or expired	(197)	11.51	(155)	14.20
Outstanding December 31	1,071	10.76	1,092	11.53
Options exercisable at December 31	456	11.08	186	11.66
Weighted average fair value of options granted		3.74		6.55

The outstanding options at December31, 2001 have the following characteristics:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$5.50 - $6.86	444	9.23	$ 5.97	170	$ 5.91
$8.58 - $12.63	22	8.47	12.63	9	12.63
$14.20	605	8.12	14.20	277	14.20

ACS Group, Inc. 1999 Non-Employee Director Stock Compensation Plan

The non-employee director stock compensation plan was adopted by ACS Group in connection with its IPO. ACS Group has reserved 150 shares under this plan. At December31, 2001 52 shares have been awarded and 98 shares are available for grant under the plan. Directors are required to receive not less than 25% of their annual retainer and meeting fees in the form of ACS Group’s stock, and may elect to receive up to 100% of director’s compensation in the form of stock.

No shares were awarded under this plan during 1999. During the year ended December31, 2000, 26 shares under the plan were awarded to directors, of which 13 were elected to be deferred until termination of service by the directors. During the year ended December31, 2001, 26 shares under the plan were awarded to directors, of which 19 were elected to be deferred until termination of service by the directors.

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13. STOCK INCENTIVE PLANS (Continued)

Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan

This plan was also adopted in connection with ACS Group's IPO in November 1999. ACS Group has reserved 1,000 shares under this plan. At December31, 2001, 782 shares are available for issuance and sale. The plan will terminate on December31, 2009. All ACS Group employees and all of the employees of designated subsidiaries generally will be eligible to participate in the purchase plan, other than employees whose customary employment is 20 hours or less per week or is for not more than five months in a calendar year, or who are ineligible to participate due to restrictions under the Internal Revenue Code.

On June30, 2000, 65 shares were issued under the plan. On December29, 2000, 67 shares were issued under the plan. On June29, 2001, 48 shares were issued under the plan. On December31, 2001, 38 shares were issued under the plan.

A participant in the purchase plan may authorize regular salary deductions of a maximum of 15% and a minimum of 1% of base compensation. The fair market value of shares which may be purchased by any employee during any calendar year may not exceed $25. The amounts so deducted and contributed are applied to the purchase of full shares of common stock at 85% of the lesser of the fair market value of such shares on the date of purchase or on the offering date for such offering period. The offering dates are January 1 and July 1 of each purchase plan year, and each offering period will consist of one six-month purchase period. The first offering period under the plan commenced on January1, 2000. Shares are purchased on the open market or issued from authorized but unissued shares on behalf of participating employees on the last business days of June and December for each purchase plan year and each such participant has the rights of a stockholder with respect to such shares. During the year ended December31, 2001 approximately 20% of eligible employees elected to participate in the plan.

14. RETIREMENT PLANS

Pension benefits for substantially all of the Company's employees are provided through the Alaska Electrical Pension Plan ("AEPP"). The Company pays a contractual hourly amount based on employee classification or base compensation. As a multi-employer defined benefit plan, the accumulated benefits and plan assets are not determined or allocated separately to the individual employer. The Company's portion of the plan's pension cost for 2001, 2000 and 1999 was $11,830, $10,978 and $6,099, respectively.

The Company also has a separate defined benefit plan that covers certain employees previously employed by Century Telephone Enterprise, Inc. ("CenturyTel Plan"). This plan was transferred to the Company in connection with the acquisition of the CenturyTel's Alaska Properties. Existing plan assets and liabilities of the CenturyTel Plan were transferred to the ACS Retirement Plan on September1, 1999. Accrued benefits under the ACS Retirement Plan were determined in accordance with the provisions of the CenturyTel Plan. Upon completion of the transfer to the Company, covered employees ceased to accrue benefits under the plan. On November1, 2000 the ACS Retirement Plan was amended to conform early retirement reduction factors and various other terms to those provided by the AEPP. As a result of this amendment, prior service cost of $1,992 was recorded and will be amortized over the expected service life of the plan participants at the date of the amendment. The Company uses the traditional unit credit method for the determination of pension cost for financial reporting and funding purposes and complies with the funding requirements under the Employee Retirement Income Security Act of 1974 ("ERISA"). Since the plan is adequately funded under ERISA, no contribution was made in 2001, 2000 or 1999.

The following table represents the net periodic pension expense (benefit) for the ACS Retirement Plan for 2001, 2000 and 1999:

	2001	2000	1999
Interest cost	$ 627	$ 447	$ 149
Expected return on plan assets	(773)	(813)	(170)
Amortization of gain/loss	30	—	—
Amortization of prior year service costs	203	34	—
Net periodic pension expense (benefit)	$ 87	$ (332)	$ (21)

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14. RETIREMENT PLANS (Continued)

The following is a reconciliation of the beginning and ending balances for 2001 and 2000 for the projected benefit obligation and the plan assets of the ACS Retirement Plan:

	2001	2000
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 8,600	$ 5,724
Plan amendments	—	1,992
Amortization of prior service cost	(203)	(34)
Interest cost	627	447
Actuarial loss	215	501
Benefits paid	(131)	(30)
Projected benefit obligation at end of year	$ 9,108	$ 8,600
Change in plan assets		
Fair value of plan assets at beginning of year	$ 9,257	$ 9,564
Return on plan assets	(390)	(277)
Benefits paid	(131)	(30)
Fair value of plan assets at end of year	$ 8,736	$ 9,257

The following table represents the funded status of the ACS Retirement Plan at December31, 2001 and 2000:

	2001	2000
Projected benefit obligation	$ (9,108)	$ (8,600)
Plan assets at fair value	8,736	9,257
Funded Status	(372)	657
Unrecognized prior service cost	1,755	1,958
Unrecognized net loss	2,392	1,247
Net amount recognized	$ 3,775	$ 3,862

The net amounts recognized in the balance sheet were classified as follows at December31, 2001 and 2000:

	2001	2000
Prepaid benefit costs	$ —	$ 3,862
Accrued benefit liability	(372)	—
Intangible asset	1,755	—
Accumulated other comprehensive income	2,392	—
Net amount recognized	$ 3,775	$ 3,862

The actuarial assumptions used to account for the plan as of December31, 2001 and 2000 are as follows:

	2001	2000
Discount rate	7.25 %	7.50 %
Expected return on assets	8.50 %	8.50 %
Rate of compensation increase	0.00 %	0.00 %

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14. RETIREMENT PLANS (Continued)

The Company also has a separate executive post retirement health benefit plan. The Alaska Communications Systems Executive Retiree Health Benefit Plan ("The ACS Health Plan") was adopted by the Company in November 2001. The ACS Health Plan covers a select group of management or highly compensated employees. The group of eligible employees is selected by a committee appointed by the Compensation Committee of ACS Group's Board of Directors. Each eligible employee must complete 10years of service and be employed by the Company in the capacity of an executive officer for a minimum of 36 consecutive months immediately preceding retirement. The ACS Health Plan provides a graded subsidy for medical, dental, and vision coverage. The Company uses the projected unit credit method for the determination of post retirement health cost for financial reporting and funding purposes and complies with the funding requirements under the Employee Retirement Income Security Act of 1974. The Company made a contribution of $128 to the ACS Health Plan during 2001.

The following represents the net periodic postretirement benefit expense for the ACS Health Plan for 2001:

Service cost	$11
Interest cost	6
Amortization of prior service cost	4
Net periodic postretirement benefit expense	$21

The following is a reconciliation of the beginning and ending balances for 2001 for the projected benefit obligation and the plan assets for the ACS Health Plan

Change in accumulated postretirement benefit obligation:

Accumulated postretirement benefit obligation at beginning of the year:	$ —
Plan adoption	586
Service cost	11
Interest cost	6
Actuarial gain	(15)
Accumulated postretirement benefit obligation at end of the year:	$588
Change in plan assets	
Fair value of plan assets at beginning of year	$ —
Employer contributions	128
Fair value of plan assets at end of year	$128

The following table represents the funded status of the ACS Health Plan at December31, 2001:

Accumulated postretirement benefit obligation	$ (588)
Plan assets at fair value	128
Funded status	(460)
Unrecognized prior service cost	582
Unrecognized net gain	(15)
Pension asset at end of year	$ 107

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14. RETIREMENT PLANS (Continued)

The actuarial assumptions used to account for the ACS Health Plan as of December31, 2001 is an assumed discount rate of 7.25% and an expected long term rate of return on plan assets of 8.50%. For measurement purposes, the assumed annual rates of increases in health care costs is as follows:

Year	Pre 65 premiums	Post 65 premiums
1	7.00 %	10.00 %
2	7.00 %	9.00 %
3	7.00 %	8.00 %
4	7.00 %	7.00 %
5 and thereafter	7.00 %	7.00 %

Assumed health care cost trend rates have a significant effect on the amounts reported for the ACS Health Plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2001:

	1%	-1%
Effect on total of service and interest cost components	106	(86)
Effect on accumulated postretirement benefit obligation	4	(3)

The Company also provides a 401(k) retirement savings plan covering substantially all of its employees. The plan allows for discretionary matching contributions as determined by the Board of Directors, subject to Internal Revenue Code limitations. There was no matching contribution for 2001, 2000 or 1999.

15. BUSINESS SEGMENTS

The Company has five reportable segments: local telephone, cellular, directory, Internet and interexchange. Beginning with the first quarter of 2001, the Company began reporting directory and interexchange as separate segments. Prior year amounts have been reclassified to conform with the current presentation. Local telephone provides landline telecommunications services, and consists of local network service, network access and deregulated and other revenues; cellular provides wireless telecommunications service; directory provides yellow page advertising and other related products; Internet provides Internet service; and interexchange provides long distance and private network services. Each reportable segment is a strategic business under separate management and offering different services than those offered by the other segments. The Company also has a wireless cable television service segment that does not currently meet the criteria for a reportable segment and is therefore included in “All Other” below.

The Company also incurs interest expense, interest income, equity in earnings of investments, goodwill amortization on the original May14, 1999 purchases, and other operating and non operating income and expense at the corporate level which are not allocated to the business segments, nor are they evaluated by the chief operating decision maker in analyzing the performance of the business segments. These non operating income and expense items are provided in the accompanying table under the caption “All Other” in order to assist the users of these financial statements in reconciling the operating results and total assets of the business segments to the consolidated financial statements. Common use assets are held at either the Company or ACS Holdings and are allocated to the business segments based on operating revenues. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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15. BUSINESS SEGMENTS (Continued)

The following table illustrates selected financial data for each segment as of and for the year ended December31, 2001:

	Local Telephone	Cellular	Directory	Internet	Interexchange	All Other	Eliminations	Total
Operating revenues	$ 221,411	$ 40,427	$ 33,870	$ 13,726	$ 30,795	$ 18,032	$ (26,582)	$ 331,679
Depreciation and amortization	53,242	5,626	2	2,606	2,284	16,051	—	79,811
Operating income (loss)	34,794	5,084	19,349	(9,504)	(1,752)	(2,443)	—	45,528
Interest expense	(1,716)	(36)	—	(97)	(302)	(58,132)	—	(60,283)
Interest income	13	14	—	—	—	1,963	—	1,990
Income tax provision (benefit)	13,534	2,164	7,966	—	—	(23,859)	—	(195)
Net income (loss)	19,560	2,966	11,383	(9,591)	(2,049)	(33,507)	—	(11,238)
Total assets	678,599	111,620	49,671	5,241	32,390	23,993	—	901,514
Capital expenditures	45,243	5,786	413	16,319	19,787	34	—	87,582

Operating revenues disclosed above include intersegment operating revenues of $21,677 for local telephone, $1,603 for cellular, $ 1,400 for directory, $2 for Internet and $13,851 for interexchange. In accordance with SFAS No.71, intercompany revenues between local telephone and non-local telephone operations are not eliminated above.

The following table illustrates selected financial data for each segment as of and for the year ended December31, 2000:

	Local Telephone	Cellular	Directory	Internet	Interexchange	All Other	Eliminations	Total
Operating revenues	$ 222,268	$ 39,540	$ 29,156	$ 9,172	$ 19,773	$ 17,740	$ (24,656)	$ 312,993
Depreciation and amortization	56,912	5,029	—	1,495	1,345	7,484	—	72,265
Operating income (loss)	31,751	6,414	15,155	(8,760)	(1,325)	(10,304)	—	32,931
Interest expense	(1,046)	(11)	—	(109)	(312)	(63,232)	—	(64,710)
Interest income	105	215	—	—	—	6,498	—	6,818
Income tax provision (benefit)	7,913	2,703	6,214	—	—	(17,027)	—	(197)
Net income (loss)	22,814	3,944	8,941	(8,863)	(1,631)	(50,410)	—	(25,205)
Total assets	660,928	111,705	33,811	26,189	45,982	29,670	—	908,285
Capital expenditures	53,974	11,505	—	3,252	3,030	492	—	72,253

Operating revenues disclosed above include intersegment operating revenues of $9,840 for local telephone, $937 for cellular, $2 for Internet and $13,208 for interexchange. In accordance with SFAS No.71, intercompany revenues between local telephone and non-local telephone operations are not eliminated above.

The following table illustrates selected financial data for each segment as of and for the year ended December31, 1999:

	Local Telephone	Cellular	Directory	Internet	Interexchange	All Other	Eliminations	Total
Operating revenues	$ 142,255	$ 24,882	$ 16,896	$ 2,853	$ 5,946	$ 787	$ (474)	$ 193,145
Depreciation and amortization	32,881	2,159	—	219	666	4,381	—	40,306
Operating income (loss)	10,491	6,801	9,293	(2,267)	(3,905)	(4,126)	—	16,287
Interest expense	(240)	(10)	—	—	—	(39,374)	—	(39,624)
Interest income	682	88	—	—	—	851	—	1,621
Income tax provision (benefit)	3,983	2,890	3,810	—	—	(10,984)	—	(301)
Net income (loss)	6,447	4,056	5,483	(2,267)	(3,905)	(35,292)	—	(25,478)

Extraordinary item	—	—	—	—	—	(3,267)	—	(3,267)
Total assets	742,601	114,654	30,804	5,201	32,491	8,692	—	934,443
Capital expenditures	44,346	10,962	—	—	19,520	—	—	74,828

Operating revenues disclosed above include intersegment operating revenues of $3,177 for local telephone, $479 for cellular, and $853 for interexchange. In accordance with SFAS No.71, intercompany revenues between local telephone and non-local telephone operations are not eliminated above.

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16. RELATED PARTY TRANSACTIONS

Fox Paine Company, ACS Group's majority stockholder, receives an annual management fee in the amount of 1% of the Company's net income before interest expense, interest income, income taxes, depreciation and amortization, and equity in loss of investments, calculated without regard to the fee. The management fee expense for 2001, 2000 and 1999 was $1,285, $1,169 and $610, respectively. The management fee payable at 2001 and 2000 was $1,303 and $1,145, respectively.

In addition, in 1999, Fox Paine Company received aggregate advisory fees in the amount of $14,200 upon consummation of the acquisitions of CenturyTel's Alaska Properties and ATU and was reimbursed for pre-closing costs of $9,941.

In connection with stock grants, the Company loaned officers of the Company $757 with an interest rate of the federal funds rate or 8%, whichever was greater. The loans was secured by shares of ACS Group's common stock owned by the individual officers. At December31, 1999 the balances of the officer loans were $794. These loans were repaid in their entirety on January3, 2000.

On April17, 2001, the Company issued an interest bearing note receivable to an officer totaling $328. The note bears interest at the Mid-Term Applicable Federal Rate, which was 3.90% as of December31, 2001, and is due on April15, 2005. The note is secured by a pledge of 100 shares of the Company's stock held in the officer's name. The note balance, including accrued interest, was $339 as of December31, 2001.

17. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Commencing January1, 2001, The Company adopted SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities* and its corresponding amendments under SFAS No.138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* SFAS No.133 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in fair value of a derivative depends on the intended use of the derivative, and its designation as a hedge. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in fair value of derivatives either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or are recognized in other comprehensive income until the hedged transaction is recognized in earnings. The change in a derivative's fair value related to the ineffective portion of a hedge, if any, is immediately recognized in earnings.

As a result of adopting SFAS No.133, The Company recognized as an asset at January1, 2001, a cumulative transition adjustment of $1,243 related to marking to fair value a designated cash flow hedge in the form of a variable to fixed interest rate swap. The cumulative unrealized gain from the transition adjustment was recorded as a credit to other comprehensive income within the Consolidated Statement's of Stockholders' Equity. As of December31, 2001, the fair value of the swap has declined to a liability of $11,437, which is recorded in other deferred credits and long-term liabilities on the Company's Consolidated Balance Sheets. The realized gains and losses of the swap and its associated hedged long-term debt are recorded net in interest expense on the Company's Consolidated Statements of Operations. For the year ended December 31, 2001, realized changes in the fair value of the cash flow hedge amounted to a charge of $3,653, of which the ineffective portion was $247. Both the realized effective and ineffective components of the cash flow hedge were recorded as an increase to interest expense. Assuming a weighted average variable rate based on implied forward rates in the LIBOR yield curve as of December31, 2001, $8,301 would be charged to earnings as interest expense as a result of projected realized changes in fair value of the cash flow hedge expected to occur in 2002. The swap agreement currently in place expires on June24, 2004, including extension terms which the Company expects to be exercised based on current LIBOR rates.

The Company maintains an interest rate risk management strategy as a condition of its bank credit agreement that uses derivatives to minimize significant, unanticipated earnings and cash flow fluctuations caused by interest rate volatility. The Company's specific goals are (1)to manage interest rate sensitivity by modifying the repricing characteristics of certain of its debt and (2)to lower (where possible) the cost of borrowed funds. The Company does not enter into derivative financial instruments for speculative or trading purposes.

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17. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

By using derivative financial instruments to hedge exposure to changes in interest rates, the Company exposes itself to credit risk and market risk. The Company has minimized its credit risk by entering into a transaction with a high-quality counterparty and monitoring the financial condition of that counterparty. Market risk is managed through the setting and monitoring of parameters that limit the types and degree of market risks that are acceptable.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash and short-term investments, accounts receivable and payable, and other short-term assets and liabilities approximate carrying values due to their short-term nature.

The fair value for the Company's senior subordinated notes was estimated based on quoted market prices. The fair value of the Company's term loan facilities approximates carrying values due to the variable interest rate nature of the debt. The fair value of the Company's senior discount debentures is estimated based on market interest rates currently available to the Company. The Company employs an interest rate swap agreement to manage interest rate exposure. Amounts payable or receivable under the agreement are recognized as adjustments to interest expense in the periods in which they accrue. The fair value of the Company's interest rate swap agreement represents the estimated amount the Company would receive or pay to terminate the agreement, calculated based on the present value of expected payments or receipts based on implied forward rates in the LIBOR yield curve at the end of the year.

The following table summarizes the Company's carrying values and fair values of the debt components of its financial instruments at December31, 2001:

	Carrying Value	Fair Value
Senior credit facility term debt — tranche A	$ 150,000	$ 150,000
Senior credit facility term debt — tranche B	150,000	150,000
Senior credit facility term debt — tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	148,500
13% senior discount debentures due 2011	14,647	21,212
Interest Rate Swap Agreement	—	11,437
Capital leases and other long-term obligations	11,603	11,603
	$ 611,250	$ 627,752

The following table summarizes the Company's carrying values and fair values of the debt components of its financial instruments at December31, 2000:

	Carrying Value	Fair Value
Senior credit facility term debt — tranche A	$ 150,000	$ 150,000
Senior credit facility term debt — tranche B	150,000	150,000
Senior credit facility term debt — tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	126,375
13% senior discount debentures due 2011	14,363	21,665
Interest Rate Swap Agreement	—	(1,243)
Capital leases and other long-term obligations	14,641	14,641
	$ 614,004	$ 596,438

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19. COMMITMENTS AND CONTINGENCIES

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

A class action lawsuit was filed against the Company on March14, 2001. The litigation alleges various contract and tort claims concerning the Company's decision to terminate its Infinite Minutes long distance plan. Although the Company believes this suit is without merit and intends to vigorously defend its position, it is impossible to determine at this time the actual number of plaintiffs or the claims that will actually continue to be in dispute.

In December 2001, the Company entered into a material contract with the State of Alaska to provide it with comprehensive telecommunications services for a period of five years. This contract obligates the Company to, among other things, provide on the state's behalf customer premise equipment and other capital assets which the Company believes will range between $25,000 and $30,000 over the term of the agreement, including $20,000 to $25,000 during 2002. The Company intends to fund this commitment with cash on hand and cash flow from operations.

The Company has entered into an agreement with a third party to provide to that party a financing commitment for an amount ranging from $10,000 to $15,000, contingent upon the third party achieving certain objectives. Such financing would be provided in the form of an unsecured loan. The Company believes such financing may occur during 2002 and it intends to fund it with cash on hand and cash flow from operations.

20. PARENT COMPANY FINANCIAL INFORMATION

The Company's senior credit facility contains a number of restrictive covenants and events of default, including covenants limiting the Company's subsidiaries from making certain loans, advances and payments to ACS Group. Condensed financial information of Alaska Communications Systems Group, Inc. as of December31, 2001 and 2000, and the related consolidated statements of operations, and stockholders' equity for each of the three years in the period ended December31, 2001 is presented and should be read in conjunction with the consolidated financial statements and the notes thereto:

Balance Sheets	2001	2000
Assets:		
Investments	$ 222,507	$ 231,153
Other assets	447	495
Total Assets	$ 222,954	$ 231,648
Liabilities:		
Current liabilities	2,507	1,622
Long-term debt, net of current portion	14,931	14,646
Total Liabilities	17,438	16,268
Shareholders' equity:		
Common stock	332	330
Treasury stock	(9,735)	(9,735)
Paid in capital in excess of par value	276,840	275,468
Accumulated deficit	(61,921)	(50,683)
Total Shareholders' equity	205,516	215,380
Total Liabilities and shareholders' equity	$ 222,954	$ 231,648

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20. PARENT COMPANY FINANCIAL INFORMATION (CONTINUED)

	2001	2000	1999
Statement of Operations			
Equity in undistributed income of subsidiaries	$ (8,646)	$ (25,653)	$ (20,701)
Interest expense	(2,592)	(2,601)	(2,107)
Interest income	—	3,049	597
Loss before extraordinary item	(11,238)	(25,205)	(22,211)
Extraordinary item	—	—	(3,267)
Net loss	$ (11,238)	$ (25,205)	$ (25,478)

	2001	2000	1999
Statement of Cash Flows			
Net cash flows from operating activities	$ (1,374)	$ (95,340)	$ 94,115
Cash flows from investing activities -			
Costs of acquisitions, net of cash received	—	—	(281,097)
Cash flows from financing activities:			
Proceeds from the issuance of long-term debt	—	—	23,670
Repayments of long-term debt	—	—	(9,321)
Issuance of common stock and warrants	1,374	2,352	266,507
Debt issuance costs	—	—	(886)
Dividends	—	9,735	—
Repurchase of treasury stock	—	(9,735)	—
Net cash flows provided (used)by financing activities	1,374	2,352	279,970
Increase (decrease)in cash	—	(92,988)	92,988
Cash and cash equivalents, beginning of year	—	92,988	—
Cash and cash equivalents, end of year	$ —	$ —	$ 92,988

21. CONSOLIDATED QUARTERLY OPERATING INFORMATION (UNAUDITED)

	Quarterly Financial Data			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Operating revenues	$ 81,234	$ 81,743	$ 82,820	$ 85,882
Operating income	10,033	11,638	12,209	11,648
Net loss	(4,869)	(2,804)	(1,399)	(2,166)
Loss per share — basic and diluted:	(0.15)	(0.09)	(0.04)	(0.07)
2000				
Operating revenues	$ 78,226	$ 80,728	$ 74,866	$ 79,173
Operating income	11,234	11,949	3,326	6,422
Net loss	(3,138)	(2,696)	(10,876)	(8,495)

Loss per share — basic and diluted:	(0.10)	(0.08)	(0.33)	(0.26)

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December31, 2001, 2000 and 1999
(In Thousands Except Per Share Amounts)

21. CONSOLIDATED QUARTERLY OPERATING INFORMATION (UNAUDITED) (Continued)

	Quarterly Financial Data			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Operating revenues	$ —	$ 38,282	$ 75,540	$ 79,323
Operating income	—	2,374	10,602	3,311
Loss from continuing operations	—	(5,746)	(4,914)	(11,551)
Extraordinary item	—	—	—	(3,267)
Net loss	—	(5,746)	(4,914)	(14,818)
Loss per share — basic and diluted:				
Net loss before extraordinary item	—	(0.29)	(0.23)	(0.43)
Extraordinary item	—	—	—	(0.12)
Net loss	—	(0.29)	(0.23)	(0.55)

The Company had no operations prior to the acquisitions of Alaska Communications Systems Holdings, Inc., CenturyTel's Alaska Properties, and ATU on May14, 1999. Fourth quarter operating income for 1999 included stock based compensation expense of $6,145.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
ScheduleII- Valuation and Qualifying Accounts
(In Thousands)

Description	Balance at Beginning of Period	Charged to costs and expenses	Charged to other accounts (1)	Deductions (2)	Balance at End of Period
2001 Allowance for doubtful accounts	$ 9,831	$ 4,932	$ 1,576	$ 11,395	$ 4,944
2000 Allowance for doubtful accounts	$ 5,203	$ 7,839	$ 751	$ 3,962	$ 9,831
1999 Allowance for doubtful accounts	$ —	$ 1,130	$ 4,798	$ 725	$ 5,203

(1) Represents the allowance for doubtful accounts at the date of acquisition, and reserve for accounts receivable collected on the behalf of others.
(2) Represents credit losses written off during the period, less collection of amounts previously written off.

EXHIBIT 10.11

[THE SEAL OF THE STATE OF ALASKA]

COMPREHENSIVE TELECOMMUNICATIONS SERVICE AGREEMENT

NUMBER 99-123-A

BETWEEN

THE STATE OF ALASKA

AND

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC. (ACS)

COMPREHENSIVE TELECOMMUNICATIONS SERVICE AGREEMENT NUMBER 99-123-A.1

COMPREHENSIVE TELECOMMUNICATIONS SERVICE AGREEMENT NUMBER 99-123-A

This COMPREHENSIVE TELECOMMUNICATIONS SERVICE AGREEMENT is entered into as of the Contract Signing Date, by and between ALASKA COMMUNICATIONS SYSTEMS GROUP, INC., a Delaware corporation, with corporate offices at 510 L Street, Suite 500, Anchorage, Alaska 99501, and the STATE OF ALASKA.

1. BACKGROUND AND PURPOSE

WHEREAS, the State relies upon telecommunications as a key means to facilitate the delivery of basic government services to its widely dispersed citizenry; in a state where cities and villages are isolated by foreboding terrain; where only 44 of the State's 277 communities are connected by roadways, only 30 percent of which are paved; and where harsh winter weather conditions routinely cut off communities from air, sea, and land transportation; reliable cost-effective telecommunications are not a convenience -- reliable cost-effective telecommunications are a necessity; and

WHEREAS, the State is seeking to develop communications solutions utilizing new and existing technologies to increase the efficiency and productivity of State business operations, and to improve access to State services for the public; and

WHEREAS, the State is seeking to secure telecommunications services statewide through a single contract; and

WHEREAS, the Parties recognize that the State of Alaska is comprised of the executive, judicial, and legislative branches of government as well as other public entities, including the University of Alaska, that have been afforded, by state law, various attributes of a separate legal existence from the State of Alaska and that certain branches of government and public entities, as identified in this Agreement, have agreed, in whole or in part, to cooperatively participate in this Agreement to implement a Statewide telecommunications partnering plan and that such cooperative participation has been determined by each to be in their respective best interests; and

WHEREAS, ACS and its Affiliates are major providers of telecommunications services in Alaska, with vast experience and a proven record of providing telecommunications services to all Alaskans from isolated rural communities to sophisticated world-wide organizations; and

WHEREAS, ACS is seeking to Partner with the State and be the primary provider of telecommunications services to the State; and

WHEREAS, ACS agrees that support and further deployment of high speed, advanced telecommunications is important to Alaska for the delivery of government services, especially in rural communities; and

WHEREAS, ACS agrees that local support is important to the delivery of the Services described herein and agrees to utilize local support when feasible; and

WHEREAS, ACS shall deliver high-quality, value-added services that assist the State in effectively utilizing telecommunications to increase the efficiency and productivity of State business operations and to enhance the quality and value of the State's services to its citizens; and

WHEREAS, the Parties recognize the importance of a reliable mobile communication system to the State and the people of Alaska. ACS will deliver, through this Agreement, an ever-increasing array of mobile, satellite and cellular/wireless voice and messaging systems to the State and commits to improving the quality and coverage of these Services as described herein; and

WHEREAS, ACS will deliver the Services described in this Agreement over the State's existing microwave (SATS) and satellite facilities wherever practical and feasible. The Parties consider the SATS and satellite infrastructure as critical parts of the State's Enterprise network and will actively pursue ways to increase the use, reliability and cost effectiveness of these important State assets, especially in under-served or unserved areas of Alaska; and

WHEREAS, ACS is committed to training its employees and the employees of the State to use the Services and technology provided in the most effective and efficient manner. ACS is committed to working with the State and institutions of higher learning in the State of Alaska to deliver training in the most effective and efficient way possible; and

WHEREAS, ACS recognizes the nature of delivering Services for the State, where security, privacy, SoL, and property are serious and sobering aspects to be mindful of when providing and delivering those Services. ACS is committed to working with the State to deal with these conditions and others as described, using the most prudent and conscientious methods possible.

NOW, THEREFORE, for good and valuable consideration, the Parties agree as follows:

2. SCOPE OF SERVICES

2.1 GENERAL DESCRIPTION OF SERVICES

Pursuant to the terms and conditions of this Agreement, Provider shall provide the Services as set forth in the following Service Bundles:

BUNDLE 1 -- WIRED TELEPHONY SERVICES

Provider shall provide the wired telephony services set forth in Schedule A.4.

BUNDLE 2 -- DATA NETWORK SERVICES

Provider shall provide the data network services set forth in Schedule
A.5.

BUNDLE 3 -- VIDEO CONFERENCING SERVICES

Provider shall provide the video conferencing services set forth in Schedule A.6.

BUNDLE 4 -- PAGING SERVICES

Provider shall provide the paging services set forth in Schedule A.7.

BUNDLE 5 -- CELLULAR TELECOMMUNICATIONS SERVICES

Provider shall provide the cellular telecommunications services set forth in Schedule A.8.

BUNDLE 6 -- SATELLITE BROADCAST SERVICES

Provider shall provide the satellite broadcast services set forth in Schedule A.9.

BUNDLE 7 -- END-USER SUPPORT SERVICES

Provider shall provide the End-User support services set forth in Schedule A.10.

BUNDLE 8 -- SATS MICROWAVE MAINTENANCE AND REPAIR

Provider shall provide the SATS microwave maintenance and repair services set forth in Schedule A.11.

BUNDLE 9 -- SATELLITE TELEPHONY SERVICES

Provider shall provide the satellite telephony services set forth in Schedule A.12.

BUNDLE 10 -- SATELLITE EARTH-STATION MAINTENANCE AND REPAIR

Provider shall provide the satellite earth-station maintenance and repair services set forth in Schedule A.13.

2.1.1 GROUPINGS OF SERVICES

The Services to be provided by Provider under the terms of this Agreement are categorized by "Bundles" "Elements" and "Units." By way of example, wired telephony services have been grouped together in Service Bundle
1. Wired telephony service is made up of a number of Service Elements, including telephones, voice mail, long distance, and audio teleconferencing. The Services provided in Service Bundle 1 can be further broken down into each individual Service Unit (i.e., each telephone, minute of long distance, and voice mailbox). The following chart illustrates the categorization of Services.

[FLOW CHART ILLUSTRATING CATEGORIZATION OF SERVICES]

2.1.2 RESOURCE OPTIONS

In addition to the resources included in and specific to the Service Bundles described above, the Parties may agree to utilize certain other telecommunications resources, subject to the limitations indicated in the specific resource option descriptions set forth in Schedules A.14 - A.16. The additional resources are made available on an optional basis. Provider or the Affiliates may utilize these resources, at Provider's option, to provide Services to the State or, within the limitations set forth below and with the State's approval and concurrence, to provide additional services to the State or other customers. The specific telecommunications resources are bundled as follows:

- RESOURCE OPTION A--SATELLITE EARTH-STATION ACCESS--Satellite Down-Link Receive Capacity.

- RESOURCE OPTION B--STATE OF ALASKA TELECOMMUNICATIONS SYSTEM (SATS) MICROWAVE SITE ACCESS--Access to SATS Site Hardscape and Hotel Services.

- RESOURCE OPTION C--STATE OF ALASKA TELECOMMUNICATIONS SYSTEM (SATS) MICROWAVE EXCESS BANDWIDTH ACCESS--Access to Excess Transport Capacity on the SATS Microwave Backbone.

2.1.3 PROVISION OF SERVICES TO THE DEPARTMENTS

Provider will supply Services to the Departments. Provider acknowledges that existing statutes permit the Department of Military and Veteran Affairs, an executive branch agency, to independently supplement telecommunications services in the event of a Disaster. Other Departments that are to receive Services in accordance with the terms of this Agreement after the Contract Signing Date shall be identified and added to this Agreement through a Work Order. A request by a Department to discontinue receiving Services under the terms of this Agreement as a "Department" shall be made through an amendment pursuant to
Section 28.6. Notwithstanding the foregoing, the State shall give Provider reasonable advance notice of material changes in the number of End-Users

within each Department or expected volumes of Service as soon as practicable after the State becomes aware of such changes.

2.2 TIMETABLE FOR THE PROVISION OF SERVICES

The provision of Services by Provider shall be implemented in three (3) phases as set forth in the following timetable:

[FLOW CHART ILLUSTRATING TIMETABLE]

Attached as Schedule A.3 is a table listing Milestones and Deliverables and the target start and completion dates for each Milestone and Deliverable.

2.2.1 RAMP-UP PERIOD

During the Ramp-Up Period, no Services shall be provided by Provider to the State unless otherwise agreed hereunder. Commencing on the Contract Signing Date, Provider shall undertake preparations for implementing the Transition Plan. During the Ramp-Up Period, the State shall provide Provider with reasonable access to the Managed Assets, the Purchased Assets, and the Designated Employees, but solely for the purpose of reasonably assisting and cooperating with Provider in the preparation of the Transition Plan.

2.2.1.1 TECHNOLOGY INITIATIVES AND CURRENT PROJECTS

Provider will assume responsibility for the Current Projects described in Schedule J.1 on the Effective Date or as otherwise agreed between the Parties. A written implementation plan, subject to the State's approval, for the completion of the Current Projects will be included in the Transition Plan. Provider shall provide the continuing and uninterrupted development and implementation of all the Current Projects in accordance with the written implementation plan.

In addition to the Current Projects, certain Departments are pursuing the Technology Initiatives identified in Schedule J.2, which may require Services that are provided under this Agreement. Although Provider is not responsible for these Technology Initiatives, Provider agrees to provide Services associated with the Technology Initiatives identified in Schedule J.2 in accordance with the terms of this Agreement.

2.2.2 TRANSITION

Commencing on the Effective Date, Provider shall implement the Transition Plan. The transition shall include the complete and timely performance by Provider of all of the requirements set forth in the Transition Plan, and shall be accomplished by Provider in such a manner as to have no material adverse effect upon the telecommunications services being utilized by any Department. Until such time as Provider has completely transitioned the Services, Provider will support the State's current systems and provide network management services. In this regard, Provider is to (i) assume full management responsibility and provide all Services and support to the State; (ii) be responsible for the proper and orderly functioning of all Managed Assets in accordance with the terms of this Agreement; (iii) meet the requirements of the SLAs by the applicable Cutover Date in accordance with the terms of this Agreement, and (iv) develop the Transformation Plan.

2.2.3 TRANSFORMATION

Commencing on the Final Cutover Date, Provider shall implement the Transformation Plan after receiving State approval of the Plan. As transformed, the Services will include a statewide network infrastructure that supports voice, data and video communications services, including advanced voice and data network management capabilities and communications features, to achieve: (i) greater levels of performance, (ii) statewide connectivity between and among all Departments, and (iii) optimum network resource and bandwidth management. Provider will implement the transformed infrastructure such that it is consistent with and supports the State's business objectives, including the following:

RELIABILITY--protect and improve the quality and dependability of both routine and critical SoL telecommunications.

PRODUCTIVITY/EFFICIENCIES--facilitate the development and/or delivery of Services that will increase the productivity and effectiveness of End-Users.

PUBLIC ACCESSIBILITY--facilitate the ability to deliver services at locations that are more convenient for the public, including their homes or businesses via the internet. Such services may include permits, data retrieval, licensing, general information, etc.

BUSINESS PARTNERS--facilitate the ability to inter-work with the networks, data, and applications of community business partners.

COST MANAGEMENT--minimize the cost of delivering services both internally and externally to the public, as well as reduce State administration costs.

IMPROVED RURAL COMMUNICATIONS--where possible, leverage investments in the infrastructure required to meet the State's needs to also improve general access to quality telecommunications services throughout the State.

UNIVERSAL AVAILABILITY--the infrastructure should facilitate connections to every Department and End-User. This should also include remote accessibility for telecommuting and internet access.

OPEN PLATFORM--technical compatibility among equipment must be assured. The infrastructure must be standards based, and be capable of being connected to other private and public networks and equipment.

FLEXIBLE BANDWIDTH ALLOCATION--available capacity beyond current demand, ensuring that access will not be denied for capacity reasons. There should also be the ability to easily allocate the appropriate capacity to End-Users (i.e., bandwidth on demand). Furthermore, the State should not bear undue cost burdens associated with unutilized capacity--bandwidth should expand and contract as required to meet the State's needs.

EFFECTIVE NETWORK MANAGEMENT--provide monitoring tools and planning mechanisms to enable State telecommunications professionals to proactively manage both the demand and supply sides of the telecommunications environment.

SECURITY--facilitate the necessary technologies and protocols that ensure the security and confidentiality of State information, including personal information, personnel records, medical records, criminal records, public safety data, motor vehicle records, and proprietary management reports.

2.3 CAPITAL INFUSION

Based on the State's long-term commitment to Provider, Provider will fund investments in the State's infrastructure in connection with the Services. Such investments are listed in the Pricing Matrices in Schedule B. Except as otherwise provided in this Agreement, all such investments shall, for purposes of the State's rights upon Disentanglement, pursuant to Section 16, be capitalized, accounted for, and depreciated by Provider, without regard to the actual method of acquisition (i.e., whether by purchase, lease, or other method of financing).

2.3.1 WIRING AND LAN INFRASTRUCTURE INVESTMENT

Provider shall make a capital investment for upgrades to wiring and LAN infrastructure in State Facilities that are required to support the Transformed Services in the maximum amount of $3,420,000. Such investment will be allocated in a manner jointly agreed to by the Parties in the Transformation Plan. Provider shall keep complete records of expenses that fall under this investment to facilitate verification by the State that the investment was expended in accordance with the approved Transformation Plan.

2.3.2 SATS IMPROVEMENT INVESTMENT

As more fully described in Schedule A.11 (Service Bundle 8), Provider shall make a capital investment in the amount of $2,800,000 for SATS microwave maintenance and repair work identified in Schedule C to this Agreement during the Term. The work will be initially scheduled in the Transition Plan and modified through the Change Management process described in Section 4 of this Agreement.

2.4 SLAs

Except as otherwise specified in this Agreement, Provider shall perform all Services in accordance with the SLAs set forth in Schedule E.2 to this Agreement.

2.4.1 NEW SLAs AND PROPOSED MODIFICATIONS TO EXISTING SLAs

Provider shall continuously evaluate ways to improve performance and shall recommend improvements in the SLAs to the Management Committee, along with any impact on cost. Recommendations for improvements to SLAs by Provider should be based upon advances in available technology and methods that are suitable for use in performing the Services, the increased capabilities of any hardware or software acquired for use by the State, changes in the operations and environment of the Departments, and other changes in circumstances. All new SLAs, as well as proposed modifications to existing SLAs, shall be developed in the following manner:

2.4.1.1 The service level requirements of specific Departments shall be determined by representatives of the Parties conducting periodic meetings with the designated State representative for each Department. The means of gathering such Department data shall be detailed in the Communications Plan, which shall be contained in the Standards and Procedures Manual.

2.4.1.2 The Account Manager and the Project Director shall meet at least once monthly during the Transition Period and Transformation Period, and at least twice yearly thereafter, to address the SLAs.

2.4.1.3 Upon initiation by either or both the Account Manager and the Project Director, proposed new or modified SLAs shall be submitted to the Management Committee at its next regularly scheduled meeting (except where the urgency of the request requires the calling of a special meeting) for review and approval.

2.4.1.4 The Management Committee shall review and discuss the existing SLAs and proposed new SLAs from time to time as set forth in Section 11, but not less frequently than once during each Contract Year after the Transformation Period. After such review, the Management Committee shall make a formal recommendation as to whether a proposed SLA modification or new SLA is technologically feasible. As to any new or modified SLA that is determined to be technologically feasible by the Management Committee, either party may propose that such SLA be adopted by the Parties through the Work Order process described in Section 10, provided however, that a new or modified SLA accepted through a Work Order shall be implemented in accordance with Section 28.6.

2.4.2 SLA MEASUREMENT AND REPORTING

Provider shall measure and report performance as required by Schedule E.2. Provider shall meet with the Project Director according to the schedule established by the Management Committee to review Provider's actual performance against the SLAs.

2.4.3 ROOT-CAUSE ANALYSIS

Promptly, and in no event later than five (5) days after Provider's discovery of, or, if earlier, Provider's receipt of a notice from the State regarding a Failure, Provider shall: (A) perform a root-cause analysis to identify the cause of such Failure; (B) correct such Failure using best efforts (regardless of whether caused by Provider); and (C) provide the State with a written report detailing the cause of, and procedure for correcting, such Failure.

2.4.4 CORRECTION OR RESOLUTION OF SERVICE OR MISSION CRITICAL SLA FAILURE

Upon completion of the root-cause analysis, the correction of a Failure relating to a Service or Mission Critical Service shall be performed entirely at Provider's expense, unless it has been determined, by mutual agreement of the Parties or through the dispute-resolution process specified in Section 25, that the State (or its subcontractor, agent, or a third-party provider provided by the State and not managed by Provider) was the predominant contributing cause of the Failure and Provider could not have continued to provide Services in accordance with the affected SLA without expending a material amount of additional time or cost. In such an event: (i) Provider shall be entitled to temporary relief from its obligation to timely comply with the affected SLA, but only to the extent and for the duration so affected; and (ii) the State shall reimburse Provider for Provider's expenses to correct such Failure. For purposes hereof, the preexisting condition of the State's properties and systems shall not be deemed a contributing cause of any Failure.

2.5 SOLE PROVIDER OF SERVICES

Except to the extent set forth below, Provider shall be the sole provider of the Services to the State.

Nothing herein shall prevent the State from obtaining the following Services or services, from itself or any other provider during the Term, and thereby relieving Provider of responsibility for providing such Services or services:

(a) any of the Services that are required, pursuant to applicable federal or State law, rules, regulations, or policies in effect from time to time, to be provided by the State or performed by a provider other than, or in addition to, Provider;

(b) any telecommunications services or Services procured as part of a larger effort that is not primarily for telecommunications services, or as otherwise mutually agreed; and

(c) communications support to local entities, including the provision of EMS communications backbone systems, and assistance with purchase of radios, mobile satellite telephones, or other essential SoL communications services and equipment for the provision of essential life saving emergency services. The Parties recognize that the State presently possesses and utilizes some number of Inmarsat terminals or other technologies for emergency and public safety purposes.

2.6 SERVICE COMPATIBILITY

Provider shall ensure that, as of the applicable Cutover Dates, the Resources are integrated and interfaced and fully compatible with the Third-Party Resources that are being provided to the State as to functionality, speed, service levels, interconnectivity, reliability, availability, performance, response times and other similar measures. Provider shall be responsible for developing or modifying interfaces in order for the Resources to be successfully integrated and compatible with Third-Party Resources. The State shall use its best efforts to require the providers of Third-Party Resources to cooperate with Provider in this effort.

2.6.1 COOPERATION WITH THIRD-PARTY SERVICE PROVIDERS

At all times during the Term, Provider shall cooperate with third-party service providers of the State to coordinate the provision of Services with the services and systems of such third-party service providers. Such cooperation shall include, subject to confidentiality requirements set forth in Section 21, providing reasonable assistance, information access, and support services to such third-party providers.

2.6.2 DISPUTES OVER SERVICE COMPATIBILITY

In the event of any Dispute as to whether a particular Failure, defect, malfunction, or other difficulty was caused by Provider Services and Resources or by the services and Third-Party Resources provided by a third-party provider, Provider shall be responsible for correcting such Failure, defect, malfunction, or difficulty, at its cost, except to the extent that Provider can demonstrate to the State's satisfaction, by means of a root-cause analysis, that (i) the cause was not a Service or Resource, or (ii) the cause was a device connected to Provider's Network that was not FCC type accepted. In such case, the responsible third-party service provider shall be responsible for the costs associated with correcting the defect, malfunction, or difficulty. However, Provider will cooperate fully in determining the underlying cause and identifying a solution.

2.6.3 SLA IMPACT DUE TO THIRD-PARTY PROVIDER SERVICES OR SYSTEMS

If, in the opinion of Provider, the services and Third Party Resources of any third-party service provider has altered a SLA or will alter a SLA or create conditions which will materially or substantially impair Provider's ability to perform its duties under this Agreement, Provider shall notify the Project Director in writing of the apparent conflict. The Project Director shall respond in writing within ten (10) days to any document advising of a conflict provided under this Section. The Project Director shall: (1) require such third-party service provider to alter its services or systems to eliminate the conflict; (2) propose to Provider an amendment or modification to this Agreement to eliminate the conflict; or (3) if he/she disagrees that a conflict exists, set forth the basis for that conclusion. Any modifications to this Agreement must conform with the procedures set forth in Section 28.6. In the event that Provider and State disagree on either the existence of a conflict or a methodology for resolving a conflict, the matter shall be resolved pursuant to the dispute resolution procedures set forth in Section 25 of this Agreement.

3. THIRD-PARTY CONTRACTS

3.1 LEASES, CONTRACTS, AND SOFTWARE LICENSES ASSIGNED TO PROVIDER

Subject to the State obtaining any Required Consents, the Parties shall enter into assignment and assumption agreements as to the Assigned Leases and the Assigned Contracts. Provider shall assume responsibility for, and shall perform, all obligations of the State under the Assigned Leases and Assigned Contracts, including payment of all related expenses and maintenance fees, to be performed after the effective dates of such assignment and assumption agreements, and shall indemnify, defend, protect and hold harmless the State with respect to all such obligations.

3.2 LEASES AND CONTRACTS MANAGED BY PROVIDER

As of the Cutover Date for the applicable Service, subject to the State obtaining any Required Consents, Provider shall assume responsibility for, and perform all management and administrative obligations for the Managed Assets to be performed on or after the Cutover Date. Provider will not take any action that would cause the State to be in breach of any Managed Contract or Managed Lease. With respect to Managed Contracts and Managed Leases, Provider will take over responsibility for all payment obligations, including all related fees, expenses, and maintenance, and Provider shall invoice the State for such expenses in accordance with Section 9 of this Agreement.

3.2.1 TERMINATION OF MANAGED ASSETS

Provider may, from time to time, to the extent permitted by the applicable third-party contract or agreement, request that the State cooperate in the termination of any Managed Lease or Managed Contract.

4. SERVICE MANAGEMENT

Service Management processes will be conducted from the Service Center, and shall include six integrated disciplines: Configuration Management, Fault Management, Accounting, Performance Management, Security, and Planning. Activities undertaken within each of these disciplines shall take into account the effects or potential effects on the other disciplines. The specific manner in which this is done shall be detailed in the Standards and Procedures Manual.

4.1 STANDARDS AND PROCEDURES MANUAL

4.1.1 DEVELOPMENT OF MANUAL

Prior to the Effective Date, Provider will deliver an outline of the Standards and Procedures Manual to the State for its review, comment, and approval. Within ninety (90) days after the Effective Date, Provider shall deliver a draft Standards and Procedures Manual consistent with the approved outline to the State for its review, comment, and approval. The State shall promptly respond to the draft and Provider shall incorporate all appropriate comments or suggestions of the State and shall finalize the Standards and Procedures Manual within one hundred eighty (180) days after the Effective Date. Provider shall periodically (but not less often than quarterly) update the Standards and Procedures Manual to reflect changes in the operations or procedures described therein. Updates of the Standards and Procedures Manual shall be provided to the Management Committee for review and approval. The Standards and Procedures Manual will be available to the End-Users electronically in a manner agreed to between the State and Provider.

4.1.2 CONTENT OF MANUAL

The Standards and Procedures Manual shall describe, with respect to the Services, the equipment and software being used and to be used and the documentation (including, e.g., operations manuals, user guides, specifications) of the details of such activities. The Standards and Procedures Manual shall describe the activities Provider shall undertake in order to provide the Services, including, where appropriate, direction, supervision, monitoring, staffing, quality assurance, reporting, planning, oversight activities, acceptance test plans, and other matters as described in this Agreement. The Standards and Procedures Manual shall describe in detail the systems, processes, and technologies to be used to fulfill Provider's Service Management obligations. The Standards and Procedures Manual shall in no event be interpreted so as to relieve Provider of any of its performance obligations under this Agreement.

4.2 CONFIGURATION MANAGEMENT

The goal of Configuration Management shall be to exert control over the hardware and software configuration of the Network. Provider will, to the greatest extent possible and with the cooperation of the State, inventory and sample all Service Elements, for the purposes of optimal Configuration Management across the Network. Provider will coordinate all Configuration Management activities through the centralized Change Management system, as described in this Section, organized within the Service

Center, including Service provisioning, MACs, and Network element configuration, archives, restoration, and hardware and firmware revision maintenance. Proactive maintenance activities will be considered part of Configuration Management processes in the Service Center. Schedules for current and anticipated Configuration Management activities will be provided to the State on a monthly basis. Configuration Management processes and procedures will be described in detail in the Standards and Procedures Manual.

4.2.1 CHANGE MANAGEMENT

The mission of Change Management is to assist the State in accomplishing technological change without disruption. Change Management is provided through the Service Center. The Parties recognize that Change Management will take place in an atmosphere of Partnership. All changes will be implemented and coordinated with all other Service Management disciplines. Change Management will address both process issues and technology (hardware/software) issues. As appropriate, changes will be managed along a spectrum of control points ranging from automated approval to full project-level review. The Parties envision three basic categories of changes with Change Management: routine, project, and emergency. The Parties will work, as part of developing this Change Management procedure, to identify expectations with regard to cycle time, and the degree of oversight the State wishes to exercise in each of these categories. Prior to the Effective Date, Provider shall develop a Change Management procedure, subject to the State's review and approval. Such Change Management procedure shall be incorporated into the Standards and Procedures Manual.

4.2.1.1 TECHNOLOGY REFRESH SERVICES

Provider shall provide the Technology Refresh Services throughout the Term. In fulfilling its obligation to perform Technology Refresh Services, Provider shall provide the State with new assets or factory-reconditioned assets that are of a quality equal to or better than the original equipment specifications. Provider shall also provide such upgrades and replacements in accordance with manufacturer's recommendations at no additional cost to the State in accordance with Change Management in Section 4.2.1.

Provider will implement technology refresh through the Service Center. With respect to Managed Assets, the Technology Refresh Services will involve checking with each manufacturer regarding software, firmware, and hardware upgrades. Where upgrades are covered by existing maintenance contracts or warranties, Provider will propose to the State that upgrades be implemented as soon as reasonably practicable. Where upgrades involve new costs, not included in Provider's pricing, then Provider will describe and the State will evaluate the upgrade features, benefits, and risks and may issue a Work Order.

4.2.2 ASSET MANAGEMENT

No later then the Effective Date, Provider will establish and maintain an asset management and control function for the State, with Provider's primary role being to determine what telecommunications resources are needed to satisfy the State's requirements and SLAs, acquire those Resources, and maintain an accurate inventory of the Resources and Managed Assets in the Service Center. The initial inventory of Managed Assets is identified in Schedule C.

4.2.2.1 TRANSITION OF MANAGED ASSETS

On the applicable Cutover Dates, Provider shall assume management and control over all of the Managed Assets. Provider shall have primary responsibility for all care and management, and shall ensure the maintenance, of the Managed Assets in accordance with the terms of this Agreement.

4.2.2.2 TRANSITION OF PURCHASED ASSETS

(a) Subject to the provisions of Service Bundles 1 and 4, if assets are to be purchased by Provider, the State shall sell to Provider, and Provider shall buy from the State, "AS IS, WHERE IS" and without any express or implied warranties of any kind other than a warranty of title, all of the State's right, title, and interest in and to the Purchased Assets. Notwithstanding the foregoing, the State will pass through to Provider, to the extent permitted at no cost by each third-party from whom the State procured any Purchased Asset, or the manufacturer thereof, the distributor or manufacturer warranties associated with the Purchased Assets, if any. The State will enter into a bill of sale relating to Provider's purchase of the Purchased Assets. The purchase price for the Purchased Assets will be as agreed between the Parties, but in any case, the purchase price will not be below fair market value.

(b) The Parties acknowledge that during the period between the Contract Signing Date and the Final Cutover Date, the State may acquire Interim Assets. During such period, the State will advise Provider of all pertinent information with respect to all Interim Assets. For a ninety (90) day period commencing on any applicable Cutover Date, Provider shall have the right to use and the option to purchase any or all of the Interim Assets. If Provider elects to use an Interim Asset during such ninety (90) day period to provide the Services, such Interim Asset shall be deemed to be a Managed Asset until the earliest of: (i) ninety (90) days after the applicable Cutover Date; (ii) the date that Provider specifies to the State as the date on which it will no longer use such Interim Asset; or (iii) the date on which Provider purchases such Interim Asset. Provider will have the option, exercisable from time to time within ninety (90) days of any applicable Cutover Date, to purchase at its then fair market value any Interim Asset that Provider is using to provide the Services, as mutually agreed by Provider and the State. An Interim Asset purchased by Provider pursuant to this Section will thereafter be deemed to be a Purchased Asset.

4.2.2.3 PROVIDER RESPONSIBILITIES FOR ASSETS

Provider shall be liable for loss of or damage to the Managed Assets, the Purchased Assets, or any other assets used by Provider or its Subcontractors in the performance of this Agreement as a result of Provider's negligence or willful misconduct or loss or damage from an event covered by Provider's insurance required under Section 18. Provider shall ensure that the assets used in providing the Services shall be properly maintained and protected, normal wear and tear excepted, throughout the Term and shall be insured in accordance with the requirements of Section 18 of this Agreement. With respect to the Managed Assets, Provider will assist the State in the procurement thereof, and will install and implement the Managed Assets as required to provide the Services.

4.3 FAULT MANAGEMENT

Fault Management involves the process of monitoring traps and alarms on all service providing elements and links in order to allow for sectionalization, identification, and resolution of a problem with the delivery of Services. With respect to each of the Service Bundles, Fault Management is described in Schedule A.

4.4 ACCOUNTING

Accounting functions are as described in Sections 9 and 19 of this Agreement.

4.5 PERFORMANCE MANAGEMENT

Performance Management involves the process of ensuring that the Network is meeting the SLAs as described in Section 2.4 of this Agreement and Schedule E to this Agreement.

4.6 SECURITY

Security is described in Section 13 of this Agreement and Schedule M.

4.7 PLANNING

Planning involves ensuring that adequate resources for further demand are anticipated and that plans are in place to address the resource needs of the network as it will be configured in the future.

5. HUMAN RESOURCES

5.1 TREATMENT OF DESIGNATED AND TRANSITIONED EMPLOYEES

Provider will comply with the terms of the letter of agreement contained in Schedule D.1. After the Contract Signing Date, Provider may make offers of employment to all Designated Employees. All offers will be made in writing and will consider individual employees' then current job duties, knowledge, skills and abilities in light of Provider business requirements. At a minimum, written offers will include information on job classification duties, compensation, benefits, and union affiliation requirements, if any. Designated Employees will have thirty (30) days from the receipt of Provider's offer of employment to accept or reject the offer. Offers of employment, while pending, will not affect any Designated Employees status as an employee of the State. A Transitioned Employee's employment with Provider will become effective on a date mutually agreed to among the State, Provider, and the Transitioned Employee after receipt by Provider of a written acceptance of the offer of employment. No Transitioned Employee will be required to sign a non-competition clause that requires the Transitioned Employee to agree not to work for the State as an employee.

The State will provide to Designated Employees the option of transferring to a State position performing work outside of the scope of this Agreement. If those Designated Employees elect to participate in State-approved training programs related to the employees' new duties, Provider will be charged up to $5,000.00 for expenses related to the training for each such employee who successfully completes such training. The State will provide sufficient documentation of the training expenses for which Provider is responsible.

5.2 STATE EMPLOYEES

Provider will direct the work of State Employees and the following provisions will apply to such State Employees:

5.2.1 The terms and conditions of a State Employee's employment will be determined by the relevant collective bargaining agreement in effect on the Effective Date, as it may be amended thereafter, and by the terms of any successor collective bargaining agreement.

5.2.2 Management of State Employees by Provider will begin on the Effective Date.

5.2.3 Provider will be bound by all decisions applicable to State Employees that are made as a result of contractual dispute resolution mechanisms, decisions by appropriate governmental agencies, and/or decisions by courts of competent jurisdiction.

5.2.4 All labor relation functions for State Employees will remain under the jurisdiction of the State as prescribed by the terms of the applicable collective bargaining agreements.

5.2.5 State Employees will continue to be governed by State or Federal laws, rules and/or regulations applicable to the employee in the same manner as other State Employees.

5.2.6 Provider will immediately report all State Employee performance issues or suspected misconduct to the Director, Division of Personnel. The State will inform Provider of any action taken against any State Employee as a result of this notification.

5.2.7 State Employees will receive the same training opportunities as provided to Provider's employees with respect to the Services.

5.2.8 If a position held by a State Employee becomes vacant, Provider may require the State to fill the vacancy or Provider may otherwise contract for or provide the duties of such State Employee, including hiring a Provider employee.

5.2.9 Beginning on Effective Date, the State will withhold from the payment under the Agreement all State employer costs applicable to State Employees. Employer costs are wages, fringe benefits, worker's compensation, and unemployment insurance. The State shall report to Provider on a monthly basis the amount withheld for each State Employee.

5.2.10 In those instances where the State incurs damages for violations of a State Employee's rights under the relevant collective bargaining agreement, applicable law, rule, or regulation as a result of willful, negligent, direct, independent actions taken or omitted to be taken by agents of Provider, the damages will be assessed against Provider.

5.3 PERSONNEL

5.3.1 PROVIDER KEY PERSONNEL

The State shall have the right to interview, as the State deems necessary, and participate in the selection of, Provider Key Personnel and the Account Manager. Provider shall not designate or reassign any Provider Key Personnel or its Account Manager without the State's prior written consent, which consent shall not be unreasonably withheld. The Parties acknowledge that certain Transitioned Employees will be designated as Provider Key Personnel by mutual agreement of the Parties before or concurrently with the Effective Date. Provider shall not reassign any Provider Key Personnel without the State's prior written consent, prior to six (6) months after the completion and acceptance by the State of all Transformation Services in which such Provider Key Personnel were involved; except that, with respect to those Transitioned Employees designated as Provider Key Personnel, Provider shall not reassign any such Provider Key Personnel prior to twelve (12) months after the Effective Date. If any one of Provider Key Personnel becomes incapacitated, or ceases to be employed by Provider and, therefore, becomes unable to perform the functions or responsibilities assigned to him or her, Provider shall, within forty-eight (48) hours, name an interim replacement, approved by the State, who is at least as well qualified as the person who initially performed that person's functions. For purposes of this Section, the movement of Provider Key Personnel from the employ of Provider to an Affiliate of Provider shall be considered a reassignment requiring the State's consent but not a cessation of employment.

5.3.2 ACCOUNT MANAGER

Provider represents and warrants that its Account Manager has at least 5 years experience managing services similar to those provided under this Agreement and who is knowledgeable as to the State's activities and the Services. Notwithstanding anything else herein to the contrary, Provider shall not permanently replace its Account Manager during the Term without the State's prior written consent, which consent will not be unreasonably withheld. The Account Manager shall act as the primary liaison between Provider and the State Project Director, shall have overall responsibility for directing all of Provider's activities hereunder, and shall be vested by Provider with all necessary authority to fulfill that responsibility. Notwithstanding the foregoing, the Account Manager may, in his or her sole discretion, delegate any right or authority hereunder to other qualified Provider employees, upon written notice to the State.

5.3.3 STATE KEY PERSONNEL AND STATE PROJECT DIRECTOR

The State Key Personnel shall provide advice and assistance to Provider in areas requiring particular technical or functional expertise or work experience. If any one of the State Key Personnel is unable to perform the functions or responsibilities assigned to him or her in connection with this Agreement, or if he or she is no longer employed by the State, the State shall promptly replace such person or reassign the functions or responsibilities to another person. The State Project Director shall act as the primary liaison between the State and the Account Manager and shall have overall responsibility for day-to-day oversight of Provider's performance under this Agreement and coordination of the State's retained authorities. Notwithstanding the foregoing, the State Project Director may, in his or her sole discretion, delegate any right or authority hereunder to other qualified employees of the State upon written notice to Provider.

5.3.3.1 AUTHORIZED STATE PERSONNEL

Unless otherwise instructed by the State in writing, Provider may assume that requests for Services made to the Service Center in accordance with the procedures set forth in the Standards and Procedures Manual are being submitted by personnel of the State with authority to request such Services.

5.3.4 ADDITIONAL PERSONNEL REQUIREMENTS

In addition to Provider Key Personnel, Provider shall make available such additional personnel as the State deems necessary to competently perform all of Provider's obligations under this Agreement.

5.4 MINIMUM PROFICIENCY LEVELS

Provider's Key Personnel, and all other personnel assigned by Provider or its Subcontractors to perform Provider's obligations under this Agreement, shall have experience, training, and expertise at least equal to the highest commercial standards applicable to such personnel for their responsibilities in the business of providing telecommunications services. Such personnel shall also have sufficient knowledge of the relevant aspects of the Services and of the State's practices and areas of expertise to enable them to properly perform the duties and responsibilities assigned to them in connection with this Agreement. In addition, the Services shall conform to the highest commercial standards applicable to such Services in the telecommunications services marketplace.

5.5 SPECIALIZED PERSONNEL

Provider agrees that, as part of its provision of Services, it shall ensure that all Provider personnel (and the personnel of any Subcontractors) are trained, qualified, and available to perform all Services required in work areas requiring specific health, security, or safety precautions.

5.6 TRAINING

5.6.1 TRAINING FOR EMPLOYEES PROVIDING SERVICES COVERED UNDER THIS AGREEMENT

Provider shall provide, and shall cause its Subcontractors to provide, all such training to Provider and Subcontractor employees, including the Transitioned Employees, as may be necessary for them to perform, on behalf of Provider, all of Provider's duties under this Agreement, and, in any event, levels of training equal to or greater than the average levels of training given to all Provider employees holding corresponding positions.

5.6.2 JOINT TRAINING PROGRAM

Provider will work with the State to identify and develop training and certification programs for management, LAN administrators, and End-Users to ensure Service Center calls are minimized and the State receives maximum value from the Services provided. Further, Provider will encourage third-party hardware and software providers that are key to the provision of Services under this Agreement to identify and provide training and certification programs for the use of those products. Such programs will be coordinated with Alaska educational institutions, where practicable.

In addition, Provider will work jointly with the State to provide a training program for Provider employees and End-Users that features subjects in applied telecommunications technology, telecommunications economics, telecommunications management, and training in the application of ISO 9000 processes. Provider will provide an intensive training program for up to 50 State Employees enrolled at any one time up to a maximum of 250 training days per year. Sessions will be relatively short and organized in such a manner that employees who cannot attend a particular class because of another commitment will wait only a short time to enter another class on the same topic. The training sessions will be held in conference rooms, suites, hands-on in Provider or State equipment rooms, the NOCs, and the Service Center. Some of the training may involve travel and tours of manufacturer facilities and inspections of the facilities of out-of-state carriers. Costs for such travel will be at the State's expense.

This training is in addition to the training required in Section 5.6.1. Provider will involve the State in planning and providing course instructors, as needed, for specialty curricula. The Service Center will provide central coordination and Provider will maintain a training calendar. A phased approach and timeline for implementing the joint training program will be developed by the Parties during the Ramp-Up and Transition Periods and documented in the Transition Plan.

5.7 UNSATISFACTORY PERFORMANCE AND RIGHTS OF REMOVAL

Notwithstanding this Section, if the State believes that the performance or conduct of any Person employed or retained by Provider to perform Provider's obligations under this Agreement is unsatisfactory for any reason or is not in compliance with the provisions of this Agreement, the State shall so notify Provider in writing and Provider shall promptly address and rectify the performance or conduct of such person, or, at the State's request, immediately replace such Person with another Person reasonably acceptable to the State and with sufficient knowledge and expertise to perform the Services in accordance with this Agreement.

6. QUALITY ASSURANCE

6.1 END-USER SATISFACTION AND COMMUNICATION

Provider shall conduct End-User satisfaction surveys on an ongoing basis during the Term of this Agreement in accordance with Schedule A.10.9. On or before the Effective Date, Provider shall submit an End-User Communication Plan to the State, for its review and approval. Such plan shall include, at a minimum, quarterly updates to the End-Users regarding the results of the satisfaction surveys. The End-User Communication Plan shall be reviewed and modified by the Management Committee, as appropriate, not less frequently than once annually.

6.2 ISO 9000 COMPLIANCE

Provider will obtain ISO certification of its Service Center not later than 500 days after the Effective Date. Until Provider obtains certification, Provider agrees to develop its processes and manage its activities with the State in accordance with ISO 9000 quality standards as updated from time to time and as reflected in the Standards and Procedures Manual. In the absence of ISO certification, the requirements under this Agreement will be met through ISO 9000 compliant processes.

7. PROVISION OF RESOURCES BY STATE

7.1 STATE FACILITIES

The State shall make reasonably necessary State Facilities available, at fair market rates, to Provider's on-site personnel performing Services at all Locations throughout the Term and shall maintain the State Facilities in areas and at a level similar to that which the State maintains for its own employees performing similar work. The State shall provide a schedule of applicable rates, terms, and conditions with respect to the use of such State Facilities by Provider no later than the Final Cutover Date. State Facilities are provided "AS IS, WHERE IS," and are to be used exclusively for performance of Services for the State. The State shall provide access to State Facilities as is reasonably required for Provider to provide the Services, including telephones and other appropriate office equipment. Any furnishings (other than basic office furnishings) and office supplies for the use of Provider's (and its Subcontractors') personnel are the exclusive responsibility of Provider. Provider shall be entitled to make improvements to any space where Provider's personnel are performing Services on-site at a Location, provided that: (i) such improvements shall have been previously approved in writing by the State (which approval may not be unreasonably withheld); (ii) such improvements shall be made at no cost to the State; (iii) any Subcontractors used by Provider to perform such improvements shall be approved in writing by the State; and (iv) the State shall be granted, without further consideration, all rights of ownership in such improvements. If any State Facilities are leased and the landlord's consent to Provider's use is required, the State's obligations under this Section are conditioned on the State's receipt of such required consent and Provider's obligations that are dependent on such access at that affected Location are excused. The State will use its best efforts to obtain such consent.

7.2 OTHER FACILITY-RELATED OBLIGATIONS

7.2.1 USE OF STATE FACILITIES

Provider, and its Subcontractors, employees, and agents, shall keep the State Facilities in good order, shall not commit or permit waste or damage to the State Facilities, and shall not use the State Facilities for any unlawful purpose or act. Provider shall comply with all applicable laws and regulations, including all of the State's standard policies and procedures that are provided to Provider in writing regarding access to and use of the State Facilities, including procedures for the physical security of the State Facilities.

7.2.2 ACCESS TO PROVIDER FACILITIES BY THE STATE

Where the State, its employees, agents, and/or representatives are required under this Agreement to enter into Provider Facilities being utilized to provide Services to the State, Provider shall permit entrance at reasonable times upon advance notice to the Account Manager to perform necessary activities. The State agrees to abide by Provider's security policies and procedures in accordance with Section 13 of this Agreement and Schedule M.

7.2.3 ACCESS TO STATE FACILITIES OCCUPIED BY PROVIDER

Provided that the State adheres to any mutually agreed upon security procedures implemented by Provider at State Facilities, Provider shall permit the State and its agents and representatives to enter into those portions of State Facilities occupied by Provider staff at reasonable times with notice to the Account Manager to perform facilities-related services.

7.2.4 STATE FACILITIES LEASES

Provider shall not cause the breach of, and shall abide by, any lease agreements governing the use of the State Facilities.

7.2.5 FACILITIES SERVICES

The State shall provide and maintain, or in the case of leased State Facilities use best efforts to cause the landlord to provide and maintain, heating, ventilation, and air conditioning, electrical connections (to the wall plate), safety and security equipment, and connections to any facility-wide uninterruptible power supply as configured on the Contract Signing Date. Additional requirements identified by Provider during the Term of the Agreement will be provided consistent with Change Management and the Standards and Procedures Manual. The State shall provide Provider with reasonable notice of proposed changes to any of the foregoing that may adversely affect Provider's hardware located at any State Facility. In the event such adverse condition, other than expiration of the State's right to occupy leased State facilities, requires that Provider relocate such hardware, the State shall reimburse Provider for its actual costs incurred directly in connection therewith. To the extent provided by the State, the State shall maintain any site-wide uninterruptible power supply that is dedicated to support any State Facility. Provider shall provide and maintain any uninterruptible power supply dedicated to Provider's hardware and shall provide and maintain all connections from the wall plate to the hardware used to provide the Services.

7.2.6 MODIFICATIONS OF STATE FACILITIES

Provider shall notify the State prior to adding or removing any hardware that will require modification of any State Facilities and shall provide the Project Director, for the State's review and approval, detailed plans and specifications conforming to the hardware manufacturer's requirements. Provider shall: review and comply with State changes to the plans and specifications for State Facilities; monitor the installation of all approved changes; and promptly notify the Project Director of any nonconformity with the approved plans and specifications.

7.2.7 ADDITIONAL STATE FACILITIES

For any Locations added by the State after the Effective Date, Provider shall provide the Project Director, for the State's review and approval, detailed plans and specifications conforming to the hardware manufacturer's requirements that are necessary for Provider to provide the Services to such Locations. Provider shall: review the State's changes; cooperate with the State during all phases of the construction or modification of such Locations; and promptly notify the Project Director of any nonconformity with the approved plans and specifications.

7.2.8 STATE FACILITIES WITH ASBESTOS

Provider shall not be responsible for identification or abatement of asbestos-containing material in State-owned or controlled Facilities or Locations. Provider shall cooperate with the State to establish procedures and protocols when performing activities that may disturb or cause the disturbance of asbestos-containing material, including pulling cable, establishing cable runs, or removing floor coverings. All activities that involve special procedures or measures due to the presence of asbestos-containing material shall require a Work Order and shall be compensated at rates to be negotiated between the Parties.

8. STATE-RETAINED AUTHORITY

8.1 STRATEGIC PLANNING

The State shall retain primary responsibility for its technology strategic planning with assistance from Provider. Provider is expected to assist in the: (i) development of goals and objectives; (ii) assessment of the current environment; (iii) analysis of alternatives; (iv) development of recommended directions and solutions; (v) development of technology standards; (vi) development of implementation plans; and (vii) other areas as appropriate. The State shall also retain primary responsibility and authority (with assistance from Provider) over operational planning as it relates to the development and approval of telecommunication-related projects that affect the Services, and/or strategic directions of the State's technology environment and the Agreement with Provider. This includes the statewide coordination and approval of specific Department requests for telecommunication-related services that directly modify the SLAs included in this Agreement.

8.2 LOCAL AREA NETWORK OPERATIONS AND MANAGEMENT

Each Department will continue to be responsible for managing and operating its own LANs unless otherwise negotiated with Provider in accordance with Section 28.6 of this Agreement. Department LAN administrators will continue to provide support to End-Users from the WAN point-of-presence to the desktop. The Parties are expected to work closely with each other to resolve WAN/LAN configuration issues and to resolve system performance issues in accordance with Change Management and Configuration Management.

8.3 TECHNOLOGY RETOOLING APPROVAL

The State retains the right to accept or reject any Provider proposed technology update plan that significantly changes the State's service system infrastructure. The State and Provider will work closely together in the evaluation of new technologies and the development of any plans to upgrade or update the State's telecommunications systems. The State reserves the right to prohibit the use of any technology that the State deems cost prohibitive or unproven and that the State legitimately fears may endanger the reliability of critical communications, particularly critical SoL communications.

8.4 BUSINESS PROCESS REENGINEERING

The State will retain primary responsibility and authority over any business process reengineering efforts at the State as a result of technology infrastructure changes proposed, initiated, and conducted by Provider with the State's prior approval. The State retains authority and responsibility for: (1) approving these efforts, (2) coordinating/resolving labor-related issues concerning State employees, and (3) ensuring that performance metrics (including before and after) are accurately and appropriately developed.

8.5 CONTRACT MANAGEMENT

The State will be responsible for managing the Agreement and relationship with Provider. Provider will be responsible for managing all contracts and relationships with its Subcontractors.

8.6 BUDGETING

The Departments will be responsible for the annual budget for their telecommunications operations. Provider will provide estimates as necessary (on an annual and/or quarterly basis), for the Services included in this Agreement and for additional services planned or anticipated by the State that are reasonably expected to be provided by Provider in subsequent years, beginning with the budget cycle calendar for FY 2004.

8.7 BILLING AND CHARGEBACK

The State will continue to provide billing and charge-back services for those functions and services that ITG continues to provide to State agencies and the Departments. Provider will assume all other billing functions as delineated and defined per the requirements specific to each Service Element and must provide all billing in an electronic format as specified in this Agreement. The State will coordinate its billing services with Provider as specified in the Billing Transition and Transformation Plan.

8.8 VALIDATION AND VERIFICATION

In addition to the quality assurance efforts provided by Provider, the State may perform validation and verification activities over key projects and operational processes. The functions designated above as retained authorities and primary responsibilities of the State will be performed by State staff and/or independent consultants hired directly by the State as IV&V contractors. Subject to the confidentiality requirements set forth in Section 21, Provider agrees to provide reasonable cooperation with State personnel and/or IV&V contractors in conducting such quality assurance reviews.

9. FINANCIAL TERMS

9.1 FEES

In consideration for the Services to be performed by Provider the State shall pay to Provider the Fees set forth in Schedule B, Pricing. With respect to each Service Unit, Fees shall begin to accrue on the Cutover Date for such Service Unit. The Maximum Annual Contract Amount for the first contract year is $21,500,000.00.

9.1.1 VOLUMES

Should the actual volumes of any Service Bundle purchased by the State in any Contract Year exceed by more than 10% or fall short by more than 10% of the applicable projection of volume for that Service Bundle set forth in Schedule N, then either Party may request a price review or revision to reflect such variance. Such pricing revisions shall be made in accordance with the provisions of this Section 9. The Parties recognize that the anticipated volumes for Long Distance Services and Cellular Usage are likely to fall outside these variance allowances, and will not be re-priced in accordance with this Section.

9.1.2 RAMP-UP PERIOD COSTS

Work performed by Provider during the Ramp-Up Period shall not obligate the State to make any payments to Provider. If the Contract Signing Date occurs but no Final Cutover Date occurs as a result of a failure by the State to meet its obligations hereunder, then Provider shall be reimbursed by the State for Provider's reasonable and direct costs or expenses during the Ramp-Up Period associated with Exclusive Work Product or any plans prepared exclusively in connection with the provision of Services. Such Exclusive Work Products and plans shall then become property of the State. The State may elect to purchase hardware, software or other assets purchased by Provider solely to provision Services to the State. Such costs will not include, and the State shall not be liable for, attorney's fees or related litigation costs. If the Final Cutover Date does occur, no such costs or expenses shall be reimbursed by the State, except as such costs or expenses have been included in Provider's Fees, or as otherwise provided in Section 16. For purposes of this Section, an order of a court or regulatory agency prohibiting performance of the Agreement will not be considered a failure by the State to meet its obligations.

9.1.3 INVOICES

A Billing and Reporting Services Plan will be jointly developed by the Parties during the Ramp-Up Period. As to each Service Bundle, Provider will provide billing services as described in the Sections entitled "Provide Account Billing and Reporting Services" and "Coordinate, Reconcile, and Provide Detailed Billing" in Schedule A. Not later than the Effective Date, the State will provide written notice to appropriate telecommunications vendors and third-party service providers that Provider is the State's billing agent. Provider will begin billing for all Services the month following the applicable Cutover Date but no later than ninety (90) days after the Effective Date. A phased approach for migrating to a consolidated bill for all ITG services and integrating with the State's accounting system will be specified in the Billing and Reporting Services Plan. Provider's billing processes will include the following:

- Process billing and payment transactions - Incorporate State indirect costs as required - Provide data for budgetary and other purposes - Accommodate federal requirements for government agencies

Invoices shall be generated electronically by Provider on a monthly basis commencing the first month following the Effective Date and shall be accompanied by information and data that support the invoiced Fees. Invoices are payable within thirty (30) days after receipt of invoice correct as to the form agreed by the Parties. The State may dispute any invoice in accordance with the provisions of Section 9.8. Invoices shall include, at a minimum, the following categories:

(a) Services that are payable monthly, calculated and payable in accordance with Schedule B herein, in sufficient detail to assign financial responsibility to the End-User level.

(b) Work Orders consistent with the requirements approved for each Work Order. Provider shall identify all Work Order related activity, invoicing by Work Order and by State account code, appropriation number, or other code as identified by the State in writing from time to time.

(c) Early Termination Fees and Disentanglement costs in accordance with the terms of this Agreement.

(d) Services provided by entities, including certain of the Affiliates, whose businesses are regulated by the State regulatory commission. The fees charged for such Services shall be billed directly to the State by Provider at the allowed tariff rates, as approved from time to time. The State hereby appoints Provider as its billing agent for purposes of regulated Services.

9.2 SHARED SAVINGS

Provider shall use its best efforts to increase the economic benefit and/or cost savings accruing to the State associated with the Services, without reduction in the SLAs and without increase in the overall costs to the State associated with the Services. As part of the annual meeting of the Management Committee, as described in Section 11, the Parties shall review prior year Fees, operating costs, pricing assumptions, and operating performance for the purpose of adjusting the upcoming year's Service Fees. The intent of this review is for the Parties to seek and share net cost savings associated with the Services rendered.

9.2.1 SHARED SAVINGS INITIATIVES

Provider and its Subcontractors will work with the State to identify opportunities for savings and the beneficial applications of the Services. From time to time, Provider will present to the State proposed shared savings initiatives, which shall describe a proposed business plan and the return on investment. The amount of net cost savings from any initiative will be mutually determined on a case by case basis taking into consideration such factors as which Party invests any required capital, potential revenue and royalties from third parties, etc. Once such amount is determined, the Parties shall share any such savings equally.

9.3 BENCHMARKING

Provider shall cooperate and make available to the State all necessary information to conduct Benchmarking studies. The Parties agree to determine these Benchmarks cooperatively, and to agree upon their application with respect to the Services. The State may request a Benchmarking for any particular Service Bundle at any time during the Term, and may request a Benchmarking for all Services, in the aggregate, not more than once during any period of twelve (12) consecutive months during the Term. Provider shall cooperate with any benchmarking firm, subject to the non-disclosure provisions set forth in Section 21, that the State selects that is not a competitor of Provider or its Subcontractors. Each Party shall have the opportunity to advise the benchmarking firm of any information or factors that it deems relevant to the conduct of the Benchmarking, so long as such information is disclosed to the other Party. The benchmarking firm shall provide reports on the Benchmarking to both the State and Provider and the State shall pay the costs associated with any such benchmarking firm. The State acknowledges and understands that the Fees may include, in part, amortization of transition and other costs, infrastructure improvements, and carrying charges associated with the State's requirements regarding pricing. Accordingly, the Parties will consider these factors when evaluating appropriate adjustments to the relevant Fees to meet industry best rates and practices identified through Benchmarking.

9.4 FEE REDUCTIONS AND INCENTIVES

Incentives and Fee Reductions shall be implemented by the Parties in accordance with the terms of Schedule F to this Agreement. In the event that the Parties disagree as to the whether the events triggering an Incentive or a Fee Reduction have occurred, or the proposed amount of the Incentive or Fee Reduction, the matter shall be resolved in accordance with the dispute resolution procedures set forth in Section 25 prior to the awarding of any Incentive or the imposition of any Fee Reduction. The Parties acknowledge and agree that Incentives are intended to reflect, to some extent, the enhanced value of the Services delivered above the target SLAs. The Parties further acknowledge and agree that Fee Reductions are intended as stipulated partial damages to reflect, to some extent, the diminished value of the Services as a result of a Failure; provided, however, that Fee Reductions are not intended to fully compensate the State for any Provider Default under this Agreement, nor to constitute penalties, liquidated damages, or other compensation for any such Provider Default. In no event shall Fee Reductions be the State's sole and exclusive remedy with respect to any Failure of Provider. In the event the State recovers damages from Provider for any breach or Provider Default with respect to a Failure, such damages shall be reduced to the extent of any Fee Reductions previously collected by the State with respect to such Failure.

9.5 ONLY PAYMENTS

Except as otherwise expressly stated in this Agreement, the State shall not pay Provider any additional fees, assessments, or reimbursements, other than the Fees and Provider shall be solely responsible for, and shall indemnify, defend, protect and hold harmless the State against, all costs and expenses incurred by Provider in meeting Provider's obligations under this Agreement, including labor expenses, hardware and software costs, and general business expenses (including travel, meals, and overhead expenses).

9.6 SET-OFF

The State may set off against any and all amounts otherwise payable to Provider pursuant to any of the provisions of this Agreement: (i) any and all amounts that are determined to be owed by Provider to the State under the provisions of Section 25, and (ii) State employee costs in accordance with
Section 5.2.9.

9.7 DISPUTED AMOUNTS

Subject to and in accordance with the provisions of this Section 9.7, the State may withhold payment of any Provider invoice (or part thereof) that it in good faith disputes is due or owing. In such case, the State shall, by the applicable due date of such invoice, pay any amounts then due that are not disputed and provide to Provider a written explanation of the basis for the dispute as to the disputed amounts. The failure of the State to pay a disputed invoice, or to pay the disputed part of an invoice, shall not constitute a Default by the State, so long as the State complies with the provisions of this
Section 9.7. To the extent Provider does not agree with the State's justification for withholding payment, the matter shall be resolved in accordance with the dispute resolution procedures set forth in Section 25. If and to the extent that the aggregate amount being disputed exceeds One Hundred Thousand Dollars ($100,000.00), then, within ten (10) days after Provider's request, or such later date upon which any such amount may become due, the State shall deposit any disputed amount in excess of One Hundred Thousand Dollars ($100,000.00) into an interest-bearing escrow account in a nationally-recognized financial institution reasonably acceptable to Provider and shall furnish evidence of such deposit to Provider; provided, however, that the aggregate amount withheld in respect of amounts being disputed by the State, including amounts paid into escrow, shall in no event exceed the estimated annual Fees for the Contract Year in which the dispute arose, notwithstanding any such dispute. Upon the resolution of any dispute as to which the State has deposited funds into escrow, the funds paid into the escrow account in respect of such dispute, together with any interest earned thereon shall be allocated between the Parties in accordance with the resolution of the dispute.

9.8 MOST FAVORED CUSTOMER

Subject to restrictions, if any, imposed under applicable law, regulation, rule, or order, if Provider offers to any new or existing customer any service similar to any of the Services described in this Agreement at a price lower or a discount greater than the price charged or the discounts offered to the State hereunder, or offers additional or a more comprehensive service similar to the Services described in this Agreement at the same or a lower price (or greater discount), then, on a retroactive basis to the date such other prices were billed to another customer by Provider, Provider shall offer such lower price or greater discount to the State in lieu of the price therefor (or discount related thereto) that is reflected in the price set forth in this Agreement or shall offer to the State such additional or more comprehensive service at such same price. If the price has already been paid to Provider by the State, then Provider shall refund to the State an amount equal to the difference between the price already paid and the lower price. The State may offset any such overcharged amount against any amounts due to be paid to Provider under this Agreement. Provider shall notify the State of the occurrence of the lower price or greater discount (or provision of additional or more comprehensive service) as described in this Section 9.8 upon discovery and in no event later than thirty (30) days after its implementation of such lower price or greater discount (or provision of additional or more comprehensive service). The State acknowledges and understands that Provider's pricing is based in part upon the following factors: the technology base used by a customer, the combination of services required by a customer, the SLAs or other service level standards required by a customer, the geographic location where the services are to be provided, the terms and conditions of the agreement to provide the services, and the overall revenue stream generated by a customer. Provider shall submit an annual report and certification to the State containing the information required under this Section.

10. WORK ORDERS

10.1 WORK ORDER ISSUANCE AND RESPONSE

The State may from time to time deliver to the Account Manager a Work Order, which shall specify the proposed work with sufficient detail to enable Provider to evaluate it, which may include designation of an SoL Service. For a Work Order to be valid it must be executed by an authorized representative from each Party. Unless the Parties mutually agree in writing to proceed otherwise after taking into account the size and scope of the Work Order, Provider shall, as soon as reasonably possible, but in no event later than ten (10) business days following the date of receipt of a Work Order, respond to the Work Order with a written proposal containing the following: a detailed description of the Services to be performed; categories of personnel required (and number of personnel within each category), an implementation plan; the amount, schedule, and method of payment; the timeframe for performance; and completion and acceptance criteria. The Parties acknowledge and agree that the costs of Services requested through a Work Order are subject to the Maximum Annual Contract Amount.

Unless otherwise agreed to by the Parties, Work Orders shall be governed by the terms and conditions of this Agreement. As soon as reasonably possible, but in no event later than five (5) business days following receipt of Provider's proposal concerning the Work Order, the State shall notify Provider in writing whether to proceed with the Work Order in which case, Provider shall proceed in accordance therewith. If, within the response period, the State (i) notifies Provider in writing not to proceed, or (ii) fails to notify Provider within the five (5) business day period, then the Work Order shall be deemed withdrawn and Provider shall take no further action with respect to it. Any dispute regarding an approved Work Order shall be resolved in accordance with
Section 25 of this Agreement.

10.1.1 PROVIDER SUBMITTED WORK ORDERS

In the event Provider wishes to perform tasks that would otherwise be addressed through a Work Order, the Account Manager shall deliver to the Project Director a Work Order containing Provider's written proposal. Thereafter, the procedure shall be as stated in Section 10.1.

10.2 SLA IMPACT

If, in the opinion of Provider, a Work Order is likely to alter a SLA or create conditions that will materially or substantially impair Provider's ability to perform its duties under this Agreement, Provider shall notify the Project Director as part of its proposal regarding a Work Order. The Project Director shall respond to the conflict

within the timeframe set forth in Section 10.1, or as soon thereafter as is reasonably practical, by: (1) revising the Work Order to eliminate the conflict;
(2) proposing to Provider an amendment or modification to the affected SLA or this Agreement to eliminate the conflict; or (3) setting forth the basis for his/her conclusion that a conflict does not exist. In the event that Provider and State disagree on either the existence of an SLA conflict or a methodology for resolving a conflict, the matter shall be resolved pursuant to the dispute resolution procedures set forth in Section 25 of this Agreement.

10.3 EXTRAORDINARY EVENTS AND EMERGENCIES

Subject to Section 14.4 and Section 17.1, the State may, as a result of an extraordinary event or emergency, excluding a Disaster: (i) direct Provider to perform Services in an extraordinary manner for a limited duration (e.g., perform services at service levels above or below the SLAs for a limited duration); or (ii) direct Provider to temporarily cease the performance of certain Services; or (iii) obtain a third party to perform certain Services for the duration of the extraordinary event or emergency. Such direction from the State shall be given in a writing signed by the Project Director or verbally with written confirmation within 24 hours signed by the Project Director. If the State's request causes an increase or decrease in Provider's direct cost or expense of performance of the affected Services, the State shall pay Provider an amount equal to any such increase or Provider shall credit to the State the amount of any such decrease. Any request by Provider for such an adjustment must be asserted in writing to the Project Director within thirty (30) days after the date of receipt by Provider of the State's writing with respect to the extraordinary event or emergency, or within such additional period of time as the Project Director may agree in writing, and shall include factual information and support for all purported increases and decreases in direct cost or expense. Pending the determination of any such adjustment, Provider will diligently proceed with the requested Services. The State may require the submission of supporting cost and expense documentation and inspection of Provider's pertinent books and records for the purpose of verifying Provider's request for increase or evaluation of the State's requested decrease and determining the basis for the adjustment.

11. RELATIONSHIP MANAGEMENT

11.1 STATE'S POLICIES

Provider agrees to use its best efforts to comply with all current and future State policies and procedures relevant to the provision of the Services under this Agreement that are not otherwise addressed in this Agreement. Such existing policies and procedures shall be individually identified in writing by the State prior to the Effective Date. Future policies and procedures relevant to the provision of Services under this Agreement shall be individually identified in writing by the State as soon as is practicable. Notwithstanding the foregoing, the Parties agree to cooperate in the adjustment, if necessary, of the Fees and SLAs in the event such policies and procedures positively or negatively impact Provider's pricing of the Services and ability to meet existing SLAs.

11.2 MANAGEMENT COMMITTEE

The Parties shall form a Management Committee to: (i) review the effectiveness and value of the Services provided to the State by Provider; (ii) provide guidance to improve such effectiveness and value; and (iii) carry out the other functions set forth in this Agreement. The Management Committee shall be comprised of four (4) representatives selected by the State and four (4) representatives selected by Provider. The initial representatives of each Party shall be identified within ten (10) days after the Contract Signing Date, provided, however, that the Project Director and the Account Manager shall be designated as one of the representatives for the State and Provider, respectively. The Management Committee shall be chaired by the Project Director.

The Management Committee shall meet on a monthly basis (or as otherwise agreed by the Parties). The presence of at least two (2) voting representatives from each of the Parties shall be required to establish a quorum. The Management Committee shall have the discretion to form subcommittees for any purpose it deems appropriate. Matters affecting the governance of the Management Committee not otherwise set forth in this Agreement shall be governed by the Bylaws adopted by the Management Committee at its organizational meeting.

Once annually, the Management Committee, in coordination with the TIC shall meet to: (i) discuss, with Provider and industry thought leaders, innovative ideas and strategies for the more effective use of telecommunications and related business transformation services, and (ii) facilitate discussion on how these ideas and strategies can more effectively impact the enterprise transformation of the business of government for the State. For each such annual meeting, Provider shall prepare a suggested agenda, in concert with the State Project Director. Further, the Management Committee may invite industry thought leaders to participate in such annual meetings to facilitate the information exchange and increase the value of the strategies discussed. Recommendations and actions that may affect statewide telecommunications policy proposed by the Management Committee may not proceed without the written approval of the TIC. In addition, the Management Committee shall, on a quarterly basis, review in coordination with the SIPMG, the Satellite Services provided under Schedules A.9 and A.13.

11.3 COORDINATION OF JOINT OPERATIONS

The Parties agree that the intent of this Section is to ensure that interruptions to the Services are minimized and that Service is restored and maintenance performed in the most cost-effective and efficient manner possible.

11.3.1 DISPATCH OF STATE AND PROVIDER EMPLOYEES FOR REPAIRS

In remote regions that are jointly serviced by Provider and the State, both Provider and State employees will be dispatched and coordinated via the Service Center based upon the following factors: (1) employee expertise, (2) employee availability, and (3) employee proximity. The goal of the Service Center will be to efficiently service remote locations, with transparency as to who is performing the required activity. In this regard, State employees may be required to assist in providing Services and Provider employees and/or State Employees may be required to assist in providing services.

11.3.2 DISPATCH OF STATE AND PROVIDER EMPLOYEES FOR PLANNED MAINTENANCE TRIPS

To the extent practical and as agreed to in the Joint Operations Plan, the Service Center may dispatch State employees along with Provider employees to minimize operation and maintenance costs and to complete planned maintenance in the most efficient manner possible. In addition, the State will notify Provider of planned maintenance trips for services to allow Provider the opportunity to provide Services in the most economical manner possible.

11.3.3 JOINT OPERATIONS PLAN

Not later than ninety (90) days after the Effective Date, the Management Committee will finalize and approve a Joint Operations Plan to include the processes, procedures, and system support required for joint response by Provider's and State employees and a schedule of fees and credits for services performed as joint operations for the purpose of sharing the high costs of operation and maintenance in remote sites. Such plan will be coordinated with and subject to the approval of the applicable collective bargaining units of Provider and the State.

12. PROPRIETARY RIGHTS

12.1 OWNERSHIP OF WORK PRODUCT

12.1.1 STATE AS SOLE OWNER OF EXCLUSIVE WORK PRODUCT

The State shall be the sole and exclusive owner of all Exclusive Work Product. All copyright, patent, trademark, trade secret, and other proprietary rights in Exclusive Work Products shall belong to the State. All copyright, patent, trademark, trade secret, and other proprietary rights in Provider Work Product shall remain the property of Provider.

12.1.2 LICENSE TO USE EXCLUSIVE WORK PRODUCT

During the Term, the State hereby grants to Provider (and any applicable Subcontractors) a non-transferable, non-exclusive, royalty-free, fully paid-up, worldwide license to use any Exclusive Work Product solely for the provision of Services to the State. In the case of Exclusive Work Product that embodies patentable inventions as to which the State has patent rights, the State also hereby grants to Provider (and the applicable Subcontractors) a perpetual, irrevocable, non-exclusive, royalty-free, fully paid-up license under each said patent to make, have made, offer for sale, sell, use and sublicense the patented inventions solely for use in connection with provision of Services to the State. Upon termination of the provision of Services, Provider shall immediately cease all use of the Exclusive Work Product and return all copies of documentation evidencing the Exclusive Work Product to State.

12.1.3 LICENSE TO USE PROVIDER WORK PRODUCT

During the Term, Provider hereby grants to the State a non-transferable, non-exclusive, royalty-free, fully paid-up, license to Provider Work Product to the extent such Provider Work Product is necessary for the delivery of Services to the State under the terms of this Agreement.

12.2 RIGHTS AND LICENSES

12.2.1 RIGHTS AND LICENSES NECESSARY TO PROVIDE SERVICES

Provider shall obtain from third-parties all rights and licenses required to perform the Services. With respect to all technology used and to be used by Provider to perform the Services hereunder, whether proprietary to Provider or known to be proprietary to any other Person, Provider hereby grants and agrees to grant to the State, or shall use its best efforts to cause to be granted by the licensor thereof, such licenses and sublicenses as may be necessary for the delivery of Services to the State under this Agreement.

12.3 ADVERSE ACTIONS

12.3.1 INFRINGEMENT

Each of the Parties promises to perform its responsibilities under this Agreement in a manner that does not infringe, or constitute infringement or misappropriation of, any patent, trade secret, copyright, or other proprietary right of the other Party or any third-party, or a violation of the other Party's or any third-party's software license agreements or intellectual property rights disclosed to or known by such Party.

12.3.2 PROVIDER'S USE OF STATE CONFIDENTIAL INFORMATION

The State shall permit Provider to have access, subject to Section 21, to all State Confidential Information necessary for the delivery of Services to the State under this Agreement. The granting of such access does not confer upon Provider any property interest in the State's Confidential Information in accordance with Section 21.

12.3.3 COOPERATION BETWEEN THE PARTIES

The Parties will cooperate with each other and execute such other documents as may be appropriate to achieve the objectives in this Section. If at any time the State brings, or investigates the possibility of bringing, any claim against any third-party for infringement of any patent, trademark, copyright, or similar proprietary right of the State, including misappropriation of trade secrets and misuse of Confidential Information, then Provider, upon the request and at the expense of the State, shall cooperate with and assist the State in the investigation or pursuit of such claim, and provide the State with any information in Provider's possession that may be of use to the State in the investigation or pursuit of such claim.

13. SECURITY AND PROTECTION OF INFORMATION

The State considers its information and communication capabilities to be a valued and important resource. The State's systems and databases contain private and confidential information. Some of this information is subject to special constitutional and statutory protection including, but not limited to, confidential data with respect to health and social services and public safety. At all times during the Term, Provider will ensure the security, protection and confidentiality of this information and communication resources in accordance with applicable Federal, State and local laws, regulations and security requirements, including but not limited to the U.S. Department of Justice Criminal Justice Information Systems Security Policy. Provider shall have no rights to use or access any State Data or State Confidential Information, except as required to provide the Services or where otherwise stated in this Agreement.

The Security goals of this Agreement are, but not limited to:

- Prevent unauthorized access of the Network and Services. - Prevent data eavesdropping and theft of data. - Provide transported data integrity.
- Prevent denial of service to legitimate End-Users.

The level of security provided by Provider is set forth in Schedule M, Security Procedures.

13.1 INFORMATION (ELECTRONIC) ACCESS

Provider will use industry best practices (through the use of tools such as, but not limited to, private IP numbering, password field encryption, approved access lists and external security authorization servers) to control electronic access to routers and switches. Provider will log, at the Service Center, any unauthorized network entry attempts through authentication routines and SNMP traps.

Nothing in this Agreement prevents the State from deploying internal firewalls. Provider agrees to assist the State in designing and deploying these devices, at the request of any Department, in accordance with Section 10, Work Orders.

13.1.1 NETWORK LAYER SECURITY

Provider will ensure the prevention and detection of fraud, abuse, or other inappropriate use or electronic access to systems on the network layers as set forth in Schedule M, Security Procedures.

13.1.2 SECURITY INCIDENTS, VIRUSES, AND DISABLING DEVICES

The Parties shall work cooperatively to identify, minimize and resolve all Security Incidents. At all times during the Term, Provider shall use practices that are in the best interests of the State and Provider, to identify, screen, and prevent, and Provider shall not intentionally install, any Disabling Device in resources utilized by Provider, the State, or any third-party, in connection with the Services, as described in Schedule M, Security Procedures. Provider shall assist the State in reducing the effects of any Disabling

Device discovered in such resources, especially if causing a loss of operating efficiency or data, in accordance with Network Availability and Security Incident Response SLAs.

13.2 PERSONNEL ACCESS

13.2.1 GENERAL PERSONNEL PROVISIONS

Prior to performing any Services, Provider personnel (including personnel of any Subcontractors) who will access State Data and software shall execute the Parties' agreements and forms concerning access protection and data/software security consistent with the terms and conditions of this Agreement. At all times during the Term, Provider, and its employees, agents, and Subcontractors, shall comply with all State policies and procedures regarding data access and security, including those prohibiting or restricting remote access to State systems and State Data. The State shall authorize, and Provider shall issue, any necessary information-access mechanisms, including access IDs and passwords, and Provider will require that the same shall be used only by the personnel to whom they are issued. Provider shall provide to such personnel only such level of access as is required to perform the tasks and functions for which such personnel are responsible. Provider shall, upon request from the State, but at least quarterly, provide the State with an updated list of those Provider personnel having access to the State's systems, software, and State Data. State Data and software provided by the State or accessed by Provider personnel shall be used by Provider personnel only in connection with Provider's obligations hereunder, and shall not be commercially exploited by Provider in any manner whatsoever. In addition, failure of Provider to comply with the provisions of this Section 13.2 may result in the State restricting offending personnel from access to State computer systems.

13.2.2 BACKGROUND CHECKS

If Provider assigns, as a full-time resource, Persons (whether employees, Subcontractors, independent providers, or agents), other than Transitioned Employees performing similar duties, to perform work in connection with the provision of Services at any Location, Provider shall conduct a background check in accordance with existing State procedures and as permitted by law, on all such Persons before the State will grant access to such Location. Such background check shall be conducted during the employment-screening process but must, at a minimum, have been performed within the preceding twelve (12) month period. The State shall furnish Provider within ten (10) days after the Contract Signing Date the State's current background check procedures and shall give Provider written notice of any changes to such procedures during the Term. Provider shall obtain all releases, waivers, or permissions required for the release of such information to the State. On an annual basis, Provider shall certify that the background check required by this Section 13.2.2 has been conducted with respect to all Persons assigned by Provider to perform work at any Location. In the event an employee or prospective employee does not pass such background check, that employee or prospective employee may not be assigned to any position performing Services under this Agreement in which that employee would or could have access to State Confidential Information.

13.3 PHYSICAL ACCESS RESTRICTED

Provider Restricted Facilities will be fenced, locked, protected by key or magnetic passcard, and clearly labeled with signs advising of restricted access. The public will not be allowed unescorted access to Provider Restricted Facilities. Provider Restricted Facilities will be additionally protected by electronic alarm systems that are triggered when they detect unauthorized access. Only those Provider employees, agents or Subcontractors with a job-related need to be in a restricted area will be allowed the use of keys, or given special access codes on their magnetic passcard. Some sensitive Provider Restricted Facilities, as determined by Provider, will also protected by security cameras that record images on a continuous loop videotape. In addition, as agreed upon by both Parties, Provider will lock cabinets of communications equipment located inside Provider Restricted Facilities that require the highest level of protection. Only a very limited set of employees with security clearance, and with direct work responsibilities in the cabinets, will be granted access.

Provider equipment that is housed in State Facilities may be secured by Provider subject to State approval. Provider shall permit the State and its agents and representatives to enter into those portions of State Facilities secured by Provider in accordance with the Standards and Procedures Manual to perform facilities-related services.

13.4 SECURITY POLICIES, PROCEDURES AND STANDARDS

13.4.1 SECURITY POLICIES AND PROCEDURES

Provider shall, and shall cause its Subcontractors and employees to, abide by all applicable State security policies that may be established by the State from time to time, and which are provided to Provider in writing.

The Parties agree that the security needs of the State, as well as those of other governmental agencies, may require changes to the security policies and procedures that are implemented by Provider. Therefore, Provider and the State concur that a spirit of cooperation and collaboration is needed throughout the Term of this Agreement to develop provisions sufficient to meet these security needs. Provider will actively participate with the State in the mutual development and implementation of these provisions to properly protect the security and confidentiality of State Data and State Confidential Information.

13.4.2 MINIMUM SECURITY STANDARDS.

In no event shall Provider's actions or inaction result in any situation that is less secure than either: (i) the security the State provided as of the Effective Date; or (ii) the security provisions specified in this Agreement.

14. TERM

14.1 INITIAL TERM AND RENEWALS

14.1.1 INITIAL TERM

The Initial Term shall be subject (as to any period beyond the State's fiscal year ending on June 30, 2001) to appropriation by the State of funds necessary for the payments required by the State under this Agreement for such period. To the extent necessary appropriations are not made for the then-current fiscal year, the State's payment obligations for such fiscal year shall be deemed contingent liabilities only, subject to appropriation in the following fiscal year. In the event that either no funds or insufficient funds are appropriated or made available for any fiscal year for payments to be made under this Agreement, the State shall promptly notify Provider verbally and in writing of such occurrence and the Term of this Agreement shall terminate on the earlier of the last day of the fiscal period for which sufficient appropriation was made or whenever the funds appropriated or made available for payments under this Agreement are exhausted. In no case, however, will Provider receive notice of discontinuation of the Term in less than one hundred and twenty (120) days.

14.1.2 RENEWAL BY STATE

The State may, in its sole discretion, extend the Initial Term for up to two (2) successive renewal periods of one (1) year each by providing written notice delivered to Provider at least one hundred eighty (180) days before the end of the then-current Term.

14.2 EARLY TERMINATION

14.2.1 FOR CONVENIENCE

The State shall have the right to terminate for its convenience one or more Service Bundles or this Agreement by delivering to Provider a Termination Notice at least one hundred eighty (180) days before the Termination Date set forth therein, provided, however, that the State may not terminate Service Bundles 1, 2, 3 and 7 individually, but only as a group. In the event the State terminates this Agreement solely for its convenience, and Provider performs all of its obligations (including its Disentanglement obligations), the State shall pay to Provider, in addition to any amounts payable pursuant to Sections 9 and 16, the Early Termination Fee on or before the earlier to occur of the sixtieth (60th) day after the Termination Date, or the date Provider completes its Disentanglement obligations in accordance with Section 16 hereof. In the event the State elects to terminate one or more Service Bundles (but not all Services) pursuant to the terms hereof, and Provider performs all its obligations (including its Disentanglement obligations hereunder to the extent applicable to the Service Bundle or Services Bundles being terminated), the State shall pay to Provider an amount to be negotiated between the Parties.

14.2.2 CHANGE IN CONTROL OF PROVIDER

In the event of a Change in Control of Provider resulting from a single transaction or series of related transactions, the State shall have the right to end the Term by sending

a Termination Notice to Provider at least ninety (90) days prior to the Termination Date set forth therein, provided that the State shall have delivered such notice to Provider not later than ninety (90) days following the later of
(a) the effective date of such Change in Control, or (b) the date the State receives Provider's written notice of the Change in Control, and the Commissioner of the Department of Administration authorizes such termination based on a determination that the continued providing of the Services by Provider as a result of such Change in Control is not in the best interests of the State. In the event the State terminates the Services pursuant to this Section, and Provider performs all of its obligations (including its Disentanglement obligations), the State shall pay to Provider, in addition to any amounts payable pursuant to Sections 9 and 16, the Early Termination Fee on or before the earlier to occur of the sixtieth (60th) day after the Termination Date, or the date Provider completes its Disentanglement obligations in accordance with Section 16 hereof. Solely for purposes of this Section 14.2.2, "Control" shall mean, with respect to any Person, the legal, beneficial, or equitable ownership, direct or indirect, of more than fifty percent (50%) of the aggregate of all voting or equity interests in such Person; "Change in Control" shall mean any change in the legal, beneficial, or equitable ownership, direct or indirect, such that Control of such Person is no longer with the same Person or Persons as on the Contract Signing Date.

14.3 TERMINATION FOR MATERIAL DEFAULT

Subject to the provisions of Section 25, the State may terminate this Agreement or any Service Bundle or Bundles effective as of the Termination Date specified in the Termination Notice, in the event that Provider commits a Material Default; provided, however, that (1) in the event of a Material Default under item (vi) of the definition of Material Default, the State may terminate this Agreement only as to the particular Service Bundle for which the Material Default occurred, (2) none of Bundles 1, 2, 3 and 7 may be terminated without terminating all of Bundles 1, 2, 3 and 7, and (3) Provider shall continue to be obligated to perform Disentanglement in accordance with the terms of Section 16. No termination pursuant to this Section 14.3 shall be deemed a termination for convenience subject to Section 14.2.1 or otherwise require the State to make any payments to Provider not otherwise required under Sections 9 and 16 hereof. Termination shall not constitute State's exclusive remedy for such Material Default, and State shall not be deemed to have waived any of its rights accruing hereunder prior to such Material Default.

14.4 TERMINATION FOR FORCE MAJEURE EVENT

Provider is not responsible for the consequences of any failure to perform, or default in performing, any of its obligations under this Agreement, if that failure or default is caused by any unforeseeable Force Majeure Event, beyond the control of and without the fault or negligence of Provider. Notwithstanding the above, if a delay or interruption of performance by Provider resulting from its experiencing a Force Majeure Event exceeds fifteen (15) days and during such period more than fifty (50) percent of the Services are unavailable, despite Provider's use of its best efforts (that shall not involve the payment of funds that would not be commercially reasonable under the circumstances), the State may terminate any Service Bundle (in whole or in part), by delivering to Provider a Termination Notice specifying the Termination Date; provided, however, that the State may not terminate Service Bundles 1, 2, 3 and 7 individually, but only as a group and provided further, however, that Provider shall continue to perform its Disentanglement obligations in respect of such terminated Services. In the event the State terminates the Services pursuant to this Section, and Provider has performed all of its obligations (including its Disentanglement obligations), the State shall pay to Provider, on or before the sixtieth (60th) day after the Termination Date, in addition to the amounts payable pursuant to Sections 9 and 16, the amount set forth in Section 14.2.1.

14.5 EXTENSION OF TERMINATION DATE

The State may, at its sole option and discretion, upon at least one hundred twenty (120) days' notice to Provider, extend the effective date of the Termination of the Term for successive periods of not less than one hundred eighty (180) days each, with such extension periods not to exceed two hundred
(200) days in the aggregate, provided, however, that this Section shall not apply to a termination resulting from the nonappropriation of funds as set forth in Section 14.1.1. Each such extension shall be upon the same terms and conditions in effect immediately prior to such extension. Any adjustments to the Fees applicable to any extension period shall be mutually agreed by the Parties, consistent with the pricing methodology set forth in Schedule B herein. In the event the Parties are unable to agree on such applicable Fees, the Fees shall be the same Fees as were applicable in the immediately preceding Contract Year or extension period, as the case may be, subject to COLA plus demonstrable cost increases incurred by Provider.

14.6 EFFECT OF ENDING OF TERM

The Termination of the Term shall not constitute a termination of this Agreement or any provision hereof that by its nature shall continue in force and effect, including Provider's obligations with respect to Disentanglement.

14.7 TERMINATION BY PROVIDER

Subject to the provisions of Section 25, Provider may terminate this Agreement, effective as of the Termination Date specified in the Termination Notice, upon the occurrence of a State Default, provided, however, that Provider shall continue to be obligated to perform Disentanglement in accordance with the terms of Section 16. In the case of a Termination under this Section 14.7, Provider shall be entitled to receive, in addition to all other compensation provided for under Sections 9 and 16, the Early Termination Fee set forth in Section 14.2.1. Termination shall not constitute Provider's exclusive remedy for such State Default, and Provider shall not be deemed to have waived any of its rights accruing hereunder prior to such State Default. Provider shall have no right to terminate this Agreement or any Service for any other reason except as expressly provided elsewhere in this Agreement.

15. DISASTER RECOVERY

The State currently contracts out for Disaster recovery testing and planning for its central data processing and warehousing functions. Additionally, each Department is currently responsible for its own Disaster recovery plan for distributed database and desktop computing resources. Provider agrees to cooperate fully with the State as it develops an Enterprise Disaster Recovery Plan and with each of the Departments in connection with their Department-specific plans.

Provider will provide to the State on or before the Effective Date, a copy of its Disaster recovery plan for its Central Office facilities. Not later than ninety (90) days after the Effective Date, Provider will provide to the State an outline of a Transformed Services Disaster Recovery Plan, for the State's review and approval, designed to reasonably ensure the continuing availability of Services, as designated in this Agreement, in the event of a Disaster. A final Transformed Services Disaster Recovery Plan will be submitted by Provider to the State not later than one hundred eighty (180) days after the Effective Date. Commencing not later than two hundred ten (210) days after the Effective Date, Provider shall implement the Transformed Services Disaster Recovery Plan and provide the State Disaster recovery services so as to reasonably ensure the continuing availability of all Services. Provider shall provide such Disaster recovery services at all times without regard to any Force Majeure Event. Such Disaster recovery services shall include the preparation and regular testing and updating of the Transformed Services Disaster Recovery Plan (including plans for data, backups, storage management, contingency operations, and restoration of Services to key State Locations), the reservation of capacity at alternate site facilities, and the coordination with Departments and third-party providers. Provider shall update and test all Disaster recovery procedures not less frequently than twice annually.

Provider will actively coordinate with DMVA in the development of joint Disaster communications protocols, contingency plans and Disaster recovery operations. Nothing in this Agreement shall be interpreted to reduce DMVA's statutory authority for coordinating, providing, or supplementing communications services during a Disaster.

The Transformed Services Disaster Recovery Plan will contain, but not be limited to, the following elements:

1. Provider will support the DES in its AEMS planning effort.

2. Provider will acknowledge its role as an "essential service provider" (AEMS Draft, Part I, Section A, Subsection 5) in the AEMS, and volunteers early cooperation.

3. Provider will adopt a terminology in the ACS Disaster Recovery Plan, consistent with the multi-agency, multi-jurisdictional language used in NIIMS/ICS, thereby enabling Provider to work rapidly and effectively with the State in a Disaster.

4. Provider will adopt an unambiguous recognition of the command and control structure for the AEMS in the ACS Disaster Recovery Plan. This will enable Provider to work in concert with the NIIMS/ICS command and control.

5. Provider will integrate its satellite telephone, cellular telephone, and satellite data systems facilities and expertise with the AEMS, in cooperation with DES, in keeping with the special role of advanced technology in Disaster mitigation.

6. Provider will update the Transformed Services Disaster Recovery Plan as the transformation occurs. The Transformed Services Disaster Recovery Plan shall be reviewed and updated as necessary every ninety
(90) days.

7. Provider will make use of its Training Center in Anchorage in support of the ICS/NTC for State employees. In the spirit of Partnership, Provider employees with responsibilities under the ACS Disaster Recovery Plan and the Transformed Services Disaster Recovery Plan will also attend ICS/NTC training.

8. Provider will open its Service Center and NOC facilities to the DES for training, testing, and field operations.

9. Provider will organize its satellite telephone, cellular voice communications, and satellite data communications technologies to provide a rapid response capability for recovery of State communications in the event of a Disaster. Based on currently unknown resource requirements, this will be addressed through a Work Order.

10. Provider will support an on-scene response level generic rapid response capability for use by IC. Provider's objective is to directly support IC in quickly establishing and maintaining acceptable communications. This task will be addressed through a Work Order.

11. Provider agrees to create a generic planning capability to assist LEPCs in addressing communications. This task will be addressed through a Work Order.

12. Provider agrees to create a generic planning capability to assist the BERO in addressing communications. This task will be addressed through a Work Order.

13. Provider agrees to create a generic planning capability to assist individual Departments in setting up communications for Agency Operations Centers required by the AEMS. This task will be addressed through a Work Order.

14. Provider agrees to assist the DES in planning communications for the SECC in order to create a SECC function that is facility-independent. This task will be addressed through a Work Order.

16. DISENTANGLEMENT

16.1 DISENTANGLEMENT PROCESS

Provider's Disentanglement obligations commence on the Disentanglement Commencement Date and terminate no later than one (1) year from such date, unless otherwise extended by mutual agreement of the Parties. During Disentanglement, Provider shall continue to perform Services until the applicable Disentanglement Cutover Date, provided, however that such Services shall be performed in compliance with the then existing SLAs. Notwithstanding the foregoing, nothing herein shall obligate Provider to continue to provide Services during Disentanglement or perform its Disentanglement obligations in the event the State fails to make any of the payments described in this Section 16. Provider and the State shall negotiate in good faith the terms of a Disentanglement Plan for determining the nature and extent of Provider's Disentanglement obligations and for the transition of the provision of Services by Provider to the State or its designated third-party provider.

During Disentanglement, Provider shall be compensated by the State for the following: (i) Services performed by Provider until the Disentanglement Cutover Date at the then current rates being charged to the State as set forth in Schedule B; (ii) direct costs incurred by Provider in connection with the provision of support and other services to the State or its designated third-party replacement in connection with Disentanglement on time-and-materials basis; and (iii) the reimbursement costs described in Section 16.1.5.

16.1.1 FULL COOPERATION AND INFORMATION

During Disentanglement, the Parties shall cooperate fully with one another to facilitate a smooth transition of the Services being terminated from Provider to the State or the State's designated replacement provider. Such cooperation shall include the provision by Provider to the State, subject to the provisions of Section 21 hereof, of full, complete, and detailed information, as well as sufficient documentation regarding the Disentanglement Assets, the Managed Assets, and the information residing on the Network that pertains exclusively to, or is necessary for, the provision of Services (including all information then being utilized by Provider) to enable the State's personnel (or that of third-parties) to fully assume the Disentangled Assets. Provider shall destroy all copies of such information and documentation not turned over to the State. Notwithstanding the foregoing, Provider may retain one (1) copy of all data within the Network relating to the Services, for archival purposes or warranty support, provided that it is held in a secure and confidential manner.

16.1.2 NO INTERRUPTION OR ADVERSE IMPACT

Provider shall cooperate with the State and the State's other service providers to ensure a smooth transition of the Disentanglement Assets. Provider shall cooperate with the State or its designee and third-party providers in transitioning the interfaces of the Third-Party Resources from the Resources to the resources of the State or the State's designated replacement provider.

16.1.3 THIRD-PARTY AUTHORIZATIONS

Provider shall, subject to the terms of such subcontracts, procure for the State any third-party authorizations necessary to grant the State the use and benefit of any sub-contracts between Provider and any Subcontractors executed exclusively in connection with the provision of the Services, pending their assignment to the State pursuant to Section 16.1.6.

16.1.4 EXCLUSIVE WORK PRODUCT

Provider shall provide the State with the Exclusive Work Product, in such Media as requested by the State, together with object code, source code (to the extent available and in compliance with the applicable license agreement), and appropriate documentation. Provider shall also offer to the State the right to receive maintenance (including all enhancements and upgrades) and support with respect to Exclusive Work Product at the best rates Provider is offering to other major customers for services of a similar nature and scope.

16.1.5 TRANSFER OF ASSETS

Provider shall convey the Disentanglement Assets to the State, or it's designated third-party provider. Provider shall timely remove from the State's premises any Disentanglement Assets that the State, or its designated third-party provider, elect not to acquire, subject to not less than ninety (90) days prior notice. Regardless of whether the State, or its designated third-party provider, elects to accept conveyance of such Assets, the State shall compensate Provider for the Disentanglement Assets, in accordance with the terms of Sections 16.1.5.1 and 16.1.5.2.

16.1.5.1 REIMBURSEMENT OF UNRECOVERED CAPITAL COSTS

The State will reimburse Provider not later than thirty (30) days after the Termination Date for Provider's Unrecovered Capital Costs and the unpaid portion of the purchase price for Purchased Assets. The Parties agree that the $3,420,000 Category 5 wiring investment agreed to by Provider under Service Bundle 2 -- Data Network Services, is considered an investment in the Disentanglement Assets and is subject to the reimbursement provisions of this
Section 16.1.5.1. The Parties also agree that the $2,800,000 capital and maintenance investment, plus any additional capital investment made during the term of this Agreement, agreed to by Provider under Service Bundle 8 -- SATS Microwave Maintenance and Repair, to the extent Provider expends such credit as capital investment, is considered an investment in the Disentanglement Assets and is subject to the reimbursement provisions of this Section 16.1.5.1. In order to facilitate the calculation of Unrecovered Capital Costs, Provider shall maintain a schedule of its capital investment in the Disentanglement Assets, including, without limitation, the network wiring and SATs microwave equipment, in accordance with the terms of Section 20.1. Such schedule will be subject to periodic audit by the State in accordance with the terms of Section 20.

16.1.5.2 REIMBURSEMENT OF CERTAIN OTHER UNRECOVERED TRANSITION COSTS

During the Transition Period, Provider shall provide certain services and assume certain costs to facilitate the provision of the Services to the State on a predictable pricing basis. These costs are priced under the assumption that they will be recovered by Provider over the Initial Term of this Agreement. In the event that the State terminates any or all of the Services prior to the expiration of the Initial Term except termination under Section 14.3, the State agrees to reimburse Provider for such other unrecovered costs based on a four (4) year amortization, or part thereof, ending with the Term of this Agreement, not later than thirty (30) days after the Termination Date for the affected Services. Specifically, the costs identified under this provision include reasonable, actual costs incurred by Provider during the Transition Period and reasonable, actual costs incurred under the SATS Microwave credit to the extent they have not been expended as capital under Section 16.1.5.1. Provider agrees to maintain adequate records to ascertain such other unrecovered costs. Such records will be subject to audit according to the terms of Section 20 of this Agreement.

16.1.6 TRANSFER OF LEASES, LICENSES, AND CONTRACTS

Provider shall convey or assign to the State, or its designee, by written assignment in a form approved by the State, such leases, licenses, and other contracts used by Provider, the State, or any other Person in connection with those assets used exclusively for the provision of Services to the State under this Agreement, including Assigned Leases and Assigned Contracts that continue in effect.

16.1.6.1 ASSUMED LEASE FOR THE JUNEAU TELEPHONE SYSTEM

For the duration of the Term of this Agreement, Provider has agreed to assume payments on the State's capital lease for the Juneau telephone system, subject to the proration of the first lease payment to the Effective Date, and to assume title to the PBX and telephone sets under the lease upon lease maturity, subject to the successful transformation of the Services currently provided using this equipment. Additionally, Provider has agreed to provide maintenance on the equipment through the Term of this Agreement. Provider has considered and included the cost of such lease payments and maintenance costs in its pricing and has averaged them over the Initial Term. In the event the State terminates the Services provided under Service Bundle 1 -- Wired Telephony Services, the State agrees to reimburse Provider for the remaining lease payments and any unamortized maintenance agreements which may be in place, prorated through the Termination Date, not later than thirty (30) days after such Termination Date. In the event that such Termination occurs prior to the transformation of Service Bundle 1, the State, at its sole discretion, may elect to retain the leased equipment and assume the remaining lease payments from the Termination Date forward, thereby relieving Provider of all rights and obligations with respect to such equipment.

16.2 PREPARATION FOR DISENTANGLEMENT

16.2.1 COMPLETE DOCUMENTATION

Provider shall provide to the State complete information, including complete documentation, in accordance with the standards and methodologies to be implemented by Provider, for all software (including applications developed as part of, and used exclusively in the delivery of, the Services) and hardware used exclusively for the provision of Services to the State. Provider shall provide such documentation for all upgrades to or replacements of such software or hardware, concurrently with the installation thereof.

16.2.2 MAINTENANCE OF ASSETS

Provider shall maintain all of the Managed Assets utilized in providing Services to the State in good condition and in such locations and configurations as to be readily identifiable and transferable back to the State or its designees in accordance with the provisions of this Agreement.

16.2.3 ADVANCE WRITTEN CONSENTS

Provider shall use its best efforts to obtain advance written consents from all licensors and lessors of such assets used exclusively for the provision of Services to the State to the conveyance or assignment of licenses and leases to the State, or its designee, upon Disentanglement. Provider shall also use its best efforts to obtain for the State the right, upon Disentanglement, to obtain maintenance (including all enhancements and upgrades) and support with respect to the assets that are the subject of such leases and licenses at the price at which, and for so long as, such maintenance and support is made commercially available to other customers of such third-parties whose consent is being procured hereunder.

16.2.4 ALL NECESSARY COOPERATION AND ACTIONS

Provider shall provide all cooperation, take such additional actions, and perform such additional tasks, as may be necessary to ensure a timely Disentanglement in compliance with the provisions of this Section 16, provided, however, that Provider shall not be obligated to perform Disentanglement-related services or Services beyond one (1) year after the Disentanglement Commencement Date, unless extended by mutual agreement of the Parties.

17. LIMITATION OF LIABILITY AND DISCLAIMERS

Subject to the express provisions and limitations of this Section 17, the Parties intend that each Party shall be liable to the other Party for all damages incurred as a result of the breaching Party's failure to perform its obligations hereunder.

(a) EXCEPT AS OTHERWISE EXPRESSLY PROVIDED BELOW, THE AGGREGATE CUMULATIVE MONETARY LIABILITY OF THE STATE HEREUNDER FOR ALL CLAIMS ARISING UNDER OR RELATING TO THIS AGREEMENT, NOTWITHSTANDING THE FORM (e.g., CONTRACT, TORT, OR OTHERWISE) IN WHICH ANY ACTION IS BROUGHT, SHALL BE LIMITED TO

THE AMOUNT OF FEES OWED AND UNPAID, INCLUDING ANY AMOUNTS DUE UNDER SECTION 16. THE FOREGOING LIMITATIONS UPON THE STATE'S LIABILITY SHALL NOT APPLY TO: (i) LOSSES SUBJECT TO INDEMNIFICATION BY THE STATE; (ii) LOSSES ARISING FROM THE STATE'S FAILURE TO COMPLY WITH SECTION 21 (SUCH LOSSES BEING EXPRESSLY LIMITED BY SECTION 17(c)); (iii) LOSSES ARISING FROM THE STATE'S REPUDIATION OF THIS AGREEMENT; OR (iv) LOSSES ARISING OUT OF THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF THE STATE.

(b) EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS SECTION 17, THE AGGREGATE CUMULATIVE MONETARY LIABILITY OF PROVIDER HEREUNDER FOR ALL DAMAGES INCURRED IN ANY CONTRACT YEAR ARISING UNDER OR RELATING TO THIS AGREEMENT, NOTWITHSTANDING THE FORM (e.g., CONTRACT, TORT, OR OTHERWISE) IN WHICH ANY ACTION IS BROUGHT, SHALL BE LIMITED TO THE ESTIMATED ANNUAL FEE FOR THE CONTRACT YEAR IN WHICH THE DAMAGE WAS INCURRED. THE FOREGOING LIMITATION UPON THE AMOUNTS OF PROVIDER'S LIABILITY SHALL NOT APPLY TO: (A) LOSSES SUBJECT TO INDEMNIFICATION BY PROVIDER; (B) LOSSES ARISING FROM PROVIDER'S FAILURE TO COMPLY WITH THE PROVISIONS OF SECTION 21 (SUCH LOSSES BEING EXPRESSLY LIMITED BY SECTION 17(c)); (C) LOSSES ARISING FROM PROVIDER'S REPUDIATION OF, OR UNEXCUSED REFUSAL TO PERFORM, THIS AGREEMENT OR ITS FAILURE OR REFUSAL TO CONTINUE SERVICES IN VIOLATION OF SECTIONS 22; AND (D) LOSSES ARISING OUT OF THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF PROVIDER.

(c) THE AGGREGATE CUMULATIVE MONETARY LIABILITY OF EITHER PARTY HEREUNDER FOR LOSSES ARISING FROM SUCH PARTY'S FAILURE TO COMPLY WITH THE PROVISIONS OF SECTIONS 21 NOTWITHSTANDING THE FORM (e.g., CONTRACT, TORT, OR OTHERWISE) IN WHICH ANY ACTION IS BROUGHT, SHALL NOT BE SUBJECT TO THE LIMITATION SET FORTH IN SECTIONS 17(a) and (b), BUT SHALL INSTEAD BE LIMITED TO ONE MILLION DOLLARS ($1,000,000.00) AS A SEPARATE AND DISTINCT LIMITATION. THE FOREGOING LIMITATION UPON THE AMOUNT OF EITHER PARTY'S LIABILITY SHALL NOT APPLY TO: (A) LOSSES ARISING OUT OF THE WILLFUL MISCONDUCT OR GROSS NEGLIGENCE OF SUCH PARTY; AND, WITH RESPECT TO THE LIABILITY OF PROVIDER, (B) THE STATE'S COSTS INCURRED TO OBTAIN REPLACEMENT SERVICES COMPLYING WITH THE TERMS HEREOF (AS TO WHICH COSTS SECTION 17(b) SHALL APPLY).

(d) PROVIDER ACKNOWLEDGES AND AGREES THAT THE TYPES OF DAMAGES THAT THE STATE MAY RECOVER FROM PROVIDER SHALL INCLUDE ALL ADDITIONAL COSTS AND EXPENSES PAID OR INCURRED BY THE STATE AS A DIRECT RESULT OF ANY FAILURE BY PROVIDER TO PERFORM ITS OBLIGATIONS HEREUNDER, INCLUDING ANY ADDITIONAL COSTS INCURRED BY THE STATE TO OBTAIN REPLACEMENT SERVICES COMPLYING WITH THE TERMS HEREOF.

(e) EXCEPT TO THE EXTENT ANY OF THE LOSSES DESCRIBED IN CLAUSES (i),
(iii), and (iv) OF SUBSECTION (a), CLAUSES (A), (C), AND (D) OF SUBSECTION (b), SUBSECTION (c), OR SUBSECTION (d) MAY BE DEEMED TO BE SUCH DAMAGES, NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, SPECIAL, INDIRECT, OR INCIDENTAL DAMAGES, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES AND REGARDLESS OF THE FORM IN WHICH ANY ACTION IS BROUGHT. NEITHER PARTY SHALL BE LIABLE FOR EXEMPLARY OR PUNITIVE DAMAGES REGARDLESS OF THE FORM IN WHICH ANY ACTION IS BROUGHT.

17.1 FORCE MAJEURE EVENTS

If a Force Majeure Event is the material contributing cause of a Party's failure to perform any of its obligations hereunder, such obligations, after notification by such Party to the other Party, shall be deemed suspended to the extent such obligations are directly affected by such Force Majeure Event, until the Force Majeure Event has ended and a reasonable period of time for overcoming the effects thereof has passed; provided, however, that if a Force Majeure Event results in Provider being unable to perform during any period any or all of the Services in accordance with the terms hereof, the State shall: (i) not be required to pay for any such Services that Provider is unable to perform; (ii) be entitled to engage an alternate provider, on an interim basis, to perform the Services that Provider is unable to perform as a result of such Force Majeure Event; and (iii) be entitled to a share of Provider's resources devoted to returning Provider to full performance of all Services hereunder, that is equal to or greater than the share of such resources that Provider allocates to other of its customers with whom it has agreements that are similar to this Agreement. In the alternative to the remedies afforded above the State shall have the right to terminate this Agreement in accordance with the terms of Section 14.4 hereof. Both Parties shall use their best efforts to minimize delays that occur due to a Force Majeure Event. Notwithstanding the above, Provider shall in no event be excused from those obligations not directly affected by a Force Majeure Event (including Disaster recovery services), and if the Force Majeure Event is caused by Provider's failure to comply with any of its obligations under this Agreement or by Provider's negligence or omission, there shall be no relief from any of its obligations under this Agreement.

18. INSURANCE

Provider shall provide and maintain, during the Term and for such other period as may be required herein, at its sole expense, insurance in the amounts and form described below. The fact that Provider has obtained the insurance required in this Section 18 shall in no manner lessen nor effect Provider's other obligations or liabilities set forth in this Agreement, including its obligations to defend, indemnify, and hold the State harmless in accordance with
Section 24 hereof. Where specific limits are shown, it is understood that they shall be the minimum acceptable limits. If Provider's policy contains higher limits, the State shall be entitled to coverage to the extent of such higher limits.

18.1 REQUIRED GENERAL LIABILITY INSURANCE COVERAGE

Provider shall maintain commercial general liability insurance in the amounts and form set forth below:

18.1.1 COMMERCIAL GENERAL LIABILITY INSURANCE

A policy of commercial general liability insurance, or combination of commercial general liability and umbrella liability policies, providing limits of not less than:

(i) Per Occurrence: $2,000,000.00

(ii) Personal Injury Liability: $1,000,000.00

(iii) Products/Completed Operations In Aggregate: $5,000,000.00

(iv) General Aggregate: $5,000,000.00

Any deductible or self-insured retention must be declared to the State along with any changes thereto. Any deductible or self-insured retention shall be the responsibility of Provider.

18.1.2 REQUIRED GENERAL LIABILITY POLICY COVERAGE

Any general liability policy(s) provided by Provider hereunder shall include the following coverage: (i) premises and operations; (ii) products/completed operations; (iii) contractual liability; (iv) personal injury liability; (v) sub-contractors' liability; and (vi) severability of interest clause.

18.1.3 ADDITIONAL INSUREDS

Any general liability policy provided by Provider hereunder shall name the State and the officers, agents, employees, and volunteers of the State, individually and collectively, as additional insureds on a broad form additional insured endorsement acceptable to the State.

18.1.4 PRIMARY INSURANCE ENDORSEMENT

The coverage afforded to Provider and the State under the policy(s) described above shall apply as primary insurance for covered claims arising from Provider's delivery of Services under this Agreement, and any other insurance maintained by the State or its officers, agents, employees, and volunteers, shall be excess only and not contributing with such coverage.

18.1.5 FORM OF GENERAL LIABILITY INSURANCE POLICIES

All general liability policies shall be written to apply to bodily injury, including death, property damage, personal injury, and other covered loss, occurring during the policy term, and shall specifically insure the performance by Provider of its obligations under Section 24 below, and any other indemnification obligations of Provider under this Agreement.

18.2 BUSINESS AUTOMOBILE LIABILITY INSURANCE

Provider shall procure business automobile liability insurance written for bodily injury and property damage occurring during the policy term, in the amount of not less than one million dollars ($1,000,000.00), combined single limit per accident, applicable to all owned, non-owned, and hired vehicles. Provider shall have in place an umbrella liability policy providing not less than an additional one million dollars ($1,000,000.00) per single accident.

18.3 WORKERS' COMPENSATION AND EMPLOYERS' LIABILITY INSURANCE

Provider shall maintain a policy or policies of workers' compensation coverage in the statutory amount, and Employers' Liability coverage for not less than Five Hundred Thousand ($500,000.00) per occurrence for all employees of Provider engaged in the performance of Services or operations under this Agreement. Coverage shall include a waiver of subrogation in favor of the State, a copy of which shall be provided to the State.

18.4 PROFESSIONAL ERRORS AND OMISSIONS LIABILITY INSURANCE/ELECTRONIC ERRORS AND OMISSIONS

This type of coverage is desired by both Parties but is recognized that this coverage in the telecommunications marketplace is unavailable at a reasonable rate. When reasonable rates are available, the Parties agree to pursue placement of this type of coverage that will protect both Parties. Any additional costs to the Parties for this coverage will be negotiated based upon the limits of coverage and an assessment of risks of each Party.

18.5 EMPLOYEE DISHONESTY AND COMPUTER FRAUD

Provider shall maintain employee dishonesty and computer fraud coverage in an amount not less than ten million dollars ($10,000,000.00) per occurrence. Such insurance shall cover all of Provider's employees. Coverage shall include a loss payee endorsement to the State. Any deductible or self-insured retention shall be the responsibility of Provider. The State shall pay a portion of the premium to reflect the increased coverage required under the terms of this Agreement over Provider's current policy of five million dollars ($5,000,000).

18.6 PROPERTY INSURANCE

Provider shall provide insurance on all property owned by Provider and provided under this Agreement. Such policy shall provide "all risk" perils, including flood, and shall be written on a basis of one hundred percent (100%) replacement value of the property. Coverage shall include business personal property, tenant improvements, business interruption, property of others, in the care, custody, and control of the insured, and transit. Provider shall maintain earthquake insurance with respect to its property used to provide Services in an amount not less than five hundred thousand dollars ($500,000.00). Provider shall be responsible for any deductible or self-insured retention.

18.7 General Provisions

18.7.1 EVIDENCE OF INSURANCE

Provider shall, as soon as practicable following the placement of insurance required hereunder, but in no event later than thirty (30) days after the Contract Signing Date, deliver to the State certificates of insurance evidencing the same, together with appropriate separate endorsements, evidencing that Provider has obtained such coverage. In addition, upon reasonable notice, Provider grants the State the right to examine and receive copies of policies, solely for the purpose of confirming Provider's compliance with the terms of this Section 18. Thereafter, copies of certificates and appropriate separate endorsements shall be delivered to the State within thirty (30) days after the expiration thereof. The provisions of such policies shall constitute Provider Confidential Information; provided, however, such information may be disclosed by the State to the extent necessary to enforce the terms of this Agreement.

18.7.2 "CLAIMS-MADE COVERAGE"

Except for Professional Liability insurance, all policies shall be written on an occurrence basis unless otherwise approved in writing. If coverage is written on a "claims-made" basis, the certificate of insurance shall clearly so state. In addition to the coverage requirements specified above, Provider will make all commercially reasonable efforts to provide that: (i) the policy's retroactive date shall coincide with or precede Provider's commencement of the performance of Services (including subsequent policies purchased as renewals or replacements); (ii) similar insurance is maintained during the required extended period of coverage following Termination of the Agreement; (iii) if insurance is terminated for any reason, Provider shall purchase a replacement claims-made policy with the same or an earlier retroactive date or shall purchase an extended reporting provision to report claims arising in connection with this Agreement for a minimum of two (2) years following Termination or completion of the Services; and (iv) all claims-made policies shall allow the reporting of circumstances or incidents that might give rise to future claims is permissible.

18.7.3 NOTICE OF CANCELLATION OR CHANGE OF COVERAGE

All certificates of insurance provided by Provider must evidence that the insurance provider will give the State thirty (30) days' written notice in advance of any cancellation, lapse, reduction, or other adverse change in respect of such insurance.

18.7.4 QUALIFYING INSURERS

All policies of insurance required hereby shall be issued by companies that have been approved to do business in the State and are licensed under AS 21.09.010 et seq.

19. REPORTS

19.1 GENERAL

Provider shall furnish the State with reports that the State may reasonably request from time to time in the form, and covering the information, agreed to by the Parties and expressed in the Billing and Reporting Transition and Transformation Plan (or such other form that the State reasonably requests from time to time) and with the frequency set forth in such Plan, but in no event less frequently than monthly. The Plan will include but not be limited to the following: Provider's performance of the Services; cost-management; Subcontractor relationships; End-User satisfaction; and human resources. Provider shall inform the State of any deficiencies, omissions, or irregularities in the State's requirements or in Provider's performance of the Services that come to Provider's attention within the time periods required under the terms of this Agreement. Provider shall furnish the State with all existing and future research and development resources, such as published materials, and industry studies conducted for or by Provider, that come to its attention and pertain to the Services and that might assist the State in setting its telecommunications policies or requirements. The Account Manager shall also advise the State of all other matters of a material nature, that he or she believes would be helpful to the State in setting or revising its telecommunications policies or requirements.

19.2 MEDIA

Provider shall furnish the State with all reports in both hard copy and electronic form per the State's specifications in effect on the Effective Date and as reasonably requested by the State from time to time thereafter.

20. RECORDKEEPING AND AUDIT RIGHTS

20.1 RECORDKEEPING

Provider shall maintain complete and accurate records and books of account with respect to this Agreement utilizing GAAP, consistently applied, and complying in all respects with all applicable local, State, or federal laws or regulations. Such records and books, and the accounting controls related thereto, shall be considered Provider Confidential Information and shall be sufficient to provide reasonable assurance that: (a) transactions are recorded so as to permit the preparation of Provider's financial statements in accordance with GAAP and to maintain accountability for its assets; and (b) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Such records and books of account of Provider's business shall be maintained by Provider at its principal business office in Anchorage, Alaska, and the State may examine and make extracts of information related to the Services, and copy any part thereof at any reasonable time during normal business hours. Provider shall retain and maintain accurate records and documents relating to performance of Services under this Agreement until the latest of: (i) six (6) years after the final payment by the State to Provider hereunder; (ii) one (1) year following the final resolution of all audits or the conclusion of any litigation with respect to this Agreement; or (iii) such longer time period as may be required by applicable law or regulation.

20.1.1 RECORDKEEPING RELATED TO DISENTANGLEMENT

To the extent that Agreement terms related to the transfer of assets to the State upon termination may require the calculation of net book value on a basis other than that which would be calculated under GAAP, Provider agrees to maintain complete and accurate supplemental records and books necessary to determine such net book value of the assets potentially transferable to the State upon termination on the basis contemplated under Section 16.1.5 of this Agreement.

20.2 QUALITY SURVEILLANCE AND EXAMINATION OF RECORDS

The State, or its authorized representatives that are not competitors of Provider or its Subcontractors, and that are subject to the confidentiality requirements set forth in Section 21, shall have the right, during regular business hours and with three (3) business days notice, to perform an operational or security audit with respect to Provider's performance hereunder. Provider shall grant the State and its representatives full and complete access to Provider's books and records, facilities and equipment, and other documents of Provider and its Subcontractors, as they relate to the provision of Services, or as they may be required in order for the State to ascertain any facts relative to Provider's performance hereunder. Provider shall provide the State, or its authorized representatives, such information and assistance as requested in order to perform such audits; provided, however, that the Parties shall endeavor to arrange such assistance in such a way that it does not interfere with the performance of Provider's duties and obligations hereunder. Provider shall incorporate this paragraph verbatim into any Agreement into which it enters with any Subcontractor providing Services under this Agreement.

20.3 PRICING AUDIT

Provider shall, at the State's request, provide auditors designated by the State, that are not competitors of Provider or its Subcontractors, and that are subject to the confidentiality requirements set forth in Section 21, with access to Provider's books and records to the extent necessary to fully audit and verify any amounts paid or payable by the State hereunder. Provider shall provide such auditors with full access to such information relating to this Agreement and Provider's books and records as may be necessary to confirm the accuracy of Provider's invoices, documents, and other information supporting such invoices, and any pricing adjustment computations. Provider shall provide such documents, data, or information on such Media as the State might reasonably request, including hard copy, optical or magnetic disk, or tape. All such audits shall be conducted during business hours, with three (3) business days advance notice, and shall include access to Provider Confidential Information to the extent necessary to comply with the provisions of this Section 20.3.

21. CONFIDENTIALITY

21.1 NONDISCLOSURE OF CONFIDENTIAL INFORMATION

21.1.1 STATE CONFIDENTIAL INFORMATION IS THE PROPERTY OF THE STATE

All State Confidential Information shall be deemed the sole property of the State or the Department furnishing the same, shall be deemed confidential and proprietary to the State, shall be used solely by Provider or any of its Subcontractors for the purpose of performing its obligations under this Agreement, and shall not be published, transmitted, released, or disclosed by Provider or its Subcontractors to any other Person without the prior written consent of the State, which consent the State may withhold in its sole discretion.

21.1.2 PROVIDER PROCEDURES TO SAFEGUARD STATE CONFIDENTIAL INFORMATION

Provider shall implement and maintain appropriate policies and procedures to safeguard the confidentiality of the State Confidential Information to the same extent as provider protects its own confidential and proprietary information of a similar nature, but in no event less than a reasonable degree of care in accordance with Section 21.1.1, above Further, Provider shall comply, and require its employees to comply, with the provisions of Alaska law that protect the confidentiality of State information including, without limitation, AS 09.25.100 et seq. Provider shall require as a condition of any subcontract that the Subcontractor expressly acknowledges and agrees to be bound by the same confidentiality requirements by which Provider is bound under this Agreement.

21.1.3 PERMITTED DISCLOSURE

Notwithstanding the above provisions of this Section, Provider may disclose State Confidential Information to its employees, agents, and Subcontractors who have: (i) a need to know such State Confidential Information in order to perform their duties under this Agreement, as determined by an appropriate State official; and (ii) a legal duty to protect the State Confidential Information by agreeing to be bound by the same confidentiality requirements by which Provider is bound under this Agreement.

21.1.4 PROVIDER CONFIDENTIAL INFORMATION

All Provider Confidential Information shall be deemed the sole property of Provider, shall be deemed confidential and proprietary to Provider, shall be used by the State or any of its representatives or agents for the purpose of performing its obligations under this Agreement, and shall not be published, transmitted, released or disclosed by the State or its employees, representatives, third-party service providers, replacement service providers, or agents to any other Person without the prior written consent of Provider.

21.1.5 STATE PROCEDURES TO SAFEGUARD PROVIDER CONFIDENTIAL INFORMATION

The State shall use the same care to prevent disclosure of Confidential Information, as it uses to prevent disclosure of its own information of a similar nature, but in no event less than a reasonable degree of care.

21.1.6 PERMITTED DISCLOSURE OF PROVIDER CONFIDENTIAL INFORMATION

Notwithstanding the above provisions of this Section, the State may disclose Provider Confidential Information to its employees, agents, representatives, service providers and replacement service providers who have:
(i) a need to know such Provider Confidential Information in order to perform their duties in connection with this

Agreement, and (ii) assumed a legal duty to protect Provider Confidential Information by agreeing to be bound by the same confidentiality requirements by which the State is bound under this Agreement.

21.2 REQUIRED DISCLOSURE AND REQUESTS FOR INFORMATION

21.2.1 REQUIRED DISCLOSURE

Either Party may disclose Confidential Information of the other Party to the extent disclosure is based on the good faith written opinion of such Party's legal counsel that disclosure is required by law or by order of a court or governmental agency; provided, however, that such Party shall give prompt notice of such requirement and use its best efforts to assist the owner of such Confidential Information if the owner wishes to obtain a protective order or otherwise protect the confidentiality of such Confidential Information. The owner of such Confidential Information reserves the right to seek a protective order or otherwise protect the confidentiality of such Confidential Information. For purposes of this Section 21.2, the State's Attorney General or his or her designee shall act as the State's legal counsel.

21.2.2 PUBLIC REQUESTS FOR INFORMATION

Any and all requests, from whatever source, for copies of or access to, or other disclosure of any State Confidential Information or Provider Confidential Information shall be promptly submitted to the State or Provider, as the case maybe, for disposition.

21.3 NOTIFICATION AND SUBPOENA

21.3.1 NOTIFICATION

In the event of any disclosure, loss, or destruction of Confidential Information, the receiving Party shall immediately notify the disclosing Party.

21.3.2 SUBPOENA

In the event that either Party is served with a subpoena for Confidential Information with respect to the Services provided under this Agreement, that Party shall immediately notify the other Party and provide the other Party an opportunity to object to the subpoena.

21.4 INJUNCTIVE RELIEF

Notwithstanding anything to the contrary set forth in Section 25, if either Party publishes, transmits, releases, or discloses any Confidential Information of the other Party in violation of this Section 21, or if either Party anticipates that the other Party shall violate or continue to violate any restriction set forth in this Section 21, the first Party shall have the right to have the provisions of this Section 21 specifically enforced by any court having equity jurisdiction, without being required to post bond or other security and without having to prove the inadequacy of available remedies at law, it being acknowledged and agreed that any such violation shall cause irreparable injury to such first Party and that monetary damages shall not provide an adequate remedy to it. In addition, the first Party and any individuals that were the subject of such Confidential

Information may take all such other actions and shall have such other remedies available to it or them at law or in equity and shall be entitled to such damages as it or they can show have been sustained by reason of such violation.

21.5 RETURN OF CONFIDENTIAL INFORMATION

Promptly upon the Termination of the Term (subject to the completion of Provider's Disentanglement obligations), and at any other time upon written request by either Party to the other Party, the other Party shall promptly return to the sole custody of the requesting Party (or any Department, as applicable), all Confidential Information of the requesting Party then in its possession or control, in whatever form, or, in the case of written request by the requesting Party, such Confidential Information specified in such request as then in the other Party's possession or control, in whatever form. In addition, unless the requesting Party otherwise consents in writing, the other Party shall also deliver to the requesting Party or, if requested by the requesting Party, shall delete or destroy, any copies, duplicates, summaries, abstracts, or other representations of any such Confidential Information or any part thereof, in whatever form, then in the possession or control of the other Party. Provider shall at all times comply in all respects with Alaska's Public Records statutes with regard to its return or destruction of any public data. Notwithstanding the foregoing: (i) Provider may retain one (1) copy of all documentation within the Network relating to the Services, including State Confidential Information, but excluding State Data, for archival purposes or warranty support; and (ii) the State may retain copies of Provider Confidential Information to the extent required by law or regulation or to the extent otherwise permitted under this Agreement.

22. LEGAL COMPLIANCE

22.1 COMPLIANCE WITH ALL LAWS AND REGULATIONS

Both Provider, including the Subcontractors, and the State shall at all times perform their obligations hereunder in compliance with all applicable federal, State and local laws and regulations of all applicable jurisdictions, to include any rules or orders issued by any court or regulatory agency, and in such a manner as not to cause the others to be in violation of any such applicable laws, regulations, rules or orders. Nothing in this Agreement shall be deemed to transfer to Provider any of the State's responsibilities or obligations related to the use, management, or disbursement of any funds the State receives from the federal government. No provision of this Agreement, including any Work Order, shall have any force or effect if it would cause a violation of any federal or State law, ordinance, statute, rule, regulation, or order, or would require any consent or approval to prevent any such violation.

In the event that a subsequent federal or State law, ordinance, statute, rule, regulation, or order results in or requires a change in the terms of this Agreement, the State and Provider shall, within sixty (60) days or as required by law (which ever is shorter), make appropriate contractual amendments to regain compliance including adjustments to pricing and the SLAs. To the extent such compliance is required solely as a result of the Services provided to the State, any changes will be made in accordance with Section 4, Change Management. In the event such compliance is required for services provided to multiple customers of Provider, the costs shall be allocated to such customers on a pro-rata basis to be determined in accordance with Section 4, Change Management.

22.2 PROVIDER PERMITS AND LICENSE

Provider shall obtain and maintain, and shall cause its Subcontractors to obtain and maintain all approvals, permissions, permits, licenses, and other forms of documentation required in order to comply with all existing foreign or domestic statutes, ordinances, and regulations, or other laws, that may be applicable to performance of Services hereunder. The State reserves the right to reasonably request and review all such applications, permits, and licenses prior to the commencement of any Services hereunder. If requested, the State shall cooperate with Provider, at Provider's cost and expense, to obtain any such approvals, permits, and licenses. With respect to the Affiliates, the provision of regulated Services under this Agreement shall only be provided by the regulated Affiliates.

22.3 AMERICANS WITH DISABILITIES ACT

Provider represents that it is familiar with, and that it is in compliance with, the terms of the ADA. Provider warrants that it shall defend, indemnify, and hold the State harmless from any liability or losses that may be imposed upon the State as a result of any failure of Provider to be in compliance with the ADA.

22.4 EQUAL EMPLOYMENT OPPORTUNITY

Provider may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, or because of age, physical handicap, sex, marital status, changes in marital status, pregnancy or parenthood when the reasonable demands of the positions(s) do not require distinction on the basis of age, physical handicap, sex, marital status, changes in marital status, pregnancy, or parenthood. Provider shall take affirmative action to insure that the applicants are considered for employment and that employees are treated during employment without unlawful regard to their race, color, religion, national origin, ancestry, physical handicap, age, sex, marital status, changes in marital status, pregnancy or parenthood. This action must include, but need not be limited to, the following: employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. Provider shall post in conspicuous places, available to employees and applicants for employment, notices setting out the provisions of this Section.

Provider shall state, in all solicitations or advertisements for employees to work on State of Alaska contract jobs, that it is an equal opportunity employer and that all qualified applicants will receive consideration for employment without regard to race, religion, color, national origin, age, physical handicap, sex, marital status, changes in marital status, pregnancy or parenthood.

Provider shall send to each labor union or representative of workers with which Provider has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' compensation representative of Provider's commitments under this Section and post copies of the notice in conspicuous places available to all employees and applicants for employment.

Provider shall include the provisions of this Section in every contract related to the provision of Services entered into by Provider after the Contract Signing Date, and shall require the inclusion of these provisions in every contract entered into by any of its Subcontractors, so that those provisions will be binding upon each Subcontractor. For the purpose of including those provisions in any contract or subcontract, as required by this Agreement, "contractor" and "subcontractor" may be changed to reflect appropriately the name or designation of the parties of the contract or subcontract.

Provider shall cooperate fully with State efforts which seek to deal with the problem of unlawful discrimination, and with all other State efforts to guarantee fair employment practices under this Agreement, and promptly comply with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practices.

Full cooperation described above includes, but is not limited to, being a witness in any proceeding involving questions of unlawful discrimination if that is requested by any official or agency of the State of Alaska; permitting employees of Provider to be witnesses or complainants in any proceeding involving questions of unlawful discrimination, if that is requested by any official or agency of the State of Alaska; participating in meetings; submitting periodic reports on the equal employment aspects of present and future employment; assisting inspection of Provider's facilities; and promptly complying with all State directives considered essential by any office or agency of the State of Alaska to insure compliance with all Federal and State laws, regulations, and policies pertaining to the prevention of discriminatory employment practices.

22.5 NON-DISCRIMINATION

Provider shall comply with the provisions of Title VII of the Civil Rights Act of 1964 in that it will not discriminate against any individual with respect to his or her compensation, terms, conditions, or privileges of employment nor shall Provider discriminate in any way that would deprive or intend to deprive any individual of employment opportunities or otherwise adversely affect his or her status as an employee because of such individual's race, color, religion, sex, national origin, age, handicap, medical condition, or marital status.

22.6 PROVIDER CERTIFICATION

Provider represents and warrants that Provider has not been convicted of bribing or attempting to bribe an officer or employee of the State, nor has Provider made an admission of guilt of such conduct that is a matter of record.

23. REPRESENTATIONS AND WARRANTIES

23.1 PROVIDER'S REPRESENTATIONS, WARRANTIES, AND COVENANTS

23.1.1 PERFORMANCE OF THE SERVICES

Provider represents and warrants that it is capable in all respects of providing and shall provide all Services in accordance with this Agreement. Provider further represents and warrants that: (i) all Services provided under this Agreement shall be provided in a timely, professional, and workman-like manner consistent with the highest standards of quality and integrity and shall meet the performance standards required under this Agreement.

23.1.2 CONFLICT OF INTEREST AND ETHICAL BEHAVIOR

23.1.2.1 NO FINANCIAL INTEREST

Provider represents, warrants, and agrees that neither Provider or any of the Affiliates, nor any employee of either, has, shall have, or shall acquire, any contractual, financial, business, or other interest, direct or indirect, that would conflict in any manner or degree with Provider's performance of its duties and responsibilities to the State under this Agreement or otherwise create an appearance of impropriety with respect to the award or performance of this Agreement; and Provider shall promptly inform the State of any such interest that may be incompatible with the interests of the State.

23.1.2.2 NO ABUSE OF AUTHORITY FOR FINANCIAL GAIN

Provider represents, warrants, and agrees that neither Provider or any of its Affiliates, nor any employee of either, has used or shall use the authority provided or to be provided under this Agreement to obtain financial gain for Provider, or any such Affiliate or employee, or a member of the immediate family of any such employee beyond the profit Provider and its employees are entitled to under this Agreement.

23.1.2.3 NO USE OF INFORMATION FOR FINANCIAL GAIN

Provider represents, warrants, and agrees that neither Provider or any of its Affiliates, nor any employee of either, has used or shall use any State Confidential information acquired in the award or performance of the Agreement to obtain financial gain for Provider, or any such Affiliate or employee, or a member of the immediate family of any such employee.

23.1.2.4 INDEPENDENT JUDGMENT

Provider represents, warrants and agrees that neither Provider nor any of its Affiliates, nor any employee of either, has accepted or shall accept another State contract that would impair the independent judgment of Provider in the performance of this Agreement.

23.1.2.5 NO INFLUENCE

Provider represents, warrants, and agrees that neither Provider nor any of its Affiliates, nor any employee of either, has accepted or shall accept anything of value based on an understanding that the actions of Provider or any such Affiliate or employee on behalf of the State would be influenced; and Provider shall not attempt to influence any State employee by the direct or indirect offer of anything of value.

23.1.2.6 NO PAYMENT TIED TO AWARD

Provider represents, warrants, and agrees that neither Provider nor any of its Affiliates, nor any employee of either, has paid or agreed to pay any Person, other than bona fide employees and consultants working solely for Provider or such Affiliate or its Subcontractors, any fee, commission, percentage, brokerage fee, gift, or any other consideration, contingent upon or resulting from the award or making of this Agreement.

23.1.2.7 INDEPENDENT PRICES

Provider represents, warrants, and agrees that the prices proposed by Provider were arrived at independently, without consultation, communication, or agreement with any other proposer for the purpose of restricting competition; the prices quoted were not knowingly disclosed by Provider to any other proposer; and no attempt was made by Provider to induce any other Person to submit or not submit a proposal for the purpose of restricting competition. Nothing in this Agreement, however, restricts Provider from discussing with any other proposer prices for the other proposer's services, which Provider may offer to resell to the State as part of its Proposal.

23.1.2.8 COMPLIANCE WITH STATE ETHICS REQUIREMENTS

Provider must comply with all applicable Federal or State laws regulating ethical conduct of public officers and employees.

23.1.3 BEST VALUE

Provider represents and warrants that it will use its best efforts to ensure that the State realizes the optimal combination of improved technology at the lowest reasonable cost, as provided for in this Agreement.

23.1.4 FINANCIAL CONDITION

23.1.4.1 FINANCIAL CONDITION

Provider represents and warrants that it has, and promises that it shall maintain throughout the Term, a financial condition commensurate with the requirements of this Agreement. If, during the Term, Provider experiences a change in its financial condition that may adversely affect its ability to perform under this Agreement, then it shall immediately notify the State of such change.

Provider shall deliver to the State copies of its Forms 10-Q, Quarterly Report, and Forms 10-K, Annual Report, as filed with the Securities and Exchange Commission within ten (10) days of filing for all such reports prepared during the Term of this Agreement. The Forms 10-Q shall include the unaudited financial statements of Provider and its subsidiaries prepared in accordance with GAAP, consistently applied. The Forms 10-K provided to the State shall include the audited consolidated financial statements of

Provider and its subsidiaries prepared in accordance with GAAP, consistently applied, and including the report of its independent auditors. The delivery of such quarterly and annual reports to the State shall not be interpreted as relieving Provider of its obligation to separately immediately notify the State of any change in its financial condition that may adversely affect its ability to perform under this Agreement as soon as practical after Provider becomes aware of such change.

23.1.4.2 ACCURACY OF INFORMATION

Provider represents and warrants that all financial statements, reports, and other information furnished by Provider to the State as part of its Proposal or otherwise in connection with the award of this Agreement fairly and accurately represent the business, properties, financial condition, and results of operations of Provider as of the respective dates, or for the respective periods, covered by such financial statements, reports, or other information. Since the respective dates or periods covered by such financial statements, reports, or other information, there has been no material adverse change in the business, properties, financial condition, or results of operations of Provider.

23.1.5 LITIGATION

Provider represents that there is no pending or anticipated civil or criminal litigation in any judicial forum that involves Provider or any of its Affiliates or Subcontractors that may adversely affect Provider's ability to perform its obligations under this Agreement. Provider shall notify the State, within fifteen (15) days of Provider's knowledge of its occurrence, of any such pending or anticipated civil or criminal litigation. Provider shall notify the State within forty-eight (48) hours in the event process is served on Provider in connection with this Agreement, including any subpoena of Provider's records, and shall send a written notice of the service together with a copy of the same to the State within seventy-two (72) hours of such service.

23.1.6 PROPRIETARY RIGHTS INFRINGEMENT

Provider promises that at no time during the Term shall the use of any services, techniques, or products provided or used by Provider infringe upon any third party's patent, trademark, copyright, or other intellectual-property right, nor make use of any misappropriated trade secrets.

23.1.7 LEGAL AND CORPORATE AUTHORITY

Provider represents and warrants that: (i) it is a Delaware corporation, and is qualified and registered to transact business in all locations where the performance of its obligations hereunder would require such qualification; (ii) it has all necessary rights, powers, and authority to enter into and perform this Agreement, and the execution, delivery, and performance of this Agreement by Provider have been duly authorized by all necessary corporate action; and
(iii) the execution and performance of this Agreement by Provider shall not violate any law, statute, or regulation and shall not breach any agreement, covenant, court order, judgment, or decree to which Provider is a party or by which it is bound, and (iv) it will cause the Affiliates to obtain, and maintain in effect during the Term of this Agreement, all government licenses and any permits necessary

for such Affiliate to provide the Services contemplated by this Agreement; and
(v) it will cause the Affiliates to own or lease, free and clear of all liens and encumbrances, other than lessors' interests, or security interests of lenders, all right, title, and interest in and to the tangible property and technology and the like that such Affiliate intends to use or uses to provide such Services and in and to the related patent, copyright, trademark, and other proprietary rights, or has received appropriate licenses, leases, or other rights from third-parties to permit such use.

23.1.8 INFORMATION FURNISHED TO THE STATE

Provider represents and warrants that all written information furnished to the State prior to the Contract Signing Date by or on behalf of Provider in connection with this Agreement, including its Proposal, is true, accurate, and complete, and contains no untrue statement of a material fact or omits any material fact necessary to make such information not misleading.

23.1.9 PRIOR CONTRACTS

Provider represents and warrants that neither it, nor any of the Subcontractors, is in material default or breach of any other contract or agreement related to telecommunication system facilities, equipment, or services that it or they may have with the State or any of its departments (including the Departments), commissions, boards, or agencies. Provider further represents and warrants that neither it, nor any of the Subcontractors, has been a party to any contract for telecommunication system facilities, equipment, or services with the State or any of its departments (including the Departments) that was finally terminated by the State or such department within the previous five (5) years for the reason that Provider or such Person failed to perform or otherwise breached an obligation of such contract. Provider promises that it shall notify the State, within five (5) days of its occurrence, if it, or any of the Subcontractors, is a party to any contract for information system or telecommunication system facilities, equipment, or services with any federal, State, or local governmental body, or any agency thereof, which contract is finally terminated by such body for the reason that Provider or such Person failed to perform or otherwise breached an obligation of such contract. If the termination of any such contract is being contested as of the Contract Signing Date in an arbitration or judicial proceeding, the termination shall not be final until the conclusion of such arbitration or judicial proceeding.

23.2 STATE'S REPRESENTATIONS, WARRANTIES, AND COVENANTS

23.2.1 LEGAL AUTHORITY

The State represents and warrants that it has all necessary rights, powers, and authority to enter into and perform this Agreement; that the execution, delivery, and performance of this Agreement by the State have been duly authorized by all necessary action of the Governor and/or the Alaska State Legislature.

23.2.2 EXISTING AGREEMENTS

The State represents and warrants that it has all rights, licenses, and maintenance agreements necessary to make all hardware, software, networks, and other telecommunications-related assets made available or conveyed by the State to Provider under this Agreement technically and legally functional for the Term of this Agreement.

23.3 WARRANTY DISCLAIMER

EXCEPT AS EXPRESSLY STATED IN THIS AGREEMENT, THERE ARE NO EXPRESS WARRANTIES BY EITHER PARTY. THERE ARE NO IMPLIED WARRANTIES OR CONDITIONS, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR OTHERWISE ARISING FROM A COURSE OF DEALING OR USAGE OF TRADE.

23.4 WAIVER

Effective upon delivery of the Transformation Plan to the State, having had reasonable access to pertinent State information and State personnel, and a reasonable time within which to perform due diligence investigation, and having taken into account the possibility that the information it has received might possibly be incorrect or incomplete, Provider hereby waives and releases any and all claims that it now has or hereafter may have against the State based upon the inaccuracy or incompleteness of the information it has received from, or with regard to, the State. Further, Provider consents and agrees that it shall not seek any judicial rescission, cancellation, termination, reformation, or modification of this Agreement or any provision hereof, nor any adjustment in the fees to be paid for the Services, based upon any such inaccuracy or incompleteness of information except where such information was intentionally withheld or intentionally misrepresented.

24. INDEMNIFICATION

24.1 BY PROVIDER

24.1.1 TECHNOLOGY

Provider shall indemnify, defend, and hold the State harmless from and against any and all Losses arising out of, any Infringement Claim brought by any third-party against Provider and/or the State based upon technology used by Provider in providing the Services. Also, notwithstanding the foregoing, Provider shall defend, indemnify, and hold harmless the State from and against all Losses that could have been avoided by moving to a new release or version of the infringing software and Provider was offered the new release or version and did not move to same, except where Provider was requested not to move to same by the State. In the event that the State's right to use any such technology is enjoined, Provider may, in its reasonable discretion and at Provider's sole expense, either procure a license to enable the State to continue to use such technology or develop or obtain a non-infringing substitute acceptable to the State. Provider shall have no obligation with respect to any Loss to the extent that it is based solely upon: (i) modification of a program or machine by the State, any third-party contractor of the State, or any agent of the State that was not approved by Provider; (ii) the State's combination, operation, or use with apparatus, data, or programs neither furnished nor approved by Provider;
(iii) the use by the State of any software provided by any third-party other than in accordance with relevant software licenses; or (iv) the use of

software owned by or licensed to the State by a party other than Provider and supplied by the State to Provider. Provider shall have no obligation with respect to any Infringement Claim or Loss to the extent that it is based upon any Assigned Contract, as it exists as of the effective date of the assignment of such Assigned Contract to Provider.

24.1.2 INJURY OR PROPERTY DAMAGE

Without limiting Provider's obligations with respect to insurance as provided in Section 18 hereof, Provider shall indemnify, defend, and hold the State harmless from and against any and all Losses related to any third-party claim alleging bodily injury or death, damage to tangible personal or real property, or any other damage, notwithstanding the form in which any such action is brought (e.g., contract, tort, or otherwise), to the extent such injuries or damages arise directly or indirectly from acts, errors, or omissions Provider or its personnel, agents, or Subcontractors.

24.1.3 THIRD-PARTY CONTRACTS

Provider shall indemnify, defend, and hold the State harmless from and against any and all Losses based upon or related to third-party services utilized by Provider in providing Services or based upon an alleged breach by Provider of any agreement with any third party, except for third-party services retained at the direct request of the State.

24.1.4 MISREPRESENTATION

Provider shall indemnify, defend, and hold the State harmless from and against any and all Losses related to any third-party claim based upon or resulting from any willful misrepresentation by Provider in this Agreement.

24.1.5 TRANSITIONED EMPLOYEES

Provider shall indemnify, defend, and hold the State harmless from and against any and all Losses related to or arising from any claim by a Transitioned Employee that is based upon or resulting from any act by Provider or its Subcontractors on or after the date such Transitioned Employee became an employee of Provider, or any allegation that such Transitioned Employee was wrongfully terminated by Provider or was denied any severance or termination payment upon leaving the employ of Provider. Provider shall indemnify, defend, and hold harmless the State from and against any and all Losses sustained or incurred by the State, by any of Provider's employees (excluding Transitioned Employees) based upon or resulting from any act by Provider.

24.1.6 HAZARDOUS MATERIAL

Provider shall indemnify, defend, and hold the State harmless from and against any and all third-party Losses related to or arising from: (i) Provider's failure to comply in all material respects with any applicable Environmental Laws; or (ii) the presence of any Hazardous Material upon, above, or beneath Provider's Restricted Facilities or locations, except to the extent the Hazardous Material was present or was released into the environment due to the act of the State or any of its employees, agents, representatives or third-party providers.

24.2 BY THE STATE

24.2.1 TECHNOLOGY

The State shall indemnify, defend, and hold Provider and its Subcontractors harmless from and against any and all Losses arising out of any claim brought by any third party against any of them for actual or alleged infringement of any patent, trademark, copyright, or similar proprietary right, including misappropriation of trade secrets, based upon software that is proprietary to the State and provided to Provider by the State at any time while Provider is providing Services to the State. In the event that Provider's or Subcontractor's right to use such software is enjoined, the State may, in its reasonable discretion and at the State's sole expense, either procure a license to enable Provider to continue use of such software or develop or obtain a non-infringing replacement. The State shall have no obligation with respect to any Loss to the extent it is based solely upon: (i) modification of the software by Provider or any of its Affiliates or Subcontractors; or (ii) Provider's combination, operation, or use of such software with Provider-approved apparatus, data, or programs.

24.2.2 THIRD-PARTY CONTRACTS

The State shall indemnify, defend, and hold Provider harmless from and against any and all Losses based upon, or related to, third-party claims based upon an alleged breach by the State of any agreement with any third-party, including an alleged breach by the State prior to the effective date of the assignment of any Assigned Contract.

24.2.3 MISREPRESENTATION

The State shall indemnify, defend, and hold Provider harmless with respect to any and all Losses related to any third-party claim based upon or resulting from any misrepresentation by the State in this Agreement.

24.2.4 TRANSITIONED EMPLOYEES

The State shall indemnify, defend, and hold Provider harmless from and against any and all Losses related to a claim by any Transitioned Employee based upon or resulting from any act by the State prior to the date such Transitioned Employee became an employee of Provider, or in connection with such Transitioned Employee's leaving the employ of the State. The State shall indemnify, defend, and hold Provider harmless from and against any and all Losses related to a claim by any State Employee, based upon or resulting from any act by the State.

24.2.5 HAZARDOUS MATERIALS

The State shall indemnify, defend, and hold Provider harmless from and against any and all third-party Losses resulting from: (i) the State's failure or alleged failure to comply in any respects with any applicable Environmental Laws; or (ii) the presence of any Hazardous Material upon, above, or beneath State Facilities or Locations, except to the extent the Hazardous Material was present or was released into the environment due to the act of Provider or any of its employees, agents, Affiliates or Subcontractors, including Transitioned Employees.

24.3 WAIVER OF SUBROGATION

Each Party hereby waives its respective rights to subrogation against the other with respect to any claims or defenses as to which any indemnification relates.

24.4 GENERAL PROCEDURES

Provider's indemnity obligations under this Agreement also extend to third-party claims and associated Losses caused by the concurrent passive or vicarious negligence of the State. Notwithstanding these indemnity provisions, however, Provider shall have no obligation to defend or indemnify the State to the extent third party claims and associated Losses are caused by the active negligence, sole negligence, or willful misconduct of the State. If any legal action governed by this Section is commenced against the State or Provider, such Party shall give written notice thereof to the indemnifying Party promptly after such legal action is commenced; provided, however, that failure to give prompt notice shall not reduce the indemnifying Party's obligations under this Section, except to the extent the indemnifying Party is prejudiced thereby.

After such notice, if the indemnifying Party shall acknowledge in writing to the other Party that the right of indemnification under this Agreement applies with respect to such claim, then the indemnifying Party shall be entitled, if it so elects in a written notice delivered to the other Party not fewer than ten (10) days prior to the date on which a response to such claim is due, to take control of the defense and investigation of such claim and to employ and engage attorneys of its choice, that are reasonably satisfactory to the other Party, to handle and defend same, at the indemnifying Party's expense. The other Party shall cooperate in all reasonable respects with the indemnifying Party and its attorneys in the investigation, trial, and defense of such claim and any appeal arising therefrom; provided, however, that the other Party may participate, at its own expense, through its attorneys or otherwise, in such investigation, trial, and defense of such claim and any appeal arising therefrom.

No settlement of a claim that involves a remedy other than the payment of money by the indemnifying Party shall be entered into by the indemnifying Party without the prior written consent of the other Party, which consent may be withheld in the other Party's sole discretion. If the indemnifying Party does not assume the defense of a claim subject to such defense as provided in this Section, the indemnifying Party may participate in such defense, at its expense, and the other Party shall have the right to defend the claim in such manner as it may deem appropriate, at the expense of the indemnifying Party.

25. DISPUTE RESOLUTION

25.1 RESOLUTION PROCESS

In the event of any Dispute, the Parties shall use their best efforts to settle such Dispute. To this effect they shall consult and negotiate with each other, in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to both Parties. If a Dispute arises it shall be resolved pursuant to the following procedures prior to the Parties exercising any other remedy provided for hereunder:

(a) A Dispute shall first be referred to the Parties' respective designated representatives responsible for the subject matter of the Dispute.

(b) If the Dispute cannot be resolved within fifteen (15) days of its referral to the designated representatives it may be referred by either Party to the State's Project Director and Provider's Account Manager. The Project Director and the Account Manager shall endeavor to resolve the Dispute. If the Dispute is resolved, the Project Director and Account Manager shall execute a problem resolution report and each Party shall commence the resolution of the Dispute in accordance therewith.

(c) In the event that the Project Director and the Account Manager fail to resolve the Dispute within ten (10) days after the referral of the Dispute to them, the Dispute may be referred by either Party to the Management Committee.

(d) The Management Committee's determination with respect to any Dispute shall be final and binding on the Parties. If the Dispute is resolved, the Management Committee shall execute a problem resolution report and each Party shall commence the resolution of the Dispute in accordance therewith.

(e) In the event that the Management Committee fails to resolve the Dispute within the time frame established by the Management Committee for resolution of such Dispute, the Dispute shall be treated as a controversy pursuant to AS 36.30.620(f) and the Parties shall immediately refer the Dispute to the Commissioner of Administration for resolution in accordance with AS 36.30.630, et seq. The Management Committee may request that the Commissioner of Administration appoint an independent third-party to act as the hearing officer.

25.2 NO TERMINATION OR SUSPENSION OF SERVICES

Notwithstanding anything to the contrary contained herein, and even if any Dispute arises between the Parties and regardless of whether or not it requires at any time the use of the dispute resolution procedures described above, in no event nor for any reason shall Provider interrupt the provision of Services to the State or any obligations related to Disentanglement, disable any hardware or software used to provide Services, or perform any other action that prevents, impedes, or reduces in any way the provision of Services or the State's ability to conduct its activities, unless: (i) authority to do so is granted by the State or conferred by a court of competent jurisdiction; or (ii) in accordance with the terms of Sections 14 and 16 of this Agreement.

26. PUBLICITY

Unless specifically authorized in writing or electronically by the Project Director on a case-by-case basis, which shall not be unreasonably withheld, Provider shall have no right to use, and shall not use, the name of the State, the Departments, officials, or employees, or the seal of the State:
(i) in any advertising, publicity, promotion; or (ii) to

express or to imply any endorsement of Provider's products or services; or (iii) in any other manner (whether or not similar to uses prohibited by subparagraphs
(i) and (ii) above), except only to deliver the Services in accordance with this Agreement.

27. USE OF AFFILIATES AND SUBCONTRACTORS

27.1 APPROVAL; KEY SUBCONTRACTORS AND HARDWARE/SOFTWARE PROVIDERS

Provider shall not perform the Services through the use of Provider-selected Subcontractors, including providers of hardware and software, without the advance written consent of the Project Director as to the selection of the subcontractor, which consent may not be unreasonably withheld, and the execution by such Subcontractor of a confidentiality agreement in accordance with Section 21 hereof; provided, however, that Provider may subcontract, without the Project Director's advance written consent, for goods and services that are incidental to the performance of the Services and do not involve the anticipated expenditure under this Agreement of more than two hundred fifty thousand dollars ($250,000.00) within any ninety (90) day period. The Project Director will respond within three (3) business days of request from Provider for approval under this Section. In the event the Project Director does not respond within three (3) business days, Provider may interpret lack of a response as consent. The Project Director hereby consents to the Subcontractors identified in Schedule G; provided, that each such Subcontractor shall execute a confidentiality agreement in accordance with Section 21 hereof. Additionally, each Subcontractor shall be properly licensed in the State to perform the Services for which such Subcontractor is responsible, where applicable. In no event shall Provider be entitled to perform the Services through the use of any subcontractor who has been debarred from performing services for the United States government.

27.1.1 SUBCONTRACT WITH ACS INTERNET

The State recognizes that ACS will enter into a subcontract agreement with ACS Internet, as described in Schedule G, designating ACS Internet to assume Provider's obligations under this Agreement in connection with the provision of Services to the State; provided, however, that in no event shall Provider be relieved of its obligations under this Agreement including, without limitation, the obligations set forth in Sections 18 and 24.

27.2 SUBCONTRACTOR AND MAJOR HARDWARE/SOFTWARE PROVIDER AGREEMENTS

Provider will provide to the State copies of all agreements between Provider, its Subcontractors, and major hardware and software vendors related to the performance of this Agreement that are in excess of the two hundred fifty thousand dollars ($250,000.00) threshold described in Section 27.1 within thirty
(30) days after such contracts are executed, or in the case of existing agreements, not later than the Effective Date. Subcontracts for the provision of Services will contain materially the same terms and conditions as this Agreement. Provider represents and warrants that the agreements provided to the State will be true and complete copies thereof, excluding only relevant pricing information between Provider and its Subcontractors.

27.3 LIABILITY AND REPLACEMENT

In no event shall Provider be relieved of its obligations under this Agreement as a result of its use of any Subcontractors. Provider shall supervise the activities and performance of each Subcontractor and shall be jointly and severally liable with each such Subcontractor for any act or failure to act by such Subcontractor. If the State determines that the performance or conduct of any Subcontractor is unsatisfactory, the State may notify Provider of its determination in writing, indicating the reasons therefor, in which event Provider shall promptly take all necessary actions to remedy the performance or conduct of such Subcontractor or to replace such Subcontractor by another third-party or by Provider personnel.

27.4 DIRECT AGREEMENTS

Upon Termination of the Term for any reason, the State shall have the right to enter into direct agreements with any Subcontractors. Provider represents, warrants, and agrees that its arrangements with such Subcontractors shall not prohibit or restrict such Subcontractors from entering into direct agreements with the State upon the Termination of the Term.

28. MISCELLANEOUS

28.1 ENTIRE AGREEMENT

This Agreement, including the schedules, and appendices referenced herein, constitutes the entire understanding and agreement between the Parties with respect to the transactions contemplated herein and supersedes all prior or contemporaneous oral or written communications with respect to the subject matter hereof, all of which are merged herein. No usage of trade, or other regular practice or method of dealing between the Parties or others, may be used to modify, interpret, supplement, or alter in any manner the express terms of this Agreement.

28.2 CONFLICTS, ERRORS, OMISSIONS AND DISCREPANCIES

28.2.1 ORDER OF PRECEDENCE

In the event of conflict in substance or impact between the terms and conditions contained in Sections 1 through 28 of this Agreement and any terms and conditions contained in any schedule, attachment, appendix or exhibit hereto, the terms and conditions contained in such Sections shall control. This Agreement takes precedence over the State RFP and proposal submitted by Provider on December 15, 2000, as amended and supplemented by the BAFO submitted by Provider on April 30, 2001.

28.2.2 ERROR, OMISSIONS AND DISCREPANCIES

In the event that this Agreement contains inadvertent errors, omissions, or discrepancies, this Agreement shall be read as if those errors, omissions, or discrepancies do not exist. Errors, omissions or discrepancies are inadvertent if they are obvious, technical, or clerical in nature and failure to correct these errors, omissions or discrepancies would be contrary to the intent of the Parties. In the event of a dispute regarding the meaning or interpretation of this Agreement, the State RFP and the proposal submitted on December 15, 2000 by Provider, as amended and supplemented by the BAFO submitted by Provider on April 30, 2001, will be used to provide guidance in determining a resolution.

28.3 CAPTIONS AND SECTION NUMBERS

Captions, tables of contents, indices of definitions, and section, schedule, and exhibit numbers are used herein for convenience of reference only and may not be used in the construction or interpretation of this Agreement. Any reference herein to a particular Section number (e.g., "Section 2"), shall be deemed a reference to all Sections of this Agreement that bear sub-numbers to the number of the referenced Section (e.g., Sections 2.1, 2.1.1, etc.). Any reference herein to a particular schedule or exhibit shall be deemed a reference to the schedule hereto that bears the same number. As used herein, the word "including" shall mean "including, but not limited to", and the word "will" means "shall."

28.4 ASSIGNMENT

Except for subcontracting permitted under this Agreement, neither this Agreement, nor any interest therein, nor any of the rights and obligations of Provider hereunder, may be directly or indirectly assigned, sold, delegated, or otherwise disposed of by Provider, in whole or in part, without the prior written consent of the State, which may be withheld in its sole discretion.

28.5 NOTICES TO A PARTY

Except as expressly otherwise stated herein, all notices, requests, consents, approvals, or other communications provided for, or given under, this Agreement, shall be in writing and shall be deemed to have been duly given to a Party if delivered personally, or transmitted by facsimile or electronic mail to such Party at its telecopier number or e-mail address set forth below (with the original sent by recognized overnight courier or first-class mail to the Party at its address set forth below), or sent by first class mail or overnight courier to such Party at its address set forth below, or at such other telecopier number or address, as the case may be, as shall have been communicated in writing by such Party to the other Party in accordance with this Section. All notices shall be deemed given when received in the case of personal delivery or delivery by mail or overnight courier, or when sent in the case of transmission by facsimile or electronic mail with a confirmation, if confirmed by copy sent by overnight courier within one (1) day of sending the facsimile.

Notices to the State shall be addressed as follows:

Project Director State of Alaska 333 Willoughby Avenue P.O. Box 110206 Juneau, Alaska 99811-0206 Telecopier No.: (907) 465-3450

Notices to Provider shall be addressed as follows:

President
Alaska Communications Systems Group, Inc.

510 L Street, Suite 500
Anchorage, Alaska 99501
Telecopier No.: (907) 297-3052

with a copy to the attention of Provider's general counsel at:

Alaska Communications Systems Group, Inc.
Attention: General Counsel
510 L Street, Suite 500
Anchorage, Alaska 99501
Telecopier No.: (907) 297-3153

28.6 CONTRACT AMENDMENTS AND WAIVERS

Except as expressly provided herein, this Agreement may not be modified, amended, or in any way altered except by a written document duly executed by both of the Parties hereto. The Project Director is the only State employee authorized to modify or amend this Agreement. No waiver of any provision of this Agreement, nor of any rights or obligations of any Party hereunder, shall be effective unless in writing and signed by the Party waiving compliance, and such waiver shall be effective only in the specific instance, and for the specific purpose, stated in such writing. No waiver of breach of, or default under, any provision of this Agreement shall be deemed a waiver of any other provision, or of any subsequent breach or default of the same provision, of this Agreement.

28.7 LEGAL STATUS OF THE PARTIES

Except as specifically provided herein, this Agreement shall not be construed to deem either Party as a representative, agent, employee, partner, or joint venturer of the other. Provider shall be an independent provider for the performance under this Agreement. Provider shall not have the authority to enter into any agreement, nor to assume any liability, on behalf of the State or any Department, nor to bind or commit the State or any Department in any manner, except as provided hereunder. Provider's employees and the Transitioned Employees who provide Services or who are located on the State's premises shall remain employees of Provider, and Provider shall have sole responsibility for such employees including responsibility for payment of compensation to such personnel and for injury to them in the course of their employment. Provider shall be responsible for all aspects of labor relations with such employees, including their hiring, supervision, evaluation, discipline, firing, wages, benefits, overtime and job and shift assignments, and all other terms and conditions of their employment, and the State shall have no responsibility therefor. Both Parties shall defend, indemnify, and hold harmless each other from and against any and all Losses based upon or related to a claim that either Party's employees are employees of the other Party.

28.8 SEVERABILITY

If any provision of this Agreement is determined to be invalid or unenforceable, that provision shall be deemed stricken and the remainder of this Agreement shall continue in full force and effect insofar as it remains a workable instrument to accomplish the intent and purposes of the Parties; the Parties shall replace the severed provision with the provision that will come closest to reflecting the intention of the Parties underlying the severed provision but that will be valid, legal, and enforceable.

28.9 COUNTERPARTS

This Agreement may be executed in duplicate counterparts. Each such counterpart, if executed by both Parties, shall be an original and both together shall constitute but one and the same document. This Agreement shall not be deemed executed unless and until at least one counterpart bears the signatures of both Parties' designated signatories.

28.10 LAWS AND REGULATIONS

This Agreement shall be interpreted under, and governed by, the laws and court decisions of the State of Alaska and the United States of America.

28.11 SOVEREIGN IMMUNITY

Notwithstanding any provisions to the contrary contained in this Agreement, it is agreed and understood that the State shall not be construed to have waived any rights or defenses of governmental immunity that it may have with respect to all matters arising out of this Agreement.

28.12 PROVIDER'S WAIVER OF GOVERNMENTAL IMMUNITY

Provider shall not be entitled to raise governmental or sovereign immunity as a defense to any claim or in response to any action related to Provider's obligations under this Agreement brought against it by any party.

28.13 NO THIRD-PARTY BENEFICIARIES

This Agreement is an agreement between the Parties, and, except as provided in this Section, this Agreement confers no rights upon any of the Parties' employees, agents, subcontractors, or upon any other Person.

28.14 EXPENSES

Each Party shall pay all expenses paid or incurred by it in connection with the planning, negotiation, and consummation of this Agreement.

28.15 VENUE AND JURISDICTION

All actions or proceedings arising out of, or related to, this Agreement shall be brought only in an appropriate state court in Juneau, Alaska, and the Parties hereby consent to the jurisdiction of such courts over themselves and the subject matter of such actions or proceedings. Provider hereby appoints Provider's General Counsel and his or her successors in office to be its agent upon whom any process, in any action or proceeding against it arising out of this Agreement, may be served.

28.16 NEITHER PARTY CONSIDERED DRAFTER

Despite the possibility that one Party may have prepared the initial draft of this Agreement or played the greater role in the physical preparation of subsequent drafts, the Parties agree that neither of them shall be deemed the drafter of this Agreement and that, in construing this Agreement in case of any claim that any provision hereof may be ambiguous, no such provision shall be construed in favor of one Party on the ground that such provision was drafted by the other.

28.17 NO ADDITIONAL WORK

Except as permitted in Section 10, no claim for additional services, not specifically provided in this Agreement, performed or furnished by Provider, will be allowed, nor may Provider do any work or furnish any material not covered by this Agreement unless the work or material is ordered in writing by the Project Director.

The Parties have executed this Agreement as of the Contract Signing Date.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC. STATE OF ALASKA

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By:     /s/ Wesley E. Carson            By:    /s/ Jim Duncan
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Title:   President                      Title: Commissioner of Administration
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Date:  December 10, 2001               Date:   December 10, 2001
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Approved as to form:

Bruce M. Botelho
Attorney General

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By:  /s/ Marjorie L. Vandor

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APPENDICES

APPENDIX A -- ACRONYMS

The acronyms contained in this Appendix A include the acronyms used throughout the Agreement as well as industry and State-specific acronyms that may be used by the Parties in connection with the performance of their respective obligations under the Agreement.

24x7x365	Continuous Year Long Coverage
3DES	Triple Data Encryption Standard
ACD	Automatic Call Distribution
AEPP	Alaska Electrical Pension Plan
AEMS	Alaska Emergency Management System
AHD	Advanced Help Desk
AIRRES	Alaska Information Radio Reading and Educational Services
ALI	Automatic Location Identification
AMO	Asset Management Option
ANI	Automatic Number Identification
ANSI	American National Standards Institute
APSIN	Alaska Public Safety Information Network
ARCS	Alaska Rural Communications System
AS	Alaska Statute
ATM	Asynchronous Transport Mode
AVVID	Advanced Voice, Video, and Integrated Data
BAFO	Best and Final Offer
BER	Bit Error Rate
BOD	Bandwidth on Demand
CAT5	Category 5
CDR	Call Detail Record
Ch Bk	Channel Bank
CJIS	Criminal Justice Information System
CLID	Calling Line Identification
CLR	Circuit Layout Records

CNID	Calling Party Name Identification
CO	Central Office
CRC	Cyclic Redundancy Check
CSM	Cisco Service Manager
CSR	Customer Service Representatives
CSU/DSU	Channel Service Unit/Data Service Unit
CTI	Computer Telephone Integration
DACS	Digital Access Crossconnect System
DES	Division of Emergency Services
DHCP	Dynamic Host Control Protocol
DID	Direct Inward Dialing
DMVA	Department of Military and Veteran Affairs
DNS	Data Network Services
DOA	Department of Administration
DOD	Direct Outward Dial
DOT/PF	Department of Transportation/Public Facilities
DPS	Department of Public Safety
DS1	Digital Service Level 1
DS3	Digital Service Level 3
DSL	Digital Subscriber Line
DSO	Digital Service, Level Zero
EAS	Emergency Alert System
EBITDA	Earnings before Income Taxes, Depreciation and Amortization
ECD	Estimated Completion Date
EIA	Electronic Industries Association
EIRP	Effective Isotrophic Radiated Power
ESD	Estimated Start Date
ESN	Electronic Serial Number
FBI	Federal Bureau of Investigations
FCC	Federal Communications Commission
FEMA	Federal Emergency Management Agency
GAAP	Generally Accepted Accounting Principles

HVAC	Heating, Ventilation, and Air Conditioning
IBEW	International Brotherhood of Electrical Workers
IEEE	Institute of Electrical and Electronic Engineers
IP	Internet Protocol
IPE	Intelligent Peripheral Equipment
Ipsec	Internet Protocol Security
IRD	Integrated Receiver Descrambler
ISDN	International Services Digital Network
ISO	International Standards Organization
ISP	Internet Service Provider
IT	Information Technology
ITG	Information Technology Group
ITU-T	International Telecommunication
Union-Telecommunication	
IV&V	Independent Verification and Validation
IVR	Interactive Voice Response
IXC	Interchange Carrier
JTAPI	JAVA Telephone Application Programming Interface
LDESP	Limited Deployment Earth Station Project
LAN	Local Area Network
LD	Long Distance
LDAP	Lightweight Directory Access Protocol
LEC	Local Exchange Carrier
LEPC	Local Emergency Planning Committee
LIO	Legislative Information Office
LMR	Land Mobile Radio
LNB	Live Number Block or Low Noise Block
MAC	Installs, Moves, Adds, Changes, and Disconnects
MAN	Municipal Area Network
MCU	Multipoint Control Units
MICB	Meridian Integrated Conference Bridge
MPEG2	Moving Picture Experts Group 2
MPLS	Mutiprotocol Label Switching

MRO	Maintenance Repair and Operating
MTBF	Mean Time Between Failure
MTTR	Mean Time To Repair
NEBS	National Earthquake Bracing Systems
NIIMS	National Interagency Incident Management System
NOC	Network Operations Center
NXX	Network Numbering Exchange
OAM	Operations and Maintenance
OCX	Optical Carrier
OPX	Off-Premise Extension
PBX	Private Branch Exchange
POP	Point of Presence
POTS	Plain Old Telephone Service
PSAP	Public Safety Answering Point
PSTN	Public Switched Telephone Network
QoS	Quality of Service
RAS	Remote Access Server
RFP	Request for Proposal
RPE	Remote Peripheral Equipment
SATS	State of Alaska Telecommunications System
SECC	State Emergency Coordination Center
SG	Super Group
SIP	Satellite Interconnect Project
SIPMG	Satellite Interconnect Project Management Group
SLA	Service Level Agreement
SMTP	Simple Mail Transport Protocol
SNA	Systems Network Architecture
SNMP	Simple Network Management Protocol
SOA	State of Alaska (as defined under "State" in Appendix B)
SoL	Safety of Life
SONET	Synchronous Optical Network Technology
SQL	Structured Query Language

SS7	Signaling System 7
TCP	Transmission Control Protocol
TCP/IP	Transmission Control Protocol/Internet Protocol
TDM	Time Division Multiplexing
TIA	Telecommunications Industry Association
TIC	Telecommunications Information Council
UA	University of Alaska
UAA	University of Alaska Anchorage
UAF	University of Alaska Fairbanks
UAS	University of Alaska Southeast
UPS	Uninterruptible Power Supply
VAC	Volts Alternating Current
VBR	Variable Bit Rate
VDC	Volts Direct Current
VF	Voice Frequency
VLAN	Virtual Local Area Networks
VOIP	Voice over Internet Protocol
VoPN	Voice over Packet Network
VSAT	Very Small Aperture Terminal
WAN	Wide Area Network

APPENDIX B -- DEFINITIONS

The following capitalized words, phrases or terms have the meanings set forth below. All technical words, phrases, or terms not otherwise defined in this Appendix or in the Agreement shall have the meaning set forth in the latest edition of Newton's Telecom Dictionary. All non-technical words, phrases or terms not otherwise defined in this Appendix shall have their common and ordinary meaning.

ACCOUNT MANAGER -- The individual assigned by Provider to act as the primary contact between the State and Provider, with overall responsibility for conducting the ordinary business of Provider under this Agreement.

ACS -- Alaska Communications Systems Group, Inc., a Delaware corporation.

ACS DISASTER RECOVERY PLAN -- A company-wide disaster recovery plan developed and implemented by ACS and its subsidiaries, which plan shall be consistent with the Transformed Services Disaster Plan.

ACS INTERNET -- ACS Internet, Inc.

ADA -- Americans with Disabilities Act of 1990, as amended, and all regulations promulgated in connection therewith.

AFFILIATE(s) -- Collectively ACS Long Distance, Inc., ACS Wireless, Inc., ACS Internet, Inc., ACS of Anchorage, Inc., ACS of Fairbanks, Inc., ACS of Alaska, Inc. and ACS of the Northland, Inc.

AGREEMENT -- This Comprehensive Telecommunications Service Agreement between the State and ACS, as amended from time to time, including all attachments, exhibits, appendices and schedules.

ASSIGNED CONTRACTS -- The written agreements, including, without limitation, maintenance agreements, service contracts, software license agreements, and subcontractor agreements under which the State receives third-party telecommunications-related services, which the State will assign to Provider pursuant to this Agreement.

ASSIGNED LEASES -- The leases, including, without limitation, equipment, personal property and real property leases with third parties related to the provision of telecommunications services, which, subject to required consents, the State will assign to Provider pursuant to this Agreement.

BENCHMARKING -- The method, to be mutually derived and agreed upon by the Parties, of identifying best practices in an industry or discipline against which the capabilities of various devices and/or systems are measured in terms of price and quality of service.

CHANGE MANAGEMENT -- The processes for accomplishing technological change as described in Section 4 of the Agreement.

CLASS OF SERVICE (COS) -- An identified grouping of services and features.

CONFIDENTIAL INFORMATION -- "Confidential Information" shall mean the Information that is obtained by the State or Provider, or any of their respective employees, Affiliates, agents, representatives or Subcontractors, in connection with the performance of this Agreement, or in connection with the proposal and/or BAFO under AS 36.30.230(a), whether in tangible or intangible form, and whether in written form or readable by machine, that has either been designated "Confidential" or is apparent on its face that it should be treated as confidential, including, without limitation:

(a) all financial information, personnel information, reports, documents, correspondence, plans, and specifications relating to either Party and, in the case of Provider, the Subcontractors, including the Affiliates;

(b) all technical information, materials, data, reports, programs, documentation, diagrams, ideas, concepts, techniques, processes, inventions, knowledge, know-how, and trade secrets, developed or acquired by either Party and in the case of Provider, the Subcontractors, including the Affiliates;

(c) any information that either Party and, in the case of Provider, the Subcontractors, including the Affiliates, identifies as confidential by a stamp or other similar notice; and

(d) all other records, data, or information collected, received, stored, or transmitted in any manner connected with the provision of Services hereunder.

Confidential Information shall not include Information that either Party can demonstrate as: (i) in the public domain at the time of disclosure; (ii) published or otherwise made a part of the public domain through no fault of either Party; (iii) in the possession of the receiving Party at the time of disclosure to it, if the receiving Party was not then under an obligation of confidentiality with respect thereto; (iv) received after disclosure by either Party from a third-party who had a lawful right to disclose such information to the receiving Party; or (v) independently developed by a Party without reference to Confidential Information. Additionally, Confidential Information shall not include public records, or the Information contained therein, to the extent disclosure of such is required by Alaska law, as determined by the State in its sole discretion. For purposes of this provision, Information is in the public domain if it is generally known (through no fault of either Party) to third-parties who are not subject to nondisclosure restrictions similar to those in this Agreement. Where appropriate in interpreting this Agreement, the term "Confidential Information" shall include the State Confidential Information and Provider Confidential Information.

CONFIGURATION MANAGEMENT -- The processes and technologies described in Section 4 of the Agreement.

CONTRACT SIGNING DATE -- The last date on which this Agreement has been executed by duly authorized representatives of the Parties hereto, which date is December 10, 2001.

CONTRACT YEAR --Each successive twelve (12) month period, beginning with the Effective Date, and continuing each year with the anniversary of the Effective Date.

CURRENT PROJECTS -- All telecommunications related projects at Departments that are in progress as of the Effective Date and as identified in Schedule J.1 to the Agreement.

CUTOVER DATE(s) -- As to each Service Element, the date on which all of Provider's obligations under the Transition Plan have been completed and accepted by the State. As used throughout this Agreement, the reference to the Cutover Date shall refer only to those Service Elements and Service Bundles that are required to be transitioned as of such date, pursuant to the terms of the Transition Plan.

DAYS -- Unless specified otherwise, days shall mean calendar days.

DELIVERABLE(s) -- The tasks that must be implemented to perform the Transition Plan and the Transformation Plan.

DEPARTMENT OF ADMINISTRATION -- The executive branch unit of the State of Alaska government known by that name.

DEPARTMENT AND/OR DEPARTMENTS -- State executive branch agencies and all other entities as identified in Schedule H to the Agreement that participate in receiving Services, or are authorized by the State to participate in the future in accordance with the terms of this Agreement.

DESIGNATED EMPLOYEES -- Those employees designated by the State in Schedule D to the Agreement as individuals who Provider may hire after the Contract Signing Date to provide Services to the State.

DISABLING DEVICE -- Any virus, timer, clock, counter, time lock, time bomb or other limited design, instruction or routine that could, if triggered, erase data or programming or cause the resource to become inoperable or otherwise incapable of being used in the full manner for which such resources were intended to be used.

DISASTER -- An event declared to be a "disaster" by the Governor.

DISENTANGLEMENT -- The obligations of Provider to assist in transitioning the provision of the Services from Provider to the State, or its designated third-party provider, in accordance with the terms of Section 16 of the Agreement.

DISENTANGLEMENT ASSETS -- The following assets that will be transitioned as part of the Disentanglement process described in Section 16 of the Agreement:
the Resources used exclusively in connection with the provision of Services to the State; agreements with vendors and Subcontractors, the subject matter of which relates exclusively to or is necessary for the provision of Services to the State; and any other assets, including Enterprise configuration information, owned or held by Provider and used exclusively in connection the provision of Services to the State.

DISENTANGLEMENT COMMENCEMENT DATE -- The earlier to occur of the following: (i) the date the State notifies Provider that no funds or insufficient funds have been appropriated so that the Term shall be terminated pursuant to Section 14.1.1; (ii) the date the State gives notice to Provider prior to the end of the Initial or any extended Term that the State has not elected to extend pursuant to Section 14.1.2; (iii) the date the Termination Notice is delivered to Provider, if the State elects to terminate any or all of the Services pursuant to Sections 14.2, 14.3, or 14.4; or (iv) the date the Termination Notice is delivered to the State by Provider pursuant to Section 14.7.

DISENTANGLE CUTOVER DATE(s) -- The date upon which the provision of each Service Element is transitioned from Provider to the State, or its designated third-party replacement provider, as part of Disentanglement.

DISPUTE -- Any claim, controversy, question, or disagreement whether founded in contract, tort, statutory or common law, equity or otherwise, arising out of, pertaining to, or in connection with, this Agreement or any related agreements, documents or instruments, including, without limitation, disputes over the interpretation or the implementation of the Agreement.

EARLY TERMINATION FEE -- A pro rata amount to be determined in accordance with Schedule B of this Agreement and paid by the State to Provider in accordance with the terms of Section 14 of the Agreement.

EFFECTIVE DATE (E-DAY) -- The date mutually agreed upon by the State and Provider, as the start date for the Transition Period for the Services. This date will be no later than one hundred eleven (111) days from the Contract Signing Date.

END-USER -- The Persons or Departments that are the ultimate recipients of the Services used for official State business.

ENTERPRISE -- The combined State-wide telecommunications system.

ENTERPRISE DISASTER RECOVERY PLAN -- The plan developed by the State for Disaster recovery.

ENVIRONMENTAL LAWS -- "Environmental Laws" shall mean all applicable federal, state, or local statutes, laws, regulations, rules, ordinances, codes, licenses, orders, or permits of any governmental entity relating to environmental matters including, but not limited to: (i) the Clean Air Act (42 U.S.C. 7401 et seq.); the Federal Water Pollution

Control Act (33 U.S.C. Section 1251); the Safe Drinking Water Act (42 U.S.C.
Section 5 300f et seq.); the Toxic Substances Control Act (15 U.S.C. 55 2601 et seq.); the Endangered Species Act (16 U.S.C. Section 1531 et seq.); the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C.
Section 9601, et seq.); the Hazardous Materials Transportation Act (49 U.S.C.
Section 1801, et seq.); the Resource Conservation and Recovery Act (42 U.S.C.
Section 6901 et seq.); the Emergency Planning and Community Right-to-Know Act of 1986 (42 U.S.C. 55 110011 et seq.); and (ii) similar state and local provisions.

EXCLUSIVE WORK PRODUCT -- Software and related enhancements, upgrades, and modifications produced by Provider and/or Affiliates and used exclusively in connection with the delivery of Services to the State.

FAILURE -- Nonperformance by Provider of a Service or Mission Critical Service in accordance with an applicable SLA.

FEE(s) -- Those payments by the State to Provider for the Services rendered under this Agreement.

FEE REDUCTION -- The reduction in the Fee otherwise payable to Provider in the event of a Failure. The methodology for calculating Fee Reductions is set forth in Schedule F to this Agreement.

FINAL CUTOVER DATE -- The date on which all of Provider's obligations under the Transition Plan as to all of the Service Bundles have been completed and accepted by the State.

FORCE MAJEURE EVENT -- For the purposes of this Agreement, Force Majeure will mean war (whether declared or not); revolution; invasion; insurrection; riot; civil commotion; terrorist acts; sabotage; military or usurped power; lightning; explosion; fire; storm; drought; flood; tsunami, earthquake; epidemic; quarantine; strikes; acts or restraints of governmental authorities affecting the provision of Services or directly or indirectly prohibiting or restricting the furnishing or use of materials or labor required to provide the Services; inability to secure machinery, materials, equipment, or labor because of priority, allocation, or other regulations of any governmental authorities.

GAAP -- Generally accepted accounting principles.

GOVERNOR -- The incumbent Governor of the State of Alaska at the point in time at issue.

HAZARDOUS MATERIAL -- "Hazardous Materials" shall mean any substances the presence of which requires investigation or remediation under any Environmental Law, or that is or becomes defined as a "hazardous waste," "hazardous substance," pollutant, or contaminant under any Environmental Law.

INCENTIVE -- The additional compensation earned by Provider under the circumstances described in Schedule F.

INFORMATION -- All forms and types of financial, business, marketing, operations, scientific, technical, economic and engineering information, whether tangible or intangible. Information includes, without limitation, patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, codes, know-how, computer software, databases, product names or marks, marketing materials or programs, plans, specifications, shop-practices, customer lists, supplier lists, engineering information, price lists, costing information, employee and consulting relationship information, accounting and financial data, profit margin, marketing and sales data, strategic plans, information concerning existing or planned products.

INFRINGEMENT CLAIM -- A claim for actual or alleged infringement of any patent, trademark, copyright, or similar proprietary right, including misappropriation of trade secrets.

INITIAL TERM -- The period commencing on the Effective Date and ending on the fifth (5th) anniversary of the Effective Date.

INTERIM ASSETS -- Additional assets acquired by the State that may be useful to Provider in performing the Services.

LOCATION -- The physical location of a Department.

LOSSES -- Claims, causes of action, suits, demands, judgments, awards, fines, penalties, mechanics' liens or other liens, obligations, liabilities, injuries, losses, costs, damages, and expenses, including, without limitation, reasonable attorneys' fees and disbursements and court costs.

MANAGED ASSETS -- Those contracts, materials, equipment and services which are to be managed or overseen by Provider during the Term on behalf of the State, but not owned by Provider. (Also referred to as "Managed Contracts" and "Managed Leases").

MANAGEMENT COMMITTEE -- A joint body established by Provider and the State to manage the Agreement in accordance with the terms of Section 11.2 of the Agreement.

MATERIAL DEFAULT -- The occurrence of any of the following:

(i) a breach by Provider of any obligation under Section 18 hereof which breach is not cured within five (5) business days after State delivers to Provider written notice of such breach;

(ii) Provider's failure to provide communications connectivity for any of the following SoL Services in accordance with applicable SLAs and other requirements of this Agreement which failure is not cured within five (5) calendar days after State delivers to Provider written notice of such failure:

1. PSAPs

2. Alaska Psychiatric Institute

3. Alaska Pioneer Homes

4. SATS

5. Alaska Correctional Facilities

6. Department of Law -- Prosecution of Criminals

7. Youth Detention Facilities

8. APSIN

9. Public Health Labs

10. Emergency Medical Services

11. any other Service that State designates from time to time as an SoL Service by written notice to Provider in accordance with Section 10.1.

(iii) Provider's failure to complete the transition of Services in accordance with the Transition Plan and applicable terms of this Agreement where such failure continues to exist nine (9) months after the Contract Signing Date;

(iv) Provider's failure to complete the transformation of Services in accordance with the Transformation Plan and applicable terms of this Agreement where such failure continues to exist eighteen
(18) months after the Contract Signing Date;

(v) the persistent failure of Provider to deliver Services in one or more of Service Bundles 1, 2, 3 or 7 in accordance with the applicable Critical SLA's, which persistent failure shall be conclusively deemed to exist if the cumulative amount of gross Fee Reductions calculated under Schedule F.1 with respect to any or all of Service Bundles 1, 2, 3 or 7 within any consecutive six
(6) month period exceeds 50% of the six-month total of potential Fee Reductions for all Service Bundles 1, 2, 3, and 7 in Schedule F.1;

(vi) the persistent failure of Provider to deliver Services in Service Bundle 4, 8 or 10 in accordance with the applicable Critical SLA's, which persistent failure shall be conclusively deemed to exist if the cumulative amount of gross Fee Reductions calculated under Schedule F.1 with respect to each Service Bundle 4, 8, or 10 within any consecutive six (6) month period exceeds 50% of the six-month total of potential Fee Reductions listed for such individual Service Bundle in Schedule F.1;

(vii) a judicial declaration of the insolvency of Provider; the general failure of Provider to pay its debts in the normal course of business; the entrance of Provider into receivership or any arrangement or composition with creditors generally; the filing of a voluntary or involuntary petition that is not dismissed within sixty (60) days for the bankruptcy, reorganization, dissolution, or winding-up of Provider; a general assignment for the benefit of creditors of Provider; or a seizure or a sale of a material part of Provider's property by or for the benefit of any creditor or governmental agency;

(viii) an assignment or attempted assignment by Provider in violation of
Section 28 of the Agreement; or

(ix) a failure by Provider to perform any of its other material obligations under this Agreement and (A) the failure by Provider to cure such breach within ninety (90) days after Provider receives written notice of such breach; or (B) if the failure is not one that could reasonably be corrected within ninety (90) days, (1) the failure by Provider to adopt, within ninety (90) days after receiving notice of such breach, a plan to cure such breach within a time period not longer than one hundred twenty
(120) days after Provider receives notice of the breach, or (2) the failure by Provider to cure such breach within such one hundred twenty (120) day period.

MAXIMUM ANNUAL CONTRACT AMOUNT -- The amount set by the State on the Contract Signing Date, as amended from time to time.

MEDIUM AND/OR MEDIA -- Any communications or storage medium, regardless of method of storage, compilation or memorialization, if any, including without limitation, physical storage or representation (including models and prototypes), electronic storage, graphical (including designs and drawings) or photographic representation, or writings.

MILESTONE -- A point in time, mutually agreed to by the Parties, that defines success in completing a Deliverable.

MISSION CRITICAL SERVICE -- The communications services and/or telecommunications components that the State deems as "mission critical" and as identified in Schedule E.3 to the Agreement.

NETWORK -- The term "Network" includes the following: the ACS Converged Network, the ACS Long Distance Network, the Local Service Network provided by ACS and other third-party providers, ACS Cellular Telephone Network, the State Paging Network, the combined State/Alascom Satellite Broadcast Network, and the State's Microwave Network --SATS.

PARTIES -- Provider and the State.

PARTNER, PARTNERSHIP, OR PARTNERING -- A relationship of mutual cooperation and benefit between the State, ACS, and Provider. However, nothing in this Agreement shall be construed to constitute the creation of a partnership or joint venture between the ACS and the State. This Agreement does not create, except with the State as specifically provided in this Agreement, a contractual relationship with and shall not be construed to benefit or bind ACS in any way with, or create any contractual duties by ACS to any contractor, subcontractor, materials provider, laborer, or any other Person.

PARTY -- Provider or the State.

PERSON - One (as a human being, partnership, corporation, limited liability company, etc.) that is recognized by law as the subject of rights and duties.

PROJECT DIRECTOR -- The Person assigned by the State to act as the primary contact between the State and Provider with overall responsibility for conducting the business of the State under this Agreement.

PROVIDER - ACS.

PROVIDER CONFIDENTIAL INFORMATION -- All Information disclosed by Provider, or the Affiliates, to the State, its agents and representatives, in writing or by way of any other Media and marked as confidential, or orally or visually disclosed and confirmed as confidential in a non-confidential summary writing sent by the disclosing party to the receiving party within thirty (30) days of such disclosure, or any other Information that falls within the definition of Confidential Information set forth in this Agreement, except any portion thereof that the State can demonstrate by written records prepared and maintained in the ordinary course of its business or other reasonably sufficient evidence: (a) was known to the State before receipt thereof under this Agreement; (b) is disclosed to the State by a third-party who has a right to make such disclosure without any obligation of confidentiality to Provider or the Affiliates; (c) is or becomes generally known in the trade without violation of either this Agreement by the State or any confidentiality obligation owed to Provider or the Affiliates by any third party; (d) is furnished by Provider or the Affiliates to a third-party without restriction on subsequent disclosure; or
(e) is independently developed by the State or its employees or contractors to whom Provider's or the Affiliate's Information was not disclosed; provided, that only the particular Information that is specifically excluded, as set forth above, shall be excluded from treatment as Confidential Information hereunder, and not any other Information that happens to appear in proximity to such excluded portion. For purposes of this provision, Information is generally known in the trade if it is generally known (through no fault of the State) to third-parties who are not subject to nondisclosure restrictions similar to those in this Agreement.

PROVIDER DEFAULT -

The occurrence of any of the following:

(i) Provider's failure to provide the Services in accordance with the SLAs if Provider fails to use its best efforts (that shall not involve the payment of funds that would be commercially unreasonable under the circumstances) to correct such failure for a period of six (6) months or more, after notice of such default from the State;.

(ii) a breach by Provider of any obligation under Section 12 hereof, provided that such breach, if curable, is not cured within thirty (30) days after Provider has received notice of such breach;

(iii) the discovery that a representation made in this Agreement by Provider was false when made, if the nature and magnitude of the misrepresentation is such as to have had a probable and material effect upon the State's decision to engage Provider or upon the negotiations as to the material terms of this Agreement; or

(iv) debarment of Provider from performing services with respect to all business with the federal government.

PROVIDER'S KEY PERSONNEL -- The Persons set forth on Schedule G to the Agreement, as such list may be updated by Provider, in accordance with Section
5.3.1 of the Agreement.

PROVIDER RESTRICTED FACILITIES -- Provider owned or leased facilities that house electronic Network elements and physical connection devises used in the provision of Services to the State.

PROVIDER WORK PRODUCT --Software and related enhancements, upgrades, and modifications produced by Provider and/or Affiliates and used in connection with the delivery of telecommunications services to any party other than the State, even if also used in connection with the delivery of Services to the State, but excluding Exclusive Work Product.

PUBLIC RECORDS -- The documents and other records, and the information contained therein, as defined in AS 09.25.100 et seq. and AS 11.81.900.

PURCHASED ASSETS -- Those materials, services, equipment and contracts that Provider is acquiring from the State to be used in connection with the provision of the Services to the State.

RAMP-UP PERIOD -- The timeframe beginning on the Contract Signing Date and ending on the Effective Date.

REQUIRED CONSENTS -- Third-party authorizations or consents required in connection with the Assigned Contracts, the Assigned Leases, the Managed Assets and the Purchased Assets.

RESOURCES -- All Provider owned equipment, networks, Provider Work Product, and other assets that are utilized by Provider, or approved by Provider for utilization by the State, in connection with the provision of Services to the State.

SAFETY OF LIFE ("SoL") -- Communications with the highest available SLA, the failure of which would directly jeopardize human life (i.e., PSAPs, emergency medical response services, search and rescue communications, etc.)

SATS -- The terrestrial microwave system presently used for delivering telecommunications connectivity over much of the State's current service area known as the State of Alaska Telecommunication System.

SECURITY INCIDENT -- The act of violating the State's security policy and procedures or usual and customary security procedures, including, but not limited to, the following: (i) attempts (either failed or successful) to gain unauthorized access to the State Data; (ii) unwanted disruption or denial of service; and (iii) unauthorized use of a State system for the processing or storage of data changes to the system hardware, firmware, or software characteristics without the State's knowledge, instruction, or consent.

SERVICE CENTER -- The point of contact maintained by Provider for coordinating all of the Services.

SERVICE ELEMENT -- The service component groups that comprise a Service Bundle.

SERVICES -- The telecommunications related tasks and obligations identified in Schedules A4 through A13 to the Agreement.

SERVICE BUNDLES -- The ten (10) categories of Services, which are more fully described in Schedules A4 through A13 to the Agreement.

SERVICE UNIT -- A single unit of a particular Service Element.

SERVICE MANAGEMENT -- The integrated discipline consisting of Performance Management, Configuration Management, Fault Management, Accounting, Security, and Planning that underlies the delivery to the Services.

SLAs -- Minimum acceptable functional and operational performance levels for the Services as set forth in Schedule E of this Agreement.

STANDARDS AND PROCEDURES MANUAL -- A document describing standard operating procedures for all Services in accordance with Section 4.1 of the Agreement.

STATE -- The State of Alaska, including the Department of Administration and the Departments.

STATE CONFIDENTIAL INFORMATION -- Information that is owned, controlled, supplied or held by the State and that is generally accepted as confidential, defined as confidential pursuant to or otherwise falls within the definition of Confidential Information set forth in this Agreement, or is defined as confidential in Alaska Statutes and Regulations for specific departments and/or subject matter.

STATE DATA -- Electronic information that is owned or controlled exclusively by the State that relates to the provision of State governmental services.

STATE DEFAULT - The occurrence of any of the following:

(i) a breach by the State in making payment of any amount payable to Provider under this Agreement within thirty (30) days after the due date for such payment and the failure by the State to cure such breach within thirty (30) days after the State has received written notice of such breach; or

(ii) a failure by the State to perform any of its material obligations under this Agreement and (A) the failure by the State to cure such breach within thirty (30) days after the State has received written notice of such breach; or (B) if the failure is not one that could reasonably be corrected within thirty (30) days, (1) the failure by the State to adopt, within thirty (30) days after receiving notice of such breach, a plan to cure any continuing breach within a time period not longer than ninety (90) days after the State received notice of the breach, or (2) the failure of the State to cure any continuing breach within such ninety (90)-day period.

STATE EMPLOYEES -- Designated Employees who elect to remain employees of the State, but are managed by Provider.

STATE FACILITIES -- State owned office space, basic office furnishings, furniture, equipment, and storage space installed or operated on State owned or leased premises.

STATE'S KEY PERSONNEL -- State personnel key to the management of this Agreement, and identified in Schedule G to the Agreement.

STATE RFP -- The State of Alaska's Request for Proposal for Comprehensive Telecommunications Services (RFP #2001-0200-2036) dated August 3, 2000, including all appendices and supplements, as amended and updated from time to time.

SUBCONTRACTORS -- Those Persons, including the Affiliates, with whom Provider contracts with to provide some portion of the Services.

TECHNOLOGY INITIATIVE -- Those tasks identified in Schedule J.2 to the Agreement.

TECHNOLOGY REFRESH SERVICES - Procurement, installation, implementation, and maintenance of upgraded and replacement assets for all Purchased Assets and all other assets, excluding Managed Assets, used in the provision of Services.

TERM -- The Initial Term and any extensions thereof in accordance with Section 14 of the Agreement.

TERMINATION -- An action or series of actions taken in accordance with the terms of this Agreement by either Party which has the effect of causing the discontinuation or cancellation of this Agreement or one or more Services Bundles.

TERMINATION DATE -- The date on which a Termination becomes effective. The Termination shall take effect at 11:59 p.m. on the Termination Date designated.

TERMINATION NOTICE -- Written notification of the Termination of this Agreement or one or more of the Services Bundles as provided under this Agreement. The Termination Notice shall set forth the Termination Date in accordance with the terms of this Agreement.

THIRD-PARTY RESOURCES -- All equipment, networks, software, enhancements, upgrades, modifications and other resources utilized by third-party providers to provide services to the State.

TRANSFORMATION PERIOD -- The period of time commencing not later than the Final Cutover Date, during which the Services will be migrated from current technologies to future technologies in accordance with the terms of the Transformation Plan.

TRANSFORMATION PLAN -- The actions required of Provider and the State necessary to accomplish the migration from the State's current telecommunications network infrastructure to a new statewide network infrastructure that supports voice, data, and video communications services, including advanced voice and data network management capabilities and features.

TRANSFORMED SERVICES -- Those Services that have been migrated to the future technologies in accordance with the Transformation Plan.

TRANSFORMED SERVICES DISASTER RECOVERY PLAN -- The plan developed by Provider for Disaster recovery as described in Section 15 of the Agreement.

TRANSITION PERIOD -- The period of time beginning on the Effective Date and ending on the Final Cutover Date.

TRANSITION PLAN -- The actions required of Provider and the State necessary to accomplish the transparent, seamless, orderly, and uninterrupted transition of the provision of telecommunication services from the State to Provider in accordance with the terms of the Agreement.

TRANSITIONED EMPLOYEES -- Those Designated Employees who have accepted employment with Provider in accordance with the terms of the Agreement.

TRANSITIONED SERVICES -- Those Services for which Provider has taken full responsibility for operations, maintenance, and repair in accordance with the terms of the Transition Plan.

UNRECOVERED CAPITAL COSTS -- The cost of capital incurred by Provider in connection with Resources, which have not been recovered through pricing, which for purposes of Section 16 of the Agreement, shall be equal to the unamortized capital investment in the assets as identified in Schedule B to the Agreement.

WORK ORDER --A written request by the State to Provider for the performance of specific tasks related to the provision of Services by Provider that are: (i) not currently being performed by Provider; or (ii) not being charged to the State by Provider.

SCHEDULES

SCHEDULE A. BUNDLES

A.1 INTRODUCTION

The Service Bundles are defined as follows:

BUNDLE 1--WIRED TELEPHONY SERVICES --Voice Switching including PBX, RPE/IPE, Key Systems, and Centrex Services; Cabling; Voice Mail and Enhanced Telephony Services; Local Telephone Services; Long Distance Services; Toll Free Services, Audio Teleconferencing; Maintenance and Repair; MACs.

BUNDLE 2--DATA NETWORK SERVICES --WANs including Routers, Hub Routers, Data Switches, CSU/DSUs, and Modem Pools; Frame Relay including Frame Relay Services and Interface Equipment; Dedicated and Shared Line Connectivity; Internet Connectivity; Remote Dial-Up Connectivity; Network Monitoring and Management, DNS Security; Maintenance and Repair; MACs.

BUNDLE 3--VIDEO CONFERENCING SERVICES --Video Conferencing including Bridges; Video over Packet Network; MACs; Operations, Maintenance and Repair.

BUNDLE 4--PAGING SERVICES --Statewide Paging System; Nationwide Paging Services; Paging System/WAN and E-mail Interfaces and Interface Equipment; Maintenance and Repair

BUNDLE 5--CELLULAR TELECOMMUNICATIONS SERVICES --Local Cellular Service; Nationwide Cellular Services.

BUNDLE 6--SATELLITE BROADCAST SERVICES --Satellite Up-link and Broadcast Transport Requirements; Support Services.

BUNDLE 7--END-USER SUPPORT SERVICES --Help Desk; System Administration; System Requests; Other Support Services.

BUNDLE 8--STATE OF ALASKA TELECOMMUNICATIONS MICROWAVE SYSTEM (SATS)
OPERATIONS, MAINTENANCE AND REPAIR --Operations of the SATS Microwave System; Maintenance and Repair of Site HVAC and Power Systems, Shelters, Equipment Pads, Racks and Wiring; Transceiver Equipment, Towers and Antennae, and Associated Equipment.

BUNDLE 9--SATELLITE TELEPHONY SERVICES --Satellite Voice and Data Telephony.

BUNDLE 10--SATELLITE EARTH-STATION MAINTENANCE AND REPAIR --Repair and
maintenance of State-owned satellite earth stations.

Graphic depiction of the above Service Bundles, including demarcation points, are contained in Schedule , Bundle Diagrams. These Bundle diagrams represent Transitioned Services and are provided for illustrative purposes only.

A.2 DEFINITIONS

As used throughout Schedule A, the following terms shall have the following meanings.

ACCESS NETWORK -- The "Access Network" extends from the Data Cabinet to the End-User's desktop. The Access Network can be configured to allow for either or both Parties to manage the State-owned LAN, cabling, computer workstations, video conferencing sets and Provider supplied VoIP handsets and video conferencing sets. Configuration options are shown in Schedule A.17.

ACCOUNT BILLING AND REPORTING -- The process of collecting all data necessary to generate usage reports for all Services provided to the State by Provider, including the archival of account usage and billing data. Account Billing and Reporting includes within its scope billing systems, which compare usage with rates to generate monthly billings.

BANDWIDTH BASELINE -- For purposes of WAN POPs used in Service Bundles 1, 2, and 3, the total bandwidth required to support the initial voice, video and data Services at each Location.

CALLMANAGER(TM) -- Hardware and software associated with the Cisco AVVID platform for call processing.

CORE NETWORK - That portion of the Network that consists of Provider's ATM+IP switches, routers, control equipment, and circuits using the MPLS protocol for the transmission of data packets. The Core Network devices are present in Anchorage, Fairbanks, Juneau and Seattle, and may be expanded from time to time by Provider.

CRITICAL EVENTS -- Those items identified in Schedule E.4, as they may be amended from time to time by the Management Committee.

DATA CABINET -- The enclosed rack of equipment located at the State's premises that houses Provider supplied edge router, Provider supplied LAN switch, servers, backup power, and network management modules. Cisco CallManager(TM) servers, or Cisco Routers with IOS Software that forward call requests to the appropriate CallManager(TM) Server, will be located in the Data Cabinet.

EDGE NETWORK -- The "Edge Network" extends from the Core Network to the trunk side of the Data Cabinet located on the State's premises. The Edge Network is used for local transport of data, voice, and video to the State's premises. The Service Center manages the Edge Network.

PERFORMANCE MANAGEMENT -- The process of ensuring that the Network is meeting performance and operational requirements as specified in the SLAs as defined in Schedule E.2, and allows for the maintenance of SLA parameters on an ongoing basis.

QUALITY OF SERVICE -- The ability of a network element to have a defined level of assurance that its traffic and service requirements are satisfied.

SERVICE DEMARCATION -- The port on which service is presented to the State at the LAN switch in the Data Cabinet. Provider is responsible for service presentation at the Service Demarcation. The State is responsible for the premise network and applications on the customer side of the Service Demarcation except for VoIP handsets, which will be maintained by Provider.

TROUBLE/FAULT MANAGEMENT -- The process of monitoring traps and alarms on all service providing elements and links in order to allow for sectionalization, identification, and resolution of a problem with Service delivery.

WAN POP -- Each State Location's customer edge device. The total number of WAN POPs are identified in Schedule C to the Agreement.

A.3 INFRASTRUCTURE TRANSFORMATION

The following table lists significant Milestones and Deliverables due from Provider under this Agreement. Also included are the intended Start and Complete dates for each Deliverable identified. The list is not all-inclusive, but represents major tasks associated with these timeframes. Deliverables must be approved in accordance with the Agreement. The dates established below are the target dates, but these dates may change based on the Transition Plan and Transformation Plan.

TABLE OF MILESTONES AND DELIVERABLES

	START	COMPLETE
General Deliverables:		
Outline of Standards and Procedures Manual (Provider)	Contract Signing Date (Contract)	E Day
Provide Draft Standards and Procedures Manual (Provider)	E Day -- 30 days	E Day + 90 days
Provide Final Standards and Procedures Manual (Provider)	E Day -- 30 days	E Day + 180 days
Provide Transition Plan	Contract	E Day
Provide End User Satisfaction and Communication Plan (Provider)	E Day -- 45 days	E Day
Identification of Relevant State Policies & Procedures (State)	E Day -- 45 days	E Day
Form Management Committee (Provider & State)	Contract	Contract + 10 days
Transformed Services Disaster Recovery Plan (Provider & State)	Contract	E Day + 180 days
Proof of Insurance (Provider)	Contract	Contract + 30 days
Provide Billing and Reporting Services Plan (Provider and State)	Contract	E Day
Implementation Plan for Current Projects (Provider)	Contract	E Day
Joint Operations Plan (Provider & State)	Contract	E Day + 90 days
Provide Transformation Plan	Contract	E Day + 90 days
Transformation Complete	Contract	E Day + 360 days
BUNDLE 1--WIRED TELEPHONY SERVICES		
Establish Transition Team	E Day -- 15 days	E Day

TABLE OF MILESTONES AND DELIVERABLES

	START	COMPLETE
Establish Two Sub Projects	E Day	E Day
- Switched PSTN Service		
- Switched Telephony Equipment		
Switched PSTN		
- Identify circuits to be switched	E Day	E Day + 5 days
- Place circuit orders	E Day + 5 days	E Day + 10 days
- Track circuit orders	E Day + 10 days	E Day + 70 days
- Service established	E Day + 90 days	E Day + 90 days
Switched Telephony Equipment		
- Verify inventory	E Day	E Day + 30 days
- Assume operation	E Day + 10 days	E Day + 70 days
Bundle 1 Cutover		E Day + 90 days

BUNDLE 2--DATA NETWORK SERVICES

	START	COMPLETE
Establish Transition Team	E Day -- 15 days	E Day
Establish Four Sub Projects	E Day	E Day
- WAN equipment		
- DNS transport		
- Internet connectivity		
- DNS security		
WAN equipment		
- Verify inventory	E Day	E Day + 30 days
- Assume WAN operation	E Day + 10 days	E Day + 70 days
DNS Transport		
- Identify circuits to be swung	E Day	E Day + 5 days
- Place circuit orders	E Day + 5 days	E Day + 10 days
- Track circuit orders	E Day + 10 days	E Day + 40 days
- Service established	E Day + 45 days	E Day + 45 days
- Systems acceptance test	E Day + 40 days	E Day + 43 days
Internet Connectivity		
- Identify dial ups by location	E Day	E Day + 5 days
- Order and turn up additional internet bandwidth	E Day + 5 days	E Day + 20 days
- Begin service	E Day + 20 days	E Day + 30 days
DNS Security		
- Identify and agree upon security procedures	E Day	E Day + 10 days
- Implement procedures	E Day + 10 days	E Day + 30 days
Bundle 2 Cutover Date	E Day	E Day + 70 days

TABLE OF MILESTONES AND DELIVERABLES

	START	COMPLETE
BUNDLE 3--VIDEO CONFERENCING SERVICES		
Establish Transition Team	E Day -- 15 Days	E Day
Establish Three Sub Projects - Video conference bridges - Video conferencing use equipment - Video conferencing facilities	E Day	E Day
Video Conference Bridges (will have been previously installed)	E Day	E Day
Video Conferencing Use Equipment		
- Inventory video service sites	E Day	E Day + 1 day
- Order video user equipment	E Day + 2 days	E Day + 4 days
- Receive equipment	E Day + 5 days	E Day + 24 days
- Install equipment	E Day + 25 days	E Day + 35 days
- Service acceptance test	E Day + 35 days	E Day + 40 days
Video Conferencing Facilities		
- Inventory video conferencing facilities	E Day	E Day + 5 days
- Identify set up tasks	E Day + 5 days	E Day + 7 days
- Set up facilities	E Day + 7 days	E Day + 90 days
Bundle 3 CUTOVER DATE	E Day	E Day + 40 days
BUNDLE 4--PAGING SERVICES		
Establish Transition Team	E Day -- 15 Days	E Day
Establish Two Sub Projects - Terminal and transmitters - Pagers	E Day	E Day
Terminal and Transmitters		
- Inventory terminal and transmitters	E Day	E Day + 10 days
- Order new equipment	E Day + 10 days	E Day + 12 days
- Receive new equipment	E Day + 10 days	E Day + 40 days
- Install new equipment	E Day + 40 days	E Day + 60 days
- Test equipment	E Day + 60 days	E Day + 70 days
- Assume service	E Day + 90 days	E Day + 90 days
Pagers		
- Review pager inventory records	E Day	E Day + 5 days
- Order new pagers	E Day + 5 days	E Day + 5 days
- Begin transition to new pagers	E Day + 30 days	
Bundle 4 Cutover Date	E Day	E Day + 90 days

TABLE OF MILESTONES AND DELIVERABLES

	START	COMPLETE
BUNDLE 5--CELLULAR SERVICES		
Establish Transition Team	E Day -- 15 days	E Day
Establish Two Sub Projects - Cellular services - Cellular phones	E Day	E Day
Cellular Services		
- Review existing service contracts	E Day	E Day + 1 day
- Develop plan for transition to new master service contract	E Day + 1 day	E Day + 10 days
- Initiate phased transition over one year period	E Day + 14 day	
Cellular Phones		
- Review cellular phone inventory records	E Day + 1 day	E Day + 5 days
- Begin to distribute cellular phones from Provider inventory in accordance with transition plan above	E Day + 30 days	
Bundle 5 Cutover Date	E Day	E Day + 14 days
BUNDLE 6--SATELLITE BROADCAST SERVICES		
Establish Transition Team	E Day -- 15 days	E Day
Review Existing Operation with AT&T Alascom	E Day	E Day+ 5 days
Inspect AT&T Uplink Facilities	E Day + 5 days	E Day + 10 days
Order Billing Changes with AT&T and LECs	E Day + 10 days	E Day + 11 days
Bundle 6 Cutover Date		E Day + 90 days
BUNDLE 7--END USER SUPPORT SERVICES		
Establish Transition Team	E Day -- 15 days	E Day
Centralized Help Desk begins operation having been previously established	Contract	E Day
Bundle 7 Cutover Date	Contract	E Day
BUNDLE 8--SATS MICROWAVE SYSTEM		
Establish Transition Team	E Day -- 15 days	E Day
Review existing operation with State Personnel and review all records Provided as part of RFP process	E Day	E Day + 2 days

TABLE OF MILESTONES AND DELIVERABLES

	START	COMPLETE
Develop plan for operation and Correction of deficiencies	E Day + 2 days	E Day + 15 days
Assume operation and begin annual Maintenance cycle	E Day + 30 days	
Begin correction of deficiencies	E Day + 30 days	
List of State Tools and Test Equipment	Contract	E Day
Equipment Maintenance Manuals (ITG to Provider)	Contract	E Day
Bundle 8 Cutover Date		E Day + 30 days
BUNDLE 9--SATELLITE TELEPHONY SERVICES		
Establish Transition Team	E Day -- 15 days	E Day
Establish Two Sub Projects - Services - User Equipment	E Day	E Day + 7 days
Services		
- Review State records on existing satellite telephony users	E Day	E Day
- Develop plan for transition to Globalstar	E Day + 1 day	E Day + 1 day
- Initiate transition	E Day + 2 days	E Day + 7 days
User Equipment		
- Order user equipment	E Day + 1 day	E Day + 1 day
- Receive user equipment	E Day + 2 days	E Day + 7 days
- Begin distribution to users	E Day + 7 days	E Day + 7 days
Bundle 9 Cutover Date		E Day + 7 days
BUNDLE 10--SATELLITE EARTH-STATIONS		
Establish Transition Team	E Day -- 15 days	E day
Contact list for equipment locations (State)	Contract	E Day
Review satellite earth station Maintenance and operation with State Personnel	E Day	E Day + 1 day
Review State records not provided as part of RFP process	E Day + 1 day	E Day + 2 days
Develop maintenance and repair plan	E Day + 3 days	E Day + 8 days
Begin maintenance and repair activities	E Day + 30 days	
Bundle 10 Cutover Date	E Day	E Day + 30 days

TABLE OF MILESTONES AND DELIVERABLES

	START	COMPLETE
RESOURCE OPTIONS A, B & C		
Establish Transformation Teams	E Day -- 15 days	E Day
Develop Transformation Plans and provide Cost analysis	E Day	E Day + 120 days
Develop Implementation Plans	E Day + 150 days	E Day + 180 days

A.4 BUNDLE 1--WIRED TELEPHONY SERVICES

In accordance with the terms of this Agreement, Provider shall deliver wired telephony Services consisting of a fully integrated voice system supporting standardized user operations and capabilities with flexibility to meet the unique requirements of the Departments. As transformed, the Services will support the current numbering/dialing plan and enhanced voice applications such as ACD with specialized or custom report management capabilities, IVR, CTI, audio teleconferencing and call center applications, as well as Statewide integrated voice mail. These Services will be integrated into the existing Statewide voice, video, and data WAN.

The Services as transformed will also include a fully integrated voice mail system that will provide uniform and standardized operations to all End-Users. This system will support voice menus, auto attendant, fax-on-demand, broadcast message, voice forms, time-of-day controls, individual boxes per user, remote accessibility, call forward both on-net and off-net, Statewide message distribution capabilities, and other advanced features, including, without limitation, unified messaging, as described in the Transformation Plan

1.0 Provide an Integrated Voice Switching System:

During the Transition Period, Provider will manage and operate the existing voice switching systems of the State, including PBX voice mail, ACD, IVR, CTI, audio teleconferencing and call center applications, and the maintenance of the current integrated environment. In addition, the Parties will develop plans for integrated voice switching services in the Transformation Plan described in the Agreement, which will include the features described below.

During the Transformation Period and through the Term of this Agreement, Provider will provide an integrated voice switching system that will be converged onto IP transport and managed by the Service Center. Provider will utilize an IP+ATM statewide network and will use the Cisco AVVID architecture throughout. Cisco CallManager(TM) servers will be used to provide call-processing control and enhanced services for the VoIP systems. The integrated voice switching system will assign a priority and Quality of Service to each data packet containing voice information. Provider will provide for special requirements, such as special tunneling, or encryption routines, on a case-by-case basis in accordance with Section 13 and Schedule M, and the Work Order process described in Section 10 of the Agreement.

Provider's Core Network will serve as the framework for the integrated voice switching system and is described in A.5 Bundle 2 -- Data Network Services. The Core Network shall be used for Wide Area Network transport of data, voice, and video. The Core IP+ATM Data Network shall use physically redundant links. All data, voice, and video traffic will be transported across the Core Network by means of MPLS technology. The Service Center will manage the Core Network.

As the State voice switching system is converged onto IP, the service demarcation will be the LAN switch port facing the VoIP telephone. The State will own the inside-building LAN cabling, and the VoIP instruments. Where the VoIP instrument and the desktop computer are co-located, they may share the same cable, as depicted in Schedule A.17. All Cisco telephone instruments to be installed for the State by Provider are powered in-line, on the(a) CAT5 LAN cable, from the LAN switch. A Provider-supplied UPS will provide clean power and power backup for each LAN switch.

The Cisco VoIP instruments will be configured for triple redundancy, meaning that the instrument has a primary CallManager(TM), as well as separate secondary and tertiary CallManager(TM) servers. If the primary CallManager(TM) is not able to provide call-processing service, then the instrument automatically falls back to the secondary, then the tertiary server. In some instances, Cisco CallManager(TM) servers will be organized in "clusters," for scalability and redundancy. Provider will also provide geographic redundancy by use of H.323 gatekeeper servers.

The Service Center will use redundant paths to obtain network management telemetry. The primary path for network management will be in-band. The secondary path for network management will be out-of-band, using modem-based access to network devices located in the Data Cabinet. The Service Center will serve as a single point of contact for all State telecommunication issues having to do with any Services, including OAM on the older State switch voice services, and OAM on the new VoIP systems. Each Department will have, at minimum, one backup phone line to the PSTN for purposes of problem reporting, and the criteria for provisioning this backup service will be described in the Standards and Procedures Manual. The VoIP system will support most PBX telephony features currently used by the State. In the event that a specific feature currently being used by and End-User is not available on the new integrated VoIP system, the Service Center will work with authorized State personnel to provide a functionally equivalent alternative to meet that End-User's requirement.

The ACD system will be networked so that different geographic locations can handle incoming calls based on availability and agent workload. An ACD location that is busy or out of service will automatically reroute calls on the Core Network to an alternate destination that may be in another city. If an overflow condition exists, a "look ahead" feature will determine if it is possible to reroute the call before overflow occurs. IVR systems will interface through either analog or T-1 type connections. For E911 calls, routing through the VoIP network will:

- Automatically route each call to the appropriate PSAP.

- Where E911 service is available, deliver calling party identification to the PSAP.

For those local exchanges where an Affiliate is the regulated LEC, coordination for E911 across the local exchange will be guaranteed. For those local exchanges in Alaska where an Affiliate is not the regulated LEC, Service Center personnel will work with the LEC to implement, test, and maintain the local E911 solution.

Provider will develop the processes for the Standards and Procedures Manual for providing E911/911 services. Provider will ensure an address database link to the PSAP for retrieving ALI is provided. Provider will maintain and provide data to update the ALI database at the PSAP.

Provider's voice mail system will support standard fax store-and-forward over IP, which may be used for incoming fax handling. Outbound fax options include standard fax machine interface to the data network and standard fax machine connection to the PSTN through POTS lines. Provider will also provide POTS lines for modem users in accordance with Schedule A.5 Section 23.0, Provide Remote Access Connectivity, and Section 13 of the Agreement.

Provider will work with authorized State personnel during the Transition Period to determine how VoIP features will be deployed. Provider will work with the State to develop a limited VoIP implementation prior to scheduling system wide phased transformation. Transformation timelines and deployment strategies will be detailed in the Transformation Plan.

2.0 Provide Telephone Cabling:

Subject to inventory identification and approval by the State, Provider will install or replace cabling as required to meet current EIA/TIA structure cabling certification standards that meets Category 5 or better. All cabling will be done according to the Configuration Management and Change Management processes described in Section 4 of the Agreement and in accordance with State, Local, and Federal Codes. This is to include the management, installation and coordination with the appropriate authorities at State Facilities containing asbestos materials. Existing cable infrastructure will remain in place unless otherwise requested by the State of Alaska. Cabling credits will be in accordance with Section 2.3.1 of the Agreement.

3.0 Identify and Eliminate Unused Voice and Data Lines:

Provider will identify and eliminate any unused voice and data lines terminated in State Facilities (leased or owned) covered by this Agreement. Provider will begin collection of inventory information on the Contract Signing Date. The survey and reconciliation procedure and implementation schedule will be completed during the Transition Period. Provider will use the State's in-scope inventory in Schedule C to develop the reconciliation process.

After an accurate line inventory is established, Provider will monitor and update the inventory on an ongoing basis to reflect MACs. Provider will ensure costs billed to the State for lines accurately reflect the approved inventory. Any discrepancies will be reported to the State no later than the next billing cycle. The State will notify Provider of its desired treatment of the discrepancy within fifteen (15) calendar days of receipt of such report from Provider.

4.0 Support Designation of Class of Service:

As part of the Transformed Services, Provider provided voice system will support the capability to define and program End-Users for a COS as designated by authorized State personnel. The Parties will define COS templates during the transformation planning process. The Parties will assign appropriate COS templates to each IP telephone. Initial programming and future modifications to COS templates or a specific IP telephone COS shall be coordinated by the Parties through the Service Center in accordance with the Standards and Procedures Manual.

New and/or revised features that become available as a result of software upgrades will be treated as a single change associated with each COS offering and will be handled through the Work Order process described in Section 10 of the Agreement.

Until the Services are transformed, Provider will continue to support existing COS feature sets. Future voice systems will support at least the existing features in use as of the Effective Date.

5.0 Provide Telephone Sets and Support Calling Features:

During the Transition Period, Provider will provide End-Users with single line or multi-line telephone sets as specified and approved by authorized state personnel. These sets will support, at a minimum, message waiting lamp and the calling features that are supported as of the Contract Signing Date. Other features, as required by the State, will be coordinated using processes described in the Standards and Procedures Manual.

Audioconferencing services will be provided to the State to meet non-scheduled teleconference requirements across the Enterprise, as well as for external conference participants. Audioconferencing is provided: (1) within the feature set of the CallManager(TM) platform and, (2) by reservation on a multimedia conference bridge operated in the Service Center. Within the CallManager(TM) platform, a maximum of six simultaneous sites in a single conference is supported. On the conference bridge, the State will have the ability to have up to 144 simultaneous ports in a single or multiple teleconferences at any time. Up to 48 simultaneous conferences are supported within the 144 port limit. Additional conference bridges can be added to expand the total capacity, as required. The Parties will handle the addition of capacity through the Work Order process described in Section 10 of the Agreement.

Scheduling of the audioconference bridge in the Service Center will be accomplished by an authorized End-User via a web-enabled reservation tool. The tool will reserve the number of ports designated by the End-User and optionally assign a password for participant access to the conference. Reporting and accounting for audioconference sessions will be provided in accordance with Sections 9 and 19 of the Agreement. Fees for Audioconferencing are applied on a per-conference basis, as set forth in Schedule B.

Pricing reflected in Schedule B for audioconference minutes is exclusive of long distance charges or charges for toll-free access to the audioconference bridge.

6.0 Provide Local Telephone Services:

In areas where an Affiliate is not a LEC, Provider will act as the agent for the State, as described in Section 9.12 of the Agreement, to obtain and implement required direct-dial local access and services.

All MACs required by the State will be processed and coordinated through the Service Center. Provider will assume responsibility for local telephone services as stated in the Transition and Transformation Plans.

7.0 Provide Long Distance Services:

Provider will provide in-state, out-of-state, and international direct-dial long distance access and services from phones managed by Provider under this Agreement. Cutover to Provider-managed long distance will occur during the Transition Period.

8.0 Provide Calling Card Services:

Provider will provide calling card services, including long distance U.S. and international access, for End-Users as required and designated by authorized State personal. Where available, Provider will provide in-state and out-of-state access via toll free numbers. Provider will provide detail reports on calling card activity and billing through Provider/State consolidated monthly billing process. Provider will begin providing calling card services beginning on the Effective Date.

9.0 Provide Redundant Voice Connectivity Services for Critical State Telecommunications:

To facilitate appropriate solutions for SoL and Mission Critical Services specifically identified by the State in Schedule E.3, Provider will utilize existing circuit switched technologies that incorporate redundant processing capabilities at mutually agreed upon Locations.

Provider and authorized State personnel will evaluate diverse physical cable paths and ingress/egress points to mutually agreed upon State Locations to determine where redundant cable paths are necessary. Further action will be coordinated as set forth in the Transition Plan.

Provider will provide the highest availability and most expeditious problem resolution times as designated in SLAs for Priority 1 -- Mission Critical Impact for the Critical Events identified in Schedule E.4. Connectivity between PSAPs and LECs will be assured through the use of diverse cable routes and/or radio systems.

10.0 Provide an Integrated Voice Mail System:

Provider will provide an integrated voice mail system that will be managed by the Service Center. This system will provide at a minimum voice-messaging capabilities and voice menus, auto attendant, fax-on-demand, voice forms, and time-of-day controls to all End-Users. This system will be networked statewide and will be integrated with the voice switching system. It will support basic voice messaging capabilities as well as advanced capabilities, as required by authorized state personnel. This system will support integration into a multimedia WAN. This system will support user features such as remote accessibility, call forward anywhere, broadcast message, message distribution, remote notification, and other features, as required by the State.

Provider will work with authorized State personnel during the Transition Period to determine how features will be deployed. Provider will work with the State to develop a limited integrated voice mail implementation, in conjunction with the limited VoIP implementation, prior to scheduling system wide phased transformation. Transformation timelines and deployment strategies will be detailed in the Transformation Plan. Prior to Transformation, voice mail will be provided through voice mail systems currently in use by the State as of the Effective Date.

10.1 Basic and Advanced Telephony Services:

Provider will provide integrated voice mail service to all End-Users connected to the IP+ATM network. An on-net IP voice call is under control of the CallManager(TM). CallManager(TM) routes the call to the integrated voice mail system as needed. The integrated voice mail system responds to the call, and provides voice mail service.

Voice mail integration with POTS is via the H.323 Gateways, and controlled by a combination of the H.323 CallManager(TM) and the integrated voice mail system. An incoming POTS call is routed by the serving LEC switch to the appropriate State H.323 Gateway, where the call is encoded to VoIP and forwarded, under the control of CallManager(TM). CallManager(TM) routes the call to the integrated voice mail system as needed. The integrated voice mail system responds to the call, and provides voice mail service.

10.2 System Lifecycle and Upgrades:

Provider will install a new, integrated voice mail system, in conjunction with the IP telephony system. It will be fully functional and capable of providing all described Services for the Term of the Agreement. This system will be continuously monitored, and as capacity thresholds are approached, the appropriate components will be proactively upgraded. The various "voice mail system components" operating system images will be kept current, never lagging behind currently available images more than one general deployment release. This process will be done in conjunction with the Configuration Management process described in Section 4 of the Agreement.

10.3 Identify Voicemail Features:

The integrated voice mail system provided by Provider will support most voice mail features currently used by the State. In the event that a specific feature currently being used by an End-User is not available on the new integrated voice mail system, the Service Center will work with authorized State personnel to provide a functionally equivalent alternative to meet that End-User's requirement.

10.4 Process for managing voicemail features:

The addition and removal of voice mail features is an administrator level function of the integrated voice mail system. Authorized State personnel will specify how service is to be provided in a request to the Service Center. The Service Center will complete the changes as requested. Processes for each phase will be identified in the Standards and Procedures Manual, the Transition Plan and the Transformation Plan that will be jointly developed by Provider and the State. Processes and job instructions will be documented in accordance with ISO 9000 standards. Following transition, the Service Center will ensure compliance with the established process.

11.0 Ensure Least Cost Routing:

Provider will ensure that the voice switching and transmission facilities are appropriately designed, configured and programmed to minimize the overall cost to the State of all outbound calls.

Provider will apply no usage-sensitive charge for voice traffic carried on Provider's IP+ATM network, therefore State call traffic will be routed on-net whenever possible. Provider will, when on-net resources are available, use the CallManager(TM) to route all in-state calls to the gateway closest to the call's destination. All out-of-state calls will be routed to the Seattle gateway for least-cost routing.

All calls will be routed based on the dialed number and least-cost routing tables in accordance with any defined State requirements. A process will be developed to review carrier or transmission facility cost effectiveness (including SATS) to update routing tables in the Standards and Procedures Manual. In addition to this requirement, additional opportunities for shared savings will be sought pursuant to Section 9.2 of the Agreement.

12.0 Provide Change Management:

Change Management will be accomplished in accordance with Section 4 of the Agreement.

13.0 Maintain Systems and Equipment:

The Service Center will maintain, within the Configuration Management process, a system for proactive maintenance of systems and equipment. A regular procedure of system and equipment maintenance will be followed based upon manufacturer's recommendation. The inventory kept for the State will be the underlying data source for the manufacturer's recommended upgrades and/or maintenance. Web based access to the systems and equipment maintenance information will be provided by the Service Center. The Parties will provide input to the systems and equipment maintenance process as described in the Standards and Procedures Manual. Maintenance of systems and equipment will be performed in accordance with the security policies described in Section 13, the Disaster recovery policies described in Section 15, and/or the Standards and Procedures Manual. Systems and equipment maintenance will be provided throughout the Term of the Agreement.

14.0 Provide Trouble/Fault Management:

Provider shall provide Trouble/Fault Management Services on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Trouble/Fault Management process for Services provided to the State. Trouble/Fault Management operations will prioritize the restoration of service by standard technical practice, including alternate and redundant paths. Web enabled access to the Trouble/Fault Management process will be provided by the Service Center. The Standards and Procedures Manual will specify the types of traps and alarms to be monitored. Security issues will be treated as top priority within the Trouble/Fault Management process.

15.0 Provide Configuration Management:

Configuration Management will be accomplished in accordance with Section 4 of the Agreement.

16.0 Provide Fault Management:

The fault management function will be performed through Trouble/Fault Management described in Section 14.0 above.

17.0 Provide Account Management Services:

Account Billing and Reporting Services will be provided by Provider during the Term of the Agreement. The Service Center will maintain Account Billing and Reporting for Services provided to the State and will provide electronic access to Account Billing and Reporting. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State information technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details, including data format, will be specified in the Standards and Procedures Manual.

18.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will include all applicable payment detail and account balance detail on customer billings and reports. The billing statements and reports will include, at a minimum, a record of recurring charges, usage-sensitive charges, move, add and change activity, installation charges, disconnection activity, and adjustments resulting from Service requests for the previous month. Billings will include third-party bills from LECs and Subcontractors. All bills during the Transition Period will, at a minimum, include the level of detail available as of the Effective Date.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the Deliverables described in this Section. Web enabled access to detailed billing will be provided by the Service Center.

19.0 Project Tracking Billing:

Provider will track and allocate costs on a by-project basis for certain types of intergovernmental projects and will provide project code call tracking and billing as required by individual Departments. The State may also provide billing on certain items to Departments and Provider will cooperate with the State in providing consolidated billing for Departments.

20.0 Local and Long Distance Billing Reports:

Provider will provide to the State a local and long distance telephone service call detail billing and usage report by the tenth (10th) day after the close of the billing month. These reports will list call detail information including:

A summary level billing report for management review purposes

Originating Department and telephone number

Telephone number dialed (including city/state)

Date and time of call

Length of call

Applicable rate or rate code

Total cost of call.

21.0 Manage System Performance and Operations:

Provider will provide Performance Management services on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Performance Management process for Services provided to the State. Performance Management operations will prioritize service delivery and technical parameters identified in the SLAs. Web enabled access to the Performance Management information will be provided by the Service Center. The Parties will provide input to the Performance Management process in accordance with the security policies described in Section 13 of the Agreement, the Disaster recovery policies described in Section 15 of the Agreement and/or the Standards and Procedures Manual.

22.0 Provide Capacity Management:

Provider will compile network and circuit (service) utilization data consisting of general statistical analyses necessary to appropriately plan and recommend changes in the network requirements for the State's voice switching, voice mail and enhanced telephony services system, audio teleconferencing system, etc. This planning process will be managed by the Service Center, and will be tailored to be compatible with the State's planning process. Planning will be conducted in context with Service Management, and will be coordinated with the State to provide orderly change and transition in any of the Services. The details of this process shall be contained in the Standards and Procedures Manual.

23.0 Provide Security Management:

Security Management will be accomplished in accordance with the terms of Section 13 of the Agreement.

24.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State that are consistent with
Section 9.9, Most Favored Customer.

25.0 Provide Service Interruption Notice:

Service availability will be maintained by Provider in accordance with the SLAs. The Service Center will process local, long distance, voice mail or enhanced telephony services in a timely manner to all affected users. When possible, notices of Service interruptions must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center. Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

26.0 Provide Move/Add/Change (MAC) Services:

MAC services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement. MAC services will include, without limitation, the installation, relocation, and/or disposal of the State's voice switching, voice mail and enhanced telephony services system, audio teleconferencing system, components, and software and/or hardware changes necessary to add or remove requested capabilities and features as requested by authorized State personnel. MACs may result from building modifications and remodeling. Any End-User and/or system down time resulting from a MAC must be minimized and clearly communicated in advance to the affected End-Users. Written notification of completion of a MAC will be given to the affected End-Users within the time specified in the SLAs.

27.0 Manage Upgrades:

Upgrade Management Services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement.

28.0 Maintain Internal Numbering Plan:

Provider will implement a standardized five digit dialing plan unless otherwise agreed upon by the Parties using Configuration Management as described in
Section 4 of the Agreement. Provider will implement a Uniform Dialing Plan mutually agreed upon by the Parties. Provider will maintain the State's existing internal Uniform Dialing Plan in the legacy PBX network and the proposed IP telephony network as required by the State during the Transition Period and Transformation Period. The Parties will develop an Enterprise-wide dialing plan that maintains the current End-User phone numbers to the greatest extent possible. The dialing plan will be a component of the Standards and Procedures Manual.

29.0 Provide Directory Assistance Services:

Provider will provide access to directory assistance for information outside of the State voice network through Provider's existing directory assistance service. 411 dialed from within the State's network will route to a directory assistance operator and be handled and billed as a normal 411 call. Enhanced directory assistance for the Transformed Services will be defined in the Transformation Plan.

30.0 Provide Call Blocking:

The VoIP system provided by Provider will provide identification blocking on a per set basis for on-net and off-net calls. The feature will be treated as defined in COS as described in Section 4.0, above. The Service Center will initiate this feature as described in the Standards and Procedures Manual. Provider will also provide identification blocking or unblocking on a per call basis.

31.0 Provide Toll-Free Telephone Services:

Provider will provide toll-free telephone access and services as requested by the State on an as needed basis. Existing toll-free numbers and services will be ported to or managed by Provider. Requests for additional toll free numbers placed by authorized End-Users will be processed through the Service Center. Provider will be responsible for providing toll free service ninety (90) days after the Effective Date.

Rates for toll-free long distance services shall be at the lower of 1) the State's best current rate for the equivalent service, or 2) Provider's best current rate at the Cutover Date of the Service. Provider shall ensure the best available rates for the Service throughout the Term of this Agreement.

A.5 BUNDLE 2--DATA NETWORK SERVICES

Provider will deliver to the State a transformed Network using MPLS technology to enable voice, video and data services over a single Core Network. The precise configuration of the converged Network will be described in detail in the Transformation Plan. Data Services will be delivered for interconnection to the State LANs at the switch port in the WAN POP for each Location. The Bandwidth Baseline configuration will be set upon completion of the design at each Location, and will be documented in the Transformation Plan. Adjustments to the Bandwidth Baseline bandwidth will commence at each successive anniversary date of the Cutover for each WAN POP to allow additional bandwidth as projected by the State. The projections for bandwidth growth are found in the Price/Cost Matrices in Schedule B.

Additional WAN POPs for new Locations, which may be requested by the State by means of a Work Order, shall be priced at the WAN POP rate. In addition to this rate, the State will pay Provider for additional bandwidth at the rates set forth in this Agreement. Both the additional WAN POP rate and the additional Bandwidth rate shall be paid in addition to the applicable rates for the Bandwidth Baseline.

Data Services shall be managed by the Service Center using the Service Management disciplines described in Section 4 of the Agreement.

Provider will provide to the State internet connectivity that incorporates security provisions to protect the State's Data and telecommunications assets from improper and unauthorized use. Intrusion detection systems will be deployed at each point of ingress from the Internet to monitor data traffic. Security will be provided for as described in Section 13 of this Agreement.

In addition to the State's WAN services, Provider will provide access to the State network via remote connectivity services. Both dialup and broadband connectivity will be made available as described in Section 22.0 below. Options for private network access and internet access will be made available via this service.

Provider agrees to establish private peering arrangements with any large ISP in the State for "in-state" Internet traffic to prevent traffic degradation for users of State information using services provided by other ISP vendors that cannot be converted to Provider services.

1.0 Design and Implement Improved WAN Capability:

Provider IP + ATM network will provide a fully integrated native IP transport to meet the State's WAN transport needs. In the improved WAN, prioritization and quality of service will be deployed to ensure specific performance targets, as defined in the SLAs, are achieved. The design of the improved WAN environment will use a scalable, modular approach in the interest of rapid, consistent deployment as well as cost savings and maintainability. Both wired and wireless technologies will be considered in the design and implementation planning for data connectivity.

Specific risks and benefits analysis and techniques to enhance the benefits and mitigate the risks of the improved WAN environment will be addressed in the Transformation Plan. In the development of the Transformation Plan, the design process for the improved WAN environment will be open to observation and participation by the Parties. The Parties will provide input to the development and support of the WAN environment in accordance with Section 4 of the Agreement.

Security issues will be treated as top priority within the multimedia transport network. Review of security issues and improved WAN environment performance will be provided throughout the Term of the Agreement as described in Section 13, Security.

The converged network will be monitored by Provider for security as well as performance on a 24x7x365 basis. Specific improved WAN environment monitoring parameters are defined in the SLAs. Monitoring data, important to continuous operation of Services, will be available to designated parties in accordance with Section 19, Reports.

2.0 Develop an Implementation Strategy:

The Transformation Plan will provide for the migration of current State Services to the converged Provider IP+ATM network platform with minimal disruption to the State's day-to-day operations. The Transformation Plan will use a scalable, modular approach in the interest of a rapid and consistent deployment. The Parties will provide input into the development of the Transformation Plan. Security issues will be treated with top priority within the implementation strategy in accordance with Section 13, Security.

3.0 Provide Statewide Connectivity:

Provider IP + ATM network will provide a fully integrated native IP transport to meet the State's connectivity needs. In providing statewide connectivity, traffic prioritization and Quality of Service will be deployed by Provider to ensure acceptable levels of service are achieved. The design of the State's statewide connectivity will be a scalable, modular approach in the interest of rapid, consistent deployment, while achieving cost savings and maintainability. Specific performance targets for the State's statewide connectivity are defined in the SLAs. The Parties will provide regular input to the development and support of the State's statewide connectivity in accordance with the Standards and Procedures Manual.

The State's statewide connectivity will be monitored for security as well as performance on a 24x7x365 basis. Specific statewide connectivity monitoring parameters will be defined in the SLAs. The network and security data collected through monitoring will be available to designated representatives of the Parties throughout the Term of the Agreement.

4.0 Support Multimedia Transport:

Provider IP + ATM network will provide a fully integrated native IP transport to meet those needs of a single, converged transport mechanism for the State of Alaska's disparate voice, data, and video applications. In a multimedia environment, prioritization and quality of service will be deployed by Provider as the methods to ensure acceptable levels of service are achieved. Specific performance targets for the multimedia transport network will be defined in the SLAs.

Specific risks and benefits analysis as well as techniques to enhance the benefits and mitigate the risks of running a converged multimedia network are addressed in the Standards and Procedures Manual. The Parties will provide regular input to the development and support of the State's multimedia transport network, in accordance with the Standards and Procedures Manual.

Security issues will be treated as top priority within the multimedia transport network. Review of security issues and multimedia transport network performance will be provided throughout the Term of the Agreement as described in Section 13, Security.

The multimedia transport network will be monitored by Provider for security as well as performance on a 24x7x365 basis. Specific multimedia transport network monitoring parameters will be defined in the SLAs. The network and security data collected through monitoring will be available to designated representatives of the Parties throughout the Term of the Agreement.

5.0 Provide an Open Architecture:

Provider will support open architecture standards and interfaces.

6.0 Provide Bandwidth on Demand:

Provider will provide bandwidth on demand through Provider's IP + ATM core network for the State's disparate voice, data, and video applications. The provisioning of this bandwidth will utilize Quality of Service. Network traffic will be categorized and prioritized according to direction provided by the State and included in the Standards and Procedures Manual. The Parties will provide input to the development and support of the bandwidth on demand capacities and architecture.

7.0 Provide Virtual Private Networks:

The purpose of VPN architecture is to extend LAN environments for Departments in a private and secure manner. This architecture will support secure access into the State's network from the internet at large with appropriate clients. Provider will provide encryption on VPN service at the customer edge device. Departments requiring VPN to the desktop may request this Service in accordance with Section 10, Work Orders, or deploy their own solutions subject to the State's security, change management and configuration management policies.

The Parties will work cooperatively to develop and offer a VPN service offering for Department that will include client encryption and support. This service will be developed and managed in accordance with the Standards and Procedures Manual. Network security issues will be treated as top priority within the VPN architecture. The VPN environment will be monitored for security as well as performance.

8.0 Provide Change Management: Change Management will be accomplished in accordance with Section 4 of the Agreement.

9.0 Maintain Systems and Equipment:

The Service Center will maintain, within the Configuration Management process, a system for proactive maintenance of systems and equipment. A regular procedure of system and equipment maintenance will be followed based upon manufacturer's recommendation. The inventory kept for the State will be the underlying data source for the manufacturer's recommended upgrades and/or maintenance. Web based access to the systems and equipment maintenance information will be provided by the Service Center. The Parties will provide input to the systems and equipment maintenance process as described in the Standards and Procedures Manual. Maintenance of systems and equipment will be performed in accordance with the security policies described in Section 13, the Disaster recovery policies described in Section 15, and/or the Standards and Procedures Manual. Systems and equipment maintenance will be provided throughout the Term of the Agreement.

10.0 Provide Trouble/Fault Management:

Trouble/Fault Management Services will be provided on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Trouble/Fault Management process for Services provided to the State. Trouble/Fault Management operations will prioritize the restoration of Service by standard technical practice, including alternate and redundant paths. Web based access to the Trouble/Fault Management process will be provided by the Service Center. The Standards and Procedures Manual will specify the types of traps and alarms to be monitored. Security issues will be treated as top priority within the Trouble/Fault Management process.

11.0 Provide Configuration Management:

Configuration Management will be accomplished in accordance with Section 4 of the Agreement.

12.0 Provide Fault Management:

Fault Management services will be provided through Section 10.0 above, Trouble/Fault Management.

13.0 Provide Account Management Services:

Account Billing and Reporting Services will be provided by Provider during the Term of the Agreement. Provider will monitor and record all data necessary to generate cost allocation reports for WAN and ISP usage; calculate, report, and charge-back all applicable taxes; provide monthly billing per Department for current and past Services; and track payments and balances. The Service Center will maintain Account Billing and Reporting for Services provided to the State and will provide electronic access to Account Billing and Reporting. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State information technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details, including data format, will be specified in the Standards and Procedures Manual.

14.0 Manage WAN System and Internet Services Performance and Operations:

Provider will provide Performance Management services on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Performance Management process for Services provided to the State. Performance Management operations will prioritize Service delivery and technical parameters identified in the SLAs. Web enabled access to the Performance Management information will be provided by the Service Center. The Parties will provide input to the Performance Management process in accordance with the security policies described in Section 13, the Disaster recovery policies described in
Section 15, and/or the Standards and Procedures Manual.

15.0 Provide Capacity Management:

Provider will compile network and circuit (service) utilization data consisting of general statistical analyses necessary to appropriately plan and recommend changes in the network requirements for the State's WAN systems and internet connection services. This planning process will be managed by the Service Center, and will be tailored to be compatible with the State's planning process. Planning will be conducted in context with Service Management, and will be coordinated with the State to provide orderly change and transition in any of the Services. The details of this process shall be contained in the Standards and Procedures Manual.

16.0 Provide Security Management:

Security management will be accomplished in accordance with Section 13 of the Agreement.

17.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State that are consistent with
Section 9.9, Most Favored Customer.

18.0 Provide Service Interruption Notice:

Service availability will be maintained by Provider in accordance with the SLAs. The Service Center will process notices of Service interruptions in a timely manner to all End-Users. When possible, notices of Service interruption must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center.

Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

19.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will include all applicable payment detail and account balance detail on customer billings and reports. The billing statements and reports will include, at a minimum, a record of recurring charges, usage-sensitive charges, move, add and change activity, installation charges, disconnection activity, and adjustments resulting from Service requests for the previous month. Billings will include third-party bills from LECs and Subcontractors. All bills during the Transition Period will, at a minimum, include the level of detail available as of the Effective Date.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the deliverables described in this Section. Web enabled access to detailed billing will be provided by the Service Center.

20.0 Provide Move/Add/Change (MAC) Services:

MAC Services will be performed by Provider in accordance with the Configuration Management process defined in Section 4 of the Agreement. MAC services will include, without limitation, the installation, relocation, and/or disposal of the State's data switching and WAN components, and software and/or hardware changes necessary to add or remove requested capabilities and features, as requested by authorized State personnel. MACs may result from building modifications and remodeling. Any End-User and/or system down time resulting from a MAC must be minimized and clearly communicated in advance to the affected End-Users. Written notification of completion of a MAC will be given to the affected End-Users within the time specified in the SLAs.

21.0 Manage Upgrades:

Upgrade Management Services will be performed by Provider in accordance with the Configuration Management process defined in Section 4 of the Agreement.

22.0 Provide Remote Access Connectivity:

22.1 Remote access connectivity will be provided to the State to meet the access service needs of the State. The technologies used by Provider will vary depending on the location served and Network availability.

22.2 Standard dialup internet service includes single Provider domain authentication, email, and internet connectivity for general use or as a dialup VPN access service (VPN software and authentication server not included). Usage is not limited or rate sensitive.

22.3 Remote dialup without internet connectivity, per End-User account is for remote dial access to State domains, with interconnection to the host domain for authentication against State servers. The Service includes backhaul bandwidth from the remote Provider POP to the authentication server in Anchorage, Fairbanks, Juneau or Kenai/Soldotna.

22.4 Remote dialup without internet connectivity, per modem port is for remote End-Users served by existing network arrangements in the community in which the POP is located. Authentication is achieved by virtual circuit from the access server (modem pool) to the host domain locally situated. Authentication is achieved by query against a State-provided authentication server. The State will provide any backhaul connectivity from the POP location, if required.

22.5 Remote access via DSL telecommuter option provides End-Users with access to State domain with authentication via the State's servers. Such Service is suitable for telecommuting applications, and does not include internet access, email or web and file storage.

22.6 Remote access via DSL telecommuter Internet add-on adds email and internet services for use by End-Users to add these features to a service account as described in Section 22.5, above.

22.7 DSL internet access provides State End-Users with a broadband internet connection suitable for general use. This Service may be combined with VPN client software for secure access to State or other private networks.

22.8 During the Term of this Agreement, Provider will support existing connectivity for Department access into their networks in accordance with the security policies described in Section 13 of the Agreement. Provider also agrees to supply secured access services through its internet POPs or Provider's agreement with a third party access provider, in accordance with the appropriate SLAs. During the Ramp-Up Period, the Parties agree to develop a plan to transition access authentication and expansion of the various POPs into unserved areas of Alaska where possible.

A.6 BUNDLE 3--VIDEO CONFERENCING SERVICES

Provider will provide videoconference and bridging services to the State with systems support and scheduling managed from the Service Center. The following three types of videoconference support will be provided to meet different State needs: (1) fully managed service with videoconference End-User and bridging equipment supplied, installed and maintained by Provider, and scheduling managed from the Service Center via a web-enabled scheduling tool or by call-in to a Service Center representative; (2) Quality of Service enhanced videoconference bandwidth, scheduled through the bridge and monitored for network performance by the Service Center, to be used for State-provided and maintained videoconference End-User units; and (3) "best effort" data connectivity for ad-hoc conferences from End-User supplied and maintained desktop or room-based units, which does not provide Quality of Service enhanced service.

The replacement of the State's existing H.320 units with new H.323 units by Provider will be accomplished according to the schedule identified in the Schedule A.3, Table of Milestones and Deliverables. Certain units may be identified as requiring expedited replacement to meet the State's requirements. Units installed on an expedited basis will be integrated into the Network during the Transition Period. The video coder-decoders to be installed at State Locations shall be, at a minimum, Polycom ViewStation FX or VS4000 model, depending on the specific location's equipment and applications. The ViewStation FX is a standalone unit with integrated camera; the VS4000 is a rack-mount unit for those applications with external cameras or other input devices.

Videoconferences scheduled through the Service Center that are QOS enhanced will be operated at 384 Kbps per site link. Additional bandwidth assigned to these links to meet higher quality requirements will be charged at the Additional Bandwidth rates set forth in Schedule B. On the conference bridge, the State will have the ability to have up to 144 simultaneous ports in a single or multiple teleconferences at any time. Up to 48 simultaneous conferences are supported within the 144 port limit. Additional conference bridges can be added to expand the total capacity, as required. The Parties will handle the addition of capacity through the Work Order process. Connections to external bridges, not operated by Provider, are accomplished by a call into Provider's bridge. The rates for this external connection will be charged at the per-site, per-minute rate, as set forth in Schedule B.

Provider shall provide trained staff to support videoconference setup, equipment checks, and quality assurance in Anchorage, Fairbanks and Juneau. One staff person per location is included in the Fees. The videoconference support staff will be present on-site at those conferences and conference locations identified by the State at the time of scheduling. The scheduling of such staff members shall be coordinated by Provider and the State to ensure that staff resources are not scheduled in a manner that requires a single staff member to be present in two or more locations at once. The videoconference staff will also provide End-User training to State employees to encourage use of the videoconference service without requiring a staff member to be present at all videoconferences.

1.0 Maintain Systems and Equipment:

The Service Center will maintain, within the Configuration Management process, a system for proactive maintenance of systems and equipment. A regular procedure of system and equipment maintenance will be followed based upon manufacturer's recommendation. The inventory kept for the State will be the underlying data source for the manufacturer's recommended upgrades and/or maintenance. Web based access to the systems and equipment maintenance information will be provided by the Service Center. The Parties will provide input to the systems and equipment maintenance process as described in the Standards and Procedures Manual. Maintenance of systems and equipment will be performed in accordance with the security policies described in Section 13, the Disaster recovery policies described in Section 15, and/or the Standards and Procedures Manual. Systems and equipment maintenance will be provided throughout the Term of the Agreement.

2.0 Provide Trouble/Fault Management:

Trouble/Fault Management Services will be provided on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Trouble/Fault Management process for Services provided to the State. Trouble/Fault Management operations will prioritize the restoral of Service by standard technical practice, including alternate and redundant paths. Web based access to the Trouble/Fault Management process will be provided by the Service Center. The Standards and Procedures Manual will specify the types of traps and alarms to be monitored. Security issues will be treated as top priority within the Trouble/Fault Management process.

3.0 Provide Configuration Management:

Configuration Management will be accomplished in accordance with Section 4 of the Agreement.

4.0 Provide Fault Management:

Fault Management Services will be provided as described in Section 2.0, above, Trouble/Fault Management.

5.0 Provide Account Management Services:

Account Billing and Reporting Services will be provided by Provider during the Term of the Agreement. As part of the Account Billing and Reporting Services, Provider will monitor and record all data, such as call rating tables, video conference call usage detail and MAC orders, necessary to generate cost allocation reports for video conference system usage as well as completed MAC orders. Provider will calculate, report, and charge back all applicable taxes and provide monthly billing for current and past services as well as track payments and balances. Itemized call detail records will include the length of each call by videoconference unit and charge. The Service Center will maintain

Account Billing and reporting for Services provided to the State and will provide electronic access to Account Billing and Reporting. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State information technology billing data as defined in the Standards and Procedures Manual. State billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

6.0 Manage System Performance and Operations:

Provider will provide Performance Management Services on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Performance Management process for Services provided to the State. Performance Management operations will prioritize Service delivery and technical parameters identified in the SLAs. Web enabled access to the Performance Management information will be provided by the Service Center. The Parties will provide input to the Performance Management process in accordance with the security policies described in Section 13, the Disaster recovery policies described in
Section 15, and/or the Standards and Procedures Manual.

7.0 Provide Capacity Management:

Provider will compile network and circuit (service) utilization data consisting of general statistical analyses necessary to appropriately plan and recommend changes in the network requirements for the State's video conferencing systems. This planning process will be managed by the Service Center, and will be tailored to be compatible with the State's planning process. Planning will be conducted in context with Service Management, and will be coordinated with the State to provide orderly change and transition in any of the Services. The details of this process shall be contained in the Standards and Procedures Manual.

8.0 Provide Security Management:

Provider will provide appropriate security methodologies (e.g., encryption, firewalls, tunneling, etc.) at points of public and remote access for the State's videoconferencing system. In addition, Provider will retain CDR records as required by the State. Security Management will be accomplished in accordance with Section 13 of the Agreement.

9.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State that are consistent with Section 9.9, Most Favored Customer.

10.0 Provide Service Interruption Notice:

Service availability will be maintained by Provider in accordance with the SLAs. The Service Center will process notices of Service interruptions in a timely manner to all End-Users. When possible, notices of Service interruptions must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center.

Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

11.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will include all applicable payment detail and account balance detail on customer billings and reports. The billing statements and reports will include, at a minimum, a record of recurring charges, usage-sensitive charges, move, add and change activity, installation charges, disconnection activity, and adjustments resulting from Service requests for the previous month. Billings will include third-party bills from LECs and Subcontractors. All bills during the Transition Period will, at a minimum, include the level of detail available as of the Effective Date.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the Deliverables described in this Section. Web enabled access to detailed billing will be provided by the Service Center.

12.0 Provide Move/Add/Change (MAC) Services:

MAC Services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement.

13.0 Manage Upgrades:

Upgrade Management Services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement.

A.7 BUNDLE 4--PAGING SERVICES

Provider will maintain and operate the paging system as described in this Schedule A.7. Provider will make the necessary capital improvements outlined in
A.7.1. Title to the equipment listed in A.7.1 will pass to the State at the end of the Term of the Agreement. Pricing will not change from what is reflected for Bundle 4 in the pricing matrix.

Subject to the Parties obtaining a commercial waiver that allows Provider to carry commercial traffic on the State's paging system, the State will transfer all equipment associated with the paging system, which is listed in Schedule C, Asset Inventory, and as described in Section 4.2.2.2, Transition of Purchased Assets, and Schedules A.15 and 16, Resource Options. In order for the State's paging assets to transfer to Provider, there are a number of issues that must be resolved. These issues include regulatory, land use, equipment ownership, current partnership agreements, the private use of public facilities, valuation of Purchased Assets, and the renegotiation of price for this Service Bundle. The Parties agree to work jointly on resolving these issues through a public process.

In order for Provider to carry commercial traffic on the paging system, the State will seek waivers from the FCC on both the SATS system and the paging system. In the event these waivers have been granted, Provider will share revenue from commercial customers with the State using the methodology established in the Standards and Procedures Manual. Provider will make the upgrades described above in A.7.1 as well as maintain and operate the entire paging system without regard to FCC waivers unless otherwise prohibited by applicable law, regulation or order.

The State of Alaska will provide coverage maps for existing sites. Provider will provide coverage maps for the new sites and for the national service provider locations.

The paging system will accommodate routing of SMTP email messages to pagers using addressing as described in the Standards and Procedures Manual.

1.0 Paging System Upgrades:

On the Effective Date, Provider will take over operations and maintenance of the State's paging system. Provider will begin the paging infrastructure upgrades thirty (30) days after the Effective Date. These upgrades will include:

1.1 Phasing out the M45 terminal and upgrading terminal and controller to provide expanded capacity, new features and full manufacturers support without the need to reassign pager numbers unless requested by the State.

1.2 Addition of new coverage areas to include: Talkeetna, Healy, Portage, Nome, Kotzebue, Barrow, Dillingham, McGrath, Ketchikan and Sitka. Network connectivity to the new sites connected by satellite will be included in the provision of the Services and in Provider's pricing. The State will provide SATS connectivity to those locations that are currently served by SATS.

1.3 The addition of network monitoring capabilities such that if any base station, inclusive of its antenna system, begins to operate below a certain threshold, an alarm will be sent to the Service Center and technicians will be dispatched in accordance with the Standards and Procedures Manual. The State will fund the addition of the hardware and software necessary for paging monitoring services subject to the Work Order process described in Section 10 of the Agreement.

Provider will be responsible for the design of the paging system upgrades. Development of an implementation plan for the upgrades will be presented to the Management Committee for approval. The Management Committee will determine the roles of the Parties in implementing such upgrades.

2.0 Nationwide Paging Services:

Provider will provide alphanumeric paging services, as required by End-Users, on a nationwide basis including both the area covered by the State's statewide paging system and those cities in the lower 48 most commonly visited by End-Users on State business including, in particular, Seattle, Portland, San Francisco, Los Angeles, Chicago, New York City and Washington D.C.

The required coverage inside the State of Alaska will be provided via the upgraded State system. National coverage will be provided on a separate pager using a national carrier. When using the nationwide pager system, page messages can be forwarded from the End-User's normal pager number to the nationwide pager.

Pagers used for nationwide service will be the Advisor Gold pager or equivalent. The manufacturer's warranty on the pagers will be one year. The nationwide paging services will include:

- Nationwide coverage (see coverage map in Schedule K)

- 100 alphanumeric pages per pager per month

- Each message up to 240 characters in length

- Senders can use email to send page

3.0 Replace Outdated Pagers:

Provider will replace old pagers starting thirty (30) days after the Effective Date. The State will be responsible for collecting the pagers to be replaced. Provider will initially replace up to 124 pagers with new Motorola Advisor Gold pagers or equivalent, and will replace 10% per year every year thereafter. The State will prioritize replacements based on age and functionality. The State also expects, to the extent possible, that End-Users will retain their current pager numbers.

4.0 Provide Pager Benchwork:

Provider will provide pager configuration and repair benchwork as required by individual State paging system End-Users. Provider will repair or replace pagers in any of three depot locations: Anchorage, Juneau or Fairbanks. State Departments in other areas will send pagers to the nearest depot as described in the Standards and Procedures Manual for any necessary repair or programming.

Motorola-authorized paging dealers will provide on the spot replacement for damaged pagers. First echelon repair will be attempted initially (battery, belt clip, battery covers, etc.), and if that does not resolve the problem, reprogramming of a new pager on the spot using the same End-User phone number will be done, and the End-User will be back in service within a few minutes. Items outside the scope of warranty (lost, stolen, or intentionally or unintentionally damaged beyond normal use) will be charged to the State or End-User Department on a pre-negotiated flat rate per unit for such occurrences.

5.0 Support WAN and Alarm System Integration to the Paging System:

Provider will provide access to the paging system via telephone, analog modem, or WAN connectivity for individual or group paging. This includes toll free access to enable End-Users to initiate voice or numeric pages from a phone or email access and direct dial numbers to initiate voice or numeric pages.

6.0 Provide Account Management Services:

Account Billing and Reporting Services will be provided by Provider throughout the Term of the Agreement. The Service Center will maintain Account Billing and Reporting for Services provided to the State of Alaska. Electronic access to Account Billing and Reporting will be provided by the Service Center. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State Information Technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

7.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will include all applicable payment detail and account balance detail on customer billings and reports. The billing statements and reports will include, at a minimum, a record of recurring charges, usage-sensitive charges, move, add and change activity, installation charges, disconnection activity, and adjustments resulting from Service requests for the previous month. Billings will include third-party bills from LECs and Subcontractors. All bills during the Transition Period will, at a minimum, include the level of detail available as of the Effective Date.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the Deliverables described in this Section. Web enabled access to detailed billing will be provided by the Service Center.

8.0 Provide Security Management:

Security Management will be accomplished in accordance with Section 13 of the Agreement.

9.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State that are consistent with
Section 9.9, Most Favored Customer.

10.0 Provide Service Interruption Notice:

Service availability will be maintained in accordance with the SLA. The Service Center will process notices of Service interruptions in a timely manner to all affected End-Users. When possible, notices of Service interruptions must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center. Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

A.8 BUNDLE 5--CELLULAR TELECOMMUNICATIONS SERVICES

Subject to applicable laws and regulations, Provider will offer a continuum of service packages to meet the needs of State cellular users as described below. At the Cutover Date(s) for cellular service, all new cellular services procured by Departments will be obtained through this Agreement. The State agrees that Departments will migrate current cell phone End-Users to this Agreement upon the expiration of the End-User's current service, unless the current service is with Provider and then the current service will be converted to this Agreement in accordance with procedures that will be described in the Standards and Procedures Manual. If there are unique and unusual circumstances of the State End-User that cannot be met by Provider, the State may obtain services elsewhere. All State users will transition to this Agreement within twelve (12) months of the Effective Date, where possible. Provider agrees, wherever possible, to retain the State's current cellular telephone numbers.

1.0 Local, Intrastate, and Interstate User Services.

The Parties agree to the following Cellular Service Plans:

Nationwide Plan -- No roaming or long distance charges nationwide. Four plans are available, varying in number of free minutes of use per month. These options are: 300, 500, 800 and 1400 minutes.

Statewide Plan -- No roaming or long distance charges in Alaska. Four plans are available, varying in number of free minutes of use per month. The options are: 300, 500, 800 and 1400 minutes.

Local Plan -- One plan available with 2000 minutes of air time per month.

Corporate Plan -- Multiple phones within one plan. No roaming or long distance charges within region. Charge for each phone, which includes caller ID, voice mail, and 25 free minutes each month.

Government Plan -- Same as Corporate Plan except no charge per phone and no caller ID, voice mail and 25 free minutes.

The features included in all five plans listed above are call forwarding, three-way calling, and call waiting. Depending on the plan selected, additional features available may include caller ID, voice mail, incoming call records and text messaging.

State of Alaska Plan -- The purchase of a block of time to be used by the State rather than individual service policies, similar to reseller packages. The features of this plan include:

- This service is for digital cellular service only.

- Initial programming for each phone will include the capability to roam or place long distance call statewide and nationwide. All phones will have call forward busy and call forward no answer. Phones and chargers will be provided to the State at vendor's cost, plus shipping and applicable taxes.

- Accessories will be provided at a 10% discount off regular price.

- Provider will waive activation fees.

- There will be no charges for nights and weekends for local service.

- Rates charged for local, roaming and long distance are based on Provider's best reseller's rate for reseller customers of similar volume. Rates may be revised throughout the Term of this Agreement according to Section 9 of the Agreement.

- Additional service features can be added at 10% discount off of list price.

- Taxes will be aggregated and invoiced at the account level, in an amount equal to any tariff, duty, levy, tax or withholding tax, including but not limited to, sales, property, ad valorem and use taxes, or any tax in lieu thereof, imposed by any local, state or federal government or governmental agency with respect to the sale of service.

- Account levels will be established prior to the conversion of the service to this Plan.

1.1 Models of cell phones and warrantees:

Provider will provide analog and digital PCS products from Motorola, Ericsson, and Nokia. Prices will vary depending on the model. Discounts on phones are extended for service contracts. Discounts vary with the phone models and contract lengths. Provider currently provides two models of "bag" phones manufactured by Motorola. The "Attache" and model LNCHBX are current stocked models. These models transmit with 3 watts of output power. Provider will provide other models that the State requests in accordance with the terms of the Agreement, subject to availability from manufacturers.

1.2 Coverage Areas:

Provider understands the importance of cellular communications to the State and its citizens and is committed to a program to continually work to improve coverage, quality and capacity of cellular communications within Alaska. See Schedule L for a table and map of the current coverage area. The Parties agree to work through the processes described in this Agreement to seek ways to improve and build-out, or encourage other providers to build-out cost-effective cellular service in Alaska whenever possible.

As part of this Agreement, and in order to improve cellular coverage at the Alaska Railroad location on Ship Creek, Provider will commit to taking one or more of the following actions no later than ninety (90) days after the Effective Date:

- Re-position the antenna on the AT&T Government Hill site.

- Move one of the downtown cell sites in order to improve coverage at the Railroad.

- Install a microcell site at the Railroad location on Ship Creek. This option requires that the Alaska Railroad provide space and power for the equipment.

Provider agrees that cellular capacity and coverage in Juneau, both in the area of the State Office Building and at the University of Alaska Southeast campus at Auke Bay, is not currently sufficient to meet the SLAs. Provider will commit to maintaining sufficient capacity/coverage to meet the SLAs at these specific Juneau locations and to further enhance the service in the Juneau area wherever possible.

Subject to applicable law or regulation, and if requested by the State, Provider will provide priority service for certain SoL End-Users, not to exceed 100 End-Users to be identified by the State.

1.0 Provide Cellular Telephone Benchwork:

For cell phones still under warranty, Provider will repair or replace broken phones in three depot locations: Anchorage, Juneau or Fairbanks. Phones from other areas must be shipped at State expense, to one of these locations for repairs.

2.0 Provide Account Management Services:

Account Billing and Reporting Services for all Provider cellular Service will be provided throughout the Term of the Agreement. Account Billing and Reporting Services for cellular services provided by other providers will be evaluated and determined by the Parties during Ramp-Up. The Service Center will maintain Account Billing and Reporting for Services provided to the State. Electronic access to Account Billing and Reporting will be provided by the Service Center. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State information technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

4.0 Wireless Call Detail Billing Reports:

Provide a cellular telephone service call detail billing and usage report by the 10th day after closing of each billing month. This report will list call detail information including:

- Originating cellular telephone number

- User name, department and account number assigned to the cellular telephone number

- Telephone number dialed

- Time of call (year, month, day and time of day)

- Length of call

- Applicable rate or rate code

- Total cost of call

- Year-to-date call summary.

5.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide cellular Services to the State that are consistent with Section 9.9, Most Favored Customer.

6.0 Provide Service Interruption Notice:

Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

7.0 Coordinate, Reconcile and Provide Detail Billing:

Provider will include all applicable payment detail and account balance detail on customer billings and reports. The billing statements and reports will include, at a minimum, a record of recurring charges, usage-sensitive charges, move, add and change activity, installation charges, disconnection activity, and adjustments resulting from Service requests for the previous month. Billings will include third-party bills from LECs and Subcontractors. All bills during the Transition Period will, at a minimum, include the level of detail available as of the Effective Date.

Account levels will be established prior to the Transition of the Service. The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the Deliverables described in this Section. Web enabled access to detailed billing will be provided by the and Service Center.

A.9 BUNDLE 6--SATELLITE BROADCAST SERVICES

The Parties recognize the importance of Satellite Services to the State, particularly rural Alaska, and agree to seek the integration of this technology into the State's Enterprise through the Management Committee described in Section 11.2 of the Agreement and as described below.

1.0 Manage Statewide Satellite Broadcast System:

Provider will manage satellite broadcast services of the Satellite Interconnect Project (SIP) as described below.

The Parties recognize that the State's statewide satellite broadcast system consists of all delivery components from content origination to its consumption by the End-User. The Service Center is integral to the success of this delivery and will work cooperatively with third-party service providers and the SIP in the resolution of problems on those systems. For the purposes of this Agreement, the statewide satellite broadcast system, through the SIP, is defined as the following four parts:

1. The SIP satellite broadcast core region consists of encoders, uplinks, space segment, the down links for monitoring services at the Service Center, network operations, and customer services.

2. The SIP downlink edge region consists of downlink equipment such as earth stations, antenna and IRDs and various community distribution systems.

3. The SIP End-User region consists of CPE.

4. The SIP uplink edge region consists of the link between content provider and the encoder.

Item 1 above describes the components of the statewide satellite broadcast services that Provider is responsible for under this Schedule. Item 2 above describes the earth station maintenance and repair services under Service Bundle 10 of this Agreement. Items 3 and 4 are included here for descriptive purposes only. Under this Agreement, Provider is responsible for operations and maintenance of the SIP satellite broadcast core region.

The encoders are included in Provider's maintenance responsibilities. On the Effective Date, the demarcation point for Provider provided uplink services will be the audio and video baseband signal points of the encoders at the various Locations as defined in Schedule C. The Parties will develop, on or before ninety (90) days after the Effective Date, an Operations and Maintenance Plan of this equipment for inclusion in the Standards and Procedures Manual.

Prior to the Effective Date, the State will present a list of all tools, spare equipment, and test equipment in accordance with Schedule A.3, Table of Milestones and Deliverables, that are used for the satellite broadcast services. The appropriate tools and equipment will be made available to Provider in continuing the maintenance and operations of satellite broadcast services, in accordance with this Agreement. To the extent that the maintenance and operational manuals are readily available, the SOA will also provide Provider with a set of maintenance manuals for all equipment items associated with satellite broadcast services on or before the Effective Date.

During the Transition Period, satellite broadcast service alarms monitored by the current provider will be identified and procedures will be established for immediate notification, in accordance with the Standards and Procedure Manual, of any alarm condition or other abnormality observed in the signal transmission system. Provider will work with designated State staff to review network monitoring and control activities and develop a mutually agreeable monitoring and control solution to be included in the Operations and Maintenance Plan described in this Section.

All customer service functions, including trouble reporting, help response, performance monitoring, and accounting activities will be provided by the Service Center as defined in the Standards and Procedures Manual and as described in the Transition and Transformation Plans. The Service Center will be the initial point of contact between the Parties for issues that involve Service inquiries or problem resolution.

The Service Center will establish and maintain direct voice and/or data link with the satellite service provider and designated State representatives for monitoring the network and dealing with problems relating to the signal transmission system. The Service Center will be available 24x7x365 for response to Service related issues and problems.

2.0 Transformation of Satellite Service:

The Parties agree to form, on or before thirty (30) days after the Effective Date, a working group, including representation from the SIPMG, to develop a Transformation Plan for the next generation of satellite services. As part of this planning process, the group will identify projects to explore new technologies and architectures for the satellite services outlined in this
Section as well as new services. The parties agree to jointly share the responsibility for identifying and obtaining resources to cover the costs of these projects. On or before one hundred eighty (180) days after the Effective Date, this group will produce a draft transformation plan for the next generation of satellite services.

3.0 Operations:

Broadcasts are categorized by service grades and those grades are described in SLA Numbers 53, 54, and 55 in Schedule E.2. Provider will proactively test and verify to insure that broadcast services are available prior to all Grade 1 and 2 program events and notify the SIP program providers before the scheduled broadcast time according to the Standards and Procedures Manual. In the event that the Service Center observes a degradation of either the video or audio signals at the monitoring downlink at the Service Center, the content provider will be contacted to identify the observed problem, according to the response times identified in the Problem Resolution definitions of the SLAs.

Any changes, for example, to transponder assignments or polarities, or any operating parameters of the carriers or existing services, must follow the established Change Management and Configuration Management Procedures as outlined in Section 4 of this Agreement.

Representatives from the SIPMG will assist the Service Center with the creation, adoption, and updating of a decision-tree for out-of-scope broadcast service issues and a knowledge database for Service functions that will be accessible to designated State employees. In particular, the fault escalation process will be reviewed and updated at least quarterly and at times of network upgrades.

3.0 End-User Satisfaction:

End-User satisfaction will be measured in accordance with Section 6.1 of the Agreement, and Schedule A.10, Service Center Quarterly Surveys. A report will be made available to the SIPMG and other designated State representatives.

4.0 Provide Capacity Management:

Provider will compile network and circuit (service) utilization data to appropriately plan and recommend changes in the network requirements for the satellite broadcast services. This planning process will be managed in the Service Center, and will be tailored to be compatible with the State's planning process as defined in Section 8 of the Agreement. Planning will be coordinated with the State and details of this process shall be contained in the Standards and Procedures Manual.

Satellite transponder utilization requires a link analysis for each carrier operated on the satellite and an accounting of the bandwidth and power utilized. Provider will keep records of the transponder utilization that include both the bandwidth and power utilized which will be provided to designated State and SIPMG representatives on an on-going basis. Provider will provide a template for computing the most important operating parameters and the State will provide the most complete database information available. This database must include, at a minimum, the station name, latitude, longitude, antenna size, LNB noise temperature, and the G/T for each downlink earth station, to the extent that this information is available. Provider will develop the utilization records within ninety (90) days of receipt of the earth station database and will keep the records current following initial development. Details and processes to accomplish this link analysis will be contained in the Standards and Procedures manual.

5.0 Provide Security Management:

Security management will be accomplished in accordance with Section 13 of the Agreement. It is noted that any satellite network is vulnerable to extraneous carriers, either mistakenly or purposely broadcast to the same uplink carrier frequencies on the transponder. Technical personnel at the uplink earth stations, the Service Center and the NOCs will work with the satellite operator, and with the satellite operator(s) of adjacent orbital positions, to pinpoint and eliminate the source of interfering satellite uplink broadcasts.

6.0 Provide Account Management Services:

Account Billing and Reporting Services will be provided by Provider throughout the Term of the Agreement. The Service Center will maintain Account Billing and Reporting for Services provided to the State. Electronic access to Account Billing and Reporting will be provided by the Service Center. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State information technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

7.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide services to the State that are consistent with
Section 9.9, Most Favored Customer. A major component associated with the provision of the Satellite Broadcast Services is the transponder cost. The Parties will use the Change Management and Configuration Management processes to consider methods to better utilize the current transponder capacity. Provider will review available transponder capacity to annually consider whether there is a more cost-effective transponder alternative than that which is presently being used, and review those alternatives with the State.

8.0 Provide Service Interruption Notice:

Provider will provide notice to all affected SIP program providers of any planned or unplanned satellite transport service interruptions, including day, time of day, and estimated duration of outage. Planned outages will be in accordance with the Change Management procedures as described in Section 4 of the Agreement.

Service availability will be maintained in accordance with the SLA. The Service Center will process notices of Service interruptions in a timely manner to the SIP program providers. When possible, notices of Service interruptions must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center. Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

A.10 BUNDLE 7--END-USER SUPPORT SERVICES

Provider will operate the Service Center to provide a single point-of-contact for the Services as well as the centralized computing and telecommunications services provided by ITG. The Service Center will manage these responsibilities using the disciplines of Service Management, as described in Section 4 of the Agreement, and will coordinate the Resources to support the Services in accordance with the SLAs. The Service Center will: (1) develop ISO 9000 processes to automate those procedures that are identified and agreed to in the Standards and Procedures Manual, (2) provide on-going training in support of these procedures, (3) provide trained staff, available 24x7x365, and (4) provide web-enabled or other on-line End-User access to Service Center tools and status information as defined in the Standards and Procedures Manual. The Service Center will proactively monitor and analyze Service performance as defined in the applicable SLAs in Appendix E.2.

Service Center Representatives will track issues from the initial point of contact from the State or other approved party through completion or resolution. When a contact involves a problem affecting multiple Services and/or multiple providers, the Service Center representative will use the Fault Management process to ensure resolution. Multiple calls related to a single event or outage are treated as a single call. Service Center representatives will be supported by a knowledge base system. One or more decision trees and a help desk system will be configured to maximize automation of procedures. The help desk system will record issue resolution and will archive answers to common user questions to speed resolution of future problems. The Service Center's geographic location is in Anchorage. The configuration and detailed organizational structure of the Service Center will be developed by the Parties during the Ramp-Up Period.

Rates for Provider's Service Center Services have been blended with the Fees for Services in other Bundles. Based on the completion of the Standards and Procedures Manual according to Section 4 of this Agreement, the rate established for the Service Center is based on a monthly call volume of 1,500 calls. The Parties have agreed to a fixed Fee for this Service, regardless of the number of calls, provided that 1) the call volumes are based on conditions in which no service outage or impairment is the driver of call volumes; 2) call wait times may increase to a maximum of 3 minutes for a period of up to 90 days without penalty to Provider, and 3) all Change Management requirements have been met. The Parties will meet to discuss call volumes above 1,500 per month in the event this provision is not met as expected. A Fee adjustment or SLA adjustment may be undertaken to meet different business requirements.

1.0 Provide 24x7x365 Availability:

The Service Center will provide trained staff on a 24 X 7 X 365 basis.

2.0 Provide Appropriate Help Desk Coverage During Critical Events:

The Service Center will respond on a 24x7x365 basis to Critical Events. The Account Manager will be the means by which the State requests additional support or preferential treatment of bandwidth or other Services delivery. Provider's Account Manager will coordinate scheduling and implementation.

In preparation for Critical Events, Provider's planning process will include the use of a calendar of events for the Service Center, which includes dates of significance to operations, financial planning, contract performance and operations.

Additional support for Critical Events is accomplished through the Change Management Process. Special support is a short-term change for the Service Center, and will be handled by the formal project management approach used in Change Management. The change manager will responsible for delivery of the Services during the Critical Events period(s).

The State will identify routine Critical Events in specific SLAs which can be scheduled in advance.

3.0 Serve as a Single Point-of-Contact:

As described in the introduction to this Schedule A.10, above.

4.0 Ensure Qualified Help Desk Staff:

The Service Center will be staffed with Service Center representatives and other technical support staff. Service Center representatives are level 1 support and may escalate Service issues. The level 1 support staff will have access to the highest level experts available from Provider and the participating Department. Service Center staff will be thoroughly trained in accordance with Section 5 of the Agreement.

5.0 Resolve Help Desk Problems:

Provider will develop an approach identified in the Standards and Procedures Manual to resolve Service Center calls in accordance with the SLA for First Call Problem Resolution Rate. The Service Center will manage on site support for End-User contacts. The Parties will identify the timeframes and methodologies for management of on-site support and escalation of issues in the Transition Plan. During transition, the State will identify on-site support contact information, locations and assets to be covered by on site support. Provider will detail how help desk and billing software will be configured to manage the on site support processes. Escalation procedures to address mission priorities will be defined in the Standards and Procedures Manual.

6.0 Manage the Entire Life-Cycle of Help Desk Calls:

The Service Center will respond to phone, fax and on line requests for Services in accordance with the Standards and Procedures Manual. The Service Center will record requests in a system which will track the entire life cycle of the request, and will manage the opening, assignment, acceptance, escalation, resolution and closing of the request. The Service Center will manage requests in a way that is transparent to the State, including referral of requests involving other services and coordination of problem resolution involving Subcontractors. During a request life cycle, the Service Center will make available information regarding its status and will notify the State upon completion. The Service Center will develop ISO 9000 compliant processes to facilitate management of requests. The Parties will develop a Transition Plan to describe how State information will be transferred to Provider and to include a phased approach to transition. Compliance with the requirements of this Section will be measured by successful management of requests as stated in the relevant SLAs.

7.0 Prioritize Help Desk Calls:

The Service Center will use a rule-based expert system to help prioritize requests. The Service Center representatives use the expert system for the purpose of making decisions about referrals and problem escalation. The expert system allows the Service Center to develop any number of priority levels. In keeping with changing priorities for the State, the knowledge base can be changed using Change Management procedures.

The State will provide Provider with a list of priorities and policies to be incorporated in the Transition Plan that will be archived as procedures in the help desk software. These procedures will be triggered by requests, which will in turn activate responses from the Service Center in the form of callouts and/or notifications to affect repair of the failure.

8.0 Provide Continuous Improvement:

The Service Center will use ISO 9000 processes to develop and maintain continuous improvement practices such as, but not limited to:

- developing and revising scripts used by Service Center staff;

- providing web accessible information;

- providing an annual training calendar and training program as described in the Joint Training Program as defined in Section 5 of the Agreement;

- establishing improved baseline measures of services in accordance with this Section;

- implementing a knowledge base and decision tree supporting multiple providers;

- tracking and reporting in accordance with Section 19 of the Agreement; and

- consistent and continual Change Management processes as defined in Section 4 of the Agreement.

Processes will be developed to support this continuous improvement effort for the Standards and Procedure Manual.

9.0 Conduct End-User Satisfaction Surveys:

Provider will conduct both on-line and on the spot End-User satisfaction surveys in accordance with ISO 9000 compliant processes established and agreed upon by the Parties as provided in Section 6 of the Agreement and with timelines delineated below. Provider will provide survey results on a quarterly basis. Survey results, at a minimum, will summarize State satisfaction in the following areas:

- End-User ability to send and receive video;

- voice and data applications with reliability and speed; Resolution of reported problems or Service interruptions;

- Measures of satisfaction of Service requests, End-User assistance and problem resolution; and

- Other areas as determined by the Parties.

A report summarizing this information and a plan of action to address deficiencies will be available within 45 days after survey responses are due. The summary report will be posted on a web site for all State End-Users no later than 30 days after the report is made available to the State for review. The Parties may determine the necessity for a more frequent or less frequent survey of End-Users. This change will occur with the Service Center quality assurance manager and State designated personnel in accordance with Change Management procedures.

10.0 Process all System Administration and Service Requests.

The Service Center will provide automated processes to manage and process system administration and service requests in accordance with Section 4, Configuration and Change Management.

11.0 Ensure Real-Time Updates of Moves, Adds and Changes:

MACs for all Services will be coordinated through the Service Center. The Service Center will serve as the single point of contact for managing this MAC information database. During the Transition Period, the Parties will mutually decide specific details regarding the type of data and information to be updated on a real-time basis. Trouble reports generated by automated network monitoring tools are not billable MACs.

12.0 System Performance Reports:

In addition to reports described in the previous Sections, Provider will report on:

- Overall voice, data and video network availability by site.

- Information pertinent to identifying the source of any unauthorized attempt, whether successful or unsuccessful, to gain access to any of these systems.

- Number of critical and non-critical network repairs, the duration of each repair from the time that the outage was reported or monitored to the time that the Service was restored and the estimated number of End-Users affected by the outage.

- Quarterly "not active" reports identifying lines that are not in use or have not had activity.

- Peak and average monthly utilization by shift on all wide area circuits.

- Trend analysis reports including any appropriate data that will aid in future planning and quality of service.

13.0 Provide Change Management:

Change Management will be accomplished in accordance with Section 4 of the Agreement.

14.0 Provide Account Management Services:

Account Billing and Reporting Services will be provided by Provider throughout the Term of the Agreement. The Service Center will maintain account billing and reporting for Services provided to the State. Electronic access to Account Billing and Reporting will be provided by the Service Center. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State Information Technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

15.0 Provide Security Management:

Security management will be accomplished in accordance with Section 13 of the Agreement.

16.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State that are consistent with
Section 9.9, Most Favored Customer.

A.11 BUNDLE 8--SATS MICROWAVE OPERATION, MAINTENANCE AND REPAIR

Provider will assume full responsibility for operations, maintenance and repair of the SATS microwave system including equipment pads, shelters, power sources, power conditioning equipment, HVAC plants, towers, antennas, racks, monitoring and support equipment, etc. Both parties agree that facilities are to be maintained and repaired in accordance with industry standards to ensure efficient, cost effective operations during the Term of this Agreement and that facilities are viable at the end of this Agreement. The intent of this Service Bundle is that the Parties will work towards achieving greater cost efficiencies through proactive maintenance and upgrades that will reduce the total cost of ownership for the SATS infrastructure in accordance with Section 9.2, Shared Savings. Replacement parts, materials, equipment and workmanship shall be at levels equal to or better than current.

1.0 Provide Change Management:

The Parties will develop policies and procedures to ensure error-free transition and maximum availability of SATS microwave links during any new installations, system component upgrades and/or any changes in accordance with SLAs defined in Schedule E.2. The Parties will ensure that all planned modifications to the SATS microwave environment will be accomplished in accordance the Change Management processes described in Section 4 of the Agreement.

2.0 Maintain Systems and Equipment:

Provider will provide proactive maintenance activities to ensure the optimal operation of the SATS microwave system as described in the manufacturer specifications, and according to the State's requirements and the SLAs. Provider will provide advance notification of any maintenance activity that may involve a service interruption. Any service interruptions that result from maintenance activities will be minimized.

The Service Center will maintain, within the Configuration Management process, a system for proactive maintenance of systems and equipment. A regular procedure of system and equipment maintenance will be followed based upon manufacturer's recommendation. The inventory kept for the State will be the underlying data source for the manufacturer's recommended upgrades and/or maintenance and hosted by Provider. Web based access to the systems and equipment maintenance information will be provided by the Service Center. The Parties will provide input to the systems and equipment maintenance process as described in the Standards and Procedures Manual. Maintenance of systems and equipment will be performed in accordance with the security policies described in Section 13, the Disaster recovery policies described in Section 15, and/or the Standards and Procedures Manual. Systems and equipment maintenance will be provided throughout the Term of the Agreement.

Each SATS site will be visited at least once annually for inspection and minor repair maintenance. ITG personnel will be given the option to accompany Provider personnel on such trips at no cost to the State. Additional trips will be scheduled to provide a proactive preventative maintenance program for SATS sites to include one additional scheduled and one unscheduled visit to each site per year, as necessary. Such trips will be tracked in the aggregate for the whole system rather than by site. The price of this Service includes 366 trips per year and will be adjusted as part of the annual account review.

Prior to the Effective Date, the State will present a list of all tools and test equipment in accordance with Schedule A.3 that are used for maintenance of the SATS, including the location of all items on the list. These tools and test equipment will be made available to Provider in continuing the maintenance and repair of SATS pursuant to the terms of this Agreement. To the extent that the manuals are readily available, the SOA will also provide Provider with two sets of maintenance manuals for all equipment items associated with SATS on or before the Effective Date. These maintenance manuals will be in addition to the existing manuals and which are to be retained at the SATS locations.

All SATS multiplexers are considered Services under the Agreement. To accommodate special circumstances and arrangements that exist between the State and its SATS customers and partners as of the Effective Date, the State may identify and request demarcation changes at selected SATS locations. These requests will be handled through the Change Management process. Within thirty (30) days of the Effective Date, the State will provide Provider with an inventory and description of the network elements that are to be included in Provider's maintenance responsibilities, in accordance with the Standards and Procedures Manual. This description will include, but not be limited to the following items: microwave radio equipment, shelters, towers, antennas, transmission line, battery plants, chargers, generators, solar panels, and HVAC equipment. If the inventory is significantly different than the Inventory identified in Schedule C, then Provider or the State may request a service rate adjustment that is agreed to by the State and Provider to be appropriate to the revised list. The SLA requirements associated with Provider's performance in providing SATS microwave maintenance and repair are identified in Schedule E.2 of this Agreement.

3.0 Provide Trouble/Fault Management:

Provider will provide expert and timely trouble repair services to the SATS microwave system as specified in the SLAs, set forth in Schedule E.2, and the Standards and Procedures Manual.

The Service Center will maintain a Trouble/Fault Management process for Services provided to the State. Trouble/Fault Management operations will prioritize the restoration of Service by standard technical practice, including alternate and redundant paths. Web enabled access to the Trouble/Fault Management process will be provided by the Service Center. The Standards and Procedures Manual will specify the types of traps and alarms to be monitored. Security issues will be treated as top priority within the Trouble/Fault Management process. Trouble/Fault Management Services will be provided on a 24x7x365 basis throughout the Term of the Agreement.

Provider will provide real-time alarm information relevant to the operation and maintenance of the SATS microwave system to the State and its customers upon request.

4.0 Provide Configuration Management:

Provider will maintain inventory, circuit information, configuration documentation and diagrams of the SATS microwave systems and resources, including shelters, component racks, transmitters, HVAC and power equipment, etc; which will be initially provided by the State. Configuration Management will be accomplished in accordance with Section 4 of the Agreement.

Provider will be responsible for securing appropriate engineering services and for specifying the details of changes, subject to approval by the State. Provider will be responsible for warehouse functions associated with maintaining SATS microwave maintenance inventories, and for provisioning project inventories for such items as shelters, component racks, transmitters, HVAC, and power equipment.

The State shall be provided copies of available drawings and records associated with the SATS microwave facilities and service upon request. The State shall notify Provider of any site or facility changes at the SATS locations that may impact the Services provided by Provider under this Agreement so that accurate site and facility records can be maintained in accordance with Service Management functions described in Section 4 of the Agreement.

5.0 Provide Fault Management:

Provider will provide fault sectionalization and isolation for the SATS microwave network. Provider will provide a means to bypass troubled sections of the network, such as "switch to back-up" capabilities.

The Service Center will maintain a Trouble/Fault Management process for Services provided to the State. Trouble/Fault Management operations will prioritize the restoration of Service by standard technical practice, including alternate and redundant paths. Web enabled access to the Trouble/Fault Management process will be provided by the Service Center. The Standards and Procedures Manual will specify the types of traps and alarms to be monitored. Trouble/Fault Management Services will be provided on a 24x7x365 basis throughout the Term of the Agreement.

Provider's NOC will provide SATS alarm monitoring and response for the alarms that are presently associated with the SATS. On the Effective Date, the State will provide Provider with a list of the SATS alarms along with the details associated with the master and remote alarm terminals. The master alarm terminal equipment will be made available to Provider to move to Provider's NOC. The Service Center will participate in the analysis of alarms to help ensure that problems are diagnosed and responded to in accordance with SLAs set forth in Schedule E.2. Alternate routing and other fault bypass techniques such as microwave hot standby switching, will be employed by Provider. A database for system trouble ticket recording and storing will be implemented by the Service Center and provided to the State.

6.0 Provide Account Management Services:

Provider will monitor and record all data necessary to generate cost allocation reports for SATS microwave system usage in accordance with Section 19 of the Agreement. Provider will calculate, report and charge back all applicable taxes and provide monthly billing per department for current and past services as well as track payments and balances. All data must be provided in an electronic format as specified by the State.

Account Billing and Reporting Services will be provided by Provider throughout the Term of the Agreement. The Service Center will maintain Account Billing and Reporting for Services provided to the State. Electronic access to Account Billing and Reporting will be provided by the Service Center. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described above. Provider will aggregate all required State billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

The Service Center will generate DACS data reports and circuit layout records and provide to the State as needed.

7.0 Manage System Performance and Operations:

Provider will monitor the SATS microwave system performance and operations to ensure that the network is meeting performance and operational requirements as specified in the SLAs. Provider will monitor and store traffic patterns and volumes by location to aid in on-going system changes or upgrades.

Performance Management Services will be provided on a 24x7x365 basis throughout the Term of the Agreement. The Service Center will maintain a Performance Management process for Services provided to the State Performance Management operations will prioritize Service delivery and technical parameters identified in the SLAs. Web based access to the Performance Management information will be provided by the Service Center. Management of system performance and operations will be performed in accordance with the security policies described in Section 13 of the Agreement, the Disaster recovery policies described in Section 15 of the Agreement, and/or the Standards and Procedures Manual.

The Service Center will have the responsibility for the monitoring of all SATS microwave alarm, command control, and system performance functions. The SATS microwave performance monitoring equipment currently in operation will be integrated into the NOC for 24x7x365 surveillance in accordance with the Transition Plan.

Provider will administer its obligations under this Agreement in accordance with all existing agreements between the State and other agencies that may have an ownership interest in the SATS facilities.

8.0 Provide Capacity Management:

Provider will compile network and circuit (service) utilization data to appropriately plan and recommend changes in the network requirements for the SATS. This planning process will be managed in the Service Center, and will be tailored to be compatible with the State's planning process. Planning will be conducted in context with Service Management, and will be coordinated with the State to provide orderly change and transition in any of the Services. The details of this process shall be contained in the Standards and Procedures Manual, but at a minimum will include SATS microwave, and Provider-provided and manually-provided circuit records for each microwave DS3, DS1, DS0 and analog SG, Grp, Ch Bk and VF Channel. The State will initially provide these records, along with capacity of each SATS route and electronic copies of circuit layout records for all SATS services not later than the Effective Date. Provider will maintain the circuit layout records beginning at on the Effective Date.

Network capacity and circuit utilization will be electronically monitored by Provider in order to determine current and future bandwidth requirements. Upgrades will be in accordance with Change Management procedures set forth in
Section 4 of the Agreement.

9.0 Provide Security Management:

Provider will provide appropriate security methodologies (e.g., encryption, firewalls, tunneling, etc.) at points of public and remote access for the SATS microwave system. Security management will be accomplished in accordance with
Section 13 of the Agreement.

Additional site security provisions will be reviewed and conducted in accordance with the SATs System Improvement Credit described in this Section. The policies and procedures governing personnel access to the SATS locations shall be covered in the Standards and Procedures Manual.

10.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State consistent with Section 9.9, Most-Favored Customer.

11.0 Provide Service Interruption Notice:

Provider will provide notice to all affected users of any planned or unplanned SATS microwave system interruptions, including day, time of day, and estimated duration of outage.

Service availability will be maintained in accordance with the SLA. The Service Center will process notices of Service interruptions in a timely manner to all affected users. When possible, notices of Service interruptions must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center.

Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

In the case of unplanned outages, the Service Center will immediately place in effect alternate routing or bypass techniques in accordance with established procedures. The first priority will always be the restoration of Service in the most expeditious fashion, including either rapid repair or alternate service provisioning. The Service Center will then notify the affected user(s) about the outage, the anticipated time to repair, and the expected time of Service restoration.

12.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will coordinate and reconcile all SATS microwave system billing and usage on a monthly basis. Provider will ensure the billing data is provided to the State's fiscal system.

Provider will include all applicable payment detail and account balance detail on customer billings. The billings will include, at a minimum, a record of move, add and change, installation, and disconnection activity for the past month, and adjustments resulting from Service requests.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the Deliverables described in this Section. Web based access to detailed billing will be provided by the Service Center.

Provider shall provide account management services for usage of the State's SATS microwave system through the Service Center. Overall, the use of and billing for this resource will be managed just as it would be for a Provider property, with the exception that the State is the authorizing owner.

13.0 Provide Move/Add/Change (MAC) Services:

Provider will provide any MAC services such as the installation, relocation, and/or disposal of the State's SATS microwave system components as requested by authorized State personnel. This includes MACs to systems that may result from building modifications and remodeling. This would also include any software and/or hardware changes necessary to add or remove requested capabilities and features. Any user and/or system down time resulting from a MAC must be minimized and clearly communicated in advanced to the affected users. Written notification that the MAC was completed will be given to the user(s) affected within the time specified in the SLAs.

MAC Services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement. MACs to the SATS microwave system property will be controlled by the Service Center and in accordance with the SLAs described in Schedule E.2.

14.0 Manage Upgrades:

Provider will plan, implement, install and maintain SATS microwave equipment, common hoteling service equipment, hardscape, and support equipment as recommended by the systems manufacturer and as jointly agreed upon by the State. These upgrades will focus on preventing system obsolescence. Additionally, these upgrades will consider the future, long-term requirements of the State. Any user and/or system down time resulting from an upgrade must be minimized and clearly communicated and coordinated in advance to the affected users.

Included in Schedule C of the Agreement is a list of SATS microwave maintenance and repair work items. Provider will provide a $2,800,000 SATS system improvement investment to conduct this work during the Term of this Agreement. This work will be initially scheduled in Transition Plan and modified through the Change Management process. Changes to Schedule C may be made by the Management Committee.

Upgrade Management Services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement.

Normal maintenance parts, pieces, hardware, and minor component replacements, and the labor and transportation to install/replace them as a part of ongoing maintenance activities are included in the basic Provider maintenance and operations responsibility. However, capital project system upgrades will be part of the Change Management process but are not included as maintenance and operations. Upgrades, in addition to those mentioned in Schedule C, may be needed to maintain the level of service and Provider will work with the State to identify necessary upgrades before they become critical to service. These upgrades will be scheduled to the maximum extent possible to coincide with maintenance and operations functions in order to minimize upgrade costs and maximize efficiencies. Transportation costs associated solely with upgrades will be provided at an additional expense to the State.

A.12 BUNDLE 9--SATELLITE TELEPHONY SERVICE

Provider will provide the State with satellite telephony services, offering the State a single source provider for all of the State's wired and wireless telecommunications. The Service will include a variety of service packages, local repair and benchwork, coordination, reconciliation, and detailed billing and comprehensive customer care and service.

Provider will provide to the State service plans with zero, 50, 100, 250 and 500 minutes of free usage. Also provided is a plan which provides 200,000 (domestic) minutes per year along with statewide pooled airtime minute plans.

Provider will provide Globalstar satellite phones, as may be desired by the State. Iridium LLC satellite service is also available for Service within Alaska and Provider offers Iridium service as an alternative for the State. Provider will provide Globalstar phones and/or Iridium phones. Any mix of Globalstar and Iridium phones is possible within the pricing provided. If the State owns existing Iridium phone sets and related accessories this additional Service offering may reduce the State's need to buy any additional sets and require simply that the existing Iridium phones be reprogrammed and re-activated. With the availability of service from both of the satellite telephony providers, the State will have a choice. Any combination of Globalstar and Iridium is possible.

Provider will also keep current on the available satellite systems that are capable of providing mobile voice and data services during the Term of this Agreement. If improved service alternatives are identified, Provider will identify the new alternatives through the Change Management process.

1.0 Provide Satellite Telephone Benchwork:

Three parts of the Globalstar phones are level-1 depot repairable locally: the antenna, the display, and the keypad, and Provider will provide this level of repair. Provider will return all other items to the manufacturer's depot for repair or replacement. Replacement phones will be made available upon request. Configuration and updating of firmware in the phones will be accomplished by Provider upon return of the phones to the Service Center.

Phone setup and activation of all phone features will be customized for each End-User's requirements. Globalstar pre-configures each phone with the parameters to ensure Globalstar modes function properly. Provider will initiate phone setup and provide activation on Provider's statewide system to allow for lower cost analog cellular routing when available.

2.0 Satellite Call Detail Billing Reports:

Provider will provide a satellite telephone service call detail billing and usage report by the 10th day after the closing of the billing month in accordance with Section 19 of the Agreement. These reports will, at a minimum, provide call detail information including:

- Originating telephone number.

- End-User name, Department and account number assigned to the satellite telephone number.

- Telephone number dialed.

- Time of call (year, month, day and time of day).

- Length of call.

- Applicable rate or rate code.

- Total cost of call.

- Year-to-date call summary.

3.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will include all applicable payment detail and account balance detail on customer billings. The billings will include, at a minimum, a record of move, add and change, installation, and disconnection activity for the past month, and adjustments resulting from Service requests.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures Manual. The Service Center will use billing software to produce the Deliverables described in this Section. Web based access to detailed billing will be provided by Provider's Service center. Provider will work with the satellite service provider to ensure that the State's billing needs are met.

4.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide Services to the State consistent with Section 9.9, Most-Favored Customer.

A.13 BUNDLE 10--SATELLITE EARTH-STATION MAINTENANCE AND REPAIR

The Parties recognize the importance of satellite services to the State, particularly rural Alaska, and agree to seek the integration of this technology into the State's Enterprise. Provider will maintain and repair the State satellite earth stations listed in Schedule C.

The Parties recognize that the State's statewide satellite broadcast system consists of all delivery components from content origination to its consumption by the End-User. The Service Center is integral to the success of this delivery and will work cooperatively with out-of-scope service component providers and the SIP in the resolution of problems on those systems. For the purposes of this Agreement, the statewide satellite broadcast system, through the SIP, is defined as the following four parts:

1. The SIP satellite broadcast core region consists of encoders, uplinks, space segment, the down links for monitoring services at the Service Center, network operations, and customer services;

2. The SIP downlink edge region consists of downlink equipment such as earth stations, antenna and IRDs and various community distribution systems;

3. The SIP End-User region consists of CPE; and

4. The SIP uplink edge region consists of the link between content providers and the encoder.

Item 1 above describes the components of the statewide satellite broadcast
services that Provider is responsible for in Bundle 6. Item 2 above describes the services in this Schedule. Items 3 and 4 are included here for descriptive purposes only.

1.0 Provide Change Management:

Change Management will be accomplished in accordance with Section 4 of the Agreement.

2.0 Maintain Systems and Equipment:

The Service Center will maintain, within the Configuration Management process, a system for proactive maintenance of systems and equipment. A regular procedure of system and equipment maintenance will be followed based upon manufacturer's recommendation. The inventory kept for the State will be the underlying data source for the manufacturer's recommended upgrades and/or maintenance. Web based access to the systems and equipment maintenance information will be provided by the Service Center. Maintenance of systems and equipment will be performed in accordance with the security policies described in Section 13, the Disaster recovery policies described in Section 15, and/or the Standards and Procedures Manual. Systems and equipment maintenance will be provided throughout the Term of this Agreement.

Provider will maintain and repair the State owned downlink equipment as identified in Schedule C of this Agreement. This equipment includes, but is not limited to:

- The earth station antennas

- The LNB(s)

- The IRD(s)

- The LNB to IRD cabling

- State owned community distribution systems

Some of the equipment identified in Schedule C is located at State partner facilities. On the Effective Date, the State will provide Provider with a contact list for all partner facilities and will publish a notification of the date that Provider will be responsible for the maintenance of those facilities and must now be provided with access when required. Additional IRDs may be provided by the State or State partners that are not to be maintained by Provider. Provider agrees, however, to accept calls to the Service Center related to these units and to assist in troubleshooting on problems related to these IRDs. Provider is not responsible for maintenance or repair of these units.

On or before the Effective Date, the State will provide information about the earth stations being maintained under this Agreement to the extent that the information is available. The requested information will include:

- The station name

- The latitude

- The longitude

- The services downlinked at the earth stations

- The antenna size, manufacturer, and model

- The LNB noise temperature, manufacturer and model

- The G/T of the earth station

- The IRD manufacturer and model number

- Any available site drawings such as the site plan, floor plan, equipment layout and block diagram of the earth station

The demarcation point for defining Provider's responsibility for maintenance includes the video and audio outputs at the IRD(s). The cabling between the IRD(s) and the non-State owned community distribution system is not included in Provider's maintenance and repair responsibility. However, the cabling and community transmitter distribution systems that are State owned are included in Provider's maintenance and repair responsibility. Service activities beyond the demarcation point will be provided at the discretion of Provider.

The Parties agree that in the event of a catastrophic equipment failure, they will work cooperatively to seek out funding for repair or replacement of the failed equipment.

All earth stations will be inspected within 2 years of the Effective Date.

3.0 Transformation of Satellite Service:

The Parties agree to form a working group including representation from the SIPMG to develop a transformation plan for the next generation of satellite services. This group will be formed by thirty (30) days after the Effective Date. As part of this planning process the group will identify projects to explore new technologies and architectures for the satellite services outlined in this Section as well as new services. The Parties agree to jointly share the responsibility for identifying and obtaining resources to cover the costs of these projects. By one hundred eighty (180) days after the Effective Date, this group will produce a draft transformation plan for the next generation of satellite services.

4.0 Provide Trouble/Fault Management:

The Service Center will maintain a Trouble/Fault Management process for Services provided to the State. Web based access to the Trouble/Fault Management process will be provided by the Service Center. The Standards and Procedures Manual will specify the types of traps and alarms to be monitored. Security issues will be treated as top priority within the Trouble/Fault Management process. Trouble/Fault Management Services will be provided on a 24x7x365 basis throughout the Term of the Agreement.

5.0 Provide Configuration Management:

Configuration Management will be accomplished in accordance with Section 4 of the Agreement.

6.0 Provide Account Management Services:

Provider will provide Account Billing and Reporting Services throughout the Term of the Agreement. The Service Center will maintain Account Billing and Reporting for Services provided to the State of Alaska. Electronic access to Account Billing and Reporting will be provided by the Service Center. Security issues, and issues of billing security will be treated as top priority within the Account Billing and Reporting process. Those aspects of Account Billing and Reporting, which are important to continuous provision of Services, will be available on a 24x7x365 basis throughout the Term of the Agreement.

The Service Center will use web-enabled billing software to produce the Deliverables described in this Section. Provider will aggregate all required State information technology billing data as defined in the Standards and Procedures Manual. Customer billings will include all applicable payment details for each of the Service Bundles described in this Agreement. Dates for implementing Account Billing and Reporting Services will be identified in the Transition Plan. Details including data format will be specified in the Standards and Procedures Manual.

7.0 Manage System Performance and Operations:

Performance Management services will be provided on a 24x7x365 basis throughout the Term of the Agreement.
The Service Center will maintain a Performance Management

process for services provided to the State. Performance Management operations will prioritize Service delivery and technical parameters identified in the SLAs. Web based access to the Performance Management information will be provided by the Service Center. The Parties will provide input to the Performance Management process. Management of system performance and operations will be performed in accordance with the security policies described in Section 13, the Disaster recovery policies described in Section 15, and/or the Standards and Procedures Manual.

8.0 Provide Capacity Management:

Provider will compile network and circuit (service) utilization data to appropriately plan and recommend changes in the network requirements for the satellite earth station maintenance and repair. This planning process will be managed in the Service Center, and will be tailored to be compatible with the State's planning process. Planning will be conducted in context with Service Management, and will be coordinated with the State to provide orderly change and transition in any of the Services. The details of this process shall be contained in the Standards and Procedures Manual.

9.0 Provide Security Management:

Security Management will be accomplished in accordance with Section 13 of the Agreement.

10.0 Provide Competitive and Economically Favorable Services:

Provider agrees to provide services to the State for all Services consistent with Section 9.9, Most-Favored Customer.

11.0 Provide Service Interruption Notice:

Service availability will be maintained in accordance with the SLAs. The Service Center will process notices of Service interruptions in a timely manner to all affected users. When possible, notices of Service interruptions must have prior approval by designated State personnel. The list of State staff requiring notification will be kept current by the State and communicated to the Service Center. Notices of Service interruptions for State approved scheduled downtime will be in accordance with Change Management procedures outlined in the Standards and Procedures Manual.

12.0 Coordinate, Reconcile and Provide Detailed Billing:

Provider will include all applicable payment detail and account balance detail on customer billings. The billings will include, at a minimum, a record of move, add and change, installation, and disconnection activity for the past month, and adjustments resulting from service requests.

The scope of coordination, reconciliation and detailed billing will be specified in the Billing and Reporting Transition and Transformation Plan contained in the Standards and Procedures. The Service Center will use billing software to produce the Deliverables described in this Section. Web based access to detailed billing will be provided by the Service Center.

13.0 Provide Move/Add/Change (MAC) Services:

MAC Services will be performed as requested through the Work Order process and in accordance with the Configuration Management process and the Change Management Process defined in Section 4 of the Agreement.

14.0 Manage Upgrades:

Upgrade management services will be performed in accordance with the Configuration Management process defined in Section 4 of the Agreement.

A.14 RESOURCE OPTION A--SATELLITE EARTH STATION ACCESS

The earth stations of the State satellite interconnect project that provides essential communication links to rural Alaska are aging and using older technology. Without transformation of these earth stations and the satellite delivery system many rural areas of Alaska will cease to be served. The intent of this Resource Option is to find a way to integrate the State's earth stations and the satellite delivery system that connects them into the fabric of the State's network services.

Due to the complexity of the systems involved, the need to identify funding sources, and the requirement for systems testing prior to implementation, the Parties agree to the following progression of activities to identify a solution for upgrading the State's earth station infrastructure, and the improvement of telecommunications services in unserved or under-served rural Alaska communities.

Not later than one hundred eighty (180) days after the Effective Date, the Parties shall identify and describe at least one solution for transforming the State's earth stations that shall include a description of the technologies to be used, estimated expenses for one-time-only and on-going costs for a transformed system, the services to be delivered, and how this can be integrated with the State WAN. This plan will result in a field trial.

Not later than two hundred forty (240) days after the Effective Date, the Parties shall define a LDESP, including the specific technology to be implemented, the locations that will be targeted, the schedule for such deployment, the key personnel that will be involved in the testing, and the total budget for the project. The specific revenue and cost sharing arrangements, and other related business terms, shall also be developed according to this schedule. Further, the Parties shall continue to seek, both prior to and following the LDESP, such third-party funding sources as may be appropriate and reasonable, to further continue the deployment of upgrades to the earth stations not identified in the LDESP. Such funding sources may be capital contributions from public or private sources, additional revenues that may be used to recover capital investments, or other unique funding opportunities the Parties have not yet determined as of the Contract Signing Date. The Parties also agree that third parties may be incorporated into the LDESP, some of whom may have an interest in the deployment of candidate earth station technology in specific communities in Alaska.

The State shall have final approval authority before any project may be undertaken that utilizes State assets. Nevertheless, the Parties express their mutual commitment to developing and funding, at a minimum, a field trial of such candidate technology as is appropriate to the desires of both Parties to further develop rural telecommunications infrastructure. The field trial shall be conducted to validate specific configuration designs as may be identified prior to the target deployment date.

A.15 RESOURCE OPTION B--SATS MICROWAVE SITE ACCESS

The SATS microwave system encompasses over 122 transmission sites. Many SATS sites are ideally located to host commercial long-haul services or other types of commercial services (i.e. cellular sites, paging sites, etc.). The State receives requests from the private sector to allow access to SATS sites regularly for the installation and operation of commercial wireless service equipment. Given the remoteness and high-cost associated for developing a communication sites in Alaska, particularly a mountaintop site, the State recognizes the importance of opening SATS sites to provide communication infrastructure for under-served Alaskans. Access to SATS site would be non discriminatory access, on a not to interfere basis, to all SATS site hardscape and hoteling services including pads, shelters, rack space, conditioned power, environment conditioning, and tower space.

Paging assets, transferred through this Agreement, are not considered subject to the terms of this Section, through the Term of this Agreement or until commercial waivers are obtained. The rack space and power currently utilized by the paging equipment will continue as presently delivered to the paging equipment at the SATS locations. If and when the Paging system becomes commercialized, Provider is subject to the terms and conditions of this Section regarding site access, tower, rack, space and power fees.

Resource Option B will be implemented in accordance with all federal, state and local laws and regulations. Provider will administer its obligations under this Agreement in accordance with all existing agreements between the State and other entities that may have an ownership interest or use agreement in the SATS facilities.

Provider will establish an office with staff to support all requests for land use and space-and-power on behalf of the State pertaining to the properties and permits the State holds for telecommunications infrastructure. The Parties will develop a public application process and fee structure. Once established, Provider will centralize management of requests and provide a consistent interface and process for any entity wishing to use State resources for telecommunications or other State approved purposes. The State will provide a point-of-contact with authority to approve such applications.

All lease fees will be paid directly to the State. Provider will charge a one-time application-processing fee, and will coordinate, as required, any additional professional services which may be necessary to evaluate the proposed use of State facilities. The fees for these professional services will be paid by Provider, and will be billed to the applicant as required. Provider will provide the State with a monthly report of all applications received, as well as the disposition of each of the applications.

A.16 RESOURCE OPTION C--SATS MICROWAVE EXCESS BANDWIDTH ACCESS

The SATS microwave system, as currently configured, has bandwidth capacity in excess of the State's current and immediate future needs. The State desires to make this excess bandwidth available to carry either additional traffic from other government entities or to carry traffic to and from under-served Alaskans. Nevertheless, the SATS microwave system must continue to operate in a fashion such that any added traffic can in no way jeopardize the reliability or timeliness of the critical SoL communications that currently traverse the SATS system, including existing 2-way and future land mobile radio communications, in accordance with all applicable SLAs.

The Parties agree to seek license, ownership waivers, establishment of fee structures and public order processes that would allow use of the excess capacity by other interested parties on an open and non-discriminatory basis, as may be required.

Resource Option C will be implemented in accordance with all federal, state and local laws and regulations. Provider will administer its obligations under this Agreement in accordance with all existing agreements between the State and other entities that may have an existing ownership interest or use agreement in the SATS facilities.

The Parties agree not to use this Resource to effect a bypass of or supplement to those Services that are described in this Agreement.

The Parties agree to follow a public process to pursue identification and resolution of regulatory and legal issues to make this Resource Option available. Provider agrees to provide project management to accomplish this goal. The State retains approval authority associated with this Resource Option. Legal and regulatory expenses would be funded and borne by the State.

The Parties recognize that the State is currently implementing the Alaska land mobile radio system which is heavily dependent on SATS for communication transport. Provider agrees to work cooperatively with other entities for the development and maintenance of this system.

Nothing in this Agreement shall require the State to exclusively utilize Provider to resolve the regulatory and legal issues associated with the commercial use of SATS and any use of Provider to assist in this effort shall be subject to explicit approval of the State.

The SATS system and associated licenses will continue to be owned by the State. Provider will perform its bandwidth administration responsibilities in accordance with the State's explicit approval and in accordance with applicable laws and regulations. All resources provisioned under using this Resource will be managed in accordance with Appendix A.11, SATS Microwave Maintenance and Repair.

SCHEDULE A.17 - BUNDLE DIAGRAMS

The following diagrams provide a conceptual-level overview of the system bundles, including bundle demarcation points (DMP) for in-scope service and agencies. The diagrams are to be used in conjunction with Schedule C, Asset Inventory, and the body of the Agreement, both of which take precedence over this Schedule.

SCOPE & SYSTEM DEMARCATION POINTS - BUNDLE 1

WIRED TELEPHONY SERVICES

- BASIC & ENHANCED LOCAL TELEPHONE SERVICE

- PBX, RPE/IPE, Key infrastructure
- Centrex services
- VM, ACD, ACA, IVR, CTI services [DIAGRAM OF TELEPHONE NETWORK]
- Maintenance, repair, MAC

- MEASURED TELEPHONE SERVICE

- On-net, off-net
- 800 and toll-free service
- Calling card services

- AUDIO TELECONFERENCING

DEMARCATION POINT (DMP): ALL CPE AND TELEPHONE CONNECTIVITY SERVICE AND EQUIPMENT

SCOPE & SYSTEM DEMARCATION POINTS - BUNDLE 2

DATA NETWORK SERVICES

- WAN CONNECTIVITY

- Connectivity infrastructure

- Frame relay

- Dedicated leased line [DIAGRAM OF DATA NETWORK]

- Dedicated State circuits

- Routers, hub routers, edge routers, routing switches

- CSU/DSUs

- Modem pools

- Dial-up support equipment

- INTERNET CONNECTIVITY

DMP: WAN LOCAL POINT-OF-PRESENCE (POP)

Note: Due to funding and restricted usage requirements, substantial portions of the University's MAN and WAN capabilities are outside the scope of this Agreement. Only those assets contained within Schedule C are considered in scope.

VIDEO CONFERENCING SERVICES

- Video conferencing equipment

- Video bridges [DIAGRAM OF VIDEO CONFERENCING]

- Dedicated video connectivity

- Video over IP (does not include desktop PC video)

- Operations, maintenance and repair

DMP: ENTIRE SYSTEM AND RELATED SERVICES

Note: PC-based desktop video equipment is outside the scope of this Agreement. The bandwidth requirements for WAN enabled desktop videoconferencing have been included in Bundle 2.

SCOPE & SYSTEM DEMARCATION POINTS - BUNDLE 4

PAGING SERVICES

- State-owned statewide paging system transmitter and support equipment

- Private vendor provided paging services

- User pagers

- Interface equipment [DIAGRAM OF PAGING SERVICES]

- E-mail interface

- Alarm reporting support

DMP: WAN/LAN INTERFACE

SCOPE & SYSTEM DEMARCATION POINTS - BUNDLE 5

CELLULAR SERVICES

- Local cellular services

[DIAGRAM OF CELLULAR SERVICES]

- Nation-wide cellular services

DMP: ALL CELLULAR SERVICES

SATELLITE BROADCAST SERVICES

- Bandwidth

[GRAPHIC OF SATELLITE]

- Support services

DMP: INTERFACES WITH OTHER SYSTEMS

SUPPORT SERVICES

- Network monitoring and management

- Centralized help desk for:

- Problem resolution

[DIAGRAM OF SUPPORT SERVICES]

- Configuration management

- MAC coordination

- Integrated data security

DMP: AS SHOWN

SATS MICROWAVE SYSTEM

- Management and Operations

[DIAGRAM OF SATS MICROWAVE SYSTEM]

- Maintenance and Repair

DMP: INTERFACE WITH OTHER SYSTEMS

- ALL MULTIPLEXERS ARE IN-SCOPE.

SATELLITE TELEPHONY SERVICES (OPTIONAL)

- LEOS, MEOS and GEOS
[GRAPHIC OF SATELLITE]

- Voice and data

DMP: ENTIRE SERVICE PACKAGE

SCOPE & SYSTEM DEMARCATION POINTS - BUNDLE 10

SATELLITE EARTH-STATION MAINTENANCE AND REPAIR

- Provide maintenance and repair of State-owned satellite earth-stations

[DIAGRAM OF SATELLITE EARTH-STATION]

DMP: INTERFACES TO OTHER SYSTEMS

IP PHONE CONNECTIVITY OPTIONS

[DIAGRAM OF IP PHONES]

SCHEDULE B - PRICING

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX A - BASELINE SERVICES SUMMARY

BUNDLES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
1. WIRED TELEPHONY SERVICES	9,008,839	8,750,471	8,482,701	8,337,183	8,278,678	42,857,871
2. DATA NETWORK SERVICES	4,893,539	5,615,025	6,549,306	7,861,182	7,861,182	32,780,233
3. VIDEO CONFERENCING SERVICES	656,641	657,163	690,431	662,664	662,664	3,329,561
4. PAGING SERVICES	208,561	210,860	211,046	210,055	210,055	1,050,577
5. CELLULAR TELECOMMUNICATIONS SERVICES	441,425	474,002	501,939	527,029	527,029	2,471,424
6. SATELLITE BROADCAST SERVICES	1,295,396	1,295,396	1,295,396	1,295,396	1,295,396	6,476,980
7. END-USER SUPPORT SERVICES	--	--	--	--	--	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR	2,757,180	2,810,640	2,865,180	2,920,800	2,920,800	14,274,600
TOTAL FOR MANDATORY SERVICES	19,261,580	19,813,556	20,595,998	21,814,309	21,755,804	103,241,246
9. SATELLITE TELEPHONY SERVICES	63,329	69,678	76,621	84,335	84,335	378,297
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	133,971	135,131	136,291	137,451	137,451	680,293
TOTAL FOR ALL SERVICES	19,458,879	20,018,364	20,808,910	22,036,094	21,977,590	104,299,837

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX B - BASELINE SERVICES SUMMARY BY PRICING ELEMENT

KEY PRICING ELEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
1. WIRED TELEPHONY SERVICES						
User Equipment	1,980,562	1,988,336	1,798,339	1,647,640	1,647,640	9,062,516
Local Telephone Service	3,547,291	3,567,894	3,540,797	3,565,714	3,507,209	17,728,905
Long Distance Service	690,074	662,471	614,110	597,393	597,393	3,161,440
Interstate Calls	--	--	--	--	--	--
Intrastate Calls	--	--	--	--	--	--
Voice Mail Service	1,015,272	1,024,745	1,034,186	1,043,583	1,043,583	5,161,370
Audio Teleconferencing Service	16,380	15,725	13,628	14,173	14,173	74,080
Toll Free Services - Interstate	--	--	--	--	--	--
Toll Free Services - Intrastate	--	--	--	--	--	--
Calling Card Services	--	--	--	--	--	--
Moves Adds and Changes - "Hard"	1,242,000	958,500	933,300	904,800	904,800	4,943,400
Moves Adds and Changes - "Soft"	517,260	532,800	548,340	563,880	563,880	2,726,160
SUBTOTAL	9,008,839	8,750,471	8,482,701	8,337,183	8,278,678	42,857,871
2. DATA NETWORK SERVICES						
WAN Services	--	--	--	--	--	--
WAN POPs	2,308,667	2,153,290	1,942,201	1,702,249	1,702,249	9,808,657
Internet Connectivity	1,912,884	2,678,038	3,730,125	5,212,610	5,212,610	18,746,268
Remote Dial-up Connectivity	92,987	105,846	120,278	136,802	136,802	592,716
Remote Dial-up Connectivity - No Internet, Per User Account	--	--	--	--	--	--
Remote Dial-up Connectivity - No Internet, Per Modem Port - Local Authorization	291,000	334,650	384,702	442,320	442,320	1,894,992
Remote Dial-up Connectivity - No Internet, Per Modem Port - New	--	--	--	--	--	--
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per month (plus hourly rate below)						
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per hour (plus monthly rate above)						
Additional Bandwidth - Hourly (per Kbps)	--	--	--	--	--	--
Additional Bandwidth - Daily (per Kbps)	--	--	--	--	--	--
Additional Bandwidth - Monthly (per Kbps)	--	--	--	--	--	--
Additional Bandwidth - Hourly (per Kbps) - Off Hours (12am-6am), by Reservation	--	--	--	--	--	--
Moves Adds and Changes - "Hard"	288,000	343,200	372,000	367,200	367,200	1,737,600
Moves Adds and Changes - "Soft"	--	--	--	--	--	--
SUBTOTAL	4,893,539	5,615,025	6,549,306	7,861,182	7,861,182	32,780,233

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX B - BASELINE SERVICES SUMMARY BY PRICING ELEMENT

KEY PRICING ELEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
3. VIDEO CONFERENCING SERVICES						
Video Conferencing Services - Managed by Svc. Ctr.	193,610	211,714	236,743	251,437	251,437	1,144,940
Video Conferencing Services - On Demand, No ACS brk	--	--	--	--	--	--
User Equipment	455,831	438,249	446,488	404,027	404,027	2,148,621
Moves Adds and Changes	7,200	7,200	7,200	7,200	7,200	36,000
SUBTOTAL	656,641	657,163	690,431	662,664	662,664	3,329,561
4. PAGING SERVICES						
Pagers	151,861	152,810	151,646	149,305	149,305	754,927
Moves and Changes	--	--	--	--	--	--
Adds	56,700	58,050	59,400	60,750	60,750	295,650
SUBTOTAL	208,561	210,860	211,046	210,055	210,055	1,050,577
5. CELLULAR TELECOMMUNICATIONS SERVICES						
Cellular Services - Usage	285,406	302,380	321,714	337,799	337,799	1,585,098
Cellular Services - Usage - State Rate Structure - Local	--	--	--	--	--	--
Cellular Services - Usage - State Rate Structure - Roaming	--	--	--	--	--	--
Cellular Services - Usage - State Rate Structure - Long Distance	--	--	--	--	--	--
Cellular Phones	156,019	171,621	180,225	189,231	189,231	886,327
Cellular Phones - State Rate Option	--	--	--	--	--	--
SUBTOTAL	441,425	474,002	501,939	527,029	527,029	2,471,424
6. SATELLITE BROADCAST SERVICES						
Satellite Broadcast Services	1,295,396	1,295,396	1,295,396	1,295,396	1,295,396	6,476,980
7. END-USER SUPPORT SERVICES					--	--
Help Desk Services	--	--	--	--	--	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR					--	--
SATS Microwave Maintenance and Repair	2,757,180	2,810,640	2,865,180	2,920,800	2,920,800	14,274,600
TOTAL FOR MANDATORY SERVICES	19,261,580	19,813,556	20,595,998	21,814,309	21,755,804	103,241,246

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX B - BASELINE SERVICES SUMMARY BY PRICING ELEMENT

KEY PRICING ELEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
9. SATELLITE TELEPHONY SERVICES						
Satellite Telephony Services	44,567	49,025	53,932	59,319	59,319	266,163
Satellite Telephony Equipment	18,762	20,652	22,689	25,016	25,016	112,134
SUBTOTAL	63,329	69,678	76,621	84,335	84,335	378,297
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR						
Earth-Station Maintenance and Repair	133,971	135,131	136,291	137,451	137,451	680,293
TOTAL FOR ALL SERVICES	19,458,879	20,018,364	20,808,910	22,036,094	21,977,590	104,299,837

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 1

KEY PRICING ELEMENTS	USAGE PROFILE: REF CODE*	USAGE PROFILE: VOLUME BY MONTH	USAGE PROFILE: VOLUME PARAMETER	PRICING COMPONENTS: PER UNIT CHARGE	PRICING COMPONENTS: UNIT MEASURE	CHARGES: AVG PER MONTH	CHARGES: ANNUAL
1. WIRED TELEPHONY SERVICES							
User Equipment	1.1	20,824	Telephones	7.926	Telephone	$165,047	$1,980,562
Local Telephone Service	1.2	24,147	Lines	12.242	Line	295,608	3,547,291
Long Distance Service	1.3	884,710	Monthly Usage	0.065	Minute	57,506	690,074
Interstate Calls	1.3	--	Monthly Usage	0.045	Minute	--	--
Intrastate Calls	1.3	--	Monthly Usage	0.115	Minute	--	--
Voice Mail Service	1.4	17,700	Telephones	4.780	Telephone	84,606	1,015,272
Audio Teleconferencing Service	1.5	10,500	Monthly Usage	0.130	Minute	1,365	16,380
Toll-Free Services - Interstate	1.6	--	Monthly Usage	0.098	Minute	--	--
Toll-Free Services - Intrastate	1.6	--	Monthly Usage	0.144	Minute	--	--
Calling Card Services	1.7	--	Monthly Usage	0.160	Minute	--	--
Moves Adds and Changes - "Hard"	1.8	345	MACs/Month	300.000	MAC	103,500	1,242,000
Moves Adds and Changes - "Soft"	1.8	233	MACs/Month	185.000	MAC	43,105	517,260
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						750,737	9,008,839
2. DATA NETWORK SERVICES							
WAN Services	2.1		Monthly Charge	--	TBD	--	--
WAN POPs	2.1	422	Monthly Charge	455.898	POPs	192,389	2,308,667
Internet Connectivity	2.2	40	Monthly Charge	3,985.176	Mbps	159,407	1,912,884
Remote Dial-up Connectivity	2.3	333	Monthly Charge	23.270	Users	7,749	92,987
Remote Dial-up Connectivity - No Internet, Per User Account	2.3	--	Monthly Charge	18.306	Users	--	--
Remote Dial-up Connectivity - No Internet, Per Modem Port - Local Authorization	2.3	500	Monthly Charge	48.500	Modem Port	24,250	291,000
Remote Dial-up Connectivity - No Internet, Per Modem Port - New	2.3	--	Monthly Charge	144.000	Modem Port	--	--
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per month (plus hourly rate below)	2.3	--		3.500			
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per hour (plus monthly rate above)	2.3	--		2.990			
Additional Bandwidth - Hourly (per Kbps)	2.3	--		0.066		--	--
Additional Bandwidth - Daily (per Kbps)	2.3	--		0.328		--	--
Additional Bandwidth - Monthly (per Kbps)	2.3	--		5.240		--	--
Additional Bandwidth - Hourly (per Kbps) - Off Hours (12am-6am), by Reservation	2.3	--		0.032		--	--
Moves Adds and Changes - "Hard"	2.4	40	MACs/Month	600.000	MAC	24,000	288,000
Moves Adds and Changes - "Soft"	2.4	--	MACs/Month	370.000	MAC	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						407,795	4,893,539

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 1

KEY PRICING ELEMENTS	USAGE PROFILE REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PRICING COMPONENTS PER UNIT CHARGE	UNIT MEASURE	CHARGES AVG PER MONTH	ANNUAL
3. VIDEO CONFERENCING SERVICES							
Video Conferencing Services - Managed by Svc. Ctr.	3.1	14,316	Monthly Usage	1.127	Minute	16,134	193,610
Video Conferencing Services - On Demand, No ACS brk	3.1	--	Monthly Usage	0.570	Minute	--	--
User Equipment	3.2	14	Sites	2,713.280	Site	37,986	455,831
Moves Adds and Changes	3.3	2	MACs/Month	300.000	MAC	600	7,200
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						54,720	656,641
4. PAGING SERVICES							
Pagers	4.1	1,059	Pagers	11.950	Pager	12,655	151,861
Adds	4.2	--	MACs/Month	262.500	MAC	--	--
Moves & Changes	4.3	42	MACs/Month	112.500	MAC	4,725	56,700
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
						17,380	208,561
5. CELLULAR TELECOMMUNICATIONS SERVICES							
Cellular Services - Usage	5.1	125,178	Monthly Usage	0.190	Minute	23,784	285,406
Cellular Services - Usage - State Rate Structure - Local	5.1	--	Monthly Usage	0.145	Minute	--	--
Cellular Services - Usage - State Rate Structure - Roaming	5.1	--	Monthly Usage	0.500	Minute	--	--
Cellular Services - Usage - State Rate Structure - Long Distance	5.1	--	Monthly Usage	0.250	Minute	--	--
Cellular Phones (Phone cost plus tax & shipping is additional)	5.2	2,720	Cell Phones	4.780	Cell Phone	13,002	156,019
Cellular Phones - State Rate Option	5.2	--	Cell Phones	--	Cell Phone	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						36,785	441,425
6. SATELLITE BROADCAST SERVICES							
Satellite Broadcast Services	6.1	21	Monthly Charge	5,140.460	Mbps	107,950	1,295,396
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
7. END-USER SUPPORT SERVICES							
Help Desk Services	7.1	1,500	Monthly Calls	--	Call	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
8. SATS MICROWAVE MAINTENANCE AND REPAIR							
SATS Microwave Maintenance and Repair	8.1		Monthly Charge	N/A	TBD	229,765	2,757,180
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
TOTAL FOR MANDATORY SERVICES						1,605,132	19,261,580

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 1

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
9. SATELLITE TELEPHONY SERVICES							
Satellite Telephony Services	9.1	2,879	Monthly Usage	1.290	Minute	3,714	44,567
Satellite Telephony Equipment	9.2	129	SAT Phones	12.120	SAT Phone	1,563	18,762
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						5,277	63,329
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR							
Earth-Station Maintenance and Repair	10.1	231	Monthly Charge	48.330	Station	11,164	133,971
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0	--					
TOTAL FOR ALL SERVICES						1,621,573	19,458,879

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

Charges for specific equipment items are lease costs on a lease back basis for assets transferred from the State to the Provider.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 2

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
1. WIRED TELEPHONY SERVICES							
User Equipment	1.1	21,241	Telephones	7.801	Telephone	$165,695	$1,988,336
Local Telephone Service	1.2	24,664	Lines	12.055	Line	297,325	3,567,894
Long Distance Service	1.3	920,098	Monthly Usage	0.060	Minute	55,206	662,471
Interstate Calls	1.3	--	Monthly Usage	0.045		--	--
Intrastate Calls	1.3	--	Monthly Usage	0.115		--	--
Voice Mail Service	1.4	18,054	Telephones	4.730	Telephone	85,395	1,024,745
Audio Teleconferencing Service	1.5	10,920	Monthly Usage	0.120	Minute	1,310	15,725
Toll-Free Services - Interstate	1.6	--		0.098		--	--
Toll-Free Services - Intrastate	1.6	--		0.144		--	--
Calling Card Services	1.7	--		0.160		--	--
Moves Adds and Changes - "Hard"	1.8	355	MACs/Month	225.000	MAC	79,875	958,500
Moves Adds and Changes - "Soft"	1.8	240	MACs/Month	185.000		44,400	532,800
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						729,206	8,750,471
2. DATA NETWORK SERVICES							
WAN Services	2.1		Monthly Charge	--	TBD	--	--
WAN POPs	2.1	464	Monthly Charge	386.726	POPs	179,441	2,153,290
Internet Connectivity	2.2	56	Monthly Charge	3,985.176	Mbps	223,170	2,678,038
Remote Dial-up Connectivity	2.3	383	Monthly Charge	23.030	Users	8,820	105,846
Remote Dial-up Connectivity - No Internet, Per User Account	2.3	--	Monthly Charge	18.306	Users	--	--
Remote Dial-up Connectivity - No Internet, Per Modem Port - Local Authorization	2.3	575	Monthly Charge	48.500	Modem Port	27,888	334,650
Remote Dial-up Connectivity - No Internet, Per Modem Port - New	2.3	--	Monthly Charge	144.000	Modem Port	--	--
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per month (plus hourly rate below)	2.3	--		3.500			
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per hour (plus monthly rate above)	2.3	--		2.990			
Additional Bandwidth - Hourly (per Kbps)	2.3	--		0.066		--	--
Additional Bandwidth - Daily (per Kbps)	2.3	--		0.328		--	--
Additional Bandwidth - Monthly (per Kbps)	2.3	--	Monthly Charge	5.240		--	--
Additional Bandwidth - Hourly (per Kbps) - Off Hours (12am-6am), by Reservation	2.3	--		0.032		--	--
Moves Adds and Changes - "Hard"	2.4	52	MACs/Month	550.000	MAC	28,600	343,200
Moves Adds and Changes - "Soft"	2.4	--	MACs/Month	370.000	MAC	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						467,919	5,615,025

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 2

KEY PRICING ELEMENTS	USAGE PROFILE REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PRICING COMPONENTS PER UNIT CHARGE	UNIT MEASURE	CHARGES AVG PER MONTH	ANNUAL
3. VIDEO CONFERENCING SERVICES							
Video Conferencing Services - Managed by Svc. Ctr.	3.1	17,179	Monthly Usage	1.027	Minute	17,643	211,714
Video Conferencing Services - On Demand, No ACS brk	3.1	--	Monthly Usage	0.570	Minute	--	--
User Equipment	3.2	17	Sites	2,148.280	Sites	36,521	438,249
Moves Adds and Changes	3.3	2	MACs/Month	300.000	MAC	600	7,200
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						54,764	657,163
4. PAGING SERVICES							
Pagers	4.1	1,091	Pagers	11.672	Pager	12,734	152,810
Adds	4.2	--	MACs/Month	262.500	MAC	--	--
Moves & Changes	4.3	43	MACs/Month	112.500	MAC	4,838	58,050
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
						17,572	210,860
5. CELLULAR TELECOMMUNICATIONS SERVICES							
Cellular Services - Usage	5.1	137,696	Monthly Usage	0.183	Minute	25,198	302,380
Cellular Services - Usage - State Rate Structure - Local	5.1	--	Monthly Usage	0.145	Minute	--	--
Cellular Services - Usage - State Rate Structure - Roaming	5.1	--	Monthly Usage	0.500	Minute	--	--
Cellular Services - Usage - State Rate Structure - Long Distance	5.1	--	Monthly Usage	0.250	Minute	--	--
Cellular Phones	5.2	2,992	Cell Phones	4,780	Cell Phone	14,302	171,621
Cellular Phones - State Rate Option	5.2	--	Cell-Phones	--	Cell-Phone	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						39,500	474,002
6. SATELLITE BROADCAST SERVICES							
Satellite Broadcast Services	6.1	21	Monthly Charge	5,140.460	Mbps	107,950	1,295,396
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
7. END-USER SUPPORT SERVICES							
Help Desk Services	7.1	1,530	Monthly Calls	--	Call	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
8. SATS MICROWAVE MAINTENANCE AND REPAIR							
SATS Microwave Maintenance and Repair	8.1		Monthly Charge	N/A	TBD	234,220	2,810,640
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
TOTAL FOR MANDATORY SERVICES						1,651,130	19,813,556

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 2

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
9. SATELLITE TELEPHONY SERVICES		--					
Satellite Telephony Services	9.1	3,167	Monthly Usage	1.290	Minute	4,085	49,025
Satellite Telephony Equipment	9.2	142	SAT Phones	12.120	SAT Phone	1,721	20,652
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						5,806	69,678
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR							
Earth-Station Maintenance and Repair	10.1	233	Monthly Charge	48.330	Station	11,261	135,131
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0	--					
TOTAL FOR ALL SERVICES						1,668,197	20,018,364

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

Charges for specific equipment items are lease costs on a lease back basis for assets transferred from the State to the Provider.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 3

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
1. WIRED TELEPHONY SERVICES							
User Equipment	1.1	21,666	Telephones	6.917	Telephone	$ 149,862	$ 1,798,339
Local Telephone Service	1.2	25,157	Lines	11.729	Line	295,066	3,540,797
Long Distance Service	1.3	947,701	Monthly Usage	0.054	Minute	51,176	614,110
Interstate Calls	1.3		Monthly Usage	0.045		--	--
Intrastate Calls	1.3		Monthly Usage	0.115		--	--
Voice Mail Service	1.4	18,415	Telephones	4.680	Telephone	86,182	1,034,186
Audio Teleconferencing Service	1.5	11,357	Monthly Usage	0.100	Minute	1,136	13,628
Toll-Free Services - Interstate	1.6			0.098		--	--
Toll-Free Services - Intrastate	1.6			0.144		--	--
Calling Card Services	1.7			0.160		--	--
Moves Adds and Changes - "Hard"	1.8	366	MACs/Month	212.500	MAC	77,775	933,300
Moves Adds and Changes - "Soft"	1.8	247		185.000		45,695	548,340
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						706,892	8,482,701
2. DATA NETWORK SERVICES							
WAN Services	2.1		Monthly Charge	--	TBD	--	--
WAN POPs	2.1	487	Monthly Charge	332.341	POPs	161,850	1,942,201
Internet Connectivity	2.2	78	Monthly Charge	3,985.176	Mbps	310,844	3,730,125
Remote Dial-up Connectivity	2.3	440	Monthly Charge	22.780	Users	10,023	120,278
Remote Dial-up Connectivity - No Internet, Per User Account	2.3	--	Monthly Charge	18.306	Users	--	--
Remote Dial-up Connectivity - No Internet, Per Modem Port - Local Authorization	2.3	661	Monthly Charge	48.500	Modem Port	32,059	384,702
Remote Dial-up Connectivity - No Internet, Per Modem Port - New	2.3	--	Monthly Charge	144.000	Modem Port	--	--
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per month (plus hourly rate below)	2.3	--		3.500			
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per hour (plus monthly rate above)	2.3	--		2.990			
Additional Bandwidth - Hourly (per Kbps)	2.3	--		0.066		--	--
Additional Bandwidth - Daily (per Kbps)	2.3	--		0.328		--	--
Additional Bandwidth - Monthly (per Kbps)	2.3	--	Monthly Charge	5.240		--	--
Additional Bandwidth - Hourly (per Kbps) - Off Hours (12am-6am), by Reservation	2.3	--		0.032		--	--
Moves Adds and Changes - "Hard"	2.4	62	MACs/Month	500.000	MAC	31,000	372,000
Moves Adds and Changes - "Soft"	2.4	--	MACs/Month	370.000	MAC	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						545,775	6,549,306

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 3

KEY PRICING ELEMENTS	USAGE PROFILE: REF CODE*	USAGE PROFILE: VOLUME BY MONTH	USAGE PROFILE: VOLUME PARAMETER	PRICING COMPONENTS: PER UNIT CHARGE	PRICING COMPONENTS: UNIT MEASURE	CHARGES: AVG PER MONTH	CHARGES: ANNUAL
3. VIDEO CONFERENCING SERVICES							
Video Conferencing Services - Managed by Svc. Ctr.	3.1	20,615	Monthly Usage	0.957	Minute	19,729	236,743
Video Conferencing Services - On Demand, No ACS brk	3.1	--	Monthly Usage	0.570	Minute	--	--
User Equipment	3.2	19	Sites	1,958.280	Site	37,207	446,488
Moves Adds and Changes	3.3	2	MACs/Month	300.000	MAC	600	7,200
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						57,536	690,431
4. PAGING SERVICES							
Pagers	4.1	1,124	Pagers	11.243	Pager	12,637	151,646
Adds	4.2	--	MACs/Month	262.500	MAC	--	--
Moves & Changes	4.3	44	MACs/Month	112.500	MAC	4,950	59,400
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
						17,587	211,046
5. CELLULAR TELECOMMUNICATIONS SERVICES							
Cellular Services - Usage	5.1	151,466	Monthly Usage	0.177	Minute	26,809	321,714
Cellular Services - Usage - State Rate Structure - Local	5.1	--	Monthly Usage	0.145	Minute	--	--
Cellular Services - Usage - State Rate Structure - Roaming	5.1	--	Monthly Usage	0.500	Minute	--	--
Cellular Services - Usage - State Rate Structure - Long Distance	5.1	--	Monthly Usage	0.250	Minute	--	--
Cellular Phones	5.2	3,142	Cell Phones	4.780	Cell Phone	15,019	180,225
Cellular Phones - State Rate Option	5.2	--	Cell Phones	--	Cell Phone	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						41,828	501,939
6. SATELLITE BROADCAST SERVICES							
Satellite Broadcast Services	6.1	21	Monthly Charge	5,140.460	Mbps	107,950	1,295,396
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
7. END-USER SUPPORT SERVICES							
Help Desk Services	7.1	1,561	Monthly Calls	--	Call	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
8. SATS MICROWAVE MAINTENANCE AND REPAIR							
SATS Microwave Maintenance and Repair	8.1		Monthly Charge	N/A	TBD	238,765	2,865,180
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
TOTAL FOR MANDATORY SERVICES						1,716,333	20,595,998

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 3

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
9. SATELLITE TELEPHONY SERVICES							
Satellite Telephony Services	9.1	3,484	Monthly Usage	1.290	Minute	4,494	53,932
Satellite Telephony Equipment	9.2	156	SAT Phones	12.120	SAT Phone	1,891	22,689
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						6,385	76,621
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR							
Earth-Station Maintenance and Repair	10.1	235	Monthly Charge	48.330	Station	11,358	136,291
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0	--					
TOTAL FOR ALL SERVICES						1,734,076	20,808,910

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

Charges for specific equipment items are lease costs on a lease back basis for assets transferred from the State to the Provider.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 4

KEY PRICING ELEMENTS	USAGE PROFILE REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PRICING COMPONENTS PER UNIT CHARGE	UNIT MEASURE	CHARGES AVG PER MONTH	ANNUAL
1. WIRED TELEPHONY SERVICES							
User Equipment	1.1	22,099	Telephones	6.213	Telephone	$ 137,303	$ 1,647,640
Local Telephone Service	1.2	25,660	Lines	11.580	Line	297,143	3,565,714
Long Distance Service	1.3	976,132	Monthly Usage	0.051	Minute	49,783	597,393
Interstate Calls	1.3	--	Monthly Usage	0.045		--	--
Intrastate Calls	1.3	--	Monthly Usage	0.115		--	--
Voice Mail Service	1.4	18,783	Telephones	4.630	Telephone	86,965	1,043,583
Audio Teleconferencing Service	1.5	11,811	Monthly Usage	0.100	Minute	1,181	14,173
Toll-Free Services - Interstate	1.6	--		0.098		--	--
Toll-Free Services - Intrastate	1.6	--		0.144		--	--
Calling Card Services	1.7	--		0.160		--	--
Moves Adds and Changes - "Hard"	1.8	377	MACs/Month	200.000	MAC	75,400	904,800
Moves Adds and Changes - "Soft"	1.8	254		185.000		46,990	563,880
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						694,765	8,337,183
2. DATA NETWORK SERVICES							
WAN Services	2.1		Monthly Charge	--	TBD	--	--
WAN POPs	2.1	511	Monthly Charge	277.601	POPs	141,854	1,702,249
Internet Connectivity	2.2	109	Monthly Charge	3,985.176	Mbps	434,384	5,212,610
Remote Dial-up Connectivity	2.3	506	Monthly Charge	22.530	Users	11,400	136,802
Remote Dial-up Connectivity - No Internet, Per User Account	2.3	--	Monthly Charge	18.306	Users	--	--
Remote Dial-up Connectivity - No Internet, Per Modem Port - Local Authorization	2.3	760	Monthly Charge	48.500	Modem Port	36,860	442,320
Remote Dial-up Connectivity - No Internet, Per Modem Port - New	2.3	--	Monthly Charge	144.000	Modem Port	--	--
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per month (plus hourly rate below)	2.3	--		3.500			
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per hour (plus monthly rate above)	2.3	--		2.990			
Additional Bandwidth - Hourly (per Kbps)	2.3	--		0.066		--	--
Additional Bandwidth - Daily (per Kbps)	2.3	--		0.328		--	--
Additional Bandwidth - Monthly (per Kbps)	2.3	--	Monthly Charge	5.240		--	--
Additional Bandwidth - Hourly (per Kbps) - Off Hours (12am-6am), by Reservation	2.3	--		0.032		--	--
Moves Adds and Changes - "Hard"	2.4	68	MACs/Month	450.000	MAC	30,600	367,200
Moves Adds and Changes - "Soft"	2.4	--	MACs/Month	370.000	MAC	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						655,098	7,861,182

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 4

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
3. VIDEO CONFERENCING SERVICES							
Video Conferencing Services - Managed by Svc. Ctr.	3.1	24,738	Monthly Usage	0.847	Minute	20,953	251,437
Video Conferencing Services - On Demand, No ACS brk	3.1	--	Monthly Usage	0.570	Minute	--	--
User Equipment	3.2	21	Sites	1,603.280	Site	33,669	404,027
Moves Adds and Changes	3.3	2	MACs/Month	300.000	MAC	600	7,200
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						55,222	662,664
4. PAGING SERVICES							
Pagers	4.1	1,146	Pagers	10.857	Pager	12,442	149,305
Adds	4.2	--	MACs/Month	262.500	MAC	--	--
Moves & Changes	4.3	45	MACs/Month	112.500	MAC	5,063	60,750
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
						17,505	210,055
5. CELLULAR TELECOMMUNICATIONS SERVICES							
Cellular Services - Usage	5.1	159,039	Monthly Usage	0.177	Minute	28,150	337,799
Cellular Services - Usage - State Rate Structure - Local	5.1	--	Monthly Usage	0.145	Minute	--	--
Cellular Services - Usage - State Rate Structure - Roaming	5.1	--	Monthly Usage	0.500	Minute	--	--
Cellular Services - Usage - State Rate Structure - Long Distance	5.1	--	Monthly Usage	0.250	Minute	--	--
Cellular Phones	5.2	3,299	Cell Phones	4.780	Cell Phone	15,769	189,231
Cellular Phones - State Rate Option	5.2	--	Cell Phones	--	Cell Phone	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						43,919	527,029
6. SATELLITE BROADCAST SERVICES							
Satellite Broadcast Services	6.1	21	Monthly Charge	5,140.460	Mbps	107,950	1,295,396
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
7. END-USER SUPPORT SERVICES							
Help Desk Services	7.1	1,592	Monthly Calls	--	Call	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
8. SATS MICROWAVE MAINTENANCE AND REPAIR							
SATS Microwave Maintenance and Repair	8.1		Monthly Charge	N/A	TBD	243,400	2,920,800
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
TOTAL FOR MANDATORY SERVICES						1,817,859	21,814,309

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 4

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
9. SATELLITE TELEPHONY SERVICES							
Satellite Telephony Services	9.1	3,832	Monthly Usage	1.290	Minute	4,943	59,319
Satellite Telephony Equipment	9.2	172	SAT Phones	12.120	SAT Phone	2,085	25,016
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						7,028	84,335
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR							
Earth-Station Maintenance and Repair	10.1	237	Monthly Charge	48.330	Station	11,454	137,451
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0	--					
TOTAL FOR ALL SERVICES						1,836,341	22,036,094

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

Charges for specific equipment items are lease costs on a lease back basis for assets transferred from the State to the Provider.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 5

	USAGE PROFILE			PRICING COMPONENTS		CHARGES	
KEY PRICING ELEMENTS	REF CODE*	VOLUME BY MONTH	VOLUME PARAMETER	PER UNIT CHARGE	UNIT MEASURE	AVG PER MONTH	ANNUAL
1. WIRED TELEPHONY SERVICES							
User Equipment	1.1	22,099	Telephones	6.213	Telephone	$ 137,303	$ 1,647,640
Local Telephone Service	1.2	25,660	Lines	11.390	Line	292,267	3,507,209
Long Distance Service	1.3	976,132	Monthly Usage	0.051	Minute	49,783	597,393
Interstate Calls	1.3	--	Monthly Usage	0.045		--	--
Intrastate Calls	1.3	--	Monthly Usage	0.115		--	--
Voice Mail Service	1.4	18,783	Telephones	4.630	Telephone	86,965	1,043,583
Audio Teleconferencing Service	1.5	11,811	Monthly Usage	0.100	Minute	1,181	14,173
Toll-Free Services - Interstate	1.6	--		0.098		--	--
Toll-Free Services - Intrastate	1.6	--		0.144		--	--
Calling Card Services	1.7	--		0.160		--	--
Moves Adds and Changes - "Hard"	1.8	377	MACs/Month	200.000	MAC	75,400	904,800
Moves Adds and Changes - "Soft"	1.8	254		185.000		46,990	563,880
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						689,890	8,278,678
2. DATA NETWORK SERVICES							
WAN Services	2.1		Monthly Charge	--	TBD	--	--
WAN POPs	2.1	511	Monthly Charge	277.601	POPs	141,854	1,702,249
Internet Connectivity	2.2	109	Monthly Charge	3,985.176	Mbps	434,384	5,212,610
Remote Dial-up Connectivity	2.3	506	Monthly Charge	22.530	Users	11,400	136,802
Remote Dial-up Connectivity - No Internet, Per User Account	2.3	--	Monthly Charge	18.306	Users	--	--
Remote Dial-up Connectivity - No Internet, Per Modem Port - Local Authorization	2.3	760	Monthly Charge	48.500	Modem Port	36,860	442,320
Remote Dial-up Connectivity - No Internet, Per Modem Port - New	2.3	--	Monthly Charge	144.000	Modem Port	--	--
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per month (plus hourly rate below)	2.3	--		3.500			
Remote Dial-up Connectivity - Nationwide Roaming Service, per end user account, per hour (plus monthly rate above)	2.3	--		2.990			
Additional Bandwidth - Hourly (per Kbps)	2.3	--		0.066		--	--
Additional Bandwidth - Daily (per Kbps)	2.3	--		0.328		--	--
Additional Bandwidth - Monthly (per Kbps)	2.3	--	Monthly Charge	5.240		--	--
Additional Bandwidth - Hourly (per Kbps) - Off Hours (12am-6am), by Reservation	2.3	--		0.032		--	--
Moves Adds and Changes - "Hard"	2.4	68	MACs/Month	450.000	MAC	30,600	367,200
Moves Adds and Changes - "Soft"	2.4	--	MACs/Month	370.000	MAC	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						655,098	7,861,182

3. VIDEO CONFERENCING SERVICES

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 5

KEY PRICING ELEMENTS	USAGE PROFILE: REF CODE*	USAGE PROFILE: VOLUME BY MONTH	USAGE PROFILE: VOLUME PARAMETER	PRICING COMPONENTS: PER UNIT CHARGE	PRICING COMPONENTS: UNIT MEASURE	CHARGES: AVG PER MONTH	CHARGES: ANNUAL
Video Conferencing Services - Managed by Svc. Ctr	3.1	24,738	Monthly Usage	0.847	Minute	20,953	251,437
Video Conferencing Services - On Demand, No ACS brk	3.1	--	Monthly Usage	0.570	Minute	--	--
User Equipment	3.2	21	Sites	1,603.280	Site	33,669	404,027
Moves Adds and Changes	3.3	2	MACs/Month	300.000	MAC	600	7,200
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						55,222	662,664
4. PAGING SERVICES							
Pagers	4.1	1,146	Pagers	10.857	Pager	12,442	149,305
Moves and Changes	4.2	--	MACs/Month	262.500	MAC	--	--
Adds	4.3	45	MACs/Month	112.500	MAC	5,063	60,750
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
						17,505	210,055
5. CELLULAR TELECOMMUNICATIONS SERVICES							
Cellular Services - Usage	5.1	159,039	Monthly Usage	0.177	Minute	28,150	337,799
Cellular Services - Usage - State Rate Structure - Local	5.1	--	Monthly Usage	0.145	Minute	--	--
Cellular Services - Usage - State Rate Structure - Roaming	5.1	--	Monthly Usage	0.500	Minute	--	--
Cellular Services - Usage - State Rate Structure - Long Distance	5.1	--	Monthly Usage	0.250	Minute	--	--
Cellular Phones	5.2	3,299	Cell Phones	4.780	Cell Phone	15,769	189,231
Cellular Phones - State Rate Option	5.2	--	Cell Phones	--	Cell Phone	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
SUBTOTAL						43,919	527,029
6. SATELLITE BROADCAST SERVICES							
Satellite Broadcast Services	6.1	21	Monthly Charge	5,140.460	Mbps	107,950	1,295,396
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
7. END-USER SUPPORT SERVICES							
Help Desk Services	7.1	1,592	Monthly Calls	--	Call	--	--
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
8. SATS MICROWAVE MAINTENANCE AND REPAIR							
SATS Microwave Maintenance and Repair	8.1		Monthly Charge	N/A	TBD	243,400	2,920,800
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
TOTAL FOR MANDATORY SERVICES						1,812,984	21,755,804

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX C - DETAIL PRICING MATRIX - YEAR 5

KEY PRICING ELEMENTS	USAGE PROFILE: REF CODE*	USAGE PROFILE: VOLUME BY MONTH	USAGE PROFILE: VOLUME PARAMETER	PRICING COMPONENTS: PER UNIT CHARGE	PRICING COMPONENTS: UNIT MEASURE	CHARGES: AVG PER MONTH	CHARGES: ANNUAL
9. SATELLITE TELEPHONY SERVICES							
Satellite Telephony Services	9.1	3,832	Monthly Usage	1.290	Minute	4,943	59,319
Satellite Telephony Equipment	9.2	172	SAT Phones	12.120	SAT Phone	2,085	25,016
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0						
Subtotal						7,028	84,335
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR							
Earth-Station Maintenance and Repair	10.1	237	Monthly Charge	48.330	Station	11,454	137,451
Provider Regulated and Non Regulated Labor Rates (See note 16)	16.0	--					
TOTAL FOR ALL SERVICES						1,831,466	21,977,590

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

Charges for specific equipment items are lease costs on a lease back basis for assets transferred from the State to the Provider.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX D - TRANSITION COSTS MATRIX

BUNDLES	REF CODE*	TRANSITION COST ($)	RECOVERY HORIZON (YEARS)
1. WIRED TELEPHONY SERVICES	11.1	248,569	5.0
2. DATA NETWORK SERVICES	11.2	82,856	5.0
3. VIDEO CONFERENCING SERVICES	11.3	82,856	5.0
4. PAGING SERVICES			
5. CELLULAR TELECOMMUNICATIONS SERVICES			
6. SATELLITE BROADCAST SERVICES			
7. END-USER SUPPORT SERVICES	11.4	414,281	5.0
8. SATS MICROWAVE MAINTENANCE AND REPAIR			
TOTAL FOR MANDATORY SERVICES		828,563	
9. SATELLITE TELEPHONY SERVICES			
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR			
TOTAL FOR ALL SERVICES		828,563	

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX E - PROVIDER CAPITAL INVESTMENT SUMMARY

			INVESTMENT					
BUNDLES	REF CODE*	ASSET TRANSFER**	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
1. WIRED TELEPHONY SERVICES	12.1		16,564,021	324,406	330,514	337,386	--	17,556,327
2. DATA NETWORK SERVICES	12.2		6,729,529	--	--	--	--	6,729,529
3. VIDEO CONFERENCING SERVICES	12.3		1,066,052	157,200	104,800	104,800	--	1,432,852
4. PAGING SERVICES	12.4		250,000	--	--	--	--	250,000
5. CELLULAR TELECOMMUNICATIONS SERVICES	12.5							--
6. SATELLITE BROADCAST SERVICES	12.6							--
7. END-USER SUPPORT SERVICES	12.7		195,885	--	--	--	--	195,885
8. SATS MICROWAVE MAINTENANCE AND REPAIR	12.8		2,800,000	--	--	--	--	2,800,000
TOTAL FOR MANDATORY SERVICES		--	27,605,487	481,606	435,314	442,186	--	28,964,593
9. SATELLITE TELEPHONY SERVICES	12.9							--
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	12.10							--
TOTAL FOR ALL SERVICES		--	27,605,487	481,606	435,314	442,186	--	28,964,593

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

** Asset Transfer includes all credit for State assets transferred to the Proposer. Provide additional sheets indicating desired assets and valuation.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX F - PROFILE OF CAPITAL INVESTMENT

***PLEASE SEE NARRATIVE RESPONSE IN "NOTES AND ASSUMPTIONS TO APPENDIX I" - NOTE 12**

Note 12 provides a profile of Capital Investment by Bundle.

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX G - USAGE PROFILE OF INVESTMENT MATRIX - YEAR 1

	INVESTMENT	USAGE					
BUNDLES	YEAR 1*	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	RESIDUAL
1. WIRED TELEPHONY SERVICES	16,564,021	(3,312,804)	(3,312,804)	(3,312,804)	(3,312,804)	(3,312,804)	--
2. DATA NETWORK SERVICES	6,729,529	(1,345,906)	(1,345,906)	(1,345,906)	(1,345,906)	(1,345,906)	--
3. VIDEO CONFERENCING SERVICES	1,066,052	(213,210)	(213,210)	(213,210)	(213,210)	(213,210)	--
4. PAGING SERVICES	250,000	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	--
5. CELLULAR TELECOMMUNICATIONS SERVICES	--	--	--	--	--	--	--
6. SATELLITE BROADCAST SERVICES	--	--	--	--	--	--	--
7. END-USER SUPPORT SERVICES	195,885	(39,177)	(39,177)	(39,177)	(39,177)	(39,177)	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR	2,800,000	(560,000)	(560,000)	(560,000)	(560,000)	(560,000)	--
TOTAL FOR MANDATORY SERVICES	27,605,487	(5,521,097)	(5,521,097)	(5,521,097)	(5,521,097)	(5,521,097)	--
9. SATELLITE TELEPHONY SERVICES	--	--	--	--	--	--	
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	--	--	--	--	--	--	
TOTAL FOR ALL SERVICES	27,605,487	(5,521,097)	(5,521,097)	(5,521,097)	(5,521,097)	(5,521,097)	--

* Include investment associated with Asset Transfer in total investment for Year 1.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX G - USAGE PROFILE OF INVESTMENT MATRIX - YEAR 2

	INVESTMENT	USAGE					
BUNDLES	YEAR 2	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	RESIDUAL
1. WIRED TELEPHONY SERVICES	324,406		(81,102)	(81,102)	(81,102)	(81,102)	--
2. DATA NETWORK SERVICES	--		--	--	--	--	--
3. VIDEO CONFERENCING SERVICES	157,200		(39,300)	(39,300)	(39,300)	(39,300)	--
4. PAGING SERVICES	--		--	--	--	--	--
5. CELLULAR TELECOMMUNICATIONS SERVICES	--		--	--	--	--	--
6. SATELLITE BROADCAST SERVICES	--		--	--	--	--	--
7. END-USER SUPPORT SERVICES	--		--	--	--	--	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR	--		--	--	--	--	--
TOTAL FOR MANDATORY SERVICES	481,606	--	(120,402)	(120,402)	(120,402)	(120,402)	--
9. SATELLITE TELEPHONY SERVICES	--		--	--	--	--	--
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	--		--	--	--	--	--
TOTAL FOR ALL SERVICES	481,606	--	(120,402)	(120,402)	(120,402)	(120,402)	--

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX G - USAGE PROFILE OF INVESTMENT MATRIX - YEAR 3

	INVESTMENT	USAGE					
BUNDLES	YEAR 3	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	RESIDUAL
1. WIRED TELEPHONY SERVICES	330,514			(110,171)	(110,171)	(110,171)	--
2. DATA NETWORK SERVICES	--			--	--	--	--
3. VIDEO CONFERENCING SERVICES	104,800			(34,933)	(34,933)	(34,933)	--
4. PAGING SERVICES	--			--	--	--	--
5. CELLULAR TELECOMMUNICATIONS SERVICES	--			--	--	--	--
6. SATELLITE BROADCAST SERVICES	--			--	--	--	--
7. END-USER SUPPORT SERVICES	--			--	--	--	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR	--			--	--	--	--
TOTAL FOR MANDATORY SERVICES	435,314	--	--	(145,105)	(145,105)	(145,105)	--
9. SATELLITE TELEPHONY SERVICES	--			--	--	--	--
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	--			--	--	--	--
TOTAL FOR ALL SERVICES	435,314	--	--	(145,105)	(145,105)	(145,105)	--

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX G - USAGE PROFILE OF INVESTMENT MATRIX - YEAR 4

	INVESTMENT	USAGE					
BUNDLES	YEAR 4	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	RESIDUAL
1. WIRED TELEPHONY SERVICES	337,386				(168,693)	(168,693)	--
2. DATA NETWORK SERVICES	--				--	--	--
3. VIDEO CONFERENCING SERVICES	104,800				(52,400)	(52,400)	--
4. PAGING SERVICES	--				--	--	--
5. CELLULAR TELECOMMUNICATIONS SERVICES	--				--	--	--
6. SATELLITE BROADCAST SERVICES	--				--	--	--
7. END-USER SUPPORT SERVICES	--				--	--	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR	--				--	--	--
TOTAL FOR MANDATORY SERVICES	442,186	--	--	--	(221,093)	(221,093)	--
9. SATELLITE TELEPHONY SERVICES	--				--	--	--
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	--				--	--	--
TOTAL FOR ALL SERVICES	442,186	--	--	--	(221,093)	(221,093)	--

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX G - USAGE PROFILE OF INVESTMENT MATRIX - YEAR 5

	INVESTMENT	USAGE					
BUNDLES	YEAR 5	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	RESIDUAL
1. WIRED TELEPHONY SERVICES						--	--
2. DATA NETWORK SERVICES						--	--
3. VIDEO CONFERENCING SERVICES						--	--
4. PAGING SERVICES						--	--
5. CELLULAR TELECOMMUNICATIONS SERVICES						--	--
6. SATELLITE BROADCAST SERVICES						--	--
7. END-USER SUPPORT SERVICES						--	--
8. SATS MICROWAVE MAINTENANCE AND REPAIR						--	--
TOTAL FOR MANDATORY SERVICES	--	--	--	--	--	--	--
9. SATELLITE TELEPHONY SERVICES	--					--	--
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR	--					--	--
TOTAL FOR ALL SERVICES	--	--	--	--	--	--	--

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX H - RESIDUAL CREDIT VALUE FOR STATE ASSETS

	INVESTMENT	CREDIT					
BUNDLES	ASSET TRANSFER	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	RESIDUAL
1. WIRED TELEPHONY SERVICES							--
2. DATA NETWORK SERVICES							--
3. VIDEO CONFERENCING SERVICES							--
4. PAGING SERVICES	--	--	--	--	--	--	--
5. CELLULAR TELECOMMUNICATIONS SERVICES							--
6. SATELLITE BROADCAST SERVICES							--
7. END-USER SUPPORT SERVICES							--
8. SATS MICROWAVE MAINTENANCE AND REPAIR							--
TOTAL FOR MANDATORY SERVICES	--	--	--	--	--	--	--
9. SATELLITE TELEPHONY SERVICES							--
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR							--
TOTAL FOR ALL SERVICES	--	--	--	--	--	--	--

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX I - TERMINATION FOR CONVENIENCE CHARGE MATRIX

	REF CODE*	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
CHARGE	TABLE I-1	28,293,820	21,347,354	14,209,492	6,857,409	--

<u>Table I-1 - Termination for Convenience Charge Calculation</u>

(It is assumed that should there be a termination for convenience, it occurs at the end of the respective year).

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
RESIDUAL VALUE OF YR 1 CAPITAL INVESTMENT - NOT RECOVERED	$22,084,390	$16,563,292	$11,042,195	$ 5,521,097	$ --
RESIDUAL VALUE OF YR 2 CAPITAL INVESTMENT - NOT RECOVERED		$ 361,205	$ 240,803	$ 120,402	$ --
RESIDUAL VALUE OF YR 3 CAPITAL INVESTMENT - NOT RECOVERED			$ 290,209	$ 145,105	$ --
RESIDUAL VALUE OF YR 4 CAPITAL INVESTMENT - NOT RECOVERED				$ 221,093	$ --
RESIDUAL VALUE OF YR 5 CAPITAL INVESTMENT - NOT RECOVERED					$ --
RESIDUAL OF TRANSITION COSTS NOT RECOVERED	$ 662,850	$ 497,138	$ 331,425	$ 165,713	
RESIDUAL OF JUNEAU SWITCH PAYMENTS NOT RECOVERED	$ 2,810,580	$ 1,873,720	$ 936,860		
RESIDUAL OF CAT-5 CABLE COSTS NOT FULLY AMORTIZED	$ 2,736,000	$ 2,052,000	$ 1,368,000	$ 684,000	
	$ --	$ --	$ --		
	$28,293,820	$21,347,354	$14,209,492	$ 6,857,409	$ --

* Proposer may use a code to cross reference any assumptions made when completing this matrix.

SCHEDULE B.1 - PRICE/COST MATRICES

MATRIX J - RESOURCE OPTION USAGE CREDIT*

RESOURCE OPTION	REF CODE*	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
A. SATELLITE EARTH STATION ACCESS		*	*	*	*	*
B. SATS MICROWAVE SITE ACCESS		*	*	*	*	*
C. SATS MICROWAVE EXCESS BANDWIDTH ACCESS		*	*	*	*	*
TOTAL FOR ALL RESOURCE OPTIONS						

***PLEASE SEE NARRATIVE RESPONSE IN "NOTES AND ASSUMPTIONS TO APPENDIX I" - NOTE 13**

Note 13 describes specific details, including assumptions, regarding our organization's desired use of State resource options.

* Provide specific details, including assumptions, regarding your organization's desired use of State resource options on separate sheets.

B.2 PRICING NOTES

PRICE MATRIX C -- DETAIL PRICING MATRIX YEARS 1 - 5

1.0 WIRED TELEPHONY SERVICES

1.1 User Equipment

1.1.1 Unit rates are based upon volume and usage projections included in Schedule N. Although there is a single rate in the price matrices, this rate includes the distribution of single-to-multi-line phones as projected in Schedule N.

1.1.2 Provider pricing includes replacement of all existing phones and projected new phones with new VoiP phones. The State will take possession of all phones at the termination of the Agreement after satisfying any residual balance not recovered through pricing during the Initial Term. Such residual balance shall be calculated on a per unit basis, based on the Cutover Date for each phone and associated line.

1.1.3 Provider pricing includes the installation of customer premise equipment (CPE), including data cabinets, routers, switches, etc. The State will take possession of all CPE at the termination of the Agreement after satisfying any residual balance not recovered through pricing during the Initial Term. Such residual balance shall be calculated on a per unit basis, based on the Cutover Date for each Service Unit installed.

1.1.4 Capital investment recovery is amortized over the Initial Term of the Agreement.

1.1.5 Price includes recovery of all Service Bundle 1 transition costs amortized over five years.

1.1.6 Price includes a proportionate share of Service Bundle 7 cost.

1.1.7 Provider will take over the remaining lease payments for the capital lease for the Juneau telephone system as described in Section 16.1.6.1 and acquire ownership of the switch for one dollar at the end of the lease in accordance with the bargain purchase option. Except as otherwise provided in the Agreement, these costs will be absorbed by Provider.

1.1.8 Provider pricing includes recovery of switch maintenance costs for part of year one as phones are being converted to the VoIP solution. Provider will continue payment for monthly switch maintenance costs during the first year of transition as it switches out desktop telephone sets. Pricing includes an effective maintenance cost equivalent to approximately one half the cost for an entire year at full utilization.

1.1.9 Price includes maintenance and repair of user equipment.

1.1.10 No inflation factors were used in the computation to develop prices for Services.

1.2 Local Telephone Service

1.2.1 Unit rates are based upon volume and usage projections included in Schedule N.

1.2.2 Price includes a proportionate share of Service Bundle 7 cost.

1.2.3 No time and material rates prices were used in the costing analysis.

1.2.4 No inflation factors were used in the computation to develop prices for

Services.

1.3 Long Distance Service

1.3.1 Unit rates are based upon volume and usage projections included in Schedule N,

1.3.2 Actual billing will be based upon the following rate components, as applicable:

Interstate calls	$.045 per minute
Intrastate calls ("offnet")	$.115 per minute

1.3.3 The rates reflected in the price matrices assume a (70% interstate and 30% intrastate) traffic mix in the State's long distance traffic. These services are regulated, and offered by ACS Long Distance, Inc. as Subcontractor. Parties recognize that the traffic mix will not reflect actual volumes at cutover.

1.3.4 Capital investment recovery is amortized over the Initial Term of the Agreement.

1.3.5 No inflation factors were used in the computation to develop prices for Services.

1.4 Voice Mail Service

1.4.1 Unit rates are based upon volume and usage projections included in Schedule N.

1.4.2 Provider will provide a centralized voice mail system.

1.4.3 Provider pricing includes the recovery of capital investment to provide a centralized voice mail system. Provider will retain ownership of such investment at the Termination of the Agreement.

1.4.4 Capital investment recovery is amortized over the Initial Term of the Agreement.

1.4.5 No inflation factors were used in the computation to develop prices for Services.

1.5 Audio Teleconferencing Services

1.5.1 Unit rates are based upon volume and usage projections included in Schedule N. Rate is charged per bridge minute (per conference minute, not per site). Toll charges are not included in this rate for direct dialed or toll-free calls.

1.5.2 No inflation factors were used in the computation to develop prices for Services.

1.6 Toll-Free Services -- Interstate & Intrastate

1.6.1 Services are regulated, and offered by ACS Long Distance, Inc. as Subcontractor.

1.7 Calling Card Services

1.7.1 New rate included per price negotiations.

1.7.2 Services are regulated, and offered by ACS Long Distance, Inc. as Subcontractor.

1.8 Moves, Adds and Changes -- "Hard" and "Soft"

1.8.1 Unit rates are based upon volume and usage projections included in Schedule N. A "hard" MAC is defined as a Move, Add or Change requiring a premise visit or use of materials. A "soft" MAC is defined as a software only change performed from the Service Center and not requiring a Location visit.

1.8.2 Price per "hard" MAC includes 2.75 hours of loaded labor per MAC in the first year, with a gradual reduction to 1.75 hours by year 4. MAC price also includes $25 in direct materials per MAC. Price per "soft" MAC includes 1.75 hours of loaded labor with no direct materials cost.

1.8.3 MAC pricing is not intended to recover the cost of "upgrades." Pricing for upgrades will be determined using the Work Order process defined in the Agreement.

1.8.4 No inflation factors were used in the computation to develop prices for Services.

2.0 DATA NETWORK SERVICES

2.1 WAN Services/WAN POPs

2.1.1 Provider has developed rates based upon Provider network investment required to serve the State. Pricing for "WAN Services" has now been combined into the pricing for "WAN POPS," to reflect the State's Schedule N.

2.1.2 Capital investment recovery is amortized over the Initial Term of the Agreement.

2.1.3 Price includes the recovery of 25% of the new capital investment in Core Network facilities allocated to this Service Element. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment. Provider will continue to own all Core Network and Provider Edge investment at the termination of the Agreement.

2.1.4 Price includes a proportionate share of the Service Bundle 7 cost.

2.1.5 Capital investment recovery is amortized over the Initial Term of the Agreement.

2.1.6 Price includes recovery of transition costs amortized over five-years.

2.1.7 Proposed rates are not based upon time and material.

2.1.8 Price includes maintenance and repair of WAN POP investment.

2.1.9 No inflation factors were used in the computation to develop prices for Services.

2.2 Internet Connectivity

2.2.1 Unit rates are based upon volume and usage projections included in Schedule N. Bandwidth requirements presented in Schedule N and corresponding rates are expressed in Megabits per second.

2.2.2 Price includes the recovery of 25% of the new capital investment in Core Network facilities allocated to this Service Element. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment. Provider will continue to own all Core Network investment at the termination of the Agreement.

2.2.3 Price includes a proportionate share of Service Bundle 7 cost.

2.2.4 Capital investment recovery is amortized over the Initial Term of the Agreement.

2.2.5 Internet Service Provider (ISP) gateway charges are included in the rates.

2.2.6 Provider pricing includes four (4) ISP points of ingress: one (1) in Anchorage, one (1) in Fairbanks, one (1) in Kenai/Soldotna and one (1) in Juneau.

2.2.7 Rates are not based upon time and material.

No inflation factors were used in the computation to develop prices for Services.

2.3 Remote Dial-up Connectivity

2.3.1 Unit rates are based upon volume and usage projections included in Schedule N.

2.3.2 Rates are not based upon time and material.

2.3.3 Price includes a proportionate share of the Service Bundle 7 cost.

2.3.4 No inflation factors were used in the computation to develop prices for Services.

2.3.5 Authentication of the End User account must occur locally at the community where the modem is installed. Backhaul must occur from the modem POP to the State (or University) network on State-provided bandwidth. Monthly rate is only effective for the first 500 modems, plus annual growth factors, and the modems must be installed in locations served by the UA or State at Contract Signing Date.

2.4 Moves Adds and Changes

2.4.1 Unit rates are based upon volume and usage projections included in Schedule N. A "hard" MAC is defined as a Move, Add or Change requiring a Location visit or use of materials. A "soft" MAC is defined as a software only change performed from the Service Center and not requiring a Location visit.

2.4.2 No time and material rates have been proposed.

2.4.3 Price per "hard" MAC includes 4.5 hours of loaded labor per MAC in the first year, with a gradual reduction to 3.0 hours by year 4. MAC price also includes $150 in direct materials per MAC. Price per "soft" MAC includes 3.7 hours of loaded labor and no direct materials cost.

2.4.4 No inflation factors were used in the computation to develop prices for Services.

3.0 VIDEO CONFERENCING SERVICES

3.1 Video Conferencing Services

3.1.1 Unit rates are based upon volume and usage projections included in Schedule N.

3.1.2 The per-minute rate with management by the Service Center is for videoconferences taking place on Provider bridge equipment, and in the case of Anchorage, Fairbanks and Juneau locations, will be staffed with a Provider representative to assure quality. The "No ACS Bridge" rate is for use by the State to obtain QOS on reserved bandwidth, but without Provider bridge or staff support on site. The prorata cost of one staff person per location has been included in the Per Minute and Equipment Fees.

3.1.3 Price includes the recovery of 25% of the new capital investment in Core Network allocated to this Service Element. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by the new investment. Provider will continue to own all Core Network investment at the termination of the Agreement.

3.1.4 Capital investment recovery is amortized over the Initial Term of the Agreement.

3.1.5 Price includes recovery of Service Bundle 3 transition costs amortized over five years.

3.1.6 Total price for each year has been divided by the corresponding projection of monthly minutes of usage to compute the per unit charge (average charge per minute of usage). Rate is charged per videoconference site, per minute.

3.1.7 No inflation factors were used in the computation to develop prices for Services.

3.2 User Equipment

3.2.1 Unit rates are based upon volume and usage projections included in Schedule N.

3.2.2 Price includes recovery of new video equipment (including installation labor) for fourteen (14) sites - depreciated over five years. (The prorata cost of one staff person per location has been included in the Per Minute and Equipment Fees.)

3.2.3 The total price is amortized over the total number of projected sites to arrive at the per unit charge (average price per site). State will take possession of all new video equipment installed on State Facilities at the termination of the Agreement Maintenance of the fourteen (14) videoconference units is also included. Provider will own the bridge equipment at Termination.

3.2.4 Price includes a proportionate share of Service Bundle 7 cost.

3.2.5 Capital investment recovery is amortized over the Initial Term of the Agreement.

3.2.6 No inflation factors were used in the computation to develop prices for Services.

3.3 Moves, Adds & Changes

3.3.1 Unit rates are based upon volume and usage projections included in Schedule N.

3.3.2 Price per MAC includes 3.0 hours of loaded labor. No materials have been included.

3.3.3 No inflation factors were used in the computation to develop prices for Services.

4.0 PAGING SERVICES

4.1 Pagers

4.1.1 Unit rates are based upon volume and usage projections included in Schedule N.

4.1.2 Price includes maintenance and repair of paging system, regular pager repair/replacement as defined in the Agreement, and providing new pagers to meet projected growth.

4.1.3 Price includes all nationwide paging fees for those units designated for nationwide paging service.

4.1.4 Capital investment recovery is amortized over the Initial Term of the Agreement. No inflation factors were used in the computation to develop prices for Services.

4.2 Moves, Adds & Changes

4.2.1 Unit rates are based upon volume and usage projections included in Schedule N.

4.2.2 Price per "Add" includes new pager cost, plus setup, plus one hour of loaded labor. Price per "Move and Change" includes one hour of loaded labor plus materials of $12.50. No other materials have been included in this price.

5.0 CELLULAR TELECOMMUNICATIONS SERVICES

5.1 Cellular Services

5.1.1 Unit rates are based upon volume and usage projections included in Schedule N.

5.1.2 Price per minute includes a weighted average based upon five retail rate plans and probable user distribution by plan. Weighting includes 1% heavy local users, 1% heavy statewide users, .5% heavy nationwide users, and 97.5% typical or average use with respect to roaming and long distance use. An additional plan, called the State of Alaska Plan, is available, which rates calls according to the following rate components, as applicable:

Local calls	$.145 per minute
Roaming charges	$.50 per minute
Long Distance	$.25 per minute

5.1.3 Local calls are any calls placed within Provider owned coverage area. All plans require that the cell phone be a digital unit.

5.1.4 For the retail plans, price per minute includes all roaming charges, toll charges, directory assistance charges, regulatory charges, etc. For the State of Alaska Plan, rates include only regulatory charges, and other services are charged as applicable.

5.1.5 No inflation factors were used in the computation to develop prices for Services.

5.2 Cellular Phones

5.2.1 Unit rates are based upon volume and usage projections included in Schedule N.

5.2.2 Pricing per phone does not include the cost of new or replacement phones. The State will bear the cost of new and replacement phones, applicable taxes and shipping in addition to the pricing included in the pricing matrices.

5.2.3 Pricing per phone does include a proportionate reallocation of Service Center (Service Bundle 7) revenue, plus $1.50 per phone per month.

5.2.4 No inflation factors were used in the computation to develop prices for Services.

6.0 SATELLITE BROADCAST SERVICES

6.1 Satellite Broadcast Services

6.1.1 Unit rates are based upon volume and usage projections included in Schedule N.

6.1.2 The satellite broadcast bandwidth requirement presented in Schedule N is expressed in Megabits per second.

6.1.3 Price includes video transponder, uplink and space/power for Anchorage, Fairbanks and Juneau. Total price is amortized over projected satellite bandwidth of 21 Megabits to compute the per unit charge (price per Mbps). Price includes regulated, tariff rates of AT&T Alascom, as quoted.

6.1.4 Price includes a proportionate share of the Service Bundle 7 cost.

6.1.5 No inflation factors were used in the computation to develop prices for Services.

7.0 END USER SUPPORT SERVICES

7.1 Help Desk Services

7.1.1 Unit rates are based upon volume and usage projections included in Schedule N.

7.1.2 Provider has reallocated all original Service Bundle 7 billing across units of service in other bundles, and fixed costs at a rate corresponding to 1,500 calls per month. Consequently, Service Bundle 7 will not be billed on a per call basis. Rather, the rates for other units of service have been increased to recover a proportionate share of the Service Bundle 7 cost. The following Service Bundle 7 notes, although still relevant, apply to amounts recovered in the reallocation to other Service Bundle pricing elements.

7.1.3 Price includes the recovery of 10% of the operating expenses attendant to Service Center operation, including staffing, facilities, training, depreciation, and other operating costs. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment plus related support services. Total price for each year has been divided by the corresponding projection of monthly calls to compute the per unit charge (average charge per call).

7.1.4 Price includes the recovery of 10% of the new capital investment in core network facilities allocated to this Service Element. Provider will continue to own all Core Network investment at the termination of the Agreement.

7.1.5 Capital investment recovery is amortized over the Initial Term of the Agreement.

7.1.6 Price includes recovery of Service Bundle 7 transition costs amortized over five years.

7.1.7 Provider's price proposal includes providing required facilities for State employees identified in Schedule D.

7.1.8 Trouble reports generated by automated network monitoring tools are not billable MACs. Multiple calls related to a single event or outage are treated as a single call.

7.1.9 Price includes annual user training for all State employees as described in Section 5.6.

7.1.10 No inflation factors were used in the computation to develop prices for Services.

8.0 SATS MICROWAVE MAINTENANCE AND REPAIR

8.1 SATS Microwave Maintenance and Repair

8.1.1 Rates are based upon the configuration of the SATS as reported in Schedule C.

8.1.2 Schedule N indicates an estimated annual growth rate of 2% for circuit utilization. The 2% growth rate applies to the annual cost of providing maintenance and repair services and not to the number of SATS Microwave sites.

8.1.3 Price includes a proactive preventative maintenance program for 122 SATS Microwave sites to include one scheduled and one unscheduled visit to each site per year. Such trips will be tracked in the aggregate for the whole system rather than by site. Labor requirements include loaded labor rates, per diem expenses and helicopter transportation (as required). One person per visit is included for metro and sub-metro visits; two person per visit included for highway and helicopter access sites. Includes fuel costs for remote power generators at $15K per year.

8.1.4 Service Bundle 8 price also includes $2.8 million of capital investment and related loaded labor required to make site improvements identified in Schedule C, or other projects the State may identify, up to the limit of the capital investment. Capital investment recovery is amortized over five years.

8.1.5 The State will take possession of all Service Bundle 8 capital investment at the termination of the Agreement.

8.1.6 No inflation factors were used in the computation to develop prices for Services.

9.0 SATELLITE TELEPHONY SERVICES

9.1 Satellite Telephony Services

9.1.1 Unit rates are based upon volume and usage projections included in Schedule N.

9.1.2 Price includes a recurring monthly fee based upon a minimum aggregate usage of 500 minutes across all satellite phones, billed at $1.29 per minute for each minute of use. The parties agree to seek the best rates available for state government use and will diligently work with Sub-contractors to reduce the per minute rate to the State during the Term.

9.1.3 No inflation factors have been included.

9.2 Satellite Telephony Equipment

9.2.1 Unit rates are based upon volume and usage projections included in Schedule N.

9.2.2 Price includes a proportionate share of the Service Bundle 7 cost.

9.2.3 The price does not include replacement of the State's existing 60 satellite phones. It includes ongoing replacement for normal wear and tear of 10% of the prior year's phones each year. Price also includes providing additional new satellite phones each year based upon projected growth.

9.2.4 No inflation factors have been included.

10.0 SATELLITE EARTH-STATION MAINTENANCE AND REPAIR

10.1 Satellite Earth-Station Maintenance and Repair

10.1.1 Unit rates are based upon volume and usage projections (in this case -- growth in Satellite sites) included in Schedule N.

10.1.2 Price includes a proportionate share of the Service Bundle 7 cost.

10.1.3 No inflation factors were used in the computation to develop prices for Services.

PRICE MATRIX D -- TRANSITION COSTS

BUNDLE 1 - WIRED TELEPHONY SERVICES

The transition for the State is estimated to occupy the entire staff of the Service Center for 90 days. The cost of transition is therefore estimated to be the equivalent of 3 months of Service Center staff salary and benefits. 30% of these transition costs are allocated to Service Bundle 1.

BUNDLE 2 - DATA NETWORK SERVICES

The transition for the State is estimated to occupy the entire staff of the Service Center for 90 days. The cost of transition is therefore estimated to be the equivalent of 3 months of Service Center staff salary and benefits. 10% of these transition costs are allocated to Service Bundle 2.

BUNDLE 3 - VIDEO CONFERENCING SERVICES

The transition for the State is estimated to occupy the entire staff of the Service Center for 90 days. The cost of transition is therefore estimated to be the equivalent of 3 months of Service Center staff salary and benefits. 10% of these transition costs are allocated to Service Bundle 3.

BUNDLE 7 - END USER SUPPORT SERVICES

The transition for the State is estimated to occupy the entire staff of the Service Center for 90 days. The cost of transition is therefore estimated to be the equivalent of 3 months of Service Center staff salary and benefits. 50% of these transition costs are allocated to Service Bundle 7.

PRICE MATRIX F -- CAPITAL PROFILE

BUNDLE 1 - WIRED TELEPHONY SERVICES

Includes the replacement of all existing phones and projected new phones with new VOIP phones. The State will take possession of all phones at the termination of the Agreement after satisfying any residual balance not recovered through pricing during the Initial Term. Capital investment recovery is amortized over five years. Such residual balance shall be calculated on a per unit basis, based on the Cutover Date for each Service Unit installed.

Includes the installation of new customer premise equipment (CPE), including data cabinets, routers, switches, etc. The State will take possession of all CPE at the termination of the Agreement after satisfying any residual balance not recovered through pricing during the Initial Term. Capital investment recovery is amortized over five years. Such residual balance shall be calculated on a per unit basis, based on the Cutover Date for each Service Unit installed.

Approximately 10% of the gross investment in new Core Network facilities has been allocated to Service Bundle 1 activity. 25% of this allocation (or 2.5% of the gross investment) has been allocated to the State for recovery through pricing. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment. Provider will continue to own all Core Network investment at the termination of the Agreement. Capital investment recovery is amortized over five years.

Includes the variable capital investment to provide a centralized voice mail system. Provider will retain ownership of such investment at the termination of the Agreement. Capital investment recovery is amortized over five years.

BUNDLE 2 - DATA NETWORK SERVICES

Approximately 70% of the gross investment in new Core Network facilities has been allocated to Service Bundle 2 activities. 25% of this allocation (or 17.5% of the gross investment) has been allocated to the State for recovery through pricing. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment. Provider will continue to own all of the Core Network investment at the termination of the Agreement. Capital investment recovery is amortized over five years.

BUNDLE 3 -- VIDEO CONFERENCING SERVICES

Approximately 5% of the gross investment in new Core Network facilities has been allocated to Service Bundle 3 activities. 25% of this allocation (or 1.25% of the gross investment) has been allocated to the State for recovery through pricing. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment. Provider will continue to own all core network investment at the termination of the Agreement. Capital investment recovery is amortized over five years.

Includes new H.323 video equipment (including installation labor) for fourteen
(14) initial sites, as well as additional new sites projected in Schedule N. The State will take possession of all new video equipment at the termination of the Agreement after satisfying any residual balance not recovered through pricing during the Initial Term. Capital investment recovery is amortized over five years.

BUNDLE 4 -- PAGING SERVICES - PAGERS

Includes investment in equipment and labor to expand paging system to ten additional sites. Provider will transfer the investment in expansion facilities to the State at the termination of the Agreement after satisfying any residual balance not recovered through pricing during the Initial Term. Capital investment recovery is amortized over five years.

BUNDLE 5 -- CELLULAR TELECOMMUNICATIONS SERVICES

There is no planned capital investment for this Service Bundle to be recovered through this Agreement.

BUNDLE 6 -- SATELLITE BROADCAST SERVICES

There is no proposed capital investment for this Service Bundle to be recovered through this Agreement.

BUNDLE 7 -- END USER SUPPORT SERVICES

Approximately 14% of the gross investment in new Core Network facilities has been allocated to Service Bundle 7 activities. 10% of this allocation (or 1.4% of the gross investment) has been allocated to the State for recovery through pricing. This cost recovery allocation is based upon engineering estimates of the State's utilization of dedicated network capacity provided by new investment. Provider will continue to own all Core Network investment at the termination of the Agreement. Capital investment recovery is amortized over five years.

BUNDLE 8 -- SATS MICROWAVE MAINTENANCE AND REPAIR

Includes the cost of investment in equipment, facilities and labor necessary to make site improvements identified in Schedule C. The State will take possession of all described improvements at the termination of the Initial Term after satisfying any residual balance not recovered through pricing during the Initial Term. Capital investment recovery is amortized over five years.

BUNDLE 9 -- SATELLITE TELEPHONY

There is no proposed capital investment for this Service Bundle to be recovered through this Agreement.

BUNDLE 10 -- SATELLITE EARTH-STATION MAINTENANCE AND REPAIR

There is no proposed capital investment for this Service Bundle to be recovered through this Agreement.

PRICE MATRIX J -- RESOURCE OPTION USAGE CREDIT

BUNDLE A -- SATELLITE EARTH STATION ACCESS

Given the number of relevant key issues that have not been resolved, a reasonable estimate of value cannot be determined at this time.

BUNDLE B -- SATS MICROWAVE SITE ACCESS

Provider is supportive of the concept of taking some SATS and using the system more efficiently by adding additional revenue. Given the number of relevant key issues that have not been resolved, a reasonable estimate of value cannot be determined at this time.

BUNDLE C -- SATS MICROWAVE EXCESS BANDWIDTH ACCESS

Provider is supportive of the concept of taking some SATS and using the system more efficiently by adding additional traffic. Given the number of relevant key issues that have not been resolved, a reasonable estimate of value cannot be determined at this time.

TERMINATION FOR CONVENIENCE CHARGE

Termination costs are delineated in Table I-1, Price Matrix I of this Schedule. The table provides the details of these costs as a combination of (1) the residual value of any capital investment not recovered at the time of termination, (2) the residual value of any transition costs not recovered at the time of termination, (3) the unamortized value of the CAT-5 cabling installed at Provider's cost to enable IP telephony at State Locations not already suitably wired, and (4) the residual balance of the capital lease payments for the Juneau telephone system as described in Section 16.1.6 not recovered.

TECHNOLOGY REFRESH COSTS

All necessary refresh of hardware and software is included in our pricing for a five-year Agreement, in accordance with the terms of the Agreement. Refresh beyond the first five years is not included in our pricing.

The State will receive optimal pricing with regard to refresh if the term of the Agreement corresponds with the useful life of the hardware.

REGULATED & NON REGULATED RATES

As of November 9, 2001

CATEGORY	HOURLY RATE
NON-REGULATED	
Systems Administrator I	$ 110.00
Systems Administrator II	$ 145.00
Systems Administrator III	$ 180.00
Manager, Networks & Systems	$ 200.00
IP Network Designer	$ 180.00
Service Center Representative	$ 65.00
REGULATED	
Installation Foreman	$ 113.79
General Plant Tech III	$ 104.81
General Plant Tech II	$ 110.19
Installer Repairman	$ 104.56
Engineering Foreman	$ 110.38
Plant Engineer II	$ 128.73
Plant Engineer I	$ 116.10
Air Pressure Engineer	$ 119.74
Records Engineer	$ 112.92
Engineering Tech	$ 108.44
Line Foreman	$ 115.82
Cable Splicing Foreman	$ 115.13
Cable Splicer	$ 113.47
Lineman	$ 110.34

SCHEDULE C -- ASSET INVENTORY

CONTAINED IN SEPARATE BINDER

D.1 LETTER OF AGREEMENT

LETTER OF AGREEMENT
BETWEEN THE
STATE OF ALASKA
AND THE
ALASKA STATE EMPLOYEES ASSOCIATION, AFSCME LOCAL 52
REPRESENTING THE
GENERAL GOVERNMENT UNIT
AND THE
PUBLIC EMPLOYEES LOCAL 71
REPRESENTING THE
LABOR, TRADES AND CRAFTS UNIT

RE: TELECOMMUNICATIONS REP
LOA 01-GG-043 / LTC 01-LL-144

PREAMBLE

This Letter of Agreement is the product of a Labor Management Committee between the State of Alaska, the Alaska State Employees Association, AFSCME Local 52, and Public Employees Local 71, to address the unique circumstances and the potential impact of the Comprehensive Telecommunications Services Agreement ("Telecommunications Agreement") on approximately twenty (20) General Government bargaining unit members and approximately twenty-two (22) Labor, Trades, and Crafts bargaining unit members. It serves as both a LETTER OF DISPUTE RESOLUTION between the State and ASEA/AFSCME Local 52, and as a LETTER OF AGREEMENT between the State and Public Employees Local 71.

This Agreement is intended to provide employment stability for State employees who may be affected by the Comprehensive Telecommunications Services Agreement.

TERMS

Affected Employees. "Employee" means an individual employed by the State, who, on the date that the Telecommunications Agreement is awarded, is occupying a position performing work covered by the Telecommunications Agreement.

Vendor. "Vendor" means the contractor awarded the Telecommunications Agreement.

TRANSITION/PLACEMENT PROVISIONS

The State will provide all affected employees with three (3) options:

1. Remain in the employee's current position as a State employee in the classified service.

2. Transfer to another State position elsewhere in the classified service.

3. Accept employment with the vendor, if offered.

OPTION 1.

If an employee elects to remain in the employee's current position as a State of Alaska employee the following provisions apply:

1) The employee will remain in his/her current position as a member of the general government or labor, trades, and crafts bargaining unit. The employee's terms and conditions of employment will continue to be determined by the provisions of the current and any future collective bargaining agreement applicable to his/her bargaining unit, including any contractual dispute resolution procedures.

2) Any past, present, and future State statutes and regulations, including the personnel rules, and Federal statutes that apply to members of the employee's bargaining unit will continue to apply to each affected employee as a member of that bargaining unit.

3) The State will insure that State employees who perform services covered by the Telecommunications Agreement, will have the same training, in frequency and content, as provided to vendor's employees performing services under the Telecommunications Agreement.

4) So long as the employee performs services covered by the Telecommunications Agreement, an employee who elects option 1 will not be involuntarily displaced from his/her position by another State employee who is not performing work covered by the Telecommunications Agreement.

5) An employee assigned duties out of his/her class or work grade must immediately notify the Department of Administration Human Resources Manager and/or his/her union representative of the assignment. A representative of the Union and the Department of Administration Human Resources Manager or his/her duly authorized representative will meet as soon as possible to discuss and attempt to resolve such work assignment issues. If the work assignment issue remains unresolved after a meeting is held, the employee may pursue any dispute in accordance with the applicable portions of his/her collective bargaining agreement.

6) When a position filled by a State employee who performs work covered by the Telecommunications Agreement becomes vacant and the State in its discretion determines that the position will be filled by another State employee, the State agrees to fill the position according to the terms of the respective Union's collective Bargaining Agreement.

OPTION 2.

If an employee elects to remain a State of Alaska employee but transfers to another position within the State of Alaska classified service, the following provisions apply:

1) Within thirty (30) calendar days after the State provides written notice to the employee that his/her position is affected, the employee must provide written notification to the Department of Administration Human Resource Manager of their desire to transfer to another State position.

2) The State will provide the employee priority over nonbargaining unit members for placement in a vacant position, for which the employee is qualified and interested, at the employee's same or lower pay range as soon as reasonably possible. If the State does not place the employee in a position before the effective date of the Telecommunications Agreement, the employee will continue to work in the position as if the employee had elected option 1 until the State provides a position. An employee is not eligible for training under 4 (a) and (b) of this subsection until the employee transfers to a new position.

3) If the State places an employee in a position with a lower pay range, the State will pay the employee at the same step and range of the employee's position before the transfer and will pay employee any merit or other pay increases that the employee would have earned in the former position for a period of twelve (12) months. At the end of twelve (12) months, the employee's pay will freeze. The employee's pay will remain frozen until the employee's pay in the new position equals or exceeds the frozen rate of pay. An employee who transfers under option 2 does not serve a probationary period in the new position and the employee will retain the employee's current merit anniversary date or longevity step.

4) An employee who transfers to another position under this option shall, upon request, be provided training under ONE of the following options:

a) If the State approves a training program related to the employee's current or former duties, the State will provide the employee a maximum of three (3) consecutive workweeks in pay status to attend the program. The State will pay the expenses of the program up to a limit of $5,000.00, unless the State in its discretion determines to pay a higher amount. Such expenses include registration fees, tuition, round-trip transportation between the employee's residence and the site of the training, hotel, meals, and car rental. However, the employee must demonstrate to the State's satisfaction that the employee successfully completed the training program. If the employee does not successfully complete the training program, he/she shall reimburse the State for all training funds spent and the paid time provided to attend the training will be charged to the employee's accrued annual/personal leave account. If an employee has insufficient leave to cover the entire leave period, the remaining time will be offset against future leave accrual. If an employee voluntarily separates from State service within one year or if the employee is terminated for just cause after receiving training under this paragraph, the employee must repay the State the training expenses as follows (unless the State in its discretion waives repayment):

If the employee voluntarily separates from	90 to 120 days after return - 75%
State employment 0 to 89 days after	121 to 180 days after return - 50%
returning to work, the employee must repay	181 to 270 days after return - 25%
- 100%	271 to 365 days after return - 10%

b) Upon State approval of an employee's request for a course of training or study, an employee may opt for leave without pay for a period not to exceed one (1) year to attend an approved course of study. The employee may cash-out any combination of accrued personal or annual leave at the time the leave commences as if the employee had elected to terminate his/her employment. Upon successful completion and upon return to State employment the State will reimburse the employee up to a limit of $5,000.00 to pay a portion of the expenses of the program. If the employee voluntarily separates from State service within one year from the return to State service, or if the employee is terminated for just cause after receiving training under this paragraph, the employee must repay the State the $5,000.00 as follows:

If the employee fails to return to	90 to 120 days after return - 75%
classified service or separates from	121 to 180 days after return - 50%
State employment 0 to 89 days after	181 to 270 days after return - 25%
returning to work, the employee	271 to 365 days after return - 10%
must repay - 100%.	

The employee must notify his/her supervisor of the desire to return to work thirty (30) calendar days before completion of training or thirty (30) calendar days before the expiration of the one-year period. If the employee provides timely notification, the employee has the right to return to the position and pay rate he/she held at the time the leave of absence began.

c) An employee's eligibility to request training benefits under paragraphs (a) and (b) begins upon the employee's transfer to a State position that is not covered by the Telecommunications Agreement and ends six (6) months later.

OPTION 3.

1) The State shall make no agreement impeding any affected employee's opportunity to work for any employer other than the State of Alaska.

2) If an employee accepts an offer of employment from the Vendor, the employee ceases to be a State of Alaska employee and is no longer an employee under this Agreement.

EFFECT OF AGREEMENT

Nothing in this Agreement binds either Union to the Terms and Conditions of the other Union's collective bargaining agreement and both Unions are free to reach other agreements on behalf of their members who perform services covered by the Telecommunications Agreement.

The parties intend this Agreement to be a full and complete settlement of any causes of action, grievances, or any other dispute arising from the State of Alaska's decision to contract out Comprehensive Telecommunications Services and that decision's impact on bargaining unit employees.

DURATION OF AGREEMENT

This agreement takes effect upon the State's issuance of a Telecommunications Agreement pursuant to request for proposal no. 2001-0200-2036. It remains in effect for the length of the Comprehensive Telecommunications Services Agreement.

AMENDMENT OF AGREEMENT

This agreement may be amended. All amendments must be in writing and signed by duly authorized representatives of the parties.

DISPUTES

Disputes over the application or interpretation of this Agreement are subject to the grievance/arbitration procedures in the collective bargaining agreement between the parties. The State of Alaska, Alaska State Employees Association, AFSCME Local 52, and Public Employees Local 71 may agree to trilateral arbitration where the same dispute exists between both unions and the State.

In witness whereof, the parties agree hereto, through their duly authorized representatives, to this Agreement on this 28 day of August, 2000, at Anchorage, Alaska.

FOR THE STATE OF ALASKA:

/s/ JAMES DUNCAN

James Duncan, Deputy Commissioner
Department of Administration

FOR ALASKA STATE EMPLOYEES ASSOCIATION, AFSCME Local 52

/s/ CHARLES L. O'CONNELL,

Charles L. O'Connell,
Business Manager

FOR PUBLIC EMPLOYEES Local 71

/s/ JAMES ASHTON

James Ashton
Assistant Business Manager

D.2 -- LIST OF DESIGNATED EMPLOYEES

PCN	TITLE	RANGE
	CUSTOMER SERVICES HELP	
26531	ADMIN CLERK II	GG8
26625	DATA PROC TECH I	GG13
26613	DATA PROC TECH I	GG13
	NETWORK SERVICES	
26524	DATA COMM SPEC II	GG21
26508	DATA COMM SPEC I	GG19
26414	DATA COMM SPEC I	GG19
26510	DATA COMM SPEC I	GG19
26518	DATA COMM SPEC I	GG19
26509	DATA COMM SPEC I	GG19
	NODE MANAGEMENT	
23087	COMM ENG I	GG22
23104	COMM ENG ASSOC I	GG19
23107	COMM ENG ASSOC I	GG19
23053	MAINT SPCLST II	LTC51
	ELECTRONIC MAINTENANCE	
23011	MAINT SPCLST III	LTC50
23061	MAINT SPCLST III	LTC50
23012	MAINT SPCLST II	LTC51
23013	MAINT SPCLST II	LTC51
23016	MAINT SPCLST II	LTC51
23020	MAINT SPCLST II	LTC51
23028	MAINT SPCLST II	LTC51
23030	MAINT SPCLST II	LTC51
23032	MAINT SPCLST II	LTC51
23033	MAINT SPCLST II	LTC51
23042	MAINT SPCLST II	LTC51
23043	MAINT SPCLST II	LTC51
23050	MAINT SPCLST II	LTC51
	TOTAL DESIGNATED EMPLOYEES	26

SCHEDULE E -- SERVICE LEVEL AGREEMENTS (SLAs)

E.1 ALL BUNDLES--SERVICE LEVEL AGREEMENTS (SLAs)

The SLAs for Telecommunications are categorized into the following sections:
Trouble Resolution, System Performance, and Operations and Administration. Detailed descriptions of the State's telecommunications SLAs are documented in the Appendix E.2. The State will expect Provider to comply with SLAs.

System Performance Categories are:
Availability
Response Time
Throughput
Error Rate
Security

Service Performance Categories are:
Provisioning and Fulfillment
Help Desk
Problem Resolution

E.2 SPECIFIC SERVICE LEVELS

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
AVAILABILITY					
1.	Bundle 1: Wired Telephony Level 3	24x7x365	99.8% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's voice desktop instruments, access circuits (trunks) feature sets, voice mail systems, long distance access. System is considered unavailable upon failure of any key component (e.g., CallManager(TM), WAN circuit, data router, Ethernet switch) that prevents a site from using the System.
2.	Bundle 1: Wired Telephony -- High Availability Level 2	24x7x365	99.99% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's voice desktop instruments, access circuits (trunks) feature sets, voice mail systems, long distance access. System is considered unavailable upon failure of any key component (e.g., CallManager(TM), WAN circuit, data router, Ethernet switch) that prevents a site from using the System.
3.	Bundle 1: Wired Telephony -- Critical State Telecommunications Level 1	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's voice desktop instruments, access circuits (trunks) feature sets, voice mail systems, long distance access. System is considered unavailable upon failure of any key component (e.g., CallManager(TM), WAN circuit, data router, Ethernet switch) that prevents a site from using the System.

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
4.	Bundle 1: Wired Telephony -- Critical State Telecommunications, Diversity Mandated Level 1A	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's voice desktop instruments, access circuits (trunks) feature sets, voice mail systems, long distance access. System is considered unavailable upon failure of any key component (e.g., CallManager(TM) WAN circuit, data router, Ethernet switch) that prevents a site from using the System.
5.	Bundle 2: Data Network Services Level 3	24x7x365	99.8% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of Provider provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System.
6.	Bundle 2: Data Network Services -- High Availability Level 2	24x7x365	99.99% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of Provider-provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System.
7.	Bundle 2: Data Network Services Critical State Telecommunications Level 1	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of Provider-provided or managed Customer Edge devices, Provider Edge device used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System.
8.	Bundle 2: Data Network Services Critical State Telecommunications, Diversity Mandated Level 1A	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of Provider-provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System.

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
9.	Bundle 3: Video Conferencing Level 3	24x7x365	99.8% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's H.323 videoconference units and MCUs, Provider-provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System
10.	Bundle 3: Video Conferencing -- High Availability Level 2	24x7x365	99.99% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's H.323 videoconference units and MCUs, Provider-provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System
11.	Bundle 3: Video Conferencing Critical State Telecommunications Level 1	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's H.323 videoconference units and MCUs, Provider-provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System
12.	Bundle 3: Video Conferencing Critical State Telecommunications, Diversity Mandated Level 1A	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	The "System" is equal to the aggregate of the State's H.323 videoconference units and MCUs, Provider-provided or managed Customer Edge devices, Provider Edge devices used for the Services, and Provider Core devices. System is considered unavailable upon failure of any key component (e.g., WAN circuit, data router, Ethernet switch) that prevents a site from using the System

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
13.	Bundle 4: Paging Services: Urban Locations of Anchorage, Fairbanks and Juneau	24x7x365	99.8% System-wide availability, excluding scheduled downtime	Actual uptime as a percentage of scheduled uptime.	
14.	Bundle 4: Paging Services: All other Locations	24x7x365	97% System-wide availability, excluding scheduled downtime	Actual uptime as a percentage of scheduled uptime.	
15.	Bundle 5: Cellular Services	24x7x365	99.8% System-wide availability, excluding scheduled downtime	Actual uptime as a percentage of scheduled uptime.	
16.	Bundle 6: Satellite Broadcast Programming Video and Audio Levels	24X7X365	99.99% within defined parameters for Audio and Video Levels	EBNO of not less than 5.5 db and a carrier to noise ratio of 75.23 db/hz minimum	Carrier to noise ratio is measured from the Service Center.
17.	Bundle 8: SATS Microwave	24X7X365	99.8% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime	The "System" is equal to the aggregate of those services provisioned on the SATS microwave system. System is considered unavailable upon failure of any key SATS Network Element that prevents an End-User from using the system.
18.	Bundle 10: Earth Station Maintenance	24x7x365		Actual uptime as a percentage of scheduled uptime.	
RESPONSE TIME					
19.	Dial Tone Access	24x7x365	99% within 1 second of an off-hook condition.	Number of calls achieving dial tone within 1 second as a percentage of all off-hook conditions	
20.	Voice Call Setup Delay	24x7x365	99% of calls ring within 1 second of last digit depressed.	Number of calls achieving setup within 1 second as a percentage of all calls placed	
THROUGHPUT					
21.	Data Transmission	24x7x365	99.9% of Intrastate traffic transmissions less than 85ms for transports other than satellite or terrestrial microwave, less than 600ms 100 ms for terrestrial	Number of round trips completing in target timeframe or less as a percentage of all roundtrips	Sampling plan acceptable to both the State and Provider to be described in the Standards and Procedures Manual. Any location that fails to meet SLAs at the Cutover Date will be subject to establishment of a separate site-specific SLA subject to approval of the Parties.
22.	Bundle 1: Wired Telephony Voice System Call Blocking	24x7x365	No more than 1% during peak calling periods	Number of calls blocked or experiencing service busy as a percentage of all calls	

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
23.	Bundle 5: Cellular Telephone Voice Call Blocking	24X7X365	Not less than P.03 Grade of Service on Call Origination	Number of calls blocked or experiencing service busy as a percentage of all calls	Statistics reported by ACS Service Center based on cell switch performance metrics gathered by Provider
24.	Bundle 6: Satellite Broadcast	24x7x365	Bit Error Rate of 99.9%	Measurement of BER shall be equal to or better than 1 X 10/\-6	Conditions to be defined in the Standards and Procedures Manual
ERROR RATE					
25.	Bundle 1 Wired Telephony	24x7x365	Packet loss of not more than .5% of all packets traversing the Network.	Measured from Provider demarcation to Provider demarcation	Measurement points and procedures to be described in the Standards and Procedures Manual
26.	Bundle 1	24x7x365	Jitter shall not exceed 50ms	Measured from Provider demarcation to Provider demarcation	Measurement points and procedures to be described in the Standards and Procedures Manual
27.	Bundle 2	24x7x365	Packet loss of not more than .5% of all packets traversing the Network	Measured from Provider demarcation to Provider demarcation	Measurement points and procedures described in the Standards and Procedures Manual
28.	Bundle 2	24x7x365	Jitter shall not exceed 50ms	Measured from Provider demarcation to Provider demarcation	Measurement points and procedures described in the Standards and Procedures Manual
29.	Bundle 3	24x7x365	Packet loss of not more than .5% of all packets traversing the Network	Measured from Provider demarcation to Provider demarcation	Measurement points and procedures to be described in the Standards and Procedures Manual
30.	Bundle 3	24x7x365	Jitter shall not exceed 50ms	Measured from Provider demarcation to Provider demarcation	Measurement points and procedures to be described in the Standards and Procedures Manual
31.	Data Services	24x7x365	The metrics may vary depending upon the transport protocol		Suitable performance metrics to be determined. See Note #13.

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
32.	Bundle 8: SATS Microwave	24x7x365		Radio route outage points considered to be at a BER>1x10-6, unfaded BER performance>1x10-10 The threshold error rate for propagation outages on radio routes will be considered to be 1x10-6 but the error Rate on radio hops is probabilistic with the rate being below 1x10-10 for normal unfaded conditions That exist the vast majority of the time. Unfaded operation will be at a BER>1x10-10.	
SECURITY					
33.	Network Intrusion Detection System Level 3	24x7x365	99.8% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	
34.	Network Intrusion Detection System -- High Availability Level 2	24x7x365	99.99% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	
35.	Network Intrusion Detection System -- Critical State Telecommunications Level 1	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	
36.	Network Intrusion Detection System -- Critical State Telecommunications, Diversity Mandated Level 1A	24x7x365	99.999% System wide availability excluding State approved scheduled downtime.	Actual uptime as a percentage of scheduled uptime.	
37.	Security related MAC	24x7x365	98% of MAC performed within 2 hours for the restricted VLAN switch or other security related activities.	Completed Security MACs completion duration as a percentage of total requests. Measured on a monthly basis.	A "security related" MAC is one that the State security lead, their designee or the State project manager determine is related to security. Security related issues are intended to take the highest priority.

SYSTEM PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
38.	Security Incident Response	24X7X365	Security Incident response must be expedited and performed 24x7x365. Provider will: a) recognize or otherwise acknowledge the incident within 5 minutes b) Initiate pre-planned response within 15 minutes or begin developing a plan for responding within 30 minutes	100% or all security incidents are responded to and reported within 24 hours.	Parties will conduct Root Cause Analysis of a Security Incident. Parties will agree on what is continuously monitored and those alarms will be reported in accordance with Section 19.

SERVICE PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
PROVISIONING AND FULFILLMENT					
39.	Service Request Response -- length of time to evaluate service requests and provide schedule and cost estimates	7:00 a.m.- 5:00 p.m. Monday - Friday, excluding State holidays	90% of schedule and cost estimates to be submitted within 10 business days after receiving request; 100% within 30 business days	Number of Service Requests responded to within specified timeframes as a percentage of all Service Requests received	
40.	Order Fulfillment	7:00 a.m.- 5:00 p.m. Monday -- Friday, excluding State holidays	98% of orders fulfilled within Provider specified timeframes as approved and accepted by the State.	Number of orders fulfilled within Provider specified timeframe as a percentage of the total number of orders fulfilled	
41.	IMACD (Install, Move, Add, Change, (Deletions) Service Completion	7:00 a.m.- 5:00 p.m. Monday -- Friday, Excluding State holidays	98% of IMACDs completed within schedule negotiated between State and Provider.	Number of IMACDs completed within scheduled timeframe as a percentage of the total number of IMACDs attempted	
42.	IMACD Completion Confirmation Call	7:00 a.m.- 5:00 p.m. Monday -- Friday, Excluding State holidays	98% within 2 hours of completion.	Number of completion confirmation calls performed within 2 hours as a percentage of the total number of completion confirmation calls placed.	
43.	Video Conference Staff Support Bundle 3: Video Conferencing Services	7:00 a.m.- 5:00 p.m. Monday -- Friday, excluding State holidays	Standard Order: 1 day Rush Order: 4 hours Emergency: as needed		

SERVICE PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
SERVICE CENTER					
44.	First Call Problem Resolution Rate	24x7x365	All calls not requiring dispatch are closed, in the perspective of the customer, within 30 minutes: - 60% during months 1 and 2 - 70% during months 3 and 4 - 80% beginning month 5 - 85% beginning in month 6	Number of problems resolved during the first call as a percentage of the total number of calls placed	"Call" includes all forms of real-time and asynchronous contact including electronic trouble reports, etc. Months are measured from the Cutover Date as defined in Schedule A.3 for Service Bundle 7
45.	Dispatch Confirmation call	24x7x365	99% within 15 minutes for Mission Critical functions 99% within 1 hour for all other functions	The number of dispatch confirmation calls placed within specified timeframe for each category as a percentage of the total number of confirmation calls placed within that category.	Notification calls placed to end user of approximate time for technician response to service call requiring technician dispatch.
46.	Average Speed to Answer	24x7x365	99% within 1 minute	Number of calls answered within 1 minute as a percentage of the total number of calls answered	
47.	Call Abandonment Rate	24x7x365	No more than 5%	Number of abandoned calls as a percentage of the total number of calls	An "abandoned" call is one which has entered the queue, but the caller "hangs up" before the call is answered.
PROBLEM RESOLUTION					
48.	Priority 1 - Mission Critical Impact	24x7x36	95% within 4 hours 99% within 8 hours	Number of problems resolved (including temporary "fixes") within timeframe as a percentage of the total number of problems at this priority	Measured via Help Desk software
49.	Priority 2 - Major Impact (multiple User Locations down)	24x7x365	99% within 8 hours	Number of problems actually resolved within timeframe as a percentage of the total number of problems at this priority	Measured via Help Desk software
50.	Priority 3 - Moderate Impact (single User Location down)	7:00 a.m.-5:00 p.m. Monday--Friday, excluding State holidays	99% by the end of the next business day	Number of problems actually resolved within timeframe as a percentage of the total number of problems at this priority	Measured via Help Desk software

SERVICE PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
51.	Priority 4 - Minor Impact (single User Location affected; workaround available)	7:00 a.m.-5:00 p.m. Monday--Friday, excluding State holidays	99% within 5 business days	Number of problems actually resolved within timeframe as a percentage of the total number of problems at this priority	Provider provides system which categorizes/prioritizes calls and reports call closure statistics. Measured via Help Desk software
52.	Repeat Calls for Service	24x7x365	No more than 2%	Number of repeat calls as a percentage of the total number of calls	Repeat call is defined as a recurring failure of the same device, or request for same service, within 30 days. Measured via Help Desk software
53.	Bundle 6: Satellite Service, Grade 1 Programming Mean Time to Fault Diagnosis (MTFD)-completion of programming diagnostic testing	A grade 1 service is a live broadcast designated as the highest priority by the State, Times are scheduled, programming generally runs 7:00 am to 10:00 pm Weekdays, some Weekend hours	95% of faults diagnosed within 3 minutes	Diagnostic tests to be defined in the Standards and Procedures Manual	
54.	Bundle 6: Satellite Service, Grade 2 Programming Mean Time to Fault Diagnosis (MTFD)-completion of programming diagnostic testing	A grade 2 service is a program designated by the State to be of special importance. Times are scheduled, programming generally runs 7:00 am to 10:00 pm Weekdays, some Weekend hours	95% of faults diagnosed within 5 minutes	Diagnostic tests to be defined in the Standards and Procedures Manual	
55.	Bundle 6: Satellite Service, Grade 3 Programming Mean Time to Fault Diagnosis (MTFD)-completion of programming diagnostic testing	A grade 3 service is a normal service broadcast with no special priority assigned. Standard 7X24X365 Service Center support applies.	95% of faults diagnosed within 10 minutes	Diagnostic tests to be defined in the Standards and Procedures Manual	

SERVICE PERFORMANCE

#	CATEGORY	SERVICE HOURS	SERVICE LEVEL	MEASUREMENT DEFINITION	NOTES
56.	Bundle 8: SATS Microwave: Priority 1-Mission critical-A SATS route segment is completely out of service and multiple users are affected.	24x7x365	95% within 4 hours; 99% within 8 hours	Number of problems resolved (including temporary "fixes") within timeframe as a percentage of the total number of problems at this priority	When temporary fixes are implemented, an estimated timeframe for a permanent resolution is to be provided. Effort to restore service will continue until successful and will not be constrained by normal work hours.
57.	Bundle 8: SATS Microwave: Priority 2-Major Impact-A SATS network element is down affecting service to multiple users.	24x7x365	99% within 8 hours	Number of problems actually resolved within timeframe as a percentage of the total number of problems at this priority	Effort to restore service will continue until successful and will not be constrained by normal work hours.
58.	Bundle 8: SATS Microwave: Priority 3-Moderate impact-A SATS network element is down affecting service to a single user	7:00 a.m.-5:00 p.m., Monday-Friday excluding State Holidays	99% by the end of the next business day	Number of problems actually resolved within timeframe as a percentage of the total number of problems at this priority	
59.	Bundle 8: SATS Microwave: Priority 4-Minor impact-Single user affected, workaround available	7:00 a.m.-5:00 p.m., Monday-Friday excluding State Holidays	99% within 5 business	Number of problems actually resolved within timeframe as a percentage of the total number of problems at this priority	Service Center provides system which categorizes/prioritizes calls and reports call closure statistics.

SLA AND REPORT SPECIFIC REQUIREMENTS AND AGREEMENT ITEMS:

1. Invoice and billing report to be available no later than end of the 10th business day from the close of the billing cycle.

2. Provider will develop and implement a methodology for responding to State billing inquiries such that within 30 days of the Effective Date, all billing inquires are answered with 10 working days.

3. Not later than E Day -- 60 days, Provider will develop and provide the methodology for monitoring, measuring and reporting service performance. The methodology is to include definition of the measurement criteria and escalation criteria and procedures.

4. Service volumes and levels are to be measured and reported on a calendar month basis. In addition to the current reporting month, SLA reports are to display a rolling twelve-month history.

5. In addition to reporting service volumes and levels on a monthly basis, Provider is to track daily activity volumes for those Services identified by the State. The State intends to use this information to identify activity peaks and valleys.

6. Provider will coordinate security audits at least annually.

7. Provider will provide call data record report on request of State within 10 business days of the request.

8. Provider to provide toll free telephone lines in adequate quantity to handle call volume and ACD system to record call date, time and duration information.

9. Provider will meet all State security requirements for access to systems and facilities.

10. Provider will categorize and prioritize calls, and provide call closure statistics.

11. Provider will track and provide a report of all calls abandoned per SLA.

12. All SLAs will be measured and reported on a monthly basis.

E.3 - MISSION CRITICAL SERVICES

The following table lists those communications services and/or telecommunications components that the State deems as "Mission Critical" and, therefore, require Provider's highest Class of Service and quickest problem resolution times as designated in Schedule E.2.

AGENCY	FUNCTION	FUNCTIONAL DESCRIPTION
Department of Administration	Alaska Pioneer Homes (general)	Including two way radios and pagers.
Department of Administration	Vehicle and Driver Licensing	
Department of Administration	Retiree Payroll Check Processing	
Department of Administration - ITG	Network Services -- data network and internet connectivity	
Department of Administration - ITG	SATS Microwave System -- All	Transports Safety of Life communications from two-way radio repeaters to PSAPs and local emergency medical response services
Alaska Housing Finance Corporation	Payroll Check Processing	Penalties apply if missed.
Alaska Housing Finance Corporation	Electronic transfer of funds	Federal fund receipt (HUD, DOE, etc.) Bond payments.
Alaska Housing Finance Corporation	Accounts Receivable/Accounts Accounts	Downloading interest rate for each day. Loan commitment fees, Payable grant funding (receipts and payments) Low-Income Rental deposits / payments, bond payments, short-term securities / transfers.
Alaska Permanent Fund Corporation	All investment and finance related activities	Investments, analysis, trades and information exchange including pricing and analytic data feeds, trades, bank transactions and e-mail
Alaska Permanent Fund Corporation	Board of Trustee meetings and packet production	Preparation for and activities during APFC Board of Trustee meetings
Community & Economic Development	Insurance Licensing in time of emergency	All aspects of Licensing Insurance Producers, SLBs, ADJs, MGAs, TPAs, RIMs, and RIBs
Community & Economic Development	Bradley Lake Hydro	Hydro-electric power plant
Community & Economic Development	Larsen Bay Hydro	Hydro-electric power plant
Community & Economic Development	Four Dam Pool Hydro	Hydro-electric power plant (Sale pending in 2002)
Community & Economic Development	Alaska Intertie	Hydro-electric power plant
Community & Economic Development	Alaska Railroad	

AGENCY	FUNCTION	FUNCTIONAL DESCRIPTION
Department of Corrections	Telecommunications inside and between all correctional facilities.	Twelve Correctional Institutions, And Their Security, Central Perimeter Fences, Card Entry/Exit Systems, Monitoring Systems, Health and Life/Safety Systems
Department of Environmental Conservation	Communications System for Emergency Response	
Department of Environmental Conservation	Analysis of environmental samples in an emergency response	
Department of Fish & Game	Communications (Field, Remote) to all vessels and aircraft (radios/loran)	
Office of the Governor	Elections processing -- data communications and telephones	
Department of Health & Social Services	Family and Youth Services - Youth Detention Facilities	
Department of Health & Social Services	Family and Youth Services - Family Services, Child Protection Services	
Department of Health & Social Services	Alaska Psychiatric Institute	
Department of Health & Social Services	Public Health Laboratories	
Department of Health & Social Services	Emergency Medical Services	
Department of Labor	Unemployment Benefits System	Uses automated telephone interactive voice response units in Anchorage, Fairbanks and Juneau to allow claimants statewide to file claims.
Department of Law	Prosecution of Criminals	This involves telnet access to Police Department and AJIS data base information about outstanding criminal warrants. Without the data base access, criminals could be improperly released from custody.
Department of Law	All Communications in Child Protection Cases	
Department of Military & Veterans Affairs	All communications to DMVA facilities including National Guard	
Department of Natural Resources	Wildland Fire Suppression Systems	
Department of Natural Resources	Field Radio and Mobile Repeater Systems	
Department of Public Safety	Alaska Public Safety Information Network	Communication link with national databases
Department of Public Safety	PSAP Public Safety Answering Points	Coordinates critical Safety of Life communications/911 Emergency Dispatch Centers in Kenai and Fairbanks
Department of Revenue	Collection of state revenues and agency receipts and disbursement of state funds.	This function makes extensive use of electronic funds transfers.

AGENCY	FUNCTION	FUNCTIONAL DESCRIPTION
Department of Revenue	Treasury	Portfolio Management -- this includes sending trades electronically and support for leased line connections with a variety of providers; TIME is an issue as well. We are dealing with the NY markets -- systems cannot be "down for routine maintenance" at 4 am just because nobody else in the State is working.
Department of Revenue	Permanent Fund Dividend application and payment processing	Dividend processing application is considered mission critical from January 1 through March 31. Dividend payment processing is considered mission critical from September 15 to October 15.
Department of Revenue	Process Child Support Payments	This includes electronic funds transfers as well as payments and is critical as delays can cause custodial parents to go without necessary funds to provide for the child's welfare.
Department of Transportation	All communications on Marine Highway System/vessel and shore facilities, and airport facilities in Anchorage and Fairbanks	
University of Alaska	Satellite interconnect service/equipment	
University of Alaska	Network connections between University campuses	

E.4 - CRITICAL EVENTS

The following time periods represent recurring events in the State's yearly business cycle that will require additional telecommunications support. Most of the following periods are accompanied by higher than normal traffic volumes; several require special support for critical communications, particularly at the close of the indicated period when response time is often of the essence. Where possible, the State has identified the calendar period affected. Many of the following events occur at irregular intervals throughout the year and are so indicated.

EVENT	TIME PERIOD
Fiscal Year Closing	July 1- August 31
Primary and General Elections	Variable
Statewide Ballot Initiative Votes	Variable
Beginning and End of Legislative Session	January and April/May
Permanent Fund Application Processing	January 1 -- March 31
Permanent Fund Dividend Distribution	September 15 -- October 15
Process majority of state revenue receipts	Last day of each month
University Registration Deadlines	Variable
Visitor and Tourism peaks	Summer
Fire Season	Summer, Early Fall
Annual Opening of Marine Highway Reservation System	January
Calendar Year Closing	January
Federal fiscal year end	October
Any time of State emergency	Variable
Disaster Recovery Testing	Twice Yearly
Others	As Arranged in Advance

SCHEDULE F -- INCENTIVES AND FEE REDUCTIONS

A. WIRING INCENTIVE

The Parties wish to complete the necessary cable infrastructure upgrades to Category 5 wiring as efficiently as possible, and within the $3,420,000 Wiring and LAN Infrastructure Investment allowance (the "Budget") described in Section 2.3.1 of the Agreement. Therefore, the Parties agree to provide an incentive to Provider to assist the State in meeting this objective by sharing the savings that may be realized from having the cable infrastructure upgrades completed within the Budget. In the event there is a residual Budget balance that remains unspent by Provider upon completion of the wiring additions or replacements necessary to support the transformed Network, 50% of the residual Budget balance shall be returned to Provider as an incentive. The remaining 50% of the residual Budget balance shall be used by the State for other infrastructure upgrades, as the State deems appropriate.

B. INCENTIVE FOR EARLY TRANSFORMATION

The Parties believe that it is in their joint best interests to have the Transformed Services available as soon as possible. Therefore, the State agrees to provide an incentive to Provider to encourage early delivery of the Transformed Services. In the event the Transformed Services are available to the State at least 60 days before the scheduled due date set forth in Schedule A.3, Table of Milestones and Deliverables ("Due Date"), the State shall pay Provider $400,000, and an additional $200,000 for each additional thirty (30) day period before the Due Date. In furtherance of this objective, the State shall offset from the Fees otherwise due to Provider, $400,000 if the Transformed Services are delivered more than sixty (60) days after the Due Date, and shall offset an additional $200,000 for each successive thirty (30) day period thereafter.

If, during the Transition or Transformation Periods, a Force Majeure Event occurs under the conditions set forth in Section 14.4, all incentives and fee reductions set forth in this Schedule F, Part B, shall be cancelled.

DEFINITIONS

AT-RISK AMOUNT

"At-Risk Amount" means the amounts stated in Schedule F1.

MEASURING PERIOD FOR CRITICAL SLAs

"Measuring Period" means the monthly period in which a given Critical SLA, as identified in Schedule F1, is measured. The Measuring Period for each Critical SLA shall commence on the Final Cutover Date.

FEE REDUCTIONS

In the event of any Failure with respect to a Critical SLA, a Fee Reduction will be imposed on Provider equal to the At-Risk Amount for such Critical SLA.

INCENTIVES

Provider may earn an Incentive equal to one hundred percent (100%) of the Fee Reduction corresponding to a particular Critical SLA if, in any four (4) consecutive Measuring Periods, no Failure occurs as to that Critical SLA. If a Critical SLA is modified as described in Section 2.4 of the Agreement, the four (4) consecutive Measuring Period requirement prior to earning an Incentive will apply to such modified Critical SLA as of the date the modified Critical SLA was approved by the Management Committee.

FEE REDUCTION/INCENTIVE POOL

All Fee Reductions and Incentives with respect to the Critical SLAs shall be accounted for in a pool. At the end of each Contract Year, the Parties shall perform a true-up of the pool, which, in accordance with the chart set forth below, may result in a payment by the State to Provider of Provider's earned Incentives or the application of a Fee Reduction credit (or refund, if in the last Contract Year) to the State's next payment with respect to the Annual Services Charge. After such annual true-up, the pool shall be reset to zero.

CRITICAL SLA POOL	TRUE-UP RESULT
+	The State will pay Provider an Incentive equal to the net positive amount.
-	The State will be entitled to a Fee Reduction equal to the net negative amount.

SCHEDULE F.1
CONTRACT YEAR 1

CRITICAL SLAs	AT RISK AMOUNT PER MONTH
SLA # 1 - Bundle 1 -- Wired Telephony, Level 3	$29,500
SLA # 5 - Bundle 2 -- Data Network Services, Level 3	$19,900
SLA # 9 - Bundle 3 -- Video Conferencing, Level 3	$2,800
SLA # 13 -- Bundle 4 -- Paging, Urban	$1,000
SLA # 17 -- Bundle 8 -- SATS	$11,500
SLA # 18 -- Bundle 10 -- Earth Station Maintenance & Repair	$600
SLA # 21 --Throughput -- Data Transmission	$9,700
SLA # 34 --Network Intrusion -- Level 2	$8,000
SLA # 38 -- Security Incident Response	$7,000
SLA #40 -- Order Fulfillment	$7,000
SLA # 44 -- First Call Problem Resolution	$7,000
SLA # 50 -- Problem Resolution , Priority 3	$7,000
SLA # 51 -- Problem Resolution , Priority 4	$7,000
SLA # 52 -- Repeat Calls for Services	$7,000
Total At Risk Amount Per Month	$125,000

TOTAL NUMBER OF CRITICAL SLAs - CONTRACT YEAR 1 = 14

SCHEDULE G -- KEY PERSONNEL AND APPROVED SUBCONTRACTORS

G.1 STATE KEY PERSONNEL

Project Director	Karen Morgan
Contracting Officer	Marlys Hagen
Network Services Manager	Stan Herrera
Telephone Node Manager	Ed Williams
Electronic Maintenance Supervisor	Jerry Jasper
Engineering Manager	Dean Strid
SIPMG	Don Rinker
Accountant	Dorothy Webster
Help Center Manager	Deb Gazaway
CTO, University of Alaska	Steve Smith
Vice President, ARRC	Eileen Reilly

G.2 PROVIDER KEY PERSONNEL

Account Manager	Jeff Tyson
Vice President ACS Internet	Jeff Tyson
Service Center Director	Alys Orsborn
Network Engineering Manager	Robert Carter
Manager, Network Engineering	Steve Hall
Billing Manager	Anne Reed
General Manager, Enterprise Group	Shawn Uschmann
General Manager, Wireless	Glenn Bunker
Systems Administrator III	Tom Simes

G.3 APPROVED SUBCONTRACTORS

ACS Internet, Inc.
ACS Long Distance, Inc.
ACS Wireless, Inc.
ACS of Anchorage, Inc.
ACS of Fairbanks, Inc.
ACS of Alaska, Inc.
ACS of the Northland, Inc.
Cisco Systems, Inc.
Globalstar, Inc.
Iridium LLC
AT&T Alascom, Inc.
Portal Software, Inc.
Computer Associates, Inc.

SCHEDULE H -- PARTICIPATING DEPARTMENTS

EXECUTIVE BRANCH DEPARTMENTS	LEVEL OF PARTICIPATION*
Administration	Full
Community & Economic Development	Full, except as follows:
Alaska Railroad	Participating in Bundle 1 (LD, Calling Card, Toll Free), Bundle 5, Bundle 7, Bundle 8
Alaska Aerospace Development Corporation	Not currently participating but could in the future
Corrections	Full
Education & Early Development	Full
Environmental Conservation	Full
Fish & Game	Full
Governor's/Lt. Gov.'s Office	Full
Health & Social Services	Full
Labor & Workforce Development	Full
Law	Full
Military & Veteran's Affairs	Full
Natural Resources	Full
Public Safety	Full
Revenue	Full except as follows:
Alaska Housing Finance Corporation	Participating in Bundles 1, 2, and 5
Transportation & Public Facilities	Full
LEGISLATURE	
Legislative Affairs Agency	Bundles 1, 2, 3, and 7
Legislative Agencies & Offices	Bundles 1, 2, 3, and 7
COURT SYSTEM	Bundle 2

EXECUTIVE BRANCH DEPARTMENTS	LEVEL OF PARTICIPATION*
University of Alaska	
	Bundle 1 (UAS Juneau Campus Only)
	Bundle 2 full except for dial-up modem
	Bundle 3 for QoS not using bridge, and Gateway to state system
	Bundle 5 full
	Bundle 6 full
	Bundle 7 full for participating Services
	Bundle 9 full
	Bundle 10 full

* Note: Level of participation by Bundle and Department is further detailed in Schedule C.

SCHEDULE I -- MANAGED CONTRACTS

CONTRACT NUMBER	CONTRACTOR	CONTRACT DESCRIPTION	EXPIRATION DATE	ANNUAL COST
ITG CONTRACTS SERVICES				
99-012-J	General Communications Inc.	Full-Service Internet Service Provider	6/30/2002	$445,000
99-010-J	AT&T Alascom	Frame Relay Backbone for Statewide WAN	6/30/2002	$786,000
99-074-J	Jeffus & Williams	Telephone MAC in Juneau	2/28/2002	$50,000
02-010329-91	Northern Telecom Finance	Juneau Switch Purchase	2005	$1,200,000
n/a	Alaska Communications Systems (PTI)	Fairbanks Switch Maintenance	until cancelled	$27,000
99-073-J	Peregrine Systems	Telephone Billing Services	6/30/2002	$74,300
INTERIM LD/LOCAL/DEDICATED CIRCUIT				
Tariff	AT&T	50% of Long Distance	until cancelled	$347,000
Tariff		Dedicated Circuit (T-1) Anc to Jno	until cancelled	$93,000
Tariff		Access Anc/Fbks/Jnu to a T-1 Switch Network	until cancelled	$14,000
Tariff		Network Circuits	until cancelled	$135,000
Tariff	GCI	50% of Long Distance	until cancelled	$276,000
Tariff		Local Dial Tone to State Switch in Anc	until cancelled	$132,000
Tariff		Local T-1 Service in Anc	until cancelled	$27,000
Tariff	Alaska Communications Systems	T-1 Service PO Mall/ADC-C&RA	until cancelled	$19,600
Tariff		T-1's (voice) Service C&RA Post Office Mall	until cancelled	$145,000
Tariff		T-1 Service for Law in Anchroage	until cancelled	$7,900
Tariff		T-1 Service for Frontier Bldg	until cancelled	$9,700
Tariff		Local Connections	until cancelled	$191,110

CONTRACT NUMBER	CONTRACTOR	CONTRACT DESCRIPTION	EXPIRATION DATE	ANNUAL COST
		Network Circuits	until cancelled	$160,000
Tariff				
Tariff	Alaska Communications Systems/PTI	Local T-1 Service in Soldotna	until cancelled	$5,000
Tariff		Local T-1 Service in Juneau	until cancelled	$180,000
Tariff		Local T-1 Service in Fairbanks	until cancelled	$175,200
Tariff		Local Connections	until cancelled	$80,000
Tariff		Network Circuits	until cancelled	$33,000
Tariff	Bristol Bay Telephone Co-op	Network Circuits	until cancelled	$1,500
Tariff	Copper Valley	Network Circuits	until cancelled	$2,500
Tariff	Cordova Telephone	Network Circuits	until cancelled	$1,300
Tariff	GTE	Network Circuits	until cancelled	$11,700
Tariff	Ketchikan Public Utility	Network Circuits	until cancelled	$2,500
Tariff	Matanuska Telephone Association	Network Circuits	until cancelled	$3,000
Tariff		Local Service	until cancelled	$7,500
EQUIPMENT PURCHASE CONTRACTS				
99-084-A	Unisys	Purchase of Cisco Routers/Switches & Accessories	5/24/2001	$1,000,000
99-065-A	Cisco Systems, Inc.	Cisco Networking Equipment Maintenance	1/31/2002	$225,000
ARCS/SIP				
Grant 211900	Alaska Public Broadcasting Joint Venture	Technical Monitoring/Administrative Function for SIP	6/30/2002	$268,900
Tariff	AT&T	Transponder		$1,294,568.28

SCHEDULE J -- CURRENT PROJECTS AND TECHNOLOGY INITIATIVES

Table J.1 lists the Current Projects being currently undertaken or planned by ITG and will become the responsibility of Provider under the terms of this Agreement, if not completed on the Effective Date. Table J.2 enumerates Technology Initiatives that are the responsibility of Departments but that may have an impact on the State's telecommunications infrastructure and require Services from Provider. This list is not comprehensive and has not been updated recently but is provided to demonstrate the types of Technology Initiatives that may impact the telecommunications infrastructure serving the State.

TABLE J.1

AGENCY	CURRENT PROJECTS	SYSTEMS IMPACT
ITG-Communications Services	Enhanced ACD/Call Center features for Juneau, Anchorage and Fairbanks. Estimated call wait time announcement, networked call centers, screen pops, advanced reporting capabilites, quality assurance recording/playback. Nortel Symposium product originally identified as solution. Agencies requiring this service are Department of Labor-Unemployment Insurance Call Center and Employment Security, Department of Revenue-Permanent Fund Dividend and Child Support Enforcement, Department of Education-Alaska Commission on Postsecondary Education, Department of Transportation and Public Facilities-Alaska Marine Highway System and Department of Administration-Retirement and Benefits.	WAN Bandwidth Computer/Telephony System Integration
ITG -- Communications Services	New Anchorage Jail -- ITG is working closely with the Department of Corrections to design and implement converged voice, data and video communications systems for multiple agencies in the new facility (Corrections, Public Safety, Courts, etc.) The new communications systems will be operational by March 2002.	Telephone, Data Network, and Video Services
ITG-Communications Services	Fairbanks Switchroom Air Conditioner Replacement. The current equipment is failing and is inadequate during summer peak periods. If the current facility will be used through the summer, increased air handling will be required to provide a stable temperature environment	Telephone Services

ITG- Communications Services	Juneau PBX upgrade to Release 25 for feature enhancements. Equipment/Service includes expanded DRAM and IODU/C card to convert diskette drive to CDROM and vendor install.	Telephone Services
ITG -- Communications Services	The Alaska Court System requires bandwidth increases and additional connectivity to accommodate their new case management application.	Data Network Services

TABLE J.2

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
Office of the Governor	The Governor's office strives to ensure that all Alaskans have fair, equitable access to modern telecommunications services.	Varied
	The Governor's office has also indicated a desire to add streaming audio and video capabilities to the State's website.	ISP Bandwidth WAN Bandwidth
Office of the Lt. Governor	The Lt. Governor's office strives to seek ways to mitigate "unintended consequences" of telecommunications policies and practices that might adversely impact rural Alaskans	Varied
	The Lt. Governor's office is also concerned with expanding the use of audio and video teleconferencing as a means to reduce State expenses (i.e. travel, etc.)	Video and Audio Conferencing Bandwidth
Dept of Administration	Document Imaging and Electronic Publishing -- Most State publications are currently available in electronic format. Access to e-docs is expected to grow dramatically -- ESD: Ongoing	WAN Bandwidth
	Expanding use of FEDI payments to vendors -- ESD: Ongoing	WAN Bandwidth

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
ITG -- Communications Services	SATS Upgrades for the State of Alaska's portion of the Alaska Land Mobile Radio (AMLR) project. The AMLR is a partnership between Federal, State, Local governments to build a shared interoperable emergency communications system for Alaska. A proof-of-concept pilot project to demonstrate the interoperability is underway. Once the proof of concept is complete and successful, full implementation of the project is expected to occur.	Many SATS upgrades for this project are included in the SATS Maintenance List. Others may be identified as the pilot project is further developed. In addition to these upgrades, SATS circuit changes will be required.
Dept of Community & Economic Development	Expanded use of audio and video conferencing equipment -- ESD: Ongoing	Video and Audio Conferencing Bandwidth
	Use of E-Commerce for the renewal and purchase of Business Licenses -- ECD: 2Q00	WAN Bandwidth
	Use of E-Commerce for sale of "Slide Library" for Alaska Publications -- download capabilities for between 2000 and 4000 very large (6.5meg) image files -- ECD: 3Q00	WAN Bandwidth
	Use of Digital Signatures for documents that require signatures -- ESD: Ongoing	WAN Bandwidth
Dept. of Corrections	Expansion of data connectivity to remote community jails including fingerprinting, electronic record warehousing, etc. -- ESD: Ongoing	WAN Bandwidth VPN
	Video Visiting Initiative -- Provide pay-for-use video conferencing capability to allow relatives to speak with inmates at geographically diverse locations (e.g. inmates in Arizona, relatives in Bush) -- ESD: 3Q00	Video Conferencing Bandwidth
	See also Department of Public Safety Initiatives	
Dept. of Education	Expanded use of WWW for student and faculty research -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
	Expanded of use of WWW to provide enhanced communications between teachers and -- ESD: 3Q00	WAN Bandwidth ISP Bandwidth parents
	Expanded use of videoconferencing equipment for teacher in-service training as well as remote classroom distance learning -- ESD: 3Q00	Video Conferencing Bandwidth

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
Dept. of Environmental Conservation	Expanded requirement to provide imagery and data to field personnel for emergency response situations -- ESD: Ongoing	WAN Bandwidth SATS Bandwidth
Dept. of Fish and Game	Expanded use of electronic access to F&G licenses - ESD: On-going	WAN Bandwidth ISP Bandwidth
	Availability to purchase F&G licenses through kiosks in stores - ESD: 3Q00	WAN Bandwidth ISP Bandwidth
	Increased requirement to access and run applications from remote locations - ESD: Ongoing	WAN Bandwidth SATS Bandwidth
Dept. of Health and Social Services	Decentralization of data warehousing functions -- ESD: Ongoing	WAN Bandwidth VPN
	Document imaging and electronic medical records -- ESD: Ongoing	WAN Bandwidth VPN
	Tele-medicine -- Consultative communications between central medical facilities and remote care providers for both acute (emergency) and chronic patients. Includes voice, packetized data and streaming data -- ESD: 3Q00	WAN Bandwidth PBX Bandwidth Video Conferencing Bandwidth
	Family and Youth Services -- ORCA, statewide MIS application with heavy emphasis in rural locations for database access and information distribution. Connectivity to Galena, McGrath, Ft. Yukon, St Mary's, Aniak -- ESD: 4Q02	WAN Bandwidth WAN Locations Cellular Phone ISP Bandwidth VPN
	Juvenile Justice -- JOMIS, Juvenile Offender MIS with statewide WAN implementation -- ESD 3Q01	WAN Bandwidth ISP Bandwidth
	Public Health - Vital Statistics -- Vital Vision MIS for the recording of all vital records (birth, death, marriage, adoption, etc.). Links to rural courts, hospitals, funeral homes -- ESD: 3Q01	WAN Bandwidth ISP Bandwidth VPN
	Mental Health and Developmental Disabilities -- ARORA and DDIANA. Management systems for Mental Health providers located statewide. Management system for Developmental Disabilities providers statewide. Database	WAN Bandwidth ISP Bandwidth VPN

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
	access through client server and browser based - ESD 1Q01	
	Public Health -- Community Health Emergency Medical Services. WEB based training including streaming video to urban and rural office locations - ESD: 4Q00	WAN Bandwidth
	Public Health Nursing -- Telemedicine inclusive of all Health Clinics in rural locations -- ESD: 4Q01	WAN Bandwidth
	Medical Assistance -- Medicaid Management Information System. Decision Support between Anchorage and Juneau -- ESD: 4Q01	WAN Bandwidth ISP Bandwidth VPN
	Public Health - National Electronic Disease Surveillance System. Infectious Disease reporting through the internet to Centers for Disease Control. Requirements for secure encrypted communications -- ESD: 4Q01	WAN Bandwidth ISP Bandwidth Secure Communications
Dept. of Law	Expanded use of WWW for research by law department personnel	WAN Bandwidth ISP Bandwidth
	See also Department of Public Safety Initiatives	
Dept. of Labor	Alaska Job Center -- Expansion of use of WWW to provide employment opportunity listings, interview preparation training etc. -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
	Increased use of IVR system and WWW for unemployment insurance application filing and ongoing verification -- ESD: 3Q00	WAN Bandwidth ISP Bandwidth PBX Bandwidth
	Move towards thin client architecture for several applications -- ESD: Ongoing	WAN Bandwidth

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
Dept. of Military and Veteran Affairs	Land Mobile Radio Migration Plan -- Cooperative effort to move Federal and State two-way LMR systems from wide-band to narrow-band -- ESD: 3Q00	SATS Bandwidth, Space and Power
	Satellite Imaging- Satellite remote imaging to support public interest functions including disaster response, planning, etc. Includes large file transport across the WAN -- ESD: 3Q00	WAN Bandwidth
	Learning Centers -- Broadband connectivity to select National Guard armories for remote interactive training -- ESD: Unknown	WAN Bandwidth
	Mini-Radio EAS System -- Licensing and implementation of signal transport for Emergency Alert System via State satellite up-link and distributed satellite earth station down-links -- ESD: 2Q00	Satellite Bandwidth Earth Station Operations
Dept. of Natural Resources	On-line Reservation System -- Expand functionality of website (currently allows verification of DNR cabin availability) to include reservation and e-payment features -- ECD: 3Q00	WAN Bandwidth ISP Bandwidth
	Document Imaging -- Extensive imaging of plats, overhead imagery, microfiched archives etc. ESD: Ongoing	WAN Bandwidth
	Data Sharing -- Increased integration with Federal natural resources agencies -- ESD: Ongoing	WAN bandwidth
Dept. of Public Safety	Land Mobile Radio Migration Plan -- Cooperative effort to move Federal and State two-way LMR systems from wide-band to narrow-band -- ESD: 3Q00	SATS Bandwidth, Space and Power
	Mobile Data Computer (MDC) Implementation -- Anchorage PD and possibly Alaska State Troopers moving towards issuing MDC for field unit to base data communications -- ESD: CY01	WAN Bandwidth SATS Bandwidth
	Integrated Justice Record Management System -- Integrated criminal and court record database accessible by law enforcement agencies, public defenders offices, etc. -- ESD: CY01	WAN Bandwidth VPN

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
Dept. of Revenue	Computer Telephony Integration -- Child Support Enforcement Division requires functionality provided by CTI capability -- ESD: Unknown	WAN Bandwidth PBX Bandwidth
	Document Imaging -- Imaging of correspondence, receipts, etc. -- ESD: Ongoing	WAN Bandwidth
	Permanent Fund Dividend Division Electronic Filing Initiative --allows citizens to file PFD paperwork electronically including electronic signature -- ECD: 4Q00	WAN Bandwidth ISP Bandwidth
Dept. of Transportation and Public Facilities	ITS/CVO -- Commercial Vehicle Operations -- Includes hazmat load tracking, permitting, weigh station and inspection reporting, etc. - ESD: 3Q99	SATS Bandwidth, Space and Power
	RWIS -- RoadWay Information System -- Use of remote radio and wire-line linked sensors to monitor road conditions along state highways. Includes data and video -- ESD: 3Q00	SATS Bandwidth WAN Bandwidth
	National Pollution Distribution Elimination System -- Data collection from vehicle mounted terminals which record distribution of de-icing agents -- ESD: CY01	SATS Bandwidth WAN Bandwidth
	Integrated Maintenance Management System -- Provides tracking of maintenance requirements and maintenance records for DOT/PF assets -- ECD: 2Q01	WAN Bandwidth
	Marine Highway Reservation System -- Expansion of services on WWW and IVR to reduce workload on human operators -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
	Marine Highway System Manifest Reporting Requirements -- Expanded SOLAS requirements for data transfer from ferries to control facilities -- ESD: Ongoing	WAN Bandwidth
	Anchorage Intl Airport -- Desire to move away from Centrex services to PBX to provide shared tenant services -- ESD: Unknown	PBX Bandwidth
	Fairbanks Intl Airport - Move to provide shared	PBX Bandwidth

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
	tenant services -- ESD: Unknown	
	Rural Airports -- Expansion of FAA supported Airport Information Management System (AIMS) to additional rural airports -- ESD: Ongoing	WAN Bandwidth
Alaska Railroad	Expanded use of E-Commerce -- Support for customers on-line e-transactions in both passenger and freight service businesses -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
	Collision Avoidance System -- Precision train control system utilizing data radio links and GPS telemetry -- ECD: 4Q00	SATS Bandwidth, Space and Power
	Expansion of telecommunications services to support passenger business service at New Depot, Denali, and Anchorage Intl' Airport -- ESD: Ongoing	WAN Bandwidth PBX Bandwidth
	Increased use of video conferencing -- particularly for remote training hosted at Fairbanks office -- ESD: Ongoing	Video Conferencing Bandwidth
Office of Legislative Affairs	Expanded use of WWW to inform public of current legislative issues -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
Alaska Court System	Video Arraignment -- Use of video-conferencing technology to support arraignment proceedings between centralized court and local court/corrections facilities -- ECD: Ongoing	Video Conferencing Bandwidth VPN
	New Court Management System -- Centralized data collection and warehousing of court management information -- replaces dated decentralized standalone systems -- ESD: WAN 4Q00	WAN Bandwidth VPN
	Expanded use of WWW for research by court personnel -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
	See also Department of Public Safety Initiatives	
University of Alaska	Distance Learning -- Asymmetric data delivery, including TV feed, to support remote education and resource sharing between campuses -- ESD: 3Q00	WAN Bandwidth ISP Bandwidth
	Expanded access to UAF Supercomputing resources by Federal and State agencies as well	WAN Bandwidth ISP Bandwidth

AGENCY	TECHNOLOGY INITIATIVES	SYSTEMS IMPACT
	as private sector organizations and private citizens -- ESD: Ongoing	Security
	Geophysical Institute -- Expansion of seismographic and volcanic sensor network - ESD: Ongoing	SATS Bandwidth, Space and Power
	Expanded use of WWW by students and faculty for teaching, research, and other public service -- ESD: Ongoing	WAN Bandwidth ISP Bandwidth
	Additional used of audio and video conferencing including plans for an all digital IP network -- ESD: Ongoing	WAN Bandwidth Video and Audio Conferencing Bandwidth
	Increased use of the Internet for multi- and simulcast video and audio services -- ESD: Ongoing	ISP Bandwidth WAN Bandwidth

All dates are denoted CQCY = Calendar Quarter Calendar Year, ESD = Estimated Start Date, ECD = Estimated Completion Date

SCHEDULE K -- PAGING COVERAGE CHART

PAGING SITE	COVERAGE AREAS FROM PAGING SITES	
Anchorage Airport	Anchorage Bowl, Knik Arm	Turnagain Arm
Alcantra	Willow, Big Lake, Houston	Kashwitna, Caswell Lakes
Delta	Delta, Harding, Richardson Hwy	Pillsbury, Paxson
Dillingham		
Ester Dome	Fairbanks, Ester, Chena	Fox, Nenana, Dalton Hwy
Fairbanks Airport	Fairbanks proper, North & South	North Pole and vicinity
Glennallen	North to Paxson, Richardson Hwy	South to Thompson Pass
Healy		
Heney Ridge	Cordova, Prince William Sound	Some Gulf of Alaska
Homer	Homer, Anchor Point	Seldovia, Kachemak Bay
Juneau	Juneau proper, Capitol Area, North Douglas	Overlaps surrounding area
Juneau Courthouse	North and South Juneau	Off shore coverage, canyons
Ketchikan		
Kotzebue		
McGrath		
Nome		
Palmer DOT	Palmer, Sutton, Chickaloon	Glenn Hwy to Peters Creek
Pillar Mountain	Kodiak, Missile Launch site	Near Island, Coast Guard
Portage		
Seward	Seward, Moose Pass, Hwy	Prince William Sound
Site Summit	Anchorage Area Wide	Hope, Wasilla, Valley overlap
Sitka		
Ski Hill	Soldotna, Kenai, Nikiski	Kasilof, Ninilchik, Sterling
Talkeetna		
Tok	Tok, Independence, Stateline	Highway to Glennallen
Valdez	Valdez, Prince William Sound, Thompson Pass	Pipeline Terminal, Richardson Hwy
Willow Mountain	Glennallen south to Valdez	Glennallen west to Eureka

SCHEDULE L -- CELLULAR COVERAGE CHART

Coverage is provided from Homer to Anchorage, the length of the Seward Highway. Specifically the peninsula communities of Homer, Seward, Kenai, Soldotna, including Skilak Lake and Kenai Lake recreation areas. Coverage is provided north of Anchorage through the Mat-Su Valley, both north through Wasilla up to Cantwell and northeast through Palmer on to Glenallen, Chistochina, and Chitina. Currently there is a small break in coverage on the Parks Highway between Cantwell and Windy. Service resumes at Windy through Fairbanks and north to Chatanika. Additional key areas covered in Central Alaska include; Pleasant Valley, North Pole, Ft. Richardson, Delta Junction, Black Rapids, Cathedral Rapids, Tok, Tetlin Junction, Sourdough, Tonsina, Valdez, Kennicott and McCarthy. Coverage is also provided at Prudhoe Bay and Barrow.

Southeast Alaska is also in Provider's coverage area. Service is provided to the communities of Juneau, Haines, Pt. Howard, Hoonah, Cape Spencer, Manley, Sitka, Gunnuk, Petersburg, Ratz Mountain, Craig, Ketchikan, and High Mountain, as well as extensive coverage throughout the Alaska Marine Highway.

CELLULAR COVERAGE AREA

Alaska Marine Hwy	Manley
Anchorage	Petersburg
Barrow	Prudhoe Bay
Cape Spencer	Pt. Howard
Craig	Ratz Mountain
Fairbanks	Seward
Glennallen	Sitka
Gunnuk	Soldotna
Haines	State of Alaska
High Mountain	State of Colorado
Homer	State of Idaho
Hoonah	State of Oregon
Juneau	State of
Washington	
Kenai	Tok
Ketchikan	Valdez
Lower 48	Wasilla

SCHEDULE M -- SECURITY PROCEDURES

This Schedule contains general security procedures and processes to be used when the Parties are responding to a Security Incident. These security policies will be reviewed on a regular basis by the Management Committee and this Schedule M shall be updated or revised as necessary after such review.

GENERAL SECURITY PROCEDURES.

1. INTRUSION DETECTION. Provider will provide, at the internet connectivity Cutover Date, IDS on all transitioned access points located at State facilities in Juneau, Anchorage, Fairbanks, and Kenai/Soldotna, and at Provider's facilities in and Seattle. In addition, during the Ramp-Up and Transition Period, the Parties will work to identify and aggregate all ingress points into the State's WAN via the IDS, to the greatest extent possible. IDS will be performed in real-time with performance degradation limited to manufacturer specifications and in accordance with the applicable SLAs. The State will approve the IDS implementation in accordance with Change Management and Configuration Management Procedures described in the Agreement.

2. SECURITY LOGS AND REPORTS. The State will be provided with security data and reports as required in the Agreement.

3. FIREWALLS. The State may place and maintain firewalls at inter-Department LAN points. Any performance degradation associated with these firewalls will not be the responsibility of Provider nor be considered a breach of the applicable SLA.

4. WIRELESS. Provider will ensure wireless Network access security policies are developed and enforced.

5. VPN. VPN services, including various encryption methodologies and key management, will be jointly developed by the Parties to accommodate various Department requirements. Options will include DES or other State approved solutions.

6. AUTHENTICATION. Provider will make use of the State LDAP databases for user authentication. Provider will recognize all ID and password changes made to the State directories within 10 minutes of a password or ID change.

SECURITY INCIDENT RESPONSE PROCEDURES

The Security Incident response procedures shall apply to the following situations:

1. IT security issues and concerns raised by either a State or Provider employee that involve actions, conduct, or behaviors of its employee(s).

2. Potential or alleged IT security violations as governed by State policies and procedures.

3. Any situation that creates an IT security risk or vulnerability for the State or Provider.

THE FOLLOWING SET OF EXPECTATIONS ARE AGREED TO BY BOTH STATE AND PROVIDER:

NOTIFICATION, DISCLOSURE AND ESCALATION

State and Provider agree to provide immediate notification to the other Party of any IT security-related issues, concerns, or violations, whether alleged or substantiated, as related to the provision of Services. Notification will occur as indicated below.

o Parties agree to develop emergency network security response procedures that recognize the urgency of the associated threat and allow for immediate and appropriate changes to the network by Provider without advance notification. These guidelines will be developed and included in the Standards and Procedures Manual.

o The State will notify the following Provider managers of any potential or known IT security issues or concerns, and disclose any and all pertinent data to Provider's Account Manager, and Provider Service Center Director.

o Provider will notify the following State managers of any potential or known IT security issues or concerns and disclose any and all pertinent data to the State Chief Technology Officer or their designee and the State Security Manager or their designee

o The Parties agree, in a timely manner appropriate to the circumstances, to act according to their prescribed personnel procedures in communicating to employees involved in a Security Incident.

COLLABORATION ON INVESTIGATIONS

The Parties agree to work collaboratively in the investigation of potential or substantiated IT security issues, concerns, and violations of the State's Personal Use of State Office Technology Policy. The Parties will share documentation of events, findings and corrective actions. The State and Provider agree to share appropriate employee information regarding any joint investigations, except as prohibited under AS 39.25.080.

CORRECTIVE ACTIONS AND RESOLUTION

Corrective actions, other than those related to State or Provider personnel actions, will be mutually agreed to in the event that an IT security issue, concern or the State's Personal Use of State Office Technology violation has been substantiated. If a mutually agreeable action is not forthcoming, the dispute will be resolved in accordance with Section 25 of the Agreement. Corrective actions will be prescribed as governed by law, and the policies and procedures of both companies.

State and Provider will mutually agree upon the terms and conditions of corrective actions, including the timeframe in which IT security issues, concerns or the State's Personal Use of State Office Technology violations are resolved and corrective actions are completed.

State and Provider will take, in a timely manner, all necessary steps to protect and defend the State and Provider assets from further security risks. State and Provider will maintain an open dialogue throughout the investigation until corrective actions have been identified and completed and the case has been brought to closure.

CONFIDENTIALITY

Discussions between State and Provider management regarding an investigation will be documented, treated, and kept in a confidential manner.

The Parties agree to the following statements:

o Provider employee files or employee information that is accessed during the course of the investigation will remain the property of Provider, but will be shared with State. This information will be used to determine a course of action to protect the State Network resources.

o Information that is deemed or marked confidential and that is accessed or disclosed during the course of the investigation will be treated as Confidential Information.

SCHEDULE N - REQUIREMENT PROJECTIONS

REQUIREMENTS	UNIT	NEW 2001 INVENTORY	RFP NUMBERS CURRENT*	OUTSTANDING DEBT	ANNUAL EQUIPMENT MAINT. COST	FY '02 NON ITG BUDGET	FY '03 PROJECTED COSTS	YEAR 1 ESTIMATES
1. WIRED TELEPHONY SERVICES				$4,685,296	$533,611	$207,136	$248,826	
Network Ports - Treated as fax lines	Fax Lines	1,241	Not Reported					
Single Line Phones	Telephones	7,899	5,600					8,057
Estimated Annual Growth Rate								2%
Multiline Phones	Telephones	12,925	12,427					13,184
Estimated Annual Growth Rate								2%
Other Lines (FAXs, etc.) Estimated as 10% of total phones in data base of 20,824)	Lines	2,082	3,816					-
Estimated Annual Growth Rate								3%
Total Telephone Devices	Total Lines	24,147	18,027					21,240
Local Telephone Service (ITG Switches Only)	Minutes/Month	1,600,077	1,225,000					1,648,079
Estimated Annual Growth Rate								3%
Phone Service (total)	Minutes/Month	2,981,176	1,042,000					3,100,423
Total Onnet Intrastate	Minutes/Month	496,389	not included					
Total Onnet Local	Minutes/Month	1,600,076	not included					
Total Other	Minutes/Month	412,487	not included					
Total Offnet Intrastate	Minutes/Month	297,242	not included					
Total Offnet Interstate	Minutes/month	173,731	not included					
Total Offnet International	Minutes/month	1,250	not included					
Estimated Annual Growth Rate (total)								4%
Voice Mail Service	Telephones	Not Included	15,323		$ 30,625	$ 5,977	$ 850	15,629
Number of Ports	Ports	658	Not Included					671
Number of Ports in Use	Ports	491	Not Included					501
Number of mailboxes in use	Mailboxes	17,700	Not Included					18,054
Number of Ports dedicated to auto attendant	Ports	37	Not Included					38
Estimated Annual Growth Rate								2%

REQUIREMENTS	UNIT	NEW 2001 INVENTORY	RFP NUMBERS CURRENT*	OUTSTANDING DEBT	ANNUAL EQUIPMENT MAINT. COST	FY '02 NON ITG BUDGET	FY '03 PROJECTED COSTS	YEAR 1 ESTIMATES
Audio Teleconferencing Service	Minutes/Month	10,500	10,500					10,920
Estimated Annual Growth Rate								4%
Moves Adds and Changes (SEE NOTE 3 BELOW)	MACs/Month	578	500					595
Soft MAC's (ITG)	MACs/Month	233						240
Hard MAC's (ITG)	MACs/Month	345						355
Estimated Annual Growth Rate								3%
Calling Services:					$1,866,108	$1,588,690	$1,639,906	
Number of telephone lines attached to the service provider	Lines	6,155	Not Included					
Minutes used per year	Minutes	14,188,882	Not Included					
2. DATA NETWORK SERVICES					$ 262,123	267,348	279,092	
Number of Ports	Ports	10,925	Not Included					15,295
Number of Active Ports	Ports	7,411	Not Included					10,375
WAN Services								
Total WAN Data Bandwidth (Note 2)	N/A	N/A	N/A	Actual Growth Rate:				N/A
Estimated Annual Growth Rate								40%
WAN Points of Presence (Note 4)	POPs	422	360	17%				485
Estimated Annual Growth Rate								15%
Internet Connectivity (Peak - estimated)	Megabits/sec	40	14	186%				56
Estimated Annual Growth Rate								40%
Remote Dial-up Connectivity	Users	333	270	23%				383
Estimated Annual Growth Rate								15%
Moves Adds and Changes	MACs/Month	40	50	-20%				52

SCHEDULE N - REQUIREMENT PROJECTIONS

REQUIREMENTS	UNIT	NEW 2001 INVENTORY	RFP NUMBERS CURRENT*	OUTSTANDING DEBT	ANNUAL EQUIPMENT MAINT. COST	FY '02 NON ITG BUDGET	FY '03 PROJECTED COSTS	YEAR 1 ESTIMATES
Estimated Annual Growth Rate								30%
3. VIDEO CONFERENCING SERVICES					$ 9,961	$ 8,790	$ 8,849	
Video Conferencing Services (Note 1)	Minutes/Month	14,315	4,000					17,178
Total Number of Ports	Ports	34	Not Included					41
Total Active Ports	Ports	34	Not Included					41
Estimated Annual Growth Rate								20%
Video Conferencing Locations (Note 1)	Sites	14	11					17
Estimated Annual Growth Rate								20%
Moves Adds and Changes	MACs/Month	???	2					2
Estimated Annual Growth Rate								10%
4. PAGING SERVICES					$358,856	$174,794	$178,046	
Pagers	Pagers	1,059	1,100					1,091
Estimated Annual Growth Rate								3%
Moves Adds and Changes NOTE 5	MACs / Month	42	40					41
Estimated Annual Growth Rate								3%
5. CELLULAR TELECOMMUNICATIONS SERVICES					$627,950			
Cellular Services	Minutes/Month	See below	40,000					46,000
Total Local Minutes Per Month	Minutes/Month	118,328						136,077
Total Roaming Minutes Per Month	Minutes/Month	6,850						7,878
Estimated Annual Growth Rate								15%
Number of Analog Phones	Cell Phones	1,501						1,651
Number of Digital Phones	Cell Phones	1,219						1,341
Cellular Phones - Total	Cell Phones	2,720	1,750					1,925
Number of users of PCS	Users	205						226
Estimated Annual Growth Rate								10%

SCHEDULE N - REQUIREMENT PROJECTIONS

REQUIREMENTS	UNIT	NEW 2001 INVENTORY	RFP NUMBERS CURRENT*	OUTSTANDING DEBT	ANNUAL EQUIPMENT MAINT. COST
6. SATELLITE BROADCAST SERVICES					
Satellite Broadcast Bandwidth	Megabytes/sec	21	21		
Estimated Annual Growth Rate					
7. END-USER SUPPORT SERVICES					
Help Desk Services	Calls/Month	1,500	1,200		
Estimated Annual Growth Rate					
8. SATS MICROWAVE MAINTENANCE AND REPAIR					
SATS Voice/Data & Radio Circuits	Miles	109,776	Not Included		
SATS Microwave Maintenance and Repair		N/A	N/A		
Estimated Annual Growth Rate	N/A				
9. SATELLITE TELEPHONY SERVICES					68,157
Annual minutes used	Annual Minutes	34,545	Not Included		
Satellite Telephony Services	Minutes/Month	2,879	458		
Estimated Annual Growth Rate					
Satellite Telephony Equipment	SAT Phones	129	60		
Estimated Annual Growth Rate					
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR					
Number of Earth-Stations	Earth Stations	231	231		
Estimated Annual Growth Rate					
CABLES AND CONNECTIONS					
Number of Cables	Cables	25,116	Not Included		
Percent of Cables in Use	Percent	67%	Not Included		
Number of Home Run Cables	Cables	15,819	Not Included		
Number of unused cables at wall outlet	Cables	8,180	Not Included		
Number of CAT 3 Cables	Cables	1,328	Not Included		
Percent of Category 3 Cable Installed	Percent	5%	Not Included		
Number of CAT 5 Cables	Cables	19,660	Not Included		

SCHEDULE N - REQUIREMENT PROJECTIONS

REQUIREMENTS ESTIMATES	FY '02 NON ITG BUDGET	FY '03 PROJECTED COSTS	YEAR 1
6. SATELLITE BROADCAST SERVICES			
Satellite Broadcast Bandwidth			
21			
Estimated Annual Growth Rate			0%
7. END-USER SUPPORT SERVICES			
Help Desk Services			
1,530			
Estimated Annual Growth Rate			2%
8. SATS MICROWAVE MAINTENANCE AND REPAIR	3,518,737		
SATS Voice/Data & Radio Circuits			
111,972			
SATS Microwave Maintenance and Repair			N/A
Estimated Annual Growth Rate			2%
9. SATELLITE TELEPHONY SERVICES			
Annual minutes used			
38,000			
Satellite Telephony Services			
3,167			
Estimated Annual Growth Rate			10%
Satellite Telephony Equipment			
142			
Estimated Annual Growth Rate			10%
10. SATELLITE EARTH-STATION MAINTENANCE AND REPAIR			
Number of Earth-Stations			
233			
Estimated Annual Growth Rate			1%
CABLES AND CONNECTIONS			
Number of Cables			
Percent of Cables in Use			
Number of Home Run Cables			
Number of unused cables at wall outlet			
Number of CAT 3 Cables			
Percent of Category 3 Cable Installed			
Number of CAT 5 Cables			

SCHEDULE N - REQUIREMENT PROJECTIONS

REQUIREMENTS	UNIT	NEW 2001 INVENTORY	RFP NUMBERS CURRENT*	OUTSTANDING DEBT	ANNUAL EQUIPMENT MAINT. COST	FY '02 NON ITG BUDGET	FY '03 PROJECTED COSTS	YEAR 1 ESTIMATES
Percent of Category 5 Cable Installed	Percent	78%	Not Included					
Percent of Unknown Cable Installed	Percent	16%	Not Included					

* GENERAL NOTES: Current equipment and usage estimates contained herein may be differ significantly (+/-30%) from numbers indicated in the Asset Inventory or RFP.doc. The numbers contained here have been adjusted for non-reported or mis-reported information. All Proposals should be based upon the above estimates. The State reserves the right to issue a revised asset inventory and revised projections at both a best and final offer point and prior to completing negotiations.

NOTE 1. The estimates for Videoconferencing apply to dedicated video equipment
with either dedicated or shared connectivity. Bandwidth requirements for desktop video equipment are contained in the overall WAN bandwidth requirements. "New 2001 Inventory" minutes were actuals reported by the University - U of A annual hours (FY 2001) = 248.66 + State annual hours (FY 2001) = 705.68 then multiplying the number of minutes by 3 to account for the average number of sites. The number of sites comes from the inventory data base Bundle 3. The 14 sites with actual locations are listed with University as the Department.

NOTE 2. Ensure that pricing includes service provisions as provided in Appendix A-2 and Appendix H.

NOTE 3. ITG MAC's were calculated from information provided by Ed Maki: In FY
'01 there were 1,743 - programming with no vist plus 351 (1/2 of total "hourly" and "service fee" MAC"s) = 2,094 annually / 12 = 175 Soft MAC's per month.

In FY '01 there were 1,010 installs, 1,685 moves, 69 programming with visit, 350 (1/2 of total "hourly" and "service fee" MAC"s) for a total of 3,114 / 12 = 260 Hard MAC's

Total MAC's of 500 in the RFP and 578 is based on 3 per year per phone. Each MAC number is increased by 1/3 for a total of 578.

NOTE 4. WAN POPS includes 399 Routers in the statewide list (which includes the
54 DOT routers but does not include 20 U of A or 3 DOE routers for a total of 422.

NOTE 5. Based on 1/12 of the following FY 01 annual MAC's per Darlene Langill:
95 Purchases
180 Activations
151 Deactivations
50 Repairs / programming
4 Nationwide rentals
29 Excessed

LOCAL AND LONG DISTANCE MINUTES - AUGUST 2000 THROUGH JULY 2001

	Total Minutes Reported	July '00 Minutes	Net Ann. Minutes 8/00 - 7/01	Monthly Minutes
Total Onnet Intrastate	5,957,556	885	5,956,671	496,389
Total Onnet Local	19,207,109	6,196	19,200,913	1,600,076
Total Other	4,956,034	6,196	4,949,838	412,487
Total Offnet Intrastate	3,567,559	651	3,566,908	297,242
Total Offnet Interstate	2,085,002	225	2,084,777	173,731
Total Offnet International	15,535	534	15,001	1,250
Total Annual Minutes	35,788,795	14,687	35,774,108	2,981,176
Total Annual Hours	596,480	245	596,235	49,686

	Anchorage Offnet Intrastate	Anchorage Offnet Interstate	Anchorage Offnet Intl	Anchorage Onnet Intrastate	Anchorage Onnet Local	Anchorage Other	Juneau Offnet Intrastate	Juneau Offnet Interstate	Juneau Offnet Internatl
Jul-00	173	76	3	114	3,324	229	275	35	466
Aug-00	115,233	83,431	604	260,023	1,115,314	181,556	146,434	94,467	271
Sep-00	108,172	70,527	639	238,579	1,095,659	150,685	142,012	86,401	829
Oct-00	112,490	70,256	1,557	219,642	1,324,237	152,289	165,637	89,388	954
Nov-00	90,735	70,689	697	232,068	1,028,907	133,142	126,914	94,200	641
Dec-00	82,202	61,821	282	212,436	937,343	128,912	103,771	74,372	500
Jan-01	102,790	75,591	632	270,770	1,132,102	152,834	157,284	99,131	473
Feb-01	89,940	68,002	481	233,479	1,017,877	143,685	142,917	89,723	464
Mar-01	101,382	69,598	749	263,779	1,096,553	153,972	164,640	98,043	355
Apr-01	100,285	67,239	1,110	259,526	1,101,838	167,520	168,029	100,021	506
May-01	104,745	72,422	657	250,404	1,099,453	166,372	164,533	97,411	535
Jun-01	99,789	64,096	487	240,894	1,060,584	157,900	137,202	90,323	588
Jul-01	99,579	67,848	407	235,050	1,032,441	173,996	133,163	86,321	
Annual Totals	1,207,515	841,596	8,305	2,916,764	13,045,632	1,863,092	1,752,811	1,099,836	6,582
Location Totals						19,882,904			

	Juneau Onnet Intrastate	Juneau Onnet Local	Juneau Other	Fbks Offnet Intrastate	Fbks Offnet Interstate	Fbks Offnet Intl	Fbks Onnet Intrastate	Fbks Onnet Local	Fbks Other	Fbks Airport Onnet Local	Fbks Airport Other
Jul-00	560	2,682	768	203	114	65	211	162	289	28	504
Aug-00	222,907	536,290	187,513	56,741	12,281	37	52,215	16,217	46,272	3,292	30,962
Sep-00	203,187	491,077	179,048	46,424	10,471	50	45,960	25,692	37,929	3,100	23,042
Oct-00	169,026	486,245	185,619	47,015	11,721	286	47,248	42,023	42,555	3,181	22,555
Nov-00	192,167	473,279	170,287	47,941	10,990	56	43,469	13,767	43,533	3,114	22,189
Dec-00	156,579	429,649	152,588	40,917	10,532	7	40,297	13,306	41,531	2,843	21,951
Jan-01	244,909	531,407	203,680	50,019	13,811	10	51,728	18,022	44,354	2,898	22,939
Feb-01	225,591	490,059	194,181	45,591	12,151	8	42,934	13,597	41,030	2,703	20,283
Mar-01	237,745	538,774	206,775	54,393	13,238	6	49,595	20,556	45,933	3,068	24,307
Apr-01	235,452	517,722	218,081	52,280	11,900	31	49,658	17,474	41,936	2,994	22,471
May-01	211,039	493,922	206,478	59,800	13,883	49	50,193	18,691	49,750	3,842	25,634
Jun-01	192,584	457,731	186,214	55,792	12,219	43	48,129	16,549	45,660	3,123	22,637
Jul-01	181,372	442,046	187,908	50,117	10,259		46,037	17,098	46,882	3,254	26,674
Annual Totals	2,473,118	5,890,883	2,279,140	607,233	143,570	648	567,674	233,154	527,654	37,440	286,148
Location Totals			13,502,370						2,079,933		323,588

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EXHIBIT 21.1

SUBSIDIARIES OF THE COMPANY

SUBSIDIARY	DBA	JURISDICTION OF INCORPORATION
Alaska Communications Systems Holdings, Inc.		Delaware
ACS of the Northland, Inc.	ACS, ACS Local Service	Alaska
ACS of Alaska, Inc.	ACS, ACS Local Service	Alaska
ACS of Fairbanks, Inc.	ACS, ACS Local Service	Alaska
ACS of Anchorage, Inc.	ACS, ACS Local Service	Delaware
ACS Wireless, Inc.	ACS Wireless	Alaska
ACS Long Distance, Inc.	ACS, ACS Long Distance	Alaska
ACS Television, Inc		Alaska
ACS Internet, Inc.		Delaware
ACS Messaging, Inc.		Alaska
ACS InfoSource, Inc.		Alaska
ACS of Alaska License Sub, Inc.		Alaska
ACS of the Northland License Sub, Inc.		Alaska
ACS of Fairbanks License Sub, Inc.		Alaska
ACS of Anchorage License Sub, Inc.		Alaska
ACS Wireless License Sub, Inc.		Alaska
ACS Long Distance License Sub, Inc.		Alaska
ACS Television License Sub, Inc.		Alaska

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-92091 of Alaska Communications Systems Group, Inc. on Form S-8 of our report dated February 19, 2002, appearing in the Annual Report on Form 10-K of Alaska Communications Systems Group, Inc. for the year ended December 31, 2001.

/s/ DELOITTE & TOUCHE LLP
Portland, Oregon
March 27, 2001

End of Filing