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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _______________

Commission file number 001-38341

Alaska Communications Systems Group, Inc.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: **(907) 297-3000**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, Par Value $.01 per Share	ALSK	The Nasdaq Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on June 28, 2019 was approximately $87 million 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 March 6, 2020, there were outstanding 53,084,744 shares of Common Stock, $.01 par value, of the registrant.

Documents Incorporated by Reference

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the registrant's definitive proxy statement for its 2020 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2019**.**

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2019
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Cautionary Statement Regarding Forward Looking Statements and Analysts' Reports

This Form 10-K and future filings by Alaska Communications Systems Group, Inc. and its consolidated subsidiaries ("we", "our", "us", the "Company" and "Alaska Communications") on Forms 10-K, 10-Q and 8-K and the documents incorporated therein by reference include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend forward-looking statements to be covered by the safe harbor provisions for forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, pricing plans, acquisition and divestiture 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 and statements of assumptions underlying any of the foregoing. Words such as "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "projects", "seeks", "should" and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Forward-looking statements by us are based on estimates, projections, beliefs and assumptions of management and are not guarantees of future performance. Forward-looking statements may be contained in this Form 10-K under "Item 1A, Risk Factors" and "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere. Actual future performance, outcomes, and results may differ materially from those expressed in forward-looking statements made by us as a result of a number of important factors. Examples of these factors include (without limitation):

- Our ability to continue to develop and fund attractive, integrated products and services to evolving industry standards, and meet the pressure from competition to offer these services at lower prices
- unforeseen challenges when entering new markets and our ability to recognize and react to actions, products or services of competitors that threaten our competitive advantage in the marketplace
- our size, because we are a smaller sized competitor in the markets we serve and we compete against large competitors with substantially greater resources
- governmental and public policy changes and audits and investigations, including on-going changes in our revenues, or obligations for current and prior periods related to these programs, resulting from regulatory actions affecting on-going support for state programs such as Essential Network Support, and federal programs such as the rural health care universal service support mechanism, including ascertainment of the "urban rate" and "rural rate" used to determine federal support payments for services we provide to our rural health care customers for current and prior periods, some of which are currently under audit or subject to an inquiry
- our ability to comply with the regulatory requirements to contribute to the Universal Service Fund and receive support payments from that fund
- our ability to obtain and appropriately allocate resources to support our growth objectives
- our ability to maintain successful arrangements with our represented employees
- our ability to keep pace with rapid technological developments and changing standards in the telecommunications industry, including on-going capital expenditures needed to upgrade our network to industry competitive speeds, particularly in light of expected 5G deployments by mobile wireless carriers
- our ability to maintain our cost structure as a focused broadband and managed IT services company, which could impact both cash flow from operating activities and our overall financial condition
- disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the physical infrastructure, operating systems or devices that our customers use to access our products and services

- our ability to adequately invest in the maintenance and upgrade of our networks and other information technology systems
- the Alaskan economy, which has been impacted by continued low crude oil prices which are creating a significant impact on both the level of spending by the State of Alaska and the level of investment in resource development projects by natural resource exploration and development companies in Alaska, together with the ongoing cuts to the state of Alaska budget and resulting spending reductions, all of which may impact the economy in the markets we serve and impact our future financial performance
- our ability to invest sufficiently in our underlying physical infrastructure, including buildings, fleet and related equipment
- the ability to attract, recruit, retain and develop our workforce, and implement succession planning necessary for achieving our business plan
- structural declines for voice and other legacy services within the telecommunications industry
- the success or failure of any future acquisitions or other major transactions
- the actions of activist stockholders, which could cause us to incur significant expense, hinder execution of our business strategy and impact our stock price
- unanticipated damage to one or more of our undersea fiber optic cables resulting from construction or digging mishaps, fishing boats or other reasons
- a maintenance or other failure of our network or data centers
- a failure of information technology systems
- a third-party claim that the Company is infringing upon their intellectual property, resulting in litigation or licensing expenses, or the loss of our ability to sell or support certain products
- unanticipated costs required to fund our post-retirement benefit plans, or contingent liabilities associated with our participation in a multi-employer pension plan
- geologic or other natural disturbances relevant to the location of our operations
- our ability to meet the terms of our financing agreements and to draw down additional funds under the facility to meet our liquidity needs
- the cost and availability of future financing, at the terms, and subject to the conditions necessary, to support our business and pursue growth opportunities; our debt could also have negative consequences for our business; for example, it could increase our vulnerability to general adverse economic and industry conditions, or limit our flexibility in planning for, or reacting to, changes in our business and the telecommunications industry; in addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities; if we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the lenders and other parties to those arrangements could accelerate the maturity of some or all of our outstanding indebtedness
- our success in providing broadband solutions to the North Slope and western Alaska
- the success of the Company’s expansion into managed IT services, including the execution of those services for customers
- a major public health issue, such as an epidemic or pandemic, could adversely affect our operations and financial performance
- our ability to maintain effective internal control over financial reporting, which could cause our financial reporting to be unreliable
- the matters described under “Item 1A, Risk Factors.”

Considering these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. Additional risks that we may currently deem immaterial or that are not currently known to us could also cause the forward-looking events discussed in this Form 10-K or our other reports not to occur as described. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Form 10-K.

Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that we agree 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 our responsibility.

Basis of Presentation

The Company is a smaller reporting company as defined in the Securities Act and Securities Exchange Act, as amended. Accordingly, it has utilized certain accommodations provided for scaled disclosures in its Annual Report on Form 10-K and proxy statement. Accommodations utilized include (i) a two-year presentation of the audited financial statements and related notes, and management's discussion and analysis of financial condition and results of operations; (ii) reduced disclosures of certain executive compensation and stock performance information; and (iii) not disclosing selected financial data, contractual obligations and quantitative and qualitative disclosures about market risk. Financial information that is not in accordance with Generally Accepted Accounting Principles in the United States ("GAAP") is not presented in this report on Form 10-K. The definitions of any non-GAAP financial measures referenced in this report on Form 10-K, including Adjusted EBITDA and Adjusted Free Cash Flow, are provided on the Company's investor relations website at www.alsk.com.

Dollar amounts presented are in thousands unless stated otherwise.

PART I

Item 1. Business

OVERVIEW

We are a fiber broadband and managed IT services provider, offering technology and service enabled customer solutions to business and wholesale customers in and out of Alaska. We also provide telecommunication services to consumers in the most populated communities throughout the state. Our facilities-based communications network extends through the economically significant portions of Alaska and connects to the contiguous states via our two diverse undersea fiber optic cable systems. Our network is among the most expansive in Alaska and forms the foundation of service to our customers. We operate in a largely two-player terrestrial wireline market and we estimate our market share to be less than 25% statewide. However, our revenue performance relative to our largest competitor suggests that we are gaining market share in the markets we are serving. A third-party market study indicates that we have market share of close to 40% for "near net" opportunities, that is, within one mile of our fiber network.

Operating Initiatives

We are focused on being a customer centric fiber company. Everything we do is focused around our customer, meeting and exceeding their needs through the application of technology. We are focused on delivering an exceptional customer experience throughout the customer lifecycle. This forms the foundation of our sustained differentiation, creating unique value for our customers to grow our market share, expand business with existing customers and minimize churn.

Our future investments and subsequent initiatives are focused on building and strengthening the business in three areas:

- Enhance and Augment our Network and Capabilities: This is what we do and is the basis of our offers, to lead the competition through innovation and leverage the latest technologies to meet our customer's needs. Activities include investments to grow our fiber footprint, augmented with high speed fixed wireless technologies, as well as expanding our product capabilities that fully leverage our existing and growing fiber footprint.
- Accelerate the Growth of Managed IT Services: This is a fragmented market without a leader, a significant market size and a set of services that are both adjacent and synergistic with communications and networking services. We continue to invest in winning share and expanding our capabilities, enabling and accelerating our customers' transition to cloud services.
- Drive Operational Excellence: Invest in operational systems that fundamentally change the way we deliver services that both enhance the customer experience as well as increase efficiency and productivity, redefining processes throughout the entire customer lifecycle to create new operating models and efficiencies. Investments that update our operational support and billing systems provide the foundational platform to further leverage digital technologies and expand with investments in analytics and artificial intelligence.

These investment areas are not standalone and, in fact, are synergistic. We look to maximize each of these with any initiative for the highest return.

We recognize that everything we do is only possible through our people. Our employees are enablers that make any and all initiatives happen to serve our customers and earn their business. We will focus and make investments in employee engagement to maximize the realization of an exceptional customer experience and maximize the effectiveness of our investments.

We will continue to evaluate strategic opportunities that address scale, geographic diversification, and return value to our shareholders.

Our parent company, Alaska Communications Systems Group, Inc., was incorporated in 1998 under the laws of the state of Delaware. Our principal executive offices are located at 600 Telephone Avenue, Anchorage, Alaska 99503-6091. Our telephone number is (907) 297-3000 and our investor internet address is www.alsk.com. Our customer internet address is www.AlaskaCommunications.com.

Markets, Services and Products

We operate our business under a single reportable segment. We manage our revenues based on the sale of services and products to the three customer categories listed below.

- **Business and Wholesale (broadband, voice and managed IT services)**
- **Consumer (broadband and voice services)**
- **Regulatory (access services, high cost support and carrier termination)**

The brand pillars supporting our products and services are reliability, customer service, trustworthiness and local presence. These are represented by the promise we make to our customers: “You can always expect to get the service as promised to you by an Alaska Communications’ representative. If you are not satisfied, we will work with you to provide a solution that meets your satisfaction.”

See “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for a description of our products and services and a summary of service and product revenues generated by each of the above three customer categories.

Network and Technology

Alaska Communications provides communications and IT solutions that connect Alaskans as well as customers in the continental United States to the world. This is based on an extensive facilities-based wireline telecommunications network in Alaska that we operate. We provide high-capacity data networking, internet connectivity, voice communications and IT Services. Networking services include Ethernet and IP routed services as well as switched and dedicated voice services. In addition, we offer other value-added services such as network hosting, managed IT services and long-distance services. We continuously upgrade our network to provide higher levels of performance, higher bandwidth speeds, increased levels of security and additional value-added services to our customers. We operate 146,000 terrestrial and submarine fiber miles which serve as the backbone of our network as well as now serving 886 buildings with fiber. Our networks are monitored for performance around the clock in redundant monitoring centers to provide a high level of reliability and performance. Our network is extensive within Alaska’s urban areas and connects our largest markets, including Anchorage, Fairbanks and Juneau with each other and the contiguous states as well as many rural areas. We have recently added Fixed Wireless technology to reach even more customers, bringing total homes and businesses passed to approximately 13,500 at the end of 2019. We expanded our Multi-Dwelling Unit (“MDU”) offering, adding 3,000 MDUs in 2019 that are fed using fiber or fixed wireless backhaul.

We own and operate two undersea fiber optic cable systems that diversely connect our Alaskan network to our facilities in Oregon and Washington. These facilities provide the most survivable service to and from Alaska, with key monitoring and disaster recovery capabilities for our customers. We also have usage rights on a third undersea fiber network connected to the lower-48.

Our network in Oregon and Washington includes terrestrial transport components linking our landing stations to a Network Operations Control Center in Hillsboro, Oregon and collocation facilities in Portland, Oregon and Seattle, Washington. In addition, AKORN®, one of our undersea fiber optic cable systems, connects our Alaska network from Homer, Alaska to our facilities in Florence, Oregon along a diverse path within Alaska, the Pacific Northwest and undersea in the Pacific Ocean. Northstar, our other undersea fiber optic system, has cable landing facilities in Whittier, Juneau, and Valdez, Alaska, and Nedonna Beach, Oregon. Our subsea capacity including the AKORN® and Northstar systems provides a total of 7,800 route miles, or about 26,000 fiber miles, of submarine fiber. Together, these fiber optic cables provide extensive bandwidth as well as survivability protection designed to serve our own, as well as our most demanding customers' critical communications requirements. In 2017, we upgraded the AKORN system to be able to support 100GB circuits for customers. Through our landing stations in Oregon, we also provide an at-the-ready landing point for other large fiber optic cables, and their operators, connecting the U.S. to networks in Asia and other parts of the world.

In April 2015, we entered into an agreement to purchase a terrestrial fiber network on the North Slope of Alaska. This network allows us to provide broadband solutions to the oil and gas sector in a market that previously had no competition, and continue to advance our sales of managed IT services.

In 2017, we began the development of a satellite earth station network and acquired C-band transponder space on Eutelsat's E115WB satellite. In the fourth quarter of 2017, we began providing Internet backhaul connectivity to our first customer. We are continuing to expand the satellite service, adding customers throughout 2018 and 2019.

Another Alaska carrier, Quintillion, has invested in a submarine network with landing stations in several northwest Alaska communities, including a terrestrial route from the North Slope to Fairbanks. The submarine network became operational in late 2017. We have acquired capacity on this system and deliver service to customers in this area, including a buildout of terrestrial fiber optic cable, in Utqiaġvik (formerly Barrow) to serve this new market. We are currently serving customers in Utqiaġvik, Nome, Kotzebue and Deadhorse.

Competition

Management estimates the Alaska wireline telecom and IT services market to be approximately $1.65 billion. This market is comprised of the IT services market of approximately $840 million, the broadband market of approximately $700 million and the voice market of approximately $110 million. Management estimates that over 85% of this market opportunity is from the business and wholesale customer segment. Based on a third-party market study management believes that approximately $250 million of the telecom opportunity is "near net," that is, within one mile of our fiber infrastructure.

We expect to experience continued growth in managed IT services over time by providing these services to our broadband customers as well as creating new customer relationships. We believe the competition for managed IT services is fragmented.

We face strong competition in our markets from larger competitors with substantial resources. For traditional voice and broadband services, we compete with GCI and AT&T on a statewide basis, and smaller providers such as Matanuska Telephone Association, Inc. on a more localized basis.

As the largest facilities based operator in Alaska, GCI is the dominant statewide provider of broadband, voice, wireless and video services. In the markets where we compete with GCI (broadband and voice), GCI has approximately 50% to 60% of market share across the consumer and business segments. GCI continues to expand its voice and data network, often taking advantage of subsidized government programs which create a monopoly for services in certain markets. AT&T's primary focus is to be the provider of voice and broadband services to its nation-wide customers. AT&T tends to use its existing broadband network to serve these customers or it leases capacity from GCI or Alaska Communications to augment its existing network.

Matanuska Telephone Association ("MTA") is a COOP owned telephone and internet service provider operating in the Matanuska regional area of Alaska. MTA is in the process of building a terrestrial fiber from Alaska to Canada which will interconnect with Northwestel. This fiber will provide a diverse route out of Alaska.

Overall competitive dynamics are significant, and our operating performance is impacted accordingly. For more information associated with the risks of our competitive environment see "Item 1A, Risk Factors."

Marketing

Our marketing strategy relies on our understanding the Alaskan market, while increasingly using digital technologies to focus our marketing messages. We tailor our products and services based on understanding our customers' needs, location, and type of service they desire. For business customers, we bundle our products and provide value added managed IT services using our local service delivery model and highly reliable network. For consumer customers, we focus on the product experience, interaction with the customer and price. Regarding pricing, we typically offer one flat rate price and no data usage caps for internet services, differentiating ourselves from GCI who charges for excess data usage or throttles bandwidth.

Sales and Distribution Channels

Our sales strategy combines primarily direct distribution channels to retain current customers and drive sales growth. In 2020, we will continue leveraging our direct sales channels' focus on serving Business and Wholesale customers, our web and contact center channels for consumer customers, and expand our penetration of the military housing market for continued sustained performance. We are also continuing our efforts to improve customer service and move more consumer transactions to the web.

Customer Base

We generate our revenue through a diverse statewide customer base and there is no reliance on a single customer or small group of customers. Business and wholesale customers are our primary focus and they comprised 65% of our total revenue in 2019. Regulatory revenue represented 19% of the Company's consolidated revenue in 2019.

Seasonality

We believe our revenue is impacted by seasonal factors. This is due to Alaska's northern latitude and the resulting wide swing in available daylight and weather conditions between summer and winter months. These conditions, unique to Alaska, affect business, tourism and telecom use patterns in the state. Our spending patterns are also impacted by seasonality as we incur more capital spending and operating spending during the summer and early fall periods of the year, reflecting the heightened economic activity from the summer months and our own construction activities during this time period.

Employees

As of December 31, 2019, we employed 569 regular full-time employees, 8 regular part-time employees and 4 temporary employees. Approximately 54% of our employees are represented by the International Brotherhood of Electrical Workers, Local 1547 ("IBEW"). Our Master Collective Bargaining Agreement ("CBA") with the IBEW, which is effective through December 31, 2023, governs the terms and conditions of employment for all IBEW represented employees working for us in the state of Alaska. Management considers employee relations to be generally good.

Regulation

While a substantial amount of our revenue is derived from non-regulated or non-common carrier services, we continue to generate some revenue from services that are regulated. Given the breadth of the regulatory framework, the following summary of the regulatory environment in which our business operates does not describe all present and proposed federal, state and local legislation and regulations affecting the telecommunications industry in Alaska.

Overview

Some of the telecommunications services we provide are subject to federal, state and local regulation. These regulations govern, in part, our rates and the way we conduct our business. These requirements are subject to frequent change. Compliance is costly and limits our ability to respond to some of the demands of our increasingly competitive service markets.

We generate revenue from these regulated services through regulated charges to our retail and wholesale customers, access and other charges to other carriers, and federal and state universal service support mechanisms for telecommunications and broadband services. These revenues are recorded throughout our customer categories.

At the federal level, the FCC generally exercises jurisdiction over the interstate and international telecommunications services that regulated common carriers provide and their related communications facilities.

The Regulatory Commission of Alaska ("RCA") generally exercises jurisdiction over a limited number of intrastate access telecommunications services that originate and terminate at points in Alaska.

In this section, "Regulation", we refer to our local exchange carrier ("LEC") subsidiaries individually as follows:

- ACS of Anchorage, LLC ("ACSA");
- ACS of Alaska, LLC ("ACSAK");
- ACS of Fairbanks, LLC ("ACSF"); and
- ACS of the Northland, LLC ("ACSN").

Federal Regulation

We must comply with the Communications Act of 1934, as amended (the "Communications Act") and regulations promulgated thereunder, which together require, among other things, that we offer regulated interstate telecommunications common carrier services at just, reasonable and non-discriminatory rates and terms. The Communications Act also requires us to offer competing carriers interconnection and non-discriminatory access to certain facilities and services designated as essential for local competition. Under the Communications Act we are eligible for support revenues to help defray the cost of providing services in rural, high cost areas, and to low-income consumers, schools and libraries, and rural health care providers. The FCC is continuing to propose changes in the size and scope of these mechanisms, and it is difficult to predict the impact such changes may have on our business.

Rate Regulation

Our LEC subsidiaries are regulated common carriers offering local voice and a limited set of telecommunications data services. In providing these regulated services, these subsidiaries are subject to competitive market forces, as well as rate-of-return regulations for intrastate services that originate and terminate in Alaska and price-cap rate regulation for interstate services regulated by the FCC. Because they face competition, our LEC subsidiaries may not be able to charge their maximum permitted rates under price-cap regulation or realize their authorized intrastate rate of return even where they are rate-of-return regulated. A broader range of data and information services are offered by our unregulated affiliates or as unregulated services by our regulated companies.

Interconnection with Local Telephone Companies and Access to Other Facilities

The Communications Act imposes a number of requirements on LECs. Generally, a LEC must: not prohibit or unreasonably restrict the resale of its services; provide for telephone number portability so customers may keep the same telephone number if they switch service providers; provide access to their poles, ducts, conduits and rights-of-way on a reasonable, non-discriminatory basis; and, when a call originates on its network, compensate other telephone companies for terminating or transporting the call (see the "Interstate Access" discussion below).

All of our LEC subsidiaries are considered incumbent LECs ("ILECs") and have additional obligations under the Communications Act.

On August 2, 2019, the FCC issued an Order granting forbearance from enforcement of its previous requirements that ILECs unbundle two-wire and four-wire analog voice-grade copper loops. The Order also granted forbearance from enforcement of the requirement that each ILEC must offer for resale at wholesale rates any telecommunications service that the ILEC provides at retail to subscribers who are not telecommunications carriers. While the obligation to offer telecommunications services for resale remains in effect (as it does for all local exchange carriers, incumbent and competitive entrants alike), we will no longer be obligated to offer any particular wholesale discount on those services. Both grants of forbearance are subject to a two-part transition period. First, for a six-month period that began on August 2, 2019, we were required to continue to accept new orders for analog voice-grade copper loops and discounted wholesale services, in accordance with the previous rules. Second, we must continue to honor existing arrangements, including those put in place during that initial six-month period, for a three-year period that also began on August 2, 2019, to permit customers sufficient time to put alternative arrangements in place.

In November 2019, the FCC proposed to forbear from most of the remaining ILEC UNE unbundling obligations that remain in effect. We filed comments supporting the proposed forbearance in February 2020, but the timing of any FCC decision in the proceeding is uncertain.

Interstate Access Charges

The FCC regulates the prices that ILECs charge for the use of their local telephone facilities in originating or terminating interstate calls.

Special Access Pricing Flexibility and Business Data Services

Rates for interstate telecommunications services offered by our ILEC subsidiaries are determined using price cap regulation, under which the rates vary from year to year based on mathematical formulae, and not based on changes to our costs, including both inter-carrier rates and retail end user rates.

On April 20, 2017, the FCC adopted an Order updating its regulations governing "business data services," which are those circuit-switched or packet-switched services that offer our dedicated point-to-point transmission of data at certain guaranteed speeds and service levels using high-capacity connections, including special access services. The FCC left in place the Phase I and Phase II pricing flexibility it granted to us in 2010 and granted further price deregulation of all business data services with transmission speeds above 45 Megabits per second. For legacy circuit-switched business data services with speeds at or below that level (DS-3 or below), the FCC adopted a new competitive market test, finding that price regulation is no longer required in counties (or county-equivalents, such as Alaskan boroughs) where the test is satisfied. We expect this FCC Order to support the Company's ability to be market competitive for its business data services.

On August 28, 2018, the United States Court of Appeals for the Eighth Circuit vacated portions of the FCC's decision that ended prior regulation and tariffing of prices of legacy circuit-switched transport services offered by price cap carriers, like Alaska Communications, finding that the FCC had not provided sufficient advance notice of that aspect of its decision. On October 24, 2018, in order to provide the necessary notice in light of the Eighth Circuit's decision, the FCC issued a detailed proposal to re-adopt that relief. In July 2019, the FCC re-adopted the majority of the forbearance relief that the Eighth Circuit had vacated, while leaving rate regulation in place on certain routes that the FCC believed to lack sufficient competition.

Transformation Order

Under a 2011 FCC order (the "Transformation Order"), our ILEC interstate and intrastate switched access rates and reciprocal compensation rates ("ICC rates") are capped and terminated switched end-office rates were reduced to zero, in pursuit of the FCC's goal that carriers will recover their costs from their end-users and, in some cases, universal service support mechanisms.

Federal Universal Service Support

The Communications Act requires the FCC to establish a universal service program to ensure that affordable, quality telecommunications services are available to all Americans. The Company has received universal support in several forms: (i) high cost support received by its ILEC subsidiaries for its wireline voice and broadband Internet access service business under the Connect America Fund; (ii) support for services that the Company provides to schools and libraries, provided through the federal schools and libraries universal service support mechanism ("E-Rate"); (iii) support from the federal Rural Health Care support mechanism, which supports communications services that enable telehealth and telemedicine services provided by eligible rural health care providers; and (iv) low income support under the FCC's Lifeline program, which subsidizes telephone and broadband Internet access services for low-income consumers. These programs are administered under the direction of the FCC by the Universal Service Administrative Company ("USAC").

USF Contributions

Under the Communications Act of 1934, as amended (the "Communications Act") and FCC rules, telecommunications carriers and certain providers of telecommunications must contribute to the federal Universal Service Fund. These contributions are based on end-user revenues from interstate and international revenues from assessable services.

Rural Health Care Universal Service Support Program

The FCC's Rural Health Care Universal Service Support Mechanism (the "RHC program") provides funding to help make broadband telecommunications and Internet access services provided by the Company and other service providers affordable for eligible rural health care providers. It is comprised of two parts. The Telecommunications Program covers the difference between the "urban rate" for telecommunications services that rural healthcare providers use to deliver healthcare at rural locations, and the "rural rate" that they would otherwise be required to pay. The Healthcare Connect Fund covers 65 percent of the cost of a wider variety of broadband telecommunications, networking, and Internet access services and certain associated equipment. Rural Health Care revenues represented 6.1% of the Company's consolidated revenue in 2019.

The Company has participated in the RHC program since 2008. For the 2017 Funding Year, the FCC approved rural rates that were significantly reduced from the rates proposed by the Company. For Funding Years 2018 and 2019, we have similarly obtained the FCC's approval for our rural rates, generally at levels consistent with the reduced rates approved by the FCC for Funding Year 2017. The multi-step process of obtaining FCC approval for rates and then subsequently obtaining funding commitment letters from USAC has introduced varying degrees of delay in the process of obtaining support for the services we deliver to rural health care providers.

The FCC approved RHC rural rates for Funding Year 2018 in November 2018, after our request in September 2018 for the funding year beginning July 1, 2018. We began to receive funding commitment letters for the associated services for Funding Year 2018 in December 2018. Similarly, the FCC approved RHC rural rates for Funding Year 2019 in December 2019, after our request in November 2018 in advance of the funding year beginning July 1, 2019. We began to receive funding commitment letters for the associated services for Funding Year 2019 in February 2020. We also filed a request in January 2020 for approval of our RHC rural rates to be used for upcoming Funding Year 2020, which begins July 1, 2020.

On August 1, 2019, the FCC adopted an order making comprehensive changes to the rules governing the competitive bidding process and the method for determining the urban and rural rates used to calculate the amount of Rural Health Care Telecommunications Program support payments for which a health care provider is eligible. The changes to the urban and rural rate rules do not take effect until Funding Year 2021, which will begin July 1, 2021, and USAC will need to conduct a lengthy implementation process before eligible rates and associated support levels can be known. Under the FCC's Order, USAC must develop and publish a database by July 1, 2020, containing rates that will be used to set rural rates for Funding Year 2021 and beyond. The FCC's Order divided Alaska into four geographic zones, and the rural rate in each zone will be capped at the median of the rural rates for similar services offered in that zone, as identified by USAC. We are unable to predict the impact the new rules will have, but the FCC's Order gave USAC limited guidance and substantial discretion in identifying rates and determining how to group them within the database. If the rural rate caps established using the resulting median are too low, we may be unable to continue to serve rural health care customers in the most expensive portions of each rural zone. We are continuing to evaluate the impact of the funding cap constraints, ongoing uncertainty and unpredictability in the Rural Health Care Universal Service Support Mechanism, and the impact of the rule changes on our rural health care customers and revenues in light of these developments. On October 21, 2019, an appeal challenging the new method of setting rates for supported services was filed in the United States Court of Appeals for the District of Columbia Circuit, adding further uncertainty to the ultimate outcome of this proceeding. Similarly, the Company and several other parties have filed Petitions for Reconsideration of the FCC's August 2019 Report and Order, seeking to mitigate the risks described above. At this time, we are unable to predict the outcome of the challenges to the FCC's new Rural Health Care rules or the impact the new rules may have on our business, financial condition, results of operations and liquidity.

USAC Audit of RHC Program Funding Requests

In addition to the prospective changes to the RHC program discussed above, the FCC and USAC have undertaken reviews of current and past funding requests**.** In June 2017, the Company received a letter from USAC's auditors inquiring about past funding requests, all of which were previously approved by USAC. After clarifying the request, the Company responded to the auditors with the requested information through the remainder of 2017 and mid-way into 2018. Late in 2018, the auditors asked the Company to comment on some preliminary audit findings, and the Company responded with a letter dated December 21, 2018. After more than a year without communications from the auditors, on February 24, 2020, the Company received a draft audit report from USAC that is described more fully in Note 20 "*Commitments and Contingencies*" in the Notes to Consolidated Financial Statements. The draft audit report alleges violations of the FCC's rules for establishing rural rates and urban rates, the provisioning and billing of ineligible services and products, and violations of the FCC's competitive bidding rules. The Company was invited to comment on this draft audit report, and we intend to seek correction of numerous factual errors we believe are contained in that report. In addition, the Company has had conversations with USAC's auditors and we are compiling a list of proposed clarifications, corrections and modifications to the draft audit report. As a result of these conversations and comments to be submitted by the Company, USAC's auditors may revise their findings, including the amounts they recommend USAC seek to recover. USAC's auditors are expected to issue a final audit report incorporating the Company's responses that will be sent to USAC's Rural Health Care division to review and determine if corrective action would be appropriate. In the event that the Company disagrees with USAC's final audit report, the Company can appeal that decision to USAC's Rural Health Care division and/or the FCC. At this time, we cannot predict the contents of the USAC audit report, the outcome of the audit or the impact on our business, financial condition, results of operations and liquidity.

FCC Inquiry into Company's RHC Program Participation

In addition, the Company received a Letter of Inquiry on March 18, 2018, from the FCC Enforcement Bureau requesting historical information regarding the Company's participation in the FCC's Rural Health Care program. In response, the Company produced voluminous records throughout 2018 and into the first quarter of 2019. On November 5, 2019, the Company received another letter from the FCC Enforcement Bureau requesting additional information, to which it responded on December 6, 2019. The Company is currently responding to an additional letter from the Enforcement Bureau dated January 22, 2020. As of the date of this Form 10-K, the FCC's Enforcement Bureau has not asserted any claims or rule violations. The Company continues to work constructively with the FCC's Enforcement Bureau to provide it the information it is seeking. At this time, we cannot predict the outcome of the FCC Enforcement Bureau's inquiry or the impact it may have on our business, financial condition, results of operations and liquidity.

Connect America Fund

CAF Phase II

On October 31, 2016, the FCC released its order adopting the Connect America Fund ("CAF") Phase II ("CAF II") for price cap carriers in Alaska. Alaska Communications is the only price cap carrier in Alaska and, under the CAF II order, we receive approximately $19.7 million annually.

We are continuing to work toward meeting our CAF Phase II obligations in a capital-efficient manner, including the delivery of broadband Internet access services meeting CAF Phase II requirements using a fixed wireless platform.

Lifeline

Revenue generated from our lifeline customers represented less than 1% of our total revenue. The FCC's Lifeline support mechanism today subsidizes the cost of voice services for low-income consumers, as well as broadband in CAF II locations.

Satellite Services

On February 16, 2018, the FCC granted our application for a license to operate a network of C-band satellite earth stations to be used to serve our customers that cannot be reached by terrestrial middle mile facilities. Under that license, we are authorized to use up to 144 MHz of C-band spectrum on Eutelsat's satellite, E115WB, for a term of 15 years. We have steadily expanded this network to serve nearly 40 sites, primarily in rural and remote areas of the state. We expect this approach to provide us with greater predictability and stability in the availability and cost of long-haul transport connectivity to our customers that must be served by satellite.

State Regulation

Telecommunication companies are required to obtain certificates of public convenience and necessity from the RCA prior to operating as a public utility in Alaska. In addition, RCA approval is required if an entity acquires a controlling interest in any of our certificated subsidiaries, acquires a controlling interest in another intrastate utility or discontinues intrastate service. On August 29, 2019, Governor Dunleavy signed into law new legislation that eliminated the requirement for Alaska Communications to maintain RCA-filed tariffs for rates, terms, and conditions for legacy phone and networking services in Alaska, However, rates, terms, and conditions for basic residential local telephone service must, under the bill, be uniform within each study area. Alaska Communications implemented changes to tariffs, terms and conditions and other service related policies effective November 27, 2019.

Alaska Universal Service Fund

The Alaska Universal Service Fund ("AUSF") complements the federal Universal Service Fund, but is focused on obligations to meet intrastate service obligations.

In January 2018, the RCA opened a rulemaking to repeal the AUSF effective July 31, 2019 and sought comments and reply comments. A final order issued by the RCA on October 24, 2018 stopped short of repealing the AUSF but made changes to the distribution to be effective January 1, 2019, and capped contributions at 10% of intrastate telecommunications revenues. These changes resulted in shortfalls to carriers beginning in 2019.

Website Access to Reports

Our investor relations website Internet address is www.alsk.com. The information on our website is not incorporated by reference in this annual report on Form 10-K. We make available, free of charge, on our investor relations website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports are available as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”).

Code of Ethics

We post our code of business conduct and ethics entitled “Code of Ethics”, on our investor website at www.alsk.com. Our code of business conduct and ethics complies with Item 406 of SEC Regulation S-K and the rules of Nasdaq. We intend to disclose any changes to the code that affect the provisions required by Item 406 of Regulation S-K and any waivers of the code of ethics for our executive officers, senior financial officers or directors, on that website.

Additional Business Information

See “Item 1A, Risk Factors,” “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 3 “*Joint Venture*” and Note 19 “*Business Segments*” in the Notes to Consolidated Financial Statements for additional information, which is incorporated herein by reference.

Item 1A. Risk Factors

We face a variety of risks that may affect our business, financial condition and results of operations, some of which are beyond our control. The risks described below are not the only ones we face and should be considered in addition to the other cautionary statements and risks described elsewhere and the other information contained in this report and in our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. Additional risks and uncertainties not known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be seriously harmed.

Risks Relating to Our Industry

Competition

The telecommunications industry in Alaska is competitive and creates pressure on our pricing and customer retention efforts.

Strong competitors make it more difficult for us to attract and retain customers, which could result in lower revenue, cash flow from operating activities and Adjusted Free Cash Flow.

Our principal facilities-based competitor for voice and broadband services is GCI, who is also the dominant cable television provider in Alaska. In the business and wholesale market, GCI holds a dominant position through its extensive fiber optic, microwave and satellite based middle mile network as well as its undersea fiber cable network, where it owns and operates two of the four existing undersea fiber optic cables connecting Alaska to the contiguous states. In the consumer market, GCI bundles its cable video services with voice, broadband and mobile wireless services. Because the video and mobile wireless services we offer are limited, we are unable to offer competing bundles.

GCI continues to expand its statewide reach, including through its Terra Southwest project which is funded with federal subsidies, consisting of grants from the USDA Rural Utilities Service and federal low-interest loans. This subsidy gives GCI a substantial competitive advantage in the markets served by Terra Southwest, and GCI receives substantial additional funding for services offered over this facility from the federal E-Rate and Rural Health Care universal service support mechanisms. GCI has indicated it intends to replicate this government subsidized model in other markets in Alaska, which will create monopoly-type conditions in these markets which are subject to minimal regulatory oversight.

With a long history of operating in Alaska, AT&T has a terrestrial long-haul network in Alaska where the focus is on serving certain national customers. AT&T’s primary mass market focus in Alaska is providing mobile wireless services.

As we compete more extensively in the managed IT services business, we are likely to face new competition, both local and national. There are other small firms that compete for IT business in Alaska. Overall, however, we believe that competition for managed IT services is fragmented in Alaska with no clear or dominant provider.

Diversification of Our Sources of Revenue

We may not be able to adequately diversify our revenue stream which could create risk to our ability to generate cash and bottom-line growth.

The telecommunications industry faces frequent and rapid changes in products and services provided to customers. If we do not adequately investigate and assess the expansion of our existing sources of revenue, including new products and services and strategic acquisition opportunities, our business, financial position, results of operations and liquidity may be impacted.

Our Cost Structure

We may not be able to maintain our cost structure which would create risk to our ability to generate bottom-line growth.

As a smaller, focused broadband and managed IT services company, maintaining a lower cost structure is key to generating cash flow from operating activities. If we fail to maintain this cost structure, our financial position, results of operations and liquidity will be impacted.

Technological Advancements and Changes in Telecommunications Standards

If we do not adapt to rapid technological advancements and changes in telecommunications standards, our ability to compete could be strained, and as a result, we would lose customers.

Our success will likely depend on our ability to adapt and fund the rapid technological changes in our industry. Our failure to adopt a new technology or our choice of one technology over another may have an adverse effect on our ability to compete or meet the demands of our customers. Technological changes could, among other things, reduce the barriers to entry facing our competitors providing local service in our service areas. The pace of technology change and our ability to deploy new technologies may be constrained by insufficient capital and/or the need to generate sufficient cash to make interest payments on our debt.

New products and services may arise out of technological developments and our inability to keep pace with these developments may reduce the attractiveness of our services. Some of our competitors may have greater resources to respond to changing technology than we do. If we fail to adapt successfully to technological changes or fail to obtain access to new technologies, we could lose customers and be unable to attract new customers and/or sell new services to our existing customers. We may be unable to successfully deliver new products and services, and we may not generate anticipated revenues from such products or services.

To be competitive we need to maintain an on-going investment program to continuously upgrade our access network. We define the access network as the connection from the end user location – either a home or a business – to the first aggregation point in the network. The connection can be copper or fiber and the aggregation point is typically a central office or remote serving node. The access network determines the speeds we are able to deliver to our end customer. We may not be able to maintain the level of investment needed for long term competitiveness in offering broadband speeds to all segments of our market.

Technology trends and developments in the area of IT and cloud services can be far more disruptive and tend to change in shorter cycles compared to telecommunications technologies. Our ability to invest in the training, certifications, and skills required to develop these partnerships will be important in determining our success in this area of managed IT services.

Our limited access to middle mile infrastructure limits our ability to compete in certain geographic and customer segments in Alaska.

We define middle mile as the connection between the first aggregation point into a local community and the interconnection point to the internet or switch which connects the community to the outside world. These are typically high capacity connections and can span hundreds of miles in the case of Alaska. It is unlikely that we will have the capital needed for middle mile investments, and GCI controls significant elements of the middle mile network in Alaska, and through its government funded programs is creating monopoly conditions in certain areas of the state. This limits our ability to compete in those markets.

Risks Relating to Our Debt

Our debt could adversely affect our financial health, financing options and liquidity position. Due to uncertainty in the capital markets, we may be unable to retire or refinance our long-term debt when it becomes due, or if we are able to refinance it, we may not be able to do so with attractive interest rates or terms.

2019 Senior Credit Facility

On January 15, 2019, we entered into an amended and restated credit facility consisting of a term facility in the amount of $180 million, a revolving facility in an amount not to exceed $20 million and a delayed-draw term facility in an amount not to exceed $25 million (together the "2019 Senior Credit Facility"). The 2019 Senior Credit Facility also provides for incremental term loans up to an aggregate principal amount of the greater of $60 million or trailing twelve-month EBITDA (as defined in the facility).

Principal payments on the term facilities are due commencing in the third quarter of 2019 as follows: the third quarter of 2019 through the second quarter of 2020 – $1,125 per quarter; the third quarter of 2020 through the second quarter of 2022 – $2,250 per quarter; the third quarter of 2022 through the second quarter of 2023 – $3,375 per quarter; and the third quarter of 2023 through the fourth quarter of 2023 – $4,500 per quarter. The remaining outstanding principal balance, including any amounts outstanding under the revolving facility, is due on January 15, 2024. This schedule is subject to mandatory prepayments under certain conditions, including the Company's generation of excess cash flow as defined in the facility.

The obligations under the 2019 Senior Credit Facility are secured by substantially all of the personal property and real property of the Company.

The 2019 Senior Credit Facility contains customary representations, warranties and covenants, including covenants limiting the incurrence of debt, the payment of dividends and repurchase of the Company's common stock.

The 2019 Senior Credit Facility provides for events of default customary for credit facilities of this type, including non-payment defaults on other debt, misrepresentation, breach of covenants, representations and warranties, change of control, and insolvency and bankruptcy.

Our debt also exposes us to adverse changes in interest rates. As a component of our cash flow hedging strategy and as required under the terms of the 2019 Senior Credit Facility, we hold pay-fixed, receive-floating interest rate swaps in the total initial notional amount of $135.0 million at 6.1735%, inclusive of a 4.5% LIBOR spread, through June 2022. The anticipated elimination of LIBOR and subsequent replacement with an alternative base rate could negatively impact our cost of borrowing.

Additional information is in the "First Amended and Restated Credit Agreement, dated as of January 15, 2019, by and among Alaska Communications, as the borrower, the Company and certain of its direct and indirect subsidiaries, as guarantors, ING Capital LLC, as administrative agent, and the lenders party thereto," filed as Exhibit 10.1 to the Current Report on Form 8-K filed on January 22, 2019, which is incorporated herein by reference.

We are also subject to credit risk related to our counterparties on the swaps and to interest rate fluctuations on interest generated by our debt in excess of the notional term loans referenced above.

Risks Related to our Business

Rural Health Care Universal Service Support Program

We may not receive some of the subsidies for Rural Health Care for which our customers have applied and amounts previously received may be challenged.

The Company received inquiries and requests for information from USAC, which administers the program, in connection with both current funding requests and, beginning with a letter dated June 2, 2017 from USAC's auditors, prior period support payments. After the Company responded to the initial request, USAC's auditors asked the Company to comment on some preliminary audit findings, and the Company responded with a letter dated December 21, 2018. On February 24, 2020, the Company received a draft audit report from USAC that is described more fully in Note 20 "Commitments and Contingencies" in the Notes to Consolidated Financial Statements. The draft audit report alleges violations of the FCC's rules for establishing rural rates and urban rates, the provisioning and billing of ineligible services and products, and violations of the FCC's competitive bidding rules. The Company is engaged in dialogue with USAC's auditors and continues to work constructively with USAC towards a resolution. At this time, the Company is unable to predict the outcome of this audit. Similar audits of other companies have resulted in the FCC recouping certain previously awarded support funds, which could have a material adverse effect on our business, financial position, results of operations, and liquidity.

In addition, the Company received a letter of inquiry from the FCC's Enforcement Bureau on March 23, 2018 regarding the Company's participation in the Rural Healthcare Program. On November 5, 2019, and January 22, 2020, the Company received additional letters from the FCC Enforcement Bureau requesting supplementary information. The Company has responded to all such letters from the FCC except that its response to the January 22, 2020 letter remains in process. The FCC's Enforcement Bureau is still conducting its inquiry, and as of the date of this Form 10-K, has yet to assert any claims or rule violations. At this time, the Company is unable to predict the outcome of this inquiry. Similar investigations of other companies have resulted in the FCC imposing penalties, which could have a material adverse effect on our business, financial position, results of operations, and liquidity.

The rising uncertainty and unpredictability in the Rural Health Care program negatively impacted the Company in 2017, 2018 and 2019, and may have a negative impact on future revenue and demand for our services from rural healthcare providers.

Also, we may be subject to further audits, inquiries or investigations of the Company's compliance with FCC rules governing the Rural Healthcare Program for prior periods. We are unable to predict the duration, scope, or outcome of any audit, inquiry or investigation into these matters, and any remedial action taken against the Company could have a material adverse effect on our business, financial position, results of operations, and liquidity.

Access and High Cost Support Revenue

Revenues from access charges will continue to decline and revenue from various regulated support mechanisms is subject to rule changes at the FCC and the RCA.

We received approximately 1.7% and 2.0% of our operating revenues for the years ended December 31, 2019 and 2018, respectively, from access charges. The amount of revenue that we receive from these access charges is calculated in accordance with requirements set by the FCC and the RCA. Any change in these requirements may reduce our revenues and earnings. Access charges have consistently decreased in past years and we expect this trend to continue due to declines in legacy regulated products, changes in regulations, and migration to VoIP services which do not generate access revenue for us.

Some access charges have already been reduced to zero. Further elimination of access revenue would have a material adverse effect on our revenue and earnings.

Regulations

New governmental regulations may impose obligations on us to upgrade our existing technology or adopt new technology that may require additional capital and we may not be able to comply in a timely or economic manner with these new regulations.

We cannot predict the extent to which the government will impose new unfunded mandates on us. Such mandates have included those related to emergency location, emergency "E-911" calling, law enforcement assistance and local number portability. Each of these government mandates has imposed new requirements for capital that we could not have predicted with any precision. Along with these obligations, the FCC has imposed deadlines for compliance with these mandates. We may not be able to provide services that comply with these or other regulatory mandates. Further, we cannot predict whether other mandates from the FCC or other regulatory authorities will occur in the future or the demands they may place on our capital expenditures. For more information on our regulatory environment and the risks it presents to us, see "Item 1, Business – Regulation".

There is a risk that FCC Orders will materially impact our revenue.

The 2011 Transformation Order established a new framework for high cost universal service support that replaced existing support mechanisms that provide support to carriers, like us, that serve high-cost areas with new CAF support mechanisms and service obligations that are focused on broadband Internet access services. We recognized $19.7 million in federal high cost universal service payment revenues to support our wireline operations in high cost areas in each of the twelve months ended December 31, 2019 and 2018. The FCC released its CAF Phase II order, specific to the Company, on October 31, 2016. As a result, we currently expect our high cost support revenue to be relatively unchanged for the next six years. Substantial changes are expected to be enacted by the FCC regarding our high cost support funding after 2025, and there is uncertainty regarding the future level of revenue as well as the future obligations tied to this funding. If we fail to meet our obligations under the CAF Phase II order, our revenue, results of operations and liquidity may be impacted.

We make substantial contributions to the Universal Service Fund and our methods for computing our contributions to that fund may be challenged.

The FCC order released on August 20, 2019 clarified its position that only Telecommunications Services were supported under the Rural Health Care Telecom Program. On December 26, 2019, the FCC issued public notices seeking comments on proposed changes to the 2020 FCC Form 499-A. The proposed changes would clarify the reporting of funds remitted from USAC under the Rural Health Care program. This clarification reduced our risk for future filings. However, our past filings of certain services as “Information Services” not subject to such contributions could ultimately prove to be inconsistent with the FCC’s views, which could trigger additional USF contribution obligations.

We are unable to predict the duration, scope, or outcome of any investigation into these matters and any remedial action taken against the Company in connection with them could have a material adverse effect on our business, financial position, results of operations or liquidity.

Alaska’s Economic Conditions

The successful operation and growth of our businesses depends on economic conditions in Alaska which may deteriorate due to reductions in crude oil prices and other factors.

The vast majority of our customers and operations are located in Alaska. Due to our geographical concentration, the successful operation and growth of our businesses depends on economic conditions in Alaska. The Alaska economy, in turn, depends upon many factors, including:

- the strength of the natural resources industries, particularly oil production and prices of crude oil;
- the strength of the Alaska tourism industry;
- the level of government and military spending; and
- the continued growth of service industries.

The population of Alaska, which declined marginally in 2018 and 2019, is approximately 730,000 with Anchorage, Fairbanks and Juneau serving as the primary population and economic centers in the state.

It is estimated that one-third of Alaska’s economy is dependent on federal spending, one-third on natural resources, in particular the production of crude oil, and the remaining one-third on other activities such as tourism, mining, timber, seafood, international air cargo and miscellaneous support services.

Alaska’s economy is dependent on investment by oil companies, and state tax revenues correlate with the price of oil as the State assesses a tax based on the value of the oil that transits the pipeline from the North Slope. British Petroleum, one of the world’s major oil companies, is exiting Alaska and its Alaska operations and holdings are being taken over by a much smaller local company. The impact of this change on the State’s economy is uncertain.

Overall economic impacts from a sustained lower price of crude oil and population declines, if maintained over time, will impact our growth in the future.

North Slope Fiber Optic Network

Our project to provide broadband solutions to the North Slope and western Alaska may not prove to be as successful as currently anticipated.

During the second quarter of 2015, we acquired a fiber optic network on the North Slope of Alaska and initiated a project to operate and expand the network. This network enables commercially-available, high-speed connectivity where only high-cost microwave and satellite communications were previously available. The success of this project is dependent, in part, on the utilization of the network by other telecom carriers.

Our co-owner in this project has invested in a submarine network with landing stations in several northwest Alaska communities, including a terrestrial route from the North Slope to Fairbanks. The network became operational in late 2017 and we began delivering service to customers in 2018 through capacity we acquired on the system. Delays in acquiring customers and providing those customers with service could negatively impact our investment in the system and our financial results.

Erosion of Access Lines

We provide services to many customers over access lines, and if we continue to lose access lines, our revenues, earnings and cash flow from operating activities may decrease.

Our business generates revenue by delivering voice and data services over access lines. We have experienced net access line loss over the past few years and the rate of loss has been accelerating. During the years ended December 31, 2019 and 2018 our business access line erosion was 2,134 and 2,317, respectively, while over the same period our consumer access line erosion was 2,920 and 3,478 respectively. We expect to continue to experience net access line loss in our markets, affecting our revenues, earnings and cash flow from operating activities.

Network / E-911 Failure

A failure of our network could cause significant delays or interruptions of service, which could cause us to lose customers.

To be successful, we will need to continue to provide our customers reliable service over our network. Our network and infrastructure are constantly at risk of physical damage as a result of human, natural or other factors. These factors may include pandemics, acts of terrorism, sabotage, natural disasters, power surges or outages, software defects, contractor or vendor failures, labor disputes and other disruptions that may be beyond our control. Should we experience a prolonged system failure or a significant service interruption, our customers may choose a different provider and our reputation may be damaged. Further, we may not have adequate insurance coverage, which would result in unexpected expense. Notably, similar to other undersea fiber optic cable operators, we do not carry insurance that would cover the cost of repair of our undersea cables and, thus, we would bear the full cost of any necessary repairs.

A failure of enhanced emergency calling services associated with our network may harm our business.

We provide E-911 service to our customers where such service is available. We also contract from time to time with municipalities to upgrade their dispatch capabilities such that those facilities become capable of receiving our transmission of a 911 caller’s location information and telephone number. If the emergency call center is unable to process such information, the caller is provided only basic 911 services. In these instances, the emergency caller may be required to verbally advise the operator of such caller’s location at the time of the call. Any inability of the dispatchers to automatically recognize the caller’s location or telephone number, whether or not it occurs as a result of our network operations, may cause us to incur liability or cause our reputation or financial results to suffer.

Actions of Activist Stockholders

Actions of activist stockholders against us could be disruptive and costly and the possibility that activist stockholders may wage proxy contests or seek representation on, or control of, our Board could cause uncertainty about the strategic direction of our business, and an activist campaign that results in a change in control of our Board could trigger change in control provisions or payments under certain of our material contracts and agreements.

Stockholders may from time to time engage in proxy solicitations, advance stockholder proposals or board nominations or otherwise attempt to effect changes, assert influence or acquire some level of control over us.

While our Board and management team strive to maintain constructive, ongoing communications with all of the Company's stockholders and welcomes their views and opinions with the goal of enhancing value for all stockholders, an activist campaign that seeks to replace more than a majority of the members of our Board and, thereby seek control of the Company's Board, could have an adverse effect on us because:

- Responding to actions by activist stockholders can disrupt our operations, are costly and time-consuming, and divert the attention of our Board and senior management team from the pursuit of business strategies, which could adversely affect our results of operations and financial condition;
- Perceived uncertainties as to our future direction as a result of changes to the composition of our Board may lead to the perception of a change in the direction of the business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential clients, may result in the loss of potential business opportunities and make it more difficult to attract and retain qualified personnel and business partners;
- These types of actions could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business; and
- If individuals are elected to our Board with a specific agenda, it may adversely affect our ability to effectively implement our business strategy and create additional value for our stockholders.

Employees

We depend on the availability of personnel with the requisite level of technical expertise in the telecommunications industry.

Our ability to develop and maintain our networks and execute our business plan is dependent on the availability of technical engineering, IT, service delivery and monitoring, product development, sales, management, finance and other key personnel within our geographic location.

Labor costs and the terms of our principal collective bargaining agreement can negatively impact our ability to remain competitive, which could cause our financial performance to suffer.

Labor costs are a significant component of our expenses and, as of December 31, 2019, approximately 54% of our workforce is represented by the IBEW. The collective bargaining agreement between the Company and the IBEW, which is effective through December 31, 2023, governs the terms and conditions of employment for all IBEW represented employees working for the Company in the state of Alaska and has significant economic impacts on the Company as it relates to wage and benefit costs and work rules. We believe our labor costs are higher than our competitors who employ a non-unionized workforce because we are required by the CBA to contribute to the IBEW Health and Welfare Trust and the Alaska Electrical Pension Fund ("AEPF") for benefit programs, including defined benefit pension plans and health benefit plans, that are not reflective of the competitive marketplace. Furthermore, work rules under the existing agreement limit our ability to efficiently manage our workforce and make the incremental cost of work performed outside normal work hours high. In addition, we may make strategic and operational decisions that require the consent of the IBEW. While we believe our relationship with the IBEW is constructive, and although the IBEW generally has provided necessary consents, the IBEW may not provide consent when we need it, it may require additional wages, benefits or other consideration be paid in return for its consent, or it may call for a work stoppage against the Company. The Company considered relations with the IBEW to be stable in 2019; however, any deterioration in the relationship with the IBEW would have a negative impact on the Company's operations.

The expansion of represented employees outside of Alaska could affect our cost structure and the success of any strategic expansion opportunities.

Vendors

We rely on a limited number of key suppliers and vendors for timely supply of equipment and services for our network infrastructure and customer support services. If these suppliers or vendors experience problems or favor our competitors, we could fail to obtain the equipment and services we require to operate our business successfully.

Suppliers that use proprietary technology, effectively lock us into one or a few suppliers for key network components. Other suppliers require us to maintain exclusive relationships under a contract. As a result, we have become reliant upon a limited number of suppliers of network equipment. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement suppliers or vendors on economically attractive terms on a timely basis, or at all, which could increase costs and may cause disruption in service.

If suppliers of our equipment or providers of services on which we rely experience financial difficulties, service or billing interruptions, patent litigation or other problems, subscriber growth and our operating results could be negatively impacted.

Networks, Monitoring Centers and Data Hosting Facilities

Maintaining the Company's networks, around the clock monitoring centers and data hosting facilities requires significant capital expenditures, and our inability or failure to maintain and upgrade our networks and data centers would have a material impact on our market share and ability to generate revenue.

The Company currently operates an extensive network that includes monitoring and hosting facilities. To provide contractual levels of service to our customers and remain competitive, we must expend significant amounts of capital. In many cases, we must rely on outside vendors whose performance and costs may not be sufficiently within our control.

Information Technology Systems

A failure of back-office IT systems could adversely affect the Company's results of operations and financial condition.

The efficient operation of the Company's business depends on back-office IT systems. The Company relies on back-office IT systems, including certain systems provided by third party vendors, to effectively manage customer billing, business data, communications, supply chain, order entry and fulfillment and other business processes. Some of these systems are no longer supported under maintenance agreements from the underlying vendor. Initiation of new systems may not be successful, may be delayed, and may cost more than expected. A failure of the Company's IT systems, or the IT systems provided by third party vendors, to perform as anticipated could disrupt the Company's business and result in a failure to collect accounts receivable, transaction errors, processing inefficiencies, and the loss of sales and customers, causing the Company's reputation and results of operations to suffer. In addition, IT systems may be vulnerable to damage or interruption from circumstances beyond the Company's control, including fire, natural disasters, systems failures, security breaches and viruses. Any such damage or interruption could have a material adverse effect on our business, financial position, results of operations and financial condition.

Undersea Fiber Optic Cable Systems

If failures occur in our undersea fiber optic cable systems, our ability to restore our service may be delayed or otherwise limited.

Our undersea fiber optic cable systems carry a large portion of our traffic to and from the contiguous lower 48 states. If a failure occurs and we are not able to secure alternative facilities, some of the communications services we offer to our customers could be interrupted, which could have a material adverse effect on our business, financial position, results of operations or liquidity.

Managed IT Services

Our expansion into managed IT services may not be achieved as planned which could impact our ability to grow revenue.

We are expanding our business to provide more managed IT services along with our traditional telecom services. The delivery of professional services is not without risk, and it is possible that we may fail to execute on one or more managed IT service projects exposing the company to legal claims and reputational risk.

Physical Infrastructure

We may not be able to invest sufficiently in our underlying physical infrastructure, including buildings, fleet and related equipment.

Much of the Company's underlying physical infrastructure, including buildings, fleet vehicles and related systems and equipment, has been in service for an extended period of time. We may not be able to adequately fund the maintenance and replacement of this infrastructure which could negatively impact the Company's operations, including the provision of service to its customers.

Intellectual Property

Third parties may claim that the Company is infringing upon their intellectual property, and the Company could suffer significant litigation or licensing expenses or be prevented from selling products.

Although the Company does not believe that any of its products or services infringe upon the valid intellectual property rights of third parties, the Company may be unaware of intellectual property rights of others that may cover some of its technology, products or services. Any litigation growing out of third-party patents or other intellectual property claims could be costly and time consuming and could divert the Company's management and key personnel from its business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Resolution of claims of intellectual property infringement might also require the Company to enter into costly license agreements. Likewise, the Company may not be able to obtain license agreements on acceptable terms. The Company also may be subject to significant damages or injunctions against development and sale of certain of its products. Further, the Company often relies on licenses of third-party intellectual property for its businesses. The Company cannot ensure these licenses will be available in the future on favorable terms or at all. If any of these risks materialize, it could have a material adverse effect on our business, financial position, results of operations or liquidity.

Security Breaches

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt our businesses, result in the disclosure of confidential information or damage our reputation. Any such failure also could have a significant adverse effect on our cash flows, financial condition, and results of operations.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code, and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information. If one or more such events occur, this potentially could jeopardize our information or our customers' information processed and stored in, and transmitted through, our computer systems and networks. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

With regard to the physical infrastructure that supports our operations, we have taken measures to implement backup systems and other safeguards, but our ability to conduct business may be adversely affected by any disruption to that infrastructure. Such disruptions could involve electrical, communications, internet, transportation or other services used by us or third parties with whom we conduct business. The costs associated with such disruptions, including any loss of business, could have a significant adverse effect on our financial position, results of operations or liquidity.

Any of these operational and security risks could lead to significant and negative consequences, including reputational harm as well as loss of customers and business opportunities, which in turn could have a significant adverse effect on our businesses, financial position, results of operations or liquidity.

Cyber-attacks may damage our networks or breach customer and other proprietary data, leading to service disruption, harm to reputation, loss of customers, and litigation over privacy violations.

All industries that rely on technology in customer interactions are increasingly at risk for cyber-attacks. A cyber-attack could be levied against our network, causing disruption of operations and service, requiring implementation of greater network security measures, and resulting in lost revenue due to lost service. A cyber-attack could also be targeted to infiltrate customer proprietary and other data, breaching customer privacy, resulting in misuse of customer information and other data, and possibly leading to litigation over privacy breaches and causing harm to the Company's reputation. In the event of a cyber-attack, Company insiders could utilize their knowledge of such an attack in trading the Company's publicly traded shares. We rely on a variety of procedures to guard against cyber-attacks, and to take appropriate actions in the event of a cyber-attack, but the frequency of threats from these attacks is growing globally and the risk to us is also growing.

Pension Plans

We may incur substantial and unexpected liabilities arising out of our pension plans.

Our pension plans could result in substantial liabilities on our balance sheet. These plans and activities have and will generate substantial cash requirements for us, and these requirements may increase beyond our expectations in future years based on changing market conditions. The difference between projected plan obligations and assets, or the funded status of the plans, is a significant factor in determining the net periodic benefit costs of our pension plans and the ongoing funding requirements of those plans. Changes in interest rates, mortality rates, health care costs, early retirement rates, returns on investment and the market value of plan assets can affect the funded status of our defined benefit pension and cause volatility in the net periodic benefit cost and future funding requirements of the plans. In the future, we may be required to make additional contributions to our defined benefit plan. Plan liabilities may impair our liquidity, have an unfavorable impact on our ability to obtain financing and place us at a competitive disadvantage compared to some of our competitors who do not have such liabilities and cash requirements.

Our most significant pension plan is the AEPF in which we participate on behalf of substantially all of our employees in Alaska. The AEPF is a multi-employer pension plan to which we make fixed, per employee, contributions through our collective bargaining agreement with the IBEW, which covers our IBEW represented workforce, and a special agreement, which covers most of our non-represented workforce. Because our contribution requirements are fixed, we cannot easily adjust our annual plan contributions to address our own financial circumstances. Currently, this plan is not fully funded, which means we may be subject to increased contribution obligations, penalties, and ultimately, we could incur a contingent withdrawal liability should we choose to withdraw from the AEPF for economic reasons. Our contingent withdrawal liability is an amount based on our pro-rata share among AEPF participants of the value of the funding shortfall. This contingent liability becomes due and payable by us if we terminate our participation in the AEPF. Moreover, if another participant in the AEPF goes bankrupt, we would become liable for a pro-rata share of the bankrupt participant’s vested, but unpaid, liability for accrued benefits for that participant’s employees. This could result in a substantial unexpected contribution requirement and making such a contribution could have a material adverse effect on our cash position and other financial results. These sources of potential liability are difficult to predict.

Given the complexity of pension-related matters we may not, in every instance, be in full compliance with applicable requirements.

Key Members of Senior Management

We depend on key members of our senior management team; our performance could be adversely impacted if they depart and we cannot find suitable replacements.

Our success depends largely on the skills, experience and performance of key members of our senior management team as well as our ability to attract and retain other highly qualified management and technical personnel. There is competition for qualified personnel in our industry and we may not be able to attract and retain the personnel necessary for the development of our business. Our remote location also presents a challenge to us in attracting new talent. If we lose one or more of our key employees, our ability to successfully implement our business plan could be materially adversely affected. We do not maintain any “key person” insurance on any of our personnel.

Future Acquisitions

Future acquisitions could result in operating and financial difficulties.

Our future growth may depend, in part, on acquisitions. To the extent that we grow through acquisitions, we will face the operational and financial risks that commonly accompany that strategy. We would also face operational risks, such as failing to assimilate the operations and personnel of the acquired businesses, disrupting their ongoing businesses, increasing the complexity of our business, and impairing management resources and management’s relationships with employees and customers as a result of changes in their ownership and management. Further, the evaluation and negotiation of potential acquisitions, as well as the integration of an acquired business, may divert management time and other resources. Some acquisitions may not be successful, and their performance may result in the impairment of their carrying value.

Volatility Risks Related to our Common Stock

Continued volatility in the price of our common stock could negatively affect us and our stockholders.

The trading price of our common stock has been impacted by factors, many of which are beyond our control, including actual or anticipated variations in quarterly financial results, changes in financial expectations by securities analysts and announcements by our current and future competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments. In addition, our financial results in the future may be below the expectations of securities analysts and investors. Broad market and industry factors could also negatively affect the price of our common stock regardless of our operating performance. Future volatility in our stock price could materially adversely affect the trading market and prices for our common stock as well as our ability to issue additional securities or to secure additional financing.

Location Specific Risk

We operate in remote areas subject to geologic instability and other natural events which could negatively impact our operations.

Many of our operations are located in areas that are prone to earthquakes, fires, and other natural disturbances. Many of these areas have limited emergency response assets and may be difficult to reach in an emergency situation. Should an event occur, it could be weeks or longer before remediation efforts could be implemented, if they could be implemented at all. The scope and risk of such an event occurring is difficult to gauge.

Public Health Issues

A major public health issue, such as an epidemic or pandemic, could adversely affect our operations and financial performance.

Our operations, including the provision of services and products to our customers and maintenance of the supporting infrastructure, rely on products, resources and our employees inside and outside the state of Alaska. A major public health issue, such as an epidemic or pandemic, could disrupt the timely receipt of those products and resources, the productivity of our employees, our provision of products and services to our customers and negatively affect overall economic conditions.

Internal Control Over Financial Reporting

Our internal control over financial reporting may not be effective, which could cause our financial reporting to be unreliable.

Because of its inherent limitations, and irrespective of the existence of material weaknesses, our internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that such controls may become inadequate because of changes in conditions, or the degree of compliance with policies and procedures may deteriorate. Any of these circumstances could cause our financial reporting to be unreliable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal properties do not lend themselves to simple description by character and location. The components of our gross investment in property, plant and equipment consisted of the following as of December 31, 2019 and 2018:

(in thousands)	2019	2018
Land, buildings and support assets	$ 204,834	$ 197,381
Central office switching and transmission	396,565	387,008
Outside plant, cable and wire facilities	765,640	750,492
Other	25,423	17,126
Construction work in progress	32,442	38,615
	$ 1,424,904	$ 1,390,622

Our property, plant and equipment are used in our communications networks.

Land, buildings and support assets consist of land, land improvements, central office and certain administrative office buildings as well as general purpose computers, office equipment, vehicles and other general support equipment. Central office switching and transmission and wireless switching and transmission consist primarily of switches, routers and transmission electronics for our regulated and wireless entities, respectively. Outside plant and cable and wire facilities include primarily conduit and cable. We own substantially all of our telecommunications equipment required for our business. However, we lease certain facilities and equipment under various financing and operating lease arrangements when the leasing arrangements are more favorable to us than purchasing the assets.

We own and lease office facilities and related equipment for our headquarters, central office buildings and operations in locations throughout Alaska and Oregon. Our principal executive and administrative offices are located in Anchorage, Alaska. We believe we have appropriate easements, rights-of-way and other arrangements for the accommodation of our pole lines, underground conduits, aerial, underground and undersea cables, and wires. However, these properties do not lend themselves to simple description by character and location.

In addition to land and structures, our property consists of equipment necessary for the provision of communication services. This includes central and IP office equipment, customer premises equipment and connections, towers, pole lines, remote terminals, aerial, underground and undersea cable and fiber optic and copper wire facilities, vehicles, furniture and fixtures, computers and other equipment. We also own certain other communications equipment held as inventory for sale or lease. Substantially all of our communications equipment and other network equipment are located in buildings that we own or on land within our local service coverage area.

We have insurance to cover certain losses incurred in the ordinary course of business, including excess general liability, property coverage including business interruption, director and officers and excess employment practices liability, excess auto, crime, fiduciary, workers' compensation and non-owned aircraft insurance in amounts and with deductibles that are typical of similar operators in our industry and with reputable insurance providers. Central office equipment, buildings, furniture and fixtures and certain operating and other equipment are insured under a blanket property insurance program. This program provides substantial limits of coverage against "all risks" of loss including fire, windstorm, flood, earthquake and other perils not specifically excluded by the terms of the policies. As is typical in the communications industry, we are self-insured for damage or loss to certain of our transmission facilities, including our buried, undersea and above ground transmission lines. We self-insure with respect to employee health insurance, primary general liability, primary auto liability and primary employment practices liability subject to stop-loss insurance with insurance carriers that caps our liability at specified limits. We believe our insurance coverage is adequate; however, if we become subject to substantial uninsured liabilities due to damage or loss to such facilities, our financial position, results of operations or liquidity may be adversely affected.

Substantially all of our assets (including those of our subsidiaries) have been pledged as collateral for our 2019 Senior Credit Facility.

Item 3. Legal Proceedings

We are involved in various claims, legal actions, personnel matters and regulatory proceedings arising in the ordinary course of business, including various legal proceedings involving regulatory matters described under "Item 1, Business–Regulation". For example, the Company received a Letter of Inquiry on March 18, 2018, from the FCC Enforcement Bureau requesting historical information regarding the Company's participation in the FCC's Rural Health Care program. On November 5, 2019 and January 22, 2020, the Company received additional letters from the FCC Enforcement Bureau requesting supplementary information. The Company has responded to all such letters from the FCC except that its response to the January 22, 2020 letter remains in process. The Company is unable to predict the duration, scope, or outcome of the FCC Enforcement Bureau's inquiry into these matters or any remedial action the FCC may or may not take against the Company in the future.

We have recorded a liability for estimated litigation costs of $1.4 million as of December 31, 2019, against certain current claims and legal actions. We believe that the disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, comprehensive income or cash flows. It is the Company's policy to expense costs associated with loss contingencies, including any related legal fees, as they are incurred.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Global Select Market under the symbol 'ALSK'. The following table presents, for the periods indicated, the high and low sales prices of our common stock as reported by Nasdaq.

2019 Quarters	High	Low	2018 Quarters	High	Low
4th	$ 1.90	$ 1.60	4th	$ 1.86	$ 1.37
3rd	$ 1.98	$ 1.67	3rd	$ 2.04	$ 1.56
2nd	$ 1.97	$ 1.61	2nd	$ 1.82	$ 1.39
1st	$ 2.10	$ 1.44	1st	$ 2.71	$ 1.77

As of March 6, 2020, there were 53.1 million shares of our common stock issued and outstanding and approximately 326 record holders of our common stock. Because brokers and other institutions hold many of our shares of existing common stock on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

In the fourth quarter of 2012, our Board of Directors suspended the quarterly dividend paid to shareholders. The dividend suspension was required in connection with the amendment to our 2010 Senior Credit Facility as part of the sale of our wireless business in the first quarter of 2015. Under the terms of our 2019 Senior Credit Facility (the "Facility"), payment of cash dividends on our common stock is subject to certain conditions, after giving effect to such dividend. The conditions and terms are described in the Facility and summarized as follows:

(i) The Company is not in default of the terms of the Facility;
(ii) The Company is in compliance with the financial covenants of the Facility;
(iii) The payment of such dividend is made solely from specified available funds, including (a) excess cash flow not required for mandatory repayment of principal, (b) specified distributions and (c) special projects; and
(iv) The Company's liquidity balance is not less than $10 million.

While payment of a cash dividend in 2019 was permitted under the terms of the Facility, the reinstitution of dividend payments also depends on future competitive market and economic conditions and financial, business, regulatory and other factors, many of which are beyond our control.

Additional factors that may affect our future dividend policy include:

- our reliance on dividends, interest and other payments, advances and transfer of funds from our subsidiaries to meet our debt service and pay dividends, if any;
- reductions in the availability of cash due to changes in our operating earnings, working capital requirements and anticipated cash needs;
- the discretion of our Board of Directors; and
- restrictions under Delaware law.

Notably, nothing requires us to declare or pay dividends. Our stockholders have no contractual or other legal right to dividends.

On March 9, 2020, the Company's Board of Directors declared a one-time cash dividend of $0.09 per share of common stock to be paid on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. The dividend payment is expected to total approximately $5.0 million.

See "Item 1A, Risk Factors—Volatility Risks Related to our Common Stock".

Securities Authorized for Issuance under Equity Compensation Plans

The information set forth in this Report under "Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Securities Authorized for Issuance under Equity Compensation Plans" is incorporated herein by reference.

Common Stock Performance Graph

As a smaller reporting company, the Company is not required to provide this information.

Issuer Purchases of Equity Securities

In the second quarter of 2017, the Company's Board of Directors authorized a share repurchase program pursuant to which the Company may repurchase up to $10.0 million of its common stock effective March 31, 2017 through December 31, 2019. There were no repurchases under this program during the fourth quarter of 2019.

Item 6. Selected Financial Data

As a smaller reporting company, the Company is not required to provide the information called for by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes and the other financial information included elsewhere in this Form 10-K.

OVERVIEW

We are a fiber broadband and managed IT services provider, offering technology and service enabled customer solutions to business and wholesale customers in and out of Alaska. We also provide telecommunication services offering value and exceptional convenience to consumers throughout the state. Our facilities-based communications network extends throughout Alaska and connects to the contiguous states via our two diverse undersea fiber optic cable systems. Our network is among the most expansive in Alaska and forms the foundation of service to our customers. We operate in a largely two-player terrestrial wireline market and we estimate our market share to be less than 25% statewide. However, our revenue performance relative to our largest competitor suggests that we are gaining market share in the markets we are serving. A third-party market study indicates that we have a market share of close to 40% for "near net" opportunities, that is, within one mile of our fiber network.

The sections that follow provide information about important aspects of our operations and investments and include discussions of our results of operations, financial condition and sources and uses of cash. In addition, we have highlighted key trends and uncertainties to the extent practicable. The content and organization of the financial and non-financial data presented in these sections are consistent with information we use in evaluating our own performance and allocating our resources.

We operate in a geographically diverse state with unique characteristics. We monitor the state of the economy in general. In doing so, we compare Alaska economic activity with broader economic conditions. In general, we believe that the Alaska telecommunications market, as well as general economic activity in Alaska, is affected by certain economic factors, which include:

- investment activity in the oil and gas markets and the price of crude oil
- tourism levels
- governmental spending and activity of military personnel
- the price and price trends of bandwidth
- the growth in demand for bandwidth
- decline in demand for voice and other legacy services
- local customer preferences
- unemployment levels
- housing activity and development patterns

We have observed variances in the factors affecting the Alaska economy as compared to the U.S. as a whole. Some factors, particularly the price of oil and gas, have a greater direct impact on the Alaska economy compared to other macro-economic trends impacting the U.S. economy as a whole.

Historically, the Alaska economy has benefited from a stable employment base, including a growing tourism industry. However, economic indicators have been impacted by the substantial decline in the price of crude oil in 2015 through 2017. Crude oil prices recovered somewhat in 2018 but declined marginally in 2019. The Alaskan economy entered a moderate recession beginning in the second half of 2015, which economists currently expect to continue for another two to three years. The population of Alaska grew marginally in 2016, remained steady in 2017 and declined slightly in 2018 and 2019. Employment levels declined approximately 1.3% and 0.3% in 2017 and 2018, respectively and increased approximately 0.6% in 2019. The increase in 2019 was driven by growth in leisure and hospitality, oil and gas, health care, professional and business services and construction, offset by declines in state government and retail. State revenue relies on tax revenue from the production of crude oil and investment in resource development projects by exploration companies in Alaska. The state's budget deficit has been reduced from $3.7 billion in 2015 to $0.4 billion in 2019 primarily through spending reductions and utilization of interest earned on the state's permanent fund. The 2020 budget (as enacted) projects a $0.1 million surplus. The prospect of continued lower tax revenue continues to impact the overall economy and may affect our future financial performance.

Management estimates the Alaska wireline telecom and IT services market to be approximately $1.65 billion. This market is comprised of the IT services market of approximately $840 million, the broadband market of approximately $700 million and the voice market of approximately $110 million. Management estimates that over 85% of this market opportunity is from the business and wholesale customer segment.

Our objective is to continue generating sector leading revenue growth in the broadband market through investments in sales, service, marketing and product development while expanding our broadband network capabilities through higher efficiencies, automation, new technology and expanded service areas. We also intend to continue our growth in the managed IT services market by providing these services to our broadband customers, and leveraging our position as the premier Cloud Enabler for business in the state of Alaska. We also seek to continuously improve our customer service and utilize the Net Promoter Score ("NPS") framework to track the feedback of our customers for virtually all customer interactions. We believe that higher NPS scores will allow us to increasingly provide a differentiated service experience for our customers, which will support our growth. We are focused on expanding our margins, and we utilize the LEAN framework to eliminate waste and simplify how we do business.

In January 2019, the Company entered into the 2019 Senior Credit Facility, consisting of an Initial Term A Facility in the amount of $180.0 million, a Revolving Facility in an amount not to exceed $20.0 million and a Delayed-Draw Term A Facility in an amount not to exceed $25.0 million. The 2019 Senior Credit Facility also provides for Incremental Term A Loans up to an aggregate principal amount of the greater of $60.0 million and trailing twelve-month EBITDA, as defined in the Agreement. Proceeds from the Initial Term A Facility of $180.0 million were used to repay in full the outstanding principal balance and interest under the Company's 2017 Senior Credit Facility. This refinancing transaction resulted in the extension of scheduled principal payments, a reduction in interest rates and resetting and widening key covenant thresholds.

Business Plan Core Principles

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect our focus on being the most successful broadband solutions company in Alaska by delivering the best customer experience in the markets we choose to serve. To do this we will continue to:

- **Create a Workplace That Develops Our People and Celebrates Success.** We believe an engaged workforce is critical to our success. We are deeply committed to the development of our people and creating opportunities for them.

- **Create a Consistent Customer Experience Every Time.** We strive to deliver service as promised to our customers, and make it right if our customers are not satisfied with what we delivered. We track virtually every customer interaction and we utilize the Net Promoter Score framework for assessing the satisfaction of our customers.

- **Develop Our Network Focusing on Efficient Delivery and Management.** We are moving toward higher efficiencies and improved customer experience through automation, new technology and expanded geographic service areas. Our network architecture is a simpler mix of our fiber backbone, supported with fixed wireless ("FiWi"), WiFi and satellite.

- **Relentlessly Simplify and Transform How We Do Business.** We believe we must reduce waste, which is defined as any activity that does not add value to its intended customer. Doing so improves the experience we deliver to our customers. We make investments in technology and process improvement, utilize the LEAN framework, and expect these efforts to meaningfully impact our financial performance in the long-term.

- **Offer Broadband and Managed IT Solutions that Create Market Differentiation.** We are building on strength in designing and providing new products and solutions to our customers.

We believe we can create value for our shareholders by:

- Driving revenue growth through increasing business broadband and managed IT service revenues,
- Improving our operating and cash flow performance through margin management, and
- Careful allocation of capital, including selectively investing success-based capital into opportunities that generate appropriate returns on investments.

Revenue Sources by Customer Group

We operate our business under a single reportable segment. We manage our revenues based on the sale of services and products to the three customer categories listed below. Revenue in the following management's discussion and analysis is presented by customer and product category, combining revenue accounted for under Revenue from Contracts with Customers ("ASC 606") and other guidance.

- **Business and Wholesale (broadband, voice and managed IT services)**

- **Consumer (broadband and voice services)**

- **Regulatory (access services, high cost support and carrier termination)**

Business and Wholesale

Providing services to Business and Wholesale customers provides the majority of our revenues and is expected to continue being the primary driver of our growth in the near term. Our business customers include large enterprises in the oil and gas industry, health care, education, Alaska Native Corporations, financial industries, Federal, state and local governments, and small and medium business. We were the first Alaska-based carrier to be Carrier Ethernet 2.0 Certified and are currently the only Alaska-based carrier certified for multipoint-to-multipoint services. This certification means that we meet international standards for the quality of our broadband services. We also offer IP based voice including the largest SIP implementations in the State of Alaska and are the first Microsoft Express Route provider in the state. We believe our network differentiates us in the markets we serve, because we prefer not to compete on price; but on the quality, reliability, customer service and the overall value of our solutions. Accordingly, we have significant capacity to "sell into" the network we operate and do so at what we believe are attractive incremental gross margins.

Business services have experienced significant growth and we believe the incremental economics of business services are attractive. Given the demand from our customers for more bandwidth and services, we expect revenue growth from these customers to continue for the foreseeable future. We provide services such as voice and broadband, managed IT services including remote network monitoring and support, managed IT security and IT professional services, and long distance services primarily over our own terrestrial network. We are continuing our efforts to position the Company as the premier Cloud Enabler for business in the state of Alaska.

Our wholesale customers are primarily in-state, national and international telecommunications carriers who rely on us to provide connectivity for broadband and other needs to access their customers over our Alaskan network. The wholesale market is characterized by larger transactions that can create variability in our operating performance. We have a dedicated sales team that sells into this customer segment, and we expect wholesale revenue to grow for the foreseeable future.

Consumer

We also provide broadband, voice and IT services to residential customers, including residential homes and multi-dwelling units. Given that our primary competitor has extensive quad play capabilities (video, voice, wireless and broadband) we target how and where we offer products and services to this customer group in order to maintain our returns. Our focus is to leverage the capabilities of our existing network and sell customers our highest available bandwidth. Our primary competitive advantage is that we offer reliable internet service without data caps, while our competitor, with certain exceptions, charges customers or throttles customers' speeds for exceeding given levels of data usage. We experienced consistent growth in consumer broadband revenues in 2019. We have expanded product and service offerings to this customer group and have implemented fiber fed WiFi and certain fixed wireless technology solutions for providing broadband, all of which provided a basis for continued growth in this market in 2019.

Regulatory

Regulatory revenue is generated from three primary sources: (i) access charges, which include interstate and intrastate switched access and special access charges, and cellular access; (ii) surcharges billed to the end user (pass-through and non-pass-through); and (iii) federal and state support. We provide voice and broadband origination and termination services to interstate and intrastate carriers. While we are compensated for these services, these revenue streams have been in decline and we expect them to continue to decline, although at a relatively predictable rate. In addition, as regulators have reformed traditional access charges, they have simultaneously implemented new end user surcharges that contribute to our revenue.

The following table summarizes our primary sources of regulatory revenue and their contribution to total revenue in 2019 (dollars in thousands).

Source	Description	2019 Revenue		As a % of Regulatory Revenue	As a % of Total Revenue
Access Charges					
	Interstate and intrastate switched access are services based primarily on originating and terminating access minutes from other carriers. Special access is primarily access to dedicated circuits sold to wholesale customers, substantially all of which is generated from interstate services. Cellular access is the transport of local network services between switches for cellular companies based on individually negotiated contracts. Access revenue has declined at an average of approximately 9% annually over the past three years.	$	3,903	8.8%	1.7%
Total Access Charges		$	3,903	8.8%	1.7%
Surcharges					
Pass-Through	We assess our customers for surcharges, typically on a monthly basis, as required by various state and federal regulatory agencies, and remit these surcharges to these agencies. These pass-through surcharges include Federal Universal Access and State Universal Access. These surcharges vary from year to year, and are primarily recognized as revenue, and the subsequent remittance to the state or federal agency as a cost of sale and service. The rates imposed by the regulators continue to increase. However, because the charges are only assessed on a portion of our services, and that portion continues to decline, we expect these revenue streams to decline over time as the revenue base declines.	$	5,268	12.0%	2.3%
Other	Other non-pass-through surcharges are collected from our customers as authorized by the regulatory body. The amount charged is based on the type of line: single line business, multi-line business, consumer or lifeline. The rates are established based on federal or state orders. These charges are recorded as revenue and do not have a direct associated cost. Rather, they represent a revenue recovery mechanism established by the FCC or the Regulatory Commission of Alaska.	$	10,771	24.4%	4.6%
Total Surcharges		$	16,039	36.4%	6.9%
Federal and State Support					
CAF II	In 2016, the FCC released the CAF Phase II order specific to Alaska Communications which transitioned from CAF Phase I frozen support to CAF Phase II. Funding under the new program generally requires the Company to provide broadband service to unserved locations throughout the designated coverage area by the end of a specified build-out period, and meet interim milestone build-out obligations. CAF II revenues are expected to be relatively stable through 2026.	$	19,694	44.7%	8.5%
COLR and CCL	The Company was designated by the State of Alaska as a Carrier of Last Resort ("COLR") in five of the six study areas. In addition to COLR, the Company received Carrier Common Line ("CCL") support. We did not receive COLR or CCL funding for the ACS of Anchorage study area. As a COLR we were required to provide services essential for retail and carrier-to-carrier telecommunication throughout the applicable coverage area. Effective in 2019, the COLR and CCL funding mechanisms were eliminated and replaced with the ENS funding mechanism. Funding levels under ENS are approximately half of those under the prior mechanisms.	$	4,474	10.1%	1.9%
Total Federal and State Support		$	24,168	54.8%	10.4%
Total Regulatory Revenue		$	44,110		19.0%
Total Revenue		$	231,694		

Executive Summary

Operating Revenues

Total revenue of $231.7 million in 2019 decreased $0.8 million, or 0.3%, from $232.5 million in 2018. Business and wholesale revenue increased $6.0 million, or 4.1%, in 2019 driven by growth in wholesale broadband and managed IT services, partially offset by a $3.3 million decline in rural health care revenue. Consumer revenue of $37.0 million was unchanged year over year. Regulatory access revenue declined $6.5 million due to the restructuring and contribution capping (and thereby reducing) of AUSF support. This decline was anticipated.

Operating Income

Operating income of $21.9 million in 2019 decreased $2.4 million, or 9.7%, from $24.3 million in 2018 due to higher operating expenses, consisting primarily of increased depreciation expense. These items are discussed in more detail below.

Operating Metrics

Business broadband average monthly revenue per user ("ARPU") of $343.61 in 2019 increased from $331.27 in 2018. Business broadband connections of 14,789 at December 31, 2019, decreased from connections of 15,234 at December 31, 2018. We count connections on a unitary basis regardless of the size of the bandwidth. For example, a customer that has a 10MB connection is counted as one connection as is a customer with a 1MB connection. While we present metrics related to Business connections, we note that we manage Business and wholesale in terms of new Monthly Recurring Charges ("MRC") sold. Achievement of sales performance in terms of MRC is the primary operating metric used by management to measure market performance. For competitive reasons, we do not disclose our sales or performance in MRC.

Total consumer broadband connections of 31,476 at December 31, 2019 declined from 32,793 at December 31, 2018. Consumer broadband ARPU of $68.90 in 2019 increased from $65.41 in 2018.

The table below provides certain key operating metrics as of, or for, the periods indicated.

	2019	2018
Voice		
At December 31:		
Business access lines	67,248	69,382
Consumer access lines	22,864	25,784
For the year ended December 31:		
ARPU business	$ 26.67	$ 25.38
ARPU consumer	$ 34.40	$ 32.76
Broadband		
At December 31:		
Business connections	14,789	15,234
Consumer connections	31,476	32,793
For the year ended December 31:		
ARPU business	$ 343.61	$ 331.27
ARPU consumer	$ 68.90	$ 65.41

Liquidity

We generated cash from operating activities of $58.8 million in 2019 compared with $56.2 million in 2018.

In 2019 and 2018, we invested a total of $45.5 million and $40.2 million, respectively, in capital, including capitalized interest and net of the settlement of items accrued in previous periods. We also completed the repurchase of 1 million shares of our common stock.

Net debt, defined as total debt excluding debt issuance costs, less cash and cash equivalents, at December 31, 2019 was $153.8 million compared with $161.2 million at December 31, 2018. The decrease reflects higher cash, partially offset by an increase in outstanding debt as a result of the 2019 refinancing.

As described above, on January 15, 2019, we entered into an amended and restated credit facility which provides for a reduction in interest rates, extension of principal payment terms, increased borrowing capacity and resetting and widening of key covenant thresholds.

Other Initiatives

During 2019 we increased our terrestrial and submarine fiber miles, which serves as the backbone of our network, to 146,000 miles. We entered into agreements with certain or our customers which provided pre-funding of our required investments in infrastructure and services to be provided. We also continued the successful deployment our fixed wireless technology across multiple locations and customer markets and expanded broadband service to consumer customers in multi-dwelling units.

RESULTS OF OPERATIONS

The following tables summarize our results of operations for the years ended December 31, 2019 and 2018. Revenue information reflects the organization of revenue streams described in “Revenue Sources by Customer Group” above, combining revenue accounted for under ASC 606 and other guidance. All amounts are discussed at the consolidated level after the elimination of affiliate revenue and expense.

(in thousands)	2019	2018
Business and Wholesale Revenue		
Business broadband	$ 61,785	$ 60,934
Business voice and other	28,660	28,429
Managed IT services	6,494	5,742
Equipment sales and installations	4,698	5,127
Wholesale broadband	43,310	38,362
Wholesale voice and other	5,617	6,000
Business and Wholesale Revenue	150,564	144,594
Growth in Business and Wholesale Revenue	*4.1%*	
Consumer revenue		
Broadband	26,589	26,144
Voice and other	10,431	11,158
Consumer Revenue	37,020	37,302
Total Business, Wholesale, and Consumer Revenue	187,584	181,896
Growth in Business, Wholesale and Consumer Revenue	*3.1%*	
Growth in Broadband Revenue	*5.0%*	
Regulatory Revenue		
Access	24,416	30,878
High cost support	19,694	19,694
Total Regulatory Revenue	44,110	50,572
Total Revenue	$ 231,694	$ 232,468
Growth in Total Revenue	*-0.3%*	

	2019	2018
Operating expenses:		
Cost of services and sale (excluding depreciation and amortization)	105,615	107,509
Selling, general and administrative	66,718	66,647
Depreciation and amortization	37,276	33,908
Loss on disposal of assets, net	156	125
Total operating expenses	209,765	208,189
Operating income	21,929	24,279
Other income and (expense):		
Interest expense	(12,059)	(13,429)
Loss on extinguishment of debt	(2,830)	-
Interest income	385	156
Other	175	23
Total other income and (expense)	(14,329)	(13,250)
Income before income tax expense	7,600	11,029
Income tax expense	(2,765)	(2,041)
Net income	4,835	8,988
Less net loss attributable to noncontrolling interest	(93)	(92)
Net income attributable to Alaska Communications	$ 4,928	$ 9,080

Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

Operating Revenue

Business and Wholesale

Business and wholesale revenue of $150.6 million increased $6.0 million, or 4.1%, in 2019 from $144.6 million in 2018. This increase was driven by increases in wholesale broadband revenue of $4.9 million, business broadband revenue of $0.9 million and managed IT services of $0.8 million, partially offset by a $0.4 million decline in equipment sales and installations and a net $0.2 million decrease in voice and other revenue. Business broadband revenue growth reflected an increase in ARPU from $328.04 (excluding the estimated effect of the $0.6 million favorable rural health care adjustment described below) in 2018 to $343.61 in 2019, largely offset by fewer connections and lower rural health care revenue. Rural health care revenue of $14.2 million in 2019 decreased $3.3 million from $17.5 million in 2018 and represented 6% and 8% of consolidated revenue in 2019 and 2018, respectively. Rural health care revenue in 2018 was favorably impacted by a $0.6 million cumulative adjustment for the effect of Funding Year 2017 funding increases.

While connections and ARPU serve as data points to support the analysis of period-over-period changes in revenue, they are not critical indicators utilized by the Company to manage the Business and Wholesale customer group.

Business and wholesale revenue includes the amortization of deferred revenue in 2019 and 2018 as follows:

	2019	2018
GCI capacity revenue	$ 2,071	$ 2,071
Other deferred capacity revenue	2,584	2,027
Total deferred capacity revenue	4,655	4,098
Other deferred revenue	3,785	3,309
Total	$ 8,440	$ 7,407

Consumer

Consumer revenue of $37.0 million in 2019 declined $0.3 million from $37.3 million in 2018. Broadband revenue increased $0.4 million as lower connections were offset by an increase in ARPU to $68.90 from $65.41. Voice and other revenue decreased $0.7 million due to 2,920 fewer connections, partially offset by an increase in ARPU to $34.40 from $32.76 in the prior year.

Regulatory

Regulatory revenue of $44.1 million decreased $6.5 million year over year due to lower access revenue resulting from reduced funding from the Alaska Universal Service Fund.

Operating Expenses

Cost of Services and Sales (excluding depreciation and amortization)

Cost of services and sales (excluding depreciation and amortization) of $105.6 million decreased $1.9 million, or 1.8%, in 2019 from $107.5 million in 2018. A $2.9 million decrease in access charges, a $0.8 million decrease in labor costs and a $0.2 million decrease in circuit installation costs were partially offset by increases in network support and other costs totaling $2.0 million.

Selling, General and Administrative

Selling, general and administrative expenses of $66.7 million increased $0.1 million, or 0.1%, in 2019 from $66.6 million in 2018. This increase reflects a $4.5 million increase in labor costs, including $1.7 million of termination benefit expense for the Company's former CEO, offset by a $2.5 million decrease in the provision for uncollectable accounts receivable and a $1.9 million net decrease in outside services and other expenses.

Depreciation and Amortization

Depreciation and amortization expense of $37.3 million increased $3.4 million, or 9.9%, in 2019 from $33.9 million in 2018. This increase was due primarily to the completion of various capital projects in 2019 with shorter useful lives, partially offset by certain assets reaching the end of their depreciable lives.

Other Income and Expense

Interest expense of $12.1 million in 2019 declined from $13.4 million in 2018 due to a lower average interest rate and lower average borrowing levels. The loss on extinguishment of $2.8 million in 2019 was associated with the settlement of the 2017 Senior Credit Facility in the first quarter.

Income Taxes

Income tax expense and the effective tax rate in 2019 was $2.8 million and 36.4%, respectively, and includes the impact of permanent book to tax differences of $0.6 million and 8.1%, respectively. Income tax expense in 2018 of $2.0 million reflects a $0.7 million benefit associated with the Tax Cuts and Jobs Act and a $0.6 million credit associated with the effect of adjustments to the budget sequestration rate on the Alternative Minimum Tax. Excluding these two items, the income tax provision was $3.3 million and the effective tax rate was 30.0%.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of our joint venture with Quintillion Holdings, LLC was $93 thousand and $92 thousand in 2019 and 2018, respectively.

Net Income Attributable to Alaska Communications

Net income attributable to Alaska Communications of $4.9 million in 2019 compares with $9.1 million in 2018. The year over year results reflect the revenue and expense items discussed above.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We satisfied our cash requirements for operations, capital expenditures and scheduled debt service under our 2019 Senior Credit Facility in 2019 through internally generated funds and cash on hand. At December 31, 2019, we had $26.7 million in cash and cash equivalents and a $20.0 million undrawn revolving credit facility.

On January 15, 2019, we completed a refinancing transaction. See the discussion under "Liquidity and Capital Resources" below.

A summary of significant sources and use of funds for the years ended December 31, 2019 and 2018 is as follows:

(in thousands)		2019		2018
Net cash provided by operating activities	$	58,815	$	56,195
Capital expenditures	$	(44,764)	$	(37,957)
Capitalized interest	$	(1,379)	$	(2,001)
Change in unsettled capital expenditures	$	640	$	(227)
Repayments of long-term debt	$	(174,040)	$	(31,030)
Proceeds from the issuance of long-term debt	$	180,000	$	14,000
Debt issuance costs	$	(2,683)	$	-
Cash paid for debt extinguishment	$	(1,252)	$	-
Interest paid (1)	$	12,228	$	14,254
Income taxes refunded (paid), net (1)	$	5,041	$	(3)

(1) Included in net cash provided by operating activities.

Cash Flows from Operating Activities

Cash provided by operating activities of $58.8 million in 2019 reflects net income excluding non-cash items (defined as cash provided by operating activities excluding changes in operating assets and liabilities) of $46.5 million, $9.1 million of cash receipts associated with deferred revenue lease arrangements and a $3.2 million net decrease in accounts receivable and other assets and liabilities. Cash receipts from the rural health care program were $14.5 million in 2019.

Cash provided by operating activities of $56.2 million in 2018 reflects net income excluding non-cash items of $47.8 million and $9.8 million of cash receipts associated with deferred revenue lease arrangements. These items were partially offset by a $1.4 million net increase in accounts receivable and other assets and liabilities. Cash receipts from the rural health care program were $16.5 million in 2018.

Interest payments, net of cash interest income and including capitalized interest, were $12.2 million and $14.3 million in 2019 and 2018, respectively. Through interest rate swaps entered into on June 28, 2019, interest on approximately 75% of the term loan components of our 2019 Senior Credit Facility at December 31, 2019 was substantially fixed at an annual rate of 6.1735% for the period January 2020 through June 2022.

Cash Flows from Investing Activities

Cash used by investing activities of $45.5 million in 2019 consisted of expenditures on capital (capital expenditures including capitalized interest and net of the change in unsettled capital expenditures) totaling $45.5 million. Of $44.8 million incurred in 2019, $30.1 million was success based versus maintenance.

Cash used by investing activities of $40.2 million in 2018 consisted of expenditures on capital totaling $40.2 million. Of $38.0 million incurred in 2018, $19.9 million was success based versus maintenance.

Our networks require the timely maintenance of plant and infrastructure. Future capital requirements may change due to impacts of regulatory decisions that affect our ability to recover our investments, changes in technology, the effects of competition, changes in our business strategy, the age and condition of certain portions of our current infrastructure, and our decision to pursue specific acquisition and investment opportunities. We intend to fund future capital expenditures with cash on hand, net cash generated from operations and selected borrowings.

Cash Flows from Financing Activities

Cash used by financing activities was $29 thousand in 2019. Proceeds from the issuance of long-term debt of $180.0 million consisted of the Term A Facility of the 2019 Senior Credit Facility. Repayments of long-term debt of $174.0 million consisted primarily of settlement of the 2017 Senior Credit Facility and the principal payments totaling $2.3 million on the 2019 Senior Credit Facility. Debt discount, issuance and extinguishment payments totaling $3.9 million were associated with the refinancing transaction. Payments of $1.8 million were made for the repurchase of the Company's common shares under the program initiated in the second quarter of 2019.

Cash used by financing activities was $17.2 million in 2018. Repayments of long-term debt of $31.0 million included scheduled principal payments on the term loan components of our 2017 Senior Credit Facility of $6.6 million, repayment of draws totaling $14.0 million on the revolving credit facility and repurchase of the 6.25% Notes of $10.0 million. Proceeds from the issuance of long-term debt of $14.0 million consisted of draws on the revolving credit facility.

Liquidity and Capital Resources

Consistent with our history, our current and long-term liquidity could be impacted by a number of challenges, including, but not limited to: (i) potential future reductions in our revenues resulting from governmental and public policy changes, including regulatory actions affecting inter-carrier compensation, changes in revenue from Universal Service Funds, and the significant delay in the Rural Health Care Program funding receipts; (ii) servicing our debt and funding principal payments; (iii) the funding of other obligations, including our pension plans and lease commitments; (iv) competitive pressures in the markets we serve; (v) the capital intensive nature of our industry; (vi) our ability to respond to and fund the rapid technological changes inherent to our industry, including new products; and (vii) our ability to obtain adequate financing to support our business and pursue growth opportunities.

We are responding to these challenges by (i) driving top line growth in broadband service revenues with a focus on business and wholesale customers; (ii) managing our cost structure to deliver consistent Adjusted EBITDA and Adjusted Free Cash flow performance; and (iii) prioritizing our capital spending.

As of December 31, 2019, total long-term obligations outstanding, including current portion, were $180.5 million, consisting of $177.8 million in term loans under our 2019 Senior Credit Facility and $2.7 million in capital lease and other obligations. As of December 31, 2019, we had $26.7 million in cash and access to the full amount of the $20.0 million revolving credit facility under our 2019 Senior Credit Facility. Certain deferred revenue lease arrangements for which cash was received in advance require future investments in capital to support the service to be provided.

We believe that we will have sufficient cash on hand, cash provided by operations and available borrowing capacity under our 2019 Senior Credit Facility to service our debt, and fund our operations, capital expenditures and other obligations over the next twelve months. However, our ability to make such an assessment is dependent upon our future financial performance, which is subject to future economic conditions and to financial, business, regulatory, competitive entry and many other factors, many of which are beyond our control and could impact us during the time period of this assessment.

2019 Senior Credit Facility

On January 15, 2019, we entered into the 2019 Senior Credit Facility, which provided for a reduction in interest rates, extension of principal payment terms, increased borrowing capacity and resetting and widening of key covenant thresholds. The 2019 Senior Credit Facility, consists of an Initial Term A Facility in the amount of $180 million, a Revolving Facility in an amount not to exceed $20 million and a Delayed-Draw Term A Facility in an amount not to exceed $25 million. The 2019 Senior Credit Facility also provides for Incremental Term A Loans up to an aggregate principal amount of the greater of $60 million and trailing twelve month EBITDA, as defined. On January 15, 2019, proceeds from the Initial Term A Facility of $180 million were used to repay in full the outstanding principal balance of the Term A-1 Facility and Term A-2 Facility under the Company's 2017 Senior Credit Facility totaling $171.8 million, plus accrued and unpaid interest, pay fees and expenses associated with the Agreement and for general corporate purposes.

Principal payments on the Initial Term A Facility, Delayed-Draw A Facility and any amounts outstanding under the Incremental Term A Loans are due commencing in the third quarter of 2019 as follows: the third quarter of 2019 through the second quarter of 2020 – $1,125 per quarter; the third quarter of 2020 through the second quarter of 2022 – $2,250 per quarter; the third quarter of 2022 through the second quarter of 2023 – $3,375 per quarter; and the third quarter of 2023 through the fourth quarter of 2023 – $4,500 per quarter. The remaining outstanding principal balance, including any amounts outstanding under the Revolving Facility, is due on January 15, 2024. This schedule is subject to mandatory prepayments under certain conditions, including the Company's generation of excess cash flow as defined in the Agreement. As a result of the generation of excess cash flow in 2019, a prepayment of principal in the amount or $2,104 is required in the first quarter of 2020.

The obligations under the 2019 Senior Credit Facility are secured by substantially all of the personal property and real property of the Company, subject to certain agreed exceptions. The 2019 Senior Credit Facility provides for events of default customary for credit facilities of this type, including non-payment defaults on other debt, misrepresentation, breach of covenants, representations and warranties, change of control, and insolvency and bankruptcy. The 2019 Senior Credit Facility contains customary representations, warranties and covenants, including covenants limiting the incurrence of debt, the payment of dividends and repurchase of the Company's common stock.

Financial covenants as defined in the Agreement are summarized below.

Maximum Net Total Leverage Ratio: The ratio of our (a) total debt, less unrestricted cash and cash equivalents held in pledged accounts, less cash drawn under the Delayed-Draw Term A Facility held for specified capital projects to (b) Consolidated EBITDA (as defined more specifically below) for the consecutive four fiscal quarters ending as of the calculation date. The maximum allowable net total leverage ratio is provided in the table below.

Period	**Ratio**
January 15, 2019 through March 30, 2020	3.50 to 1.00
March 31, 2020 through September 29, 2020	3.35 to 1.00
September 30, 2020 through June 29, 2021	3.25 to 1.00
June 30, 2021 through June 29, 2022	3.00 to 1.00
June 30, 2022 and thereafter	2.50 to 1.00

The actual net total leverage ratio was 2.71 at December 31, 2019.

Fixed Charge Coverage Ratio: The ratio of our (a) Consolidated EBITDA for the applicable period (as defined below) to (b) (i) the sum of, for the same period, consolidated interest expense, capital expenditures (with certain exceptions), long term indebtedness (with certain exceptions) required to be paid, capital lease obligations required to be paid, restricted payments, cash payments for income taxes, (ii) minus, for the same period, specified capital expenditures. The applicable periods for purposes of calculating this ratio are the fiscal quarter ending March 31, 2019; the two consecutive fiscal quarters ending June 30, 2019; the three consecutive fiscal quarters ending September 30, 2019; and the four consecutive fiscal quarters ending December 31, 2019 and thereafter. The minimum fixed charge coverage ratio is 1.10 to 1.00. The actual fixed charge coverage ratio was 1.46 at December 31, 2019.

Consolidated EBITDA, as defined in the 2019 Senior Credit Facility, means consolidated net income attributable to Alaska Communications, plus (to the extent deducted in calculating net income) the sum of:

- cash and non-cash interest expense;
- depreciation and amortization expense;
- income taxes;
- other non-cash charges and expenses, including equity-based compensation expense;
- the write down or write off on any assets, other than accounts receivable;
- subject to limitation, fees, premiums, penalty payments and out-of-pocket transaction costs incurred in connection with the 2019 refinancing transactions;
- non-cash cost of goods sold associated with certain projects;
- subject to limitation, unusual, non-recurring losses, charges and expenses;
- one-time costs associated with permitted acquisitions;
- cost savings from synergies in connection with permitted acquisitions or dispositions;
- certain costs required to be expensed in connection permitted acquisitions; and
- investment losses of unconsolidated entities.

minus (to the extent included in calculating net income) the sum of:

- unusual, non-recurring gains on permitted sales or dispositions of assets and casualty events;
- cash and non-cash interest income;
- other unusual nonrecurring items;
- the write up of any asset;
- patronage refunds or similar distributions from any lender;
- deferred revenue associated with certain projects; and
- investment income of unconsolidated entities.

Consolidated EBITDA as defined in the 2019 Senior Credit Facility is not a GAAP measure.

The Initial Term A Facility, Revolving Facility, Delayed-Draw Facility and Incremental Term A Loans bear interest at LIBOR plus 4.5% per annum.

The weighted interest rate on the 2019 Senior Credit Facility was 6.18% at December 31, 2019.

Under the terms of the 2019 Senior Credit Facility, the Company is required to hedge interest payments on a minimum of $90.0 million, or 50%, of the outstanding principal. On June 28, 2019, the Company entered into interest rate swaps in the total notional amount of $135.0 million, effectively fixing the interest payments on 75% of the outstanding principle.

All terms are defined in the Agreement. See the “First Amended and Restated Credit Agreement, dated as of January 15, 2019, by and among Alaska Communications, as the borrower, the Company and certain of its direct and indirect subsidiaries, as guarantors, ING Capital LLC, as administrative agent, and the lenders party thereto,” filed as Exhibit 10.1 to the Current Report on Form 8-K filed on January 22, 2019 and incorporated herein by reference.

Other Matters

In the second quarter of 2017, the Company’s Board of Directors authorized a share repurchase program pursuant to which the Company may repurchase up to $10,000 of its common stock effective March 13, 2017 through December 31, 2019. Under the program, repurchases could be conducted through open market purchases or through privately-negotiated transactions in accordance with all applicable securities laws and regulations, including through Rule 10b5-1 trading plans. The timing and amount of repurchases was be determined based on the Company’s evaluation of its financial position including liquidity, the trading price of its stock, debt covenant restrictions, general business and market conditions and other factors. The Company used cash on hand to fund share repurchases. Share repurchases are accounted for as treasury stock.

As of December 31, 2019, the Company had repurchased 1 million shares under the program at a weighted average price of $1.81 per share with an aggregate value of $1,812.

The Federal Communications Act requires the FCC to establish a universal service program to ensure that affordable, quality telecommunications services are available to all Americans. We have received universal support in several forms, including support from the Federal Rural Health Care universal service support mechanism, which supports telemedicine and rural health care communications through increased connectivity. This program has been in existence since 1999 and is an important contributor in supporting health care programs in high cost areas of the United States, including Alaska. Following funding caps for the rural health care program in 2017, the FCC announced an increase in the annual program funding cap to $571 million from the prior cap of $400 million. This FCC order also provided for an annual adjustment to the funding cap to reflect inflation and the establishment of a process to carry forward unused funds from past funding years for use in future funding years. As of December 31, 2019, USAC had issued funding commitment letters for all of the Company's rural health care customer applications for Funding Year 2018 (July 1, 2018 through June 30, 2019). For Funding Year 2019 (July 1, 2019 through June 30, 2020), the FCC had approved the Company's cost-based rural rates for the majority of its customers. USAC began issuing funding commitment letters for Funding Year 2019 in February 2020. We recorded revenue from the rural health care program of $14.2 million in 2019 and $17.5 million in 2018. Our accounts receivable balance for rural health care customers, net of amounts reserved, was $6.8 million at December 31, 2019 and $8.1 million at December 31, 2018. As a result of USAC's more rigorous review in recent years of requests for support from the Telecommunications Program, the Company has received inquiries and requests for information from USAC about compliance with service eligibility and rate requirements, both with respect to both current and past funding requests. Due to the geographic remoteness and the limited availability of staff, telemedicine will be a key facilitator of more timely and advanced medical attention across the state of Alaska and the demand for technology-enabled health care delivery will remain strong. We currently believe that the rural health care market will continue to grow in future years and will continue to be an important part of our business. However, as a business matter, we intend to continue factoring any uncertainty into our future planning.

We believe that we will have sufficient cash on hand, cash provided by operations and availability under our 2019 Senior Credit Facility to service our debt and fund our operations, capital expenditures and other obligations over the next twelve months. However, our ability to make such an assessment is dependent upon our future financial performance, which is subject to future economic conditions and to financial, business, regulatory, competitive entry and many other factors, many of which are beyond our control and could impact us during the time period of this assessment. See Item 1A. Risk Factors in our Annual Report on Form 10-K for further information regarding these risks.

OUTLOOK

Operating Results, Liquidity and Capital Resources

We expect to see continued strength in business and wholesale revenues, led by broadband revenue and managed IT services, focused on the larger enterprise and carrier customer segments. These revenue increases are driven by continued demand for broadband as businesses migrate their IT infrastructure to the cloud, deployment of small cell networks, expansion into managed IT services, investments by Federal agencies in long haul broadband infrastructure and continued progress in serving new school districts. Continued state of Alaska budget constraints may negatively impact these growth opportunities. We expect to see solid performance from our carrier and federal customers as well as opportunities in markets enabled by the North Slope networks. Driven by our network investments in fiber fed wifi and fixed wireless, we expect to strengthen our competitive position serving small business and residential customers. Growth in these areas is expected to be somewhat offset by continued pressure in the rural health care program.

Additionally, we are focused on continued implementation of the CAF II program and expect to meet our obligations for 2020.

We also expect continued attention by our Board of Directors on the evaluation of value creating strategic opportunities that address our scale and geographic concentration issues.

On March 9, 2020, the Company's Board of Directors declared a one-time cash dividend of $0.09 per share of common stock to be paid on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. The dividend payment is expected to total approximately $5.0 million.

ADDITIONAL INFORMATION

Off-Balance Sheet Arrangements

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity or market or credit risk support and we do not engage in leasing, hedging, research and development services or other relationships that expose us to any material liabilities that are not reflected on our balance sheet or for which we are contractually obligated.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

We have identified certain policies and estimates as critical to our business operations and the understanding of our past or present results of operations. We consider these policies and estimates critical because they had a material impact, or they have the potential to have a material impact, on our financial statements and they require significant judgments, assumptions or estimates.

Revenue Recognition Policies

At contract inception, the Company assesses the goods and services promised to the customer and identifies the performance obligation for each promise to transfer a good or service that is distinct.

The Company's broadband and voice revenue includes service, installation and equipment charges. The primary performance obligation in contracts for broadband and voice services is the provision of that service over time to the customer and revenue is recognized as that service is provided to the customer. The Company also charges certain of its broadband and voice service customers for equipment installed on the customers' premise, physical possession, control and ownership of which pass to the customer upon installation. Revenue is recognized for these obligations at the point of installation.

Managed IT revenues include the sale, configuration and installation of equipment and the subsequent provision of ongoing IT services. Revenue is recognized on the sale, configuration and installation of equipment when physical possession, control and ownership of the equipment has been passed to the customer.

The Company enters into contracts with its rural health care customers and is subject to various regulatory requirements associated with the provision of these services. Revenues associated with rural health care customers are recognized based on the amount the Company expects to collect as evidenced in its contract with the customer and the Company's and customer's agreement with the FCC as the relevant service is provided.

Deferred revenue capacity liabilities are established for indefeasible rights of use on the Company's network provided to third parties and are typically accounted for as operating leases. A deferred revenue liability is established at fair value and amortized to revenue on a straight-line basis over the contractual life of the relevant contract.

Substantially all recurring non-usage sensitive service revenues are billed one month in advance and are deferred until the service has been provided to the customer. Non-recurring and usage sensitive revenues are billed in arrears and are recognized when the relevant service is provided. Equipment sales and installation are billed following customer acceptance. Payment terms for the contracts discussed above are typically thirty days.

Income Taxes

We use the asset-liability method of accounting for income taxes and account for income tax uncertainties using the "more-likely-than-not" threshold. Under the asset-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 management determines it is more-likely-than-not that the value of our deferred tax assets will not be fully realized.

Recently Issued Accounting Pronouncements

See Note 1 "*Description of Company and Summary of Significant Accounting Policies*" in the Notes to Consolidated Financial Statements for a description of recently adopted accounting pronouncements and recently issued pronouncements not yet adopted.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Company is not required to provide the information called for by this Item.

Item 8. Financial Statements and Supplementary Data

Consolidated financial statements of Alaska Communications Systems Group, Inc. and Subsidiaries are submitted as a separate section of this Form 10-K. See "Index to Consolidated Financial Statements", which appears on page F-1 hereof.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this Annual Report on Form 10-K, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934.

Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer believe that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective at ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

b. Management's Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

Based on our evaluation using the Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Our independent registered public accounting firm has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, and its report is included in "Item 8, Financial Statements and Supplementary Data" of the Annual Report on Form 10-K.

c. Changes in Internal Control over Financial Reporting.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated any changes in our internal control over financial reporting that occurred during the fourth quarter of 2019 and have concluded that there were no changes to our internal control over financial reporting that materially affect, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated into this Form 10-K by reference to our Proxy Statement for our 2020 Annual Meeting of Stockholders.

Item 11. Executive Compensation

Information on compensation of our directors and executive officers is incorporated into this Form 10-K by reference to our Proxy Statement for our 2020 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information with respect to security ownership of certain beneficial owners and management is incorporated into this Form 10-K by reference to our Proxy Statement for our 2020 Annual Meeting of Stockholders.

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plans	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (1) (b)	Number of securities remaining available for future issuance under equity compensation plans (2) (excluding securities reflected in column (a)) (c)
Approved by security holders:			
Restricted stock	2,767,781	$ -	2,275,917

(1) Outstanding rights consist of stock units without any exercise price.
(2) As of December 31, 2019, the number of shares remaining for issuance under equity compensation plans included 2,093,342 shares under the 2011 Plan and 182,575 under the Company's 2012 Employee Stock Purchase Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information with respect to such contractual relationships is incorporated into this Form 10-K by reference to our Proxy Statement for our 2020 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

Information on our audit committee's pre-approval policy for audit services and information on our principal accounting fees and services is incorporated into this Form 10-K by reference to our Proxy Statement for our 2020 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this report:

(1) Financial Statements: Our consolidated financial statements are submitted as a separate section of this Form 10-K. See “Index to Consolidated Financial Statements” which appears on page F-1.

(2) Financial Statement Schedules: Financial statement schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits: The exhibits to this report are listed below. Other than exhibits that are filed herewith, all exhibits listed below are exhibits of the Registrant and are incorporated herein by reference as exhibits thereto.

Exhibit No.	Exhibit	Where Located
2.1**	Stock Purchase Agreement, dated April 1, 2008, by and among the Registrant, Crest Communications Corporation, and the selling stockholders specified therein.	Exhibit 2.1 to Form 8-K (filed April 7, 2008)
2.2	Asset Purchase and Contribution Agreement, dated as of June 4, 2012, among Alaska Communications Systems Group, Inc., General Communication, Inc., ACS Wireless, Inc., GCI Wireless Holdings, LLC and The Alaska Wireless Network, LLC, with Form of First Amended and Restated Operating Agreement of The Alaska Wireless Network, LLC among The Alaska Wireless Network, LLC, GCI Wireless Holdings, LLC, ACS Wireless, Inc., Alaska Communications Systems Group, Inc. and General Communication, Inc. attached thereto as Exhibit A (portions of this Exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934).	Exhibit 2.1 to Form 8-K (filed August 6, 2012)
2.3	Amendment, dated as October 1, 2012, to Asset Purchase and Contribution Agreement, dated as of June 4, 2012, among Alaska Communications Systems Group, Inc., General Communication, Inc., ACS Wireless, Inc., GCI Wireless Holdings, LLC and The Alaska Wireless Network, LLC.	Exhibit 2.1 to Form 8-K (filed October 2, 2012)
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	Exhibit 3.1 to Form S-1/A File No. 333-888753 (filed November 17,1999)
3.2	Amended and Restated By-Laws of Alaska Communications Systems Group, Inc, as Amended and Restated as of April 5, 2019.	Exhibit 3.1 to Form 8-K (filed April 9, 2019)
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of Alaska Communications Systems Group, Inc.	Exhibit 3.1 to Form 8-K (filed January 9, 2018)

4.1	Specimen of Common Stock Certificate.	Exhibit 4.1 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
4.2	Section 382 Tax Benefits Preservation Plan, dated as of January 8, 2018 by and between Alaska Communications Systems Group, Inc. and Computershare Trust Company, N.A., as Rights Agent.	Exhibit 4.1 to Form 8-K (filed January 9, 2018)
4.3	Amendment No. 1, dated as of October 15, 2019, to the Tax Benefits Preservation Plan, dated as of January 8, 2018, by and between Alaska Communications Systems Group, Inc. and Computershare Trust Company, N.A., as Rights Agent.	Exhibit 4.1 to Form 8-K (filed October 18, 2019)
4.4	Certificate of Elimination of the Series A Junior Participating Preferred Stock.	Exhibit 4.2 to Form 8-K (filed October 18, 2019)
10.1*	Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan.	Exhibit 10.8 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
10.2*	Form of Restricted Stock Agreement between the Registrant and certain participants in the Registrant’s 1999 Stock Incentive Plan.	Exhibit 10.1 to Form 10-Q (filed August 3, 2007)
10.3*	Form of Performance Share Unit Agreement.	Exhibit 99.1 to Form 8-K/A (filed June 12, 2008)
10.4*	Form of Performance Cash Award Agreement	Exhibit 99.1 to Form 8-K (filed September 13, 2018)
10.5*	Form of Time-Based Cash Award Agreement	Exhibit 99.2 to Form 8-K (filed September 13, 2018)
10.6*	Amendment to Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan.	Exhibit 10.5 to Form 10-K (filed March 9, 2010)
10.7*	Alaska Communications Systems Group, Inc. 1999 Non-Employee Director Compensation Plan.	Exhibit 10.9 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
10.8*	Amendment to Alaska Communications Systems Group, Inc. 1999 Non-Employee Director Compensation Plan.	Exhibit 10.7 to Form 10-K (filed March 9, 2010)
10.9*	Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan.	Exhibit 10.10 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
10.10*	Alaska Communications Systems Group, Inc. 2012 Employee Stock Purchase Plan.	Appendix A to Schedule 14A (filed April 25, 2012)

10.11*	Amendment to Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan.	Exhibit 10.9 to Form 10-K (filed March 9, 2010)
10.12	Collective Bargaining Agreement, effective January 1, 2018, between Alaska Communications Systems Holdings, Inc. and the International Brotherhood of Electrical Workers, Local Union No. 1547.	Exhibit 10.1 to Form 8-K (filed March 5, 2018)
10.13	Confirmations of Convertible Bond Hedges by and between Alaska Communications Systems Group, Inc. and certain affiliates of the Initial Purchasers.	Exhibit 10.2 to Form 8-K (filed April 14, 2008)
10.14	Confirmations of Warrant Transactions by and between Alaska Communications Systems Group, Inc. and certain affiliates of the Initial Purchasers.	Exhibit 10.3 to Form 8-K (filed April 14, 2008)
10.15	First Amended and Restated Credit Agreement, dated as of January 15, 2019, by and among Alaska Communications, as the borrower, the Company and certain of its direct and indirect subsidiaries, as guarantors, ING Capital LLC, as administrative agent, and the lenders party thereto (portions redacted as marked pursuant to a confidential treatment request made with the Securities and Exchange Commission).	Exhibit 10.1 to Form 8-K (filed January 22, 2019)
10.16	Purchase Agreement, dated May 4, 2011, by and among the Company, the Guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers name therein.	Exhibit 10.1 to Form 8-K (filed May 11, 2011)
10.17*	Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan Restricted Stock Unit Agreement.	Exhibit 10.1 to Form 8-K (filed July 8, 2011)
10.18*	Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan Performance Stock Unit Agreement.	Exhibit 10.2 to Form 8-K (filed July 8, 2011)
10.19*	Alaska Communications Systems Group, Inc. Post-Employment Stock Incentive Award Vesting Policy.	Exhibit 10.3 to Form 8-K (filed July 8, 2011)
10.20*	Employment Arrangement between the Company and Leonard Steinberg.	Exhibit 10.1 to Form 8-K (filed January 26, 2012)
10.21*	The Alaska Communications Systems Group, Inc. Amended and Restated 2011 Incentive Award Plan.	Exhibit 99.1 to Form S-8 File No. 333-226124 (Filed July 11, 2018)
10.22	Purchase and Sale Agreement, dated December 4, 2014, by and between ACS, GCI, ACS Wireless, GCI Wireless, and AWN.	Exhibit 10.1 to Form 8-K (filed March 5, 2015)
10.23*	Employment Agreement between Alaska Communications Systems Group, Inc. and Anand Vadapalli entered into on August 5, 2015.	Exhibit 10.1 to Form 8-K (filed August 7, 2015)
10.24*	Employment Arrangement between Alaska Communications Systems Group, Inc. and Laurie Butcher.	Exhibit 10.1 to Form 8-K (filed November 29, 2018)
10.25*	The Alaska Communications Systems Group, Inc. 2016 Officer Severance Policy.	Exhibit 10.2 to Form 8-K (filed November 29, 2018)

10.26*	2015 Alaska Communications Systems Group, Inc. Non-Employee Director Compensation and Reimbursement Policy.	Exhibit 10.1 to Form 10-Q (filed May 9, 2016)
10.27	Credit Agreement, dated as of March 13, 2017, by and among Alaska Communications, as the borrower, the Company and certain of its direct and indirect subsidiaries, as guarantors, ING Capital LLC, as administrative agent, and the lenders party thereto.	Exhibit 10.1 to Form 8-K (filed March 15, 2017)
10.28*	Compensation Letter from Alaska Communications Systems Group, Inc. to Leonard Steinberg dated March 26, 2019.	Exhibit 10.2 to Form 10-Q (filed May 10, 2019)
10.29*	Compensation Letter from Alaska Communications Systems Group, Inc. to Laurie Butcher dated March 26, 2019.	Exhibit 10.3 to Form 10-Q (filed May 10, 2019)
10.30*	Employment Agreement between Alaska Communications Systems Group, Inc. and Diedre L. Williams dated September 20, 2019.	Exhibit 10.1 to Form 8-K (filed September 26, 2019)
10.31*	Employment Agreement between Alaska Communications Systems Group, Inc. and William H. Bishop effective October 14, 2019.	Exhibit 10.1 to Form 8-K (filed October 15, 2019)
10.32*	Compensation Letter between Alaska Communications Systems Group, Inc. and William H. Bishop dated July 5, 2019.	Exhibit 10.1 to Form 8-K (filed July 2, 2019)
10.33*	Separation Agreement and Officer's Release between Alaska Communications Systems Group, Inc. and Anand Vadapalli dated June 12, 2019.	Exhibit 10.4 to Form 10-Q (filed August 8, 2019)
10.34*	First Amendment to Employment Agreement between Anand Vadapalli and Alaska Communications Systems Group, Inc. entered into on August 5, 2015.	Exhibit 10.1 to Form 8-K (filed October 6, 2017)
10.35*	Second Amendment to Employment Agreement between Anand Vadapalli and Alaska Communications Systems Group, Inc. entered into on August 5, 2015.	Exhibit 10.1 to Form 8-K (filed May 14, 2018)
10.36*	Form of Director's and Officer's Indemnification Agreement	Exhibit 10.1 to Form 8-K (filed December 22, 2017)
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Moss Adams LLP relating to the audited financial statements of Alaska Communications Systems Group, Inc.	Filed herewith
31.1	Certification of William Bishop, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Laurie Butcher, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of William Bishop, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of Laurie Butcher, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

* Indicates a management contract or compensatory plan or arrangement.

** Confidential treatment of certain portions of this exhibit has been granted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. Omitted portions have been filed separately with the Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 16, 2020 Alaska Communications Systems Group, Inc.

By: /s/ William Bishop

William Bishop
President and Chief Executive Officer

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.

Signature	Title	Date
/s/ William Bishop William Bishop	President and Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2020
/s/ Laurie Butcher Laurie Butcher	Chief Financial Officer (Principal Financial Officer)	March 16, 2020
/s/ Tiffany Hoogerhyde Tiffany Hoogerhyde	Vice President, Finance and Controller (Principal Accounting Officer)	March 16, 2020
/s/ David W. Karp David W. Karp	Chairman of the Board of Directors	March 16, 2020
/s/ Peter D. Aquino Peter D. Aquino	Director	March 16, 2020
/s/ Wayne Barr, Jr. Wayne Barr, Jr.	Director	March 16, 2020
/s/ Peter D. Ley Peter D. Ley	Director	March 16, 2020
/s/ Brian A. Ross Brian A. Ross	Director	March 16, 2020

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Alaska Communications Systems Group, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (*2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As disclosed in Note 11 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Spokane, Washington
March 16, 2020

We have served as the Company's auditor since 2016.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Alaska Communications Systems Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 16, 2020, expressed an unqualified opinion on those consolidated financial statements (and included an explanatory paragraph relating to a change in method of accounting for leases in 2019).

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moss Adams LLP

Spokane, Washington
March 16, 2020

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Balance Sheets
December 31, 2019 and 2018
(In Thousands, Except Per Share Amounts)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 26,662	$ 13,351
Restricted cash	1,631	1,634
Short-term investments	134	134
Accounts receivable, net	34,354	31,472
Materials and supplies	8,900	6,737
Prepayments and other current assets	9,617	12,169
Total current assets	81,298	65,497
Property, plant and equipment	1,424,904	1,390,622
Less: accumulated depreciation and amortization	(1,042,546)	(1,017,442)
Property, plant and equipment, net	382,358	373,180
Deferred income taxes	-	498
Operating lease right of use assets	80,991	-
Other assets	12,598	16,010
Total assets	$ 557,245	$ 455,185
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term obligations	$ 8,906	$ 2,289
Accounts payable, accrued and other current liabilities	39,108	40,957
Advance billings and customer deposits	3,761	4,024
Operating lease liabilities - current	2,795	-
Total current liabilities	54,570	47,270
Long-term obligations, net of current portion	167,476	168,023
Deferred income taxes	4,403	2,315
Operating lease liabilities - noncurrent	78,767	-
Other long-term liabilities, net of current portion	78,520	67,827
Total liabilities	383,736	285,435
Commitments and contingencies		
Alaska Communications stockholders' equity:		
Common stock, $0.01 par value; 145,000 authorized; 54,085 issued and 53,085 outstanding at December 31, 2019; 53,268 issued and outstanding at December 31, 2018	541	533
Treasury stock	(1,812)	-
Additional paid in capital	161,844	160,514
Retained earnings	15,367	10,439
Accumulated other comprehensive loss	(3,277)	(2,675)
Total Alaska Communications stockholders' equity	172,663	168,811
Noncontrolling interest	846	939
Total stockholders' equity	173,509	169,750
Total liabilities and stockholders' equity	$ 557,245	$ 455,185

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2019 and 2018
(In Thousands, Except Per Share Amounts)

	2019	2018
Operating revenues	$ 231,694	$ 232,468
Operating expenses:		
Cost of services and sales (excluding depreciation and amortization)	105,615	107,509
Selling, general and administrative	66,718	66,647
Depreciation and amortization	37,276	33,908
Loss on disposal of assets, net	156	125
Total operating expenses	209,765	208,189
Operating income	21,929	24,279
Other income and (expense):		
Interest expense	(12,059)	(13,429)
Loss on extinguishment of debt	(2,830)	-
Interest income	385	156
Other	175	23
Total other income and (expense)	(14,329)	(13,250)
Income before income tax expense	7,600	11,029
Income tax expense	(2,765)	(2,041)
Net income	4,835	8,988
Less net loss attributable to noncontrolling interest	(93)	(92)
Net income attributable to Alaska Communications	4,928	9,080
Other comprehensive (loss) income:		
Minimum pension liability adjustment	(161)	(557)
Income tax effect	46	158
Amortization of defined benefit plan loss	67	225
Income tax effect	(19)	(64)
Interest rate swap marked to fair value	(40)	387
Income tax effect	11	(112)
Reclassification of gain on interest rate swaps	(706)	(444)
Income tax effect	200	128
Total other comprehensive loss	(602)	(279)
Total comprehensive income attributable to Alaska Communications	4,326	8,801
Net loss attributable to noncontrolling interest	(93)	(92)
Total other comprehensive income attributable to noncontrolling interest	-	-
Total comprehensive loss attributable to noncontrolling interest	(93)	(92)
Total comprehensive income	$ 4,233	$ 8,709
Net income per share attributable to Alaska Communications:		
Basic	$ 0.09	$ 0.17
Diluted	$ 0.09	$ 0.17
Weighted average shares outstanding:		
Basic	53,379	53,042
Diluted	54,277	53,840

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2019 and 2018
(In Thousands, Except Per Share Amounts)

	2019	2018
Number of Common Shares Issued and Outstanding		
Balance at beginning of period	53,268	52,526
Issuance of common stock pursuant to stock plans, $.01 par	817	742
Purchases of common stock, $.01 par	(1,000)	-
Balance at end of period	53,085	53,268
Total Stockholders' Equity - Beginning Balance	$ 169,750	$ 154,510
Common Stock		
Balance at beginning of period	533	525
Issuance of common stock pursuant to stock plans, $.01 par	8	8
Balance at end of period	541	533
Treasury Stock		
Balance at beginning of period	-	-
Purchases of 1,000 shares of common stock, $.01 par	(1,812)	-
Balance at end of period	(1,812)	-
Additional Paid In Capital		
Balance at beginning of period	160,514	158,969
Stock-based compensation	1,580	1,757
Surrender of shares to cover minimum withholding taxes on stock-based compensation	(453)	(415)
Issuance of common stock pursuant to stock plans, $.01 par	203	203
Balance at end of period	161,844	160,514
Retained Earnings (Accumulated Deficit)		
Balance at beginning of period	10,439	(3,579)
Net income attributable to Alaska Communications	4,928	9,080
Cumulative effect of new accounting principles adopted	-	4,938
Balance at end of period	15,367	10,439
Accumulated Other Comprehensive Loss		
Balance at beginning of period	(2,675)	(2,396)
Other comprehensive loss	(602)	(279)
Balance at end of period	(3,277)	(2,675)
Noncontrolling Interest		
Balance at beginning of period	939	991
Net loss attributable to noncontrolling interest	(93)	(92)
Contributions from noncontrolling interest	-	40
Balance at end of period	846	939
Total Stockholders' Equity - Ending Balance	$ 173,509	$ 169,750

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Cash Flows from Operating Activities:		
Net income	$ 4,835	$ 8,988
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,276	33,908
Loss on the disposal of assets, net	156	125
Amortization of debt issuance costs and debt discount	1,215	1,353
Loss on extinguishment of debt	2,830	-
Amortization of deferred capacity revenue	(4,655)	(4,098)
Stock-based compensation	1,580	1,757
Deferred income tax expense	2,919	2,767
Charge for uncollectible accounts	257	2,745
Other non-cash expense, net	70	225
Changes in operating assets and liabilities	12,332	8,425
Net cash provided by operating activities	58,815	56,195
Cash Flows from Investing Activities:		
Capital expenditures	(44,764)	(37,957)
Capitalized interest	(1,379)	(2,001)
Change in unsettled capital expenditures	640	(227)
Proceeds on sale of assets	25	1
Net cash used by investing activities	(45,478)	(40,184)
Cash Flows from Financing Activities:		
Repayments of long-term debt	(174,040)	(31,030)
Proceeds from the issuance of long-term debt	180,000	14,000
Debt issuance costs	(2,683)	-
Cash paid for debt extinguishment	(1,252)	-
Cash proceeds from noncontrolling interest	-	40
Payment of withholding taxes on stock-based compensation	(453)	(415)
Purchases of treasury stock	(1,812)	-
Proceeds from the issuance of common stock	211	211
Net cash used by financing activities	(29)	(17,194)
Change in cash and cash equivalents and restricted cash	13,308	(1,183)
Cash and cash equivalents and restricted cash, beginning of period	14,985	16,168
Cash and cash equivalents and restricted cash, end of period	$ 28,293	$ 14,985
Supplemental Cash Flow Data:		
Interest paid	$ 12,228	$ 14,254
Income taxes (refunded) paid, net	$ (5,041)	$ 3

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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1. DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alaska Communications Systems Group, Inc. (“we”, “our “, “us”, the "Company" and “Alaska Communications”), a Delaware corporation, through its operating subsidiaries, provides broadband telecommunication and managed information technology (“IT”) services to customers in the State of Alaska and beyond using its statewide and interstate telecommunications network.

The accompanying consolidated financial statements as of and for the years ended December 31, 2019 and 2018 represent the consolidated financial position, results of operations and cash flows of Alaska Communications and the following wholly-owned subsidiaries:

- Alaska Communications Systems Holdings, Inc. ("ACS Holdings")
- ACS of Alaska, LLC (“ACSAK”)
- ACS of the Northland, LLC (“ACSN”)
- ACS of Fairbanks, LLC (“ACSF”)
- ACS of Anchorage, LLC (“ACSA”)
- ACS Wireless, Inc. ("ACSW")
- ACS Long Distance, LLC
- Alaska Communications Internet, LLC ("ACSI")
- ACS Messaging, Inc.
- ACS Cable Systems, LLC (“ACSC”)
- Crest Communications Corporation
- WCI Cable, Inc.
- WCI Hillsboro, LLC
- Alaska Northstar Communications, LLC
- WCI Lightpoint, LLC
- WorldNet Communications, Inc.
- Alaska Fiber Star, LLC
- TekMate, LLC

In addition to the wholly-owned subsidiaries, the Company has a fifty percent controlling interest in ACS-Quintillion JV, LLC (“AQ-JV”), a joint venture formed by its wholly-owned subsidiary ACSC and Quintillion Holdings, LLC (“QHL”) in connection with the North Slope fiber optic network. See Note 3 “*Joint Venture*” for additional information.

The Company is a smaller reporting company as defined in the Securities Act and Securities Exchange Act, as amended. Accordingly, it has utilized certain accommodations provided for scaled disclosures, including a two-year presentation of the statements of comprehensive income, stockholders’ equity and cash flows, and associated notes to the consolidated financial statements.

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

Basis of Presentation

The consolidated financial statements and notes include all accounts and subsidiaries of the Company in which it maintains a controlling financial interest. Intercompany accounts and transactions have been eliminated. The Company consolidates the financial results of the AQ-JV based on its determination that, for accounting purposes, it holds a controlling financial interest in the joint venture and is the primary beneficiary of this variable interest entity. The Company has accounted for and reported QHL’s 50 percent ownership interest in the joint venture as a noncontrolling interest. See Note 3 “*Joint Venture*” for additional information. Certain reclassifications have been made to the prior years’ financial statements to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting the financial statements are those related to the realizable value of accounts receivable and long-lived assets, the value of derivative instruments, revenue, deferred capacity revenue, legal contingencies, stock-based compensation, operating leases and income taxes. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes is reasonable under the circumstances. Assumptions are adjusted as facts and circumstances dictate. Volatile capital markets, uncertainty regarding certain regulatory matters, and the continuation of low crude oil pricing have combined to increase the uncertainty in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results may differ significantly from those estimates. Changes in those estimates will be reflected in the financial statements of future periods.

Cash and Cash Equivalents

For purposes of the Consolidated Balance Sheets and Consolidated 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

Restricted cash of $1,631 at December 31, 2019 consists of certificates of deposits totaling $1,600 required under the terms of certain contracts to which the Company is a party and other restricted cash of $31. When the restrictions are lifted, the Company will transfer these funds into its operating accounts.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the Consolidated Statements of Cash Flows. The Company does not have any off-balance sheet credit exposure related to its customers. Allowances for uncollectible receivables are established and incurred during the period. These estimates are derived through an analysis of account aging profiles and a review of historical recovery experience. Receivables are charged off against the allowance when management confirms it is probable amounts will not be collected. Subsequent recoveries, if any, are credited to the allowance. The Company records bad debt expense as a component of "Selling, general and administrative expense" in the Consolidated Statements of Comprehensive Income. See Note 4 "*Accounts Receivable*" for additional information regarding accounts receivable associated with the Company's rural health care customers.

Materials and Supplies

Materials and supplies are carried in inventory at the lower of moving average cost or net realizable value. Cash flows related to the sale of inventory are included in operating activities in the Company's Consolidated Statements of Cash Flows.

Property, Plant and Equipment

Telephone property, plant and equipment are stated at historical cost of construction including certain capitalized overhead and interest charges. Renewals and betterments of telephone plant are capitalized, while repairs and renewals of minor items are charged to cost of services and sales (excluding depreciation and amortization) as incurred. The Company uses a group composite depreciation method in accordance with industry practice. Under this method, telephone plant, with the exception of land and finance leases, retired in the ordinary course of business, less salvage, is charged to accumulated depreciation with no gain or loss recognized. Non-telephone plant is stated at historical cost including certain capitalized overhead and interest charges, and when sold or retired, a gain or loss is recognized. Depreciation of property is provided on the straight-line method over estimated service lives ranging from 5 to 50 years.

The Company is the lessee of equipment and buildings under finance leases expiring in various years through 2033. The assets and liabilities under finance leases are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the assets at the inception of the lease. The assets are amortized over the shorter of their related lease terms or the estimated productive lives. Amortization of assets under finance leases is included in depreciation and amortization expense. The Company is also the lessee of various land, building and personal property under operating lease agreements which are not classified as property, plant and equipment. See Note 11 "*Leases*" for additional information regarding the Company's leases.

The Company capitalizes interest charges associated with construction in progress based on a weighted average interest cost calculated on the Company's outstanding debt.

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Asset Retirement Obligations

The Company records liabilities for obligations related to the retirement and removal of long-lived assets, consisting primarily of batteries and operating leases. The Company records, as liabilities, the estimated fair value of asset retirement obligations on a discounted cash flow basis when incurred, which is typically at the time the asset is installed or acquired. The obligations are conditional on the occurrence of future events. Uncertainty about the timing or settlement of the obligation is factored into the measurement of the liability. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities increase due to the change in their present value, the potential changes in assumptions or inputs, and the initial capitalized assets decline as they are depreciated over the useful life of the related assets. The liabilities are extinguished when the asset is taken out of service.

Indefeasible Rights of Use

Indefeasible rights of use ("IRU") consist of agreements between the Company and a third party whereby one party grants access to a portion of its fiber network to the other party or receives access to a portion of the fiber network of the other party. The access may consist of individually specified fibers or a specified number of fibers on the network. IRU agreements under which individually specified fibers are provided are accounted for as leases. Certain of the Company's IRU agreements consist of like kind exchanges for which the value of the access given up is determined to be equal to the value of the access received. Cash may or may not be exchanged depending on the terms of the agreement. For IRU agreements in which an equal amount of cash is received and paid and the transaction is determined to not have commercial substance, revenue and expense is not recognized in connection with the cash exchanged. For IRU agreements that are not like kind exchanges and for which the Company receives or pays cash, revenue and expense are recognized over the term of the agreement.

Variable Interest Entities

The Company's ownership interest in the AQ-JV is a variable interest entity as defined in Accounting Standards Codification ("ASC") 810, "Consolidation." The Company consolidates the financial results of this entity based on its determination that, for accounting purposes, it holds a controlling financial interest in, and is the primary beneficiary of, the entity. The Company has accounted for and reported the interest of this entity's other owner as a noncontrolling interest. See Note 3 "*Joint Venture*" for additional information.

Deferred Capacity Revenue

Deferred capacity liabilities are established for usage rights on the Company's network provided to third parties. They are established at fair value and amortized to revenue on a straight-line basis over the contractual life of the relevant contract.

Preferred Stock

The Company has 5 million shares of $0.01 par value preferred stock authorized, none of which were issued or outstanding at December 31, 2019 and 2018.

On January 8, 2018, the Company's Board of Directors authorized 145 thousand shares of Series A Junior Participating Preferred Stock in connection with a Section 382 Tax Benefits Preservation Plan which expired on October 17, 2019. In conjunction with the expiration of the plan, the Series A Junior Participating Preferred Stock was eliminated. No shares were issued under the plan.

Leases

The Company accounts for leases in accordance with ASC 842, "Leases" ("ASC 842"). See Note 11 "*Leases*" for a summary of the Company's lease accounting policies and other disclosures required under ASC 842.

Revenue Recognition

The Company accounts for revenue in accordance with ASC 606, "Revenue from Contracts with Customers" ("ASC 606") and other guidance. See Note 2 "*Revenue Recognition*" for a summary of the Company's revenue recognition policies and other disclosures required under ASC 606.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense totaled $2,829 and $3,074 in 2019 and 2018, respectively, and is included in "Selling, general and administrative expense" in the Company's Consolidated Statements of Comprehensive Income.

Employee Termination Benefits

In 2019, the Company recorded a charge of $1,715 associated with cash-based termination benefits paid or to be paid to is former Chief Executive Officer who separated from the Company effective June 30, 2019. These benefits consist of special termination benefits as defined in ASC 712, "Compensation – Nonretirement Postemployment Benefits" and include the continuation of salary and certain benefits through December 31, 2019, and the payment of annual cash incentive and long-term cash awards, subject to certain conditions. Payments totaling $1,390 were made in 2019 and the balance will be paid in 2020 and 2021. The effect of the former Chief Executive Officer's separation on the relevant equity awards were accounted for in accordance with ASC 718, "Compensation – Stock Compensation." See Note 17 "*Stock Incentive Plans*."

Share-based Payments

The Company accounts for forfeitures associated with share-based payments as they occur.

Restricted Stock Units ("RSUs")

The Company determines the fair value of RSUs based on the number of shares granted and the quoted closing market price of the Company's common stock on the date of grant, discounted for estimated dividend payments that do not accrue to the employee during the vesting period. Compensation expense is recognized over the vesting period and adjustments are charged or credited to expense. RSUs are granted under the Company's 2011 Incentive Award Plan.

Performance Share Units ("PSUs")

PSUs may include a combination of service, specified performance, and/or market based conditions which determine the number of awards and the associated vesting. The Company measures the fair value of each new PSU at the grant date. Adjustments each reporting period are based on changes to the expected achievement of the performance goals or if the PSUs otherwise vest, expire, or are determined by the Compensation Committee of the Company's Board of Directors to be unlikely to vest prior to expiration. Adjustments are charged or credited to expense. For PSUs that include a market condition, compensation expense associated with the market condition is recognized regardless of whether the market condition is satisfied provided that performance measure has been met and the requisite service has been provided. Compensation expense is recorded over the requisite service period. PSUs are granted under the Company's 2011 Incentive Award Plan.

Employee Stock Purchase Plan ("ESPP")

The Company makes payroll deductions of from 1% to 15% of compensation from employees who elect to participate in the ESPP. A liability accretes during the 6-month offering period and at the end of the offering period (June 30 and December 31), and the Company issues the shares from the 2012 Employee Stock Purchase Plan ("2012 ESPP"). Compensation expense is recorded based upon the estimated number of shares to be purchased multiplied by the discount rate per share.

Tax Treatment

Stock-based compensation is treated as a temporary difference for income tax purposes and increases deferred tax assets until the compensation is realized for income tax purposes. To the extent that realized tax benefits exceed the book based compensation, the excess tax benefit is credited to additional paid in capital.

Pension Benefits

Multi-employer Defined Benefit Plan

Pension benefits for substantially all of the Company's Alaska-based employees are provided through the Alaska Electrical Pension Fund ("AEPF"). The Company pays a contractual hourly amount based on employee classification or base compensation. The accumulated benefits and plan assets are not determined for, or allocated separately to, the individual employer.

Defined Benefit Plan

The ACS Retirement Plan, which is the Company's sole single-employer defined benefit plan and covers a limited number of employees previously employed by a predecessor to one of our subsidiaries, is frozen. The Company recognizes the under-funded status of this plan as a liability on its balance sheet and recognizes changes in the funded status in the year in which the changes occur. The ACS Retirement Plan's accumulated benefit obligation is the actuarial present value, as of the Company's December 31 measurement date, of all benefits attributed by the pension benefit formula. The amount of benefits to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees or survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels. Unrecognized prior service credits and costs and net actuarial gains and losses are recognized as a component of other comprehensive loss, net of tax.

Defined Contribution Plan

The Company provides a 401(k) retirement savings plan covering substantially all of it employees. Discretionary company-matching contributions are determined by the Board of Directors.

Income Taxes

The Company utilizes the asset-liability method of accounting for income taxes. Under the asset-liability method, deferred taxes reflect the temporary differences between the financial and tax basis 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 management believes it is more-likely-than-not that such deferred tax assets will not be realized. The Company evaluates tax positions taken or expected to be taken in the course of preparing its financial statements to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. The Company records interest and penalties for underpayment of income taxes as income tax expense.

Earnings per Share

The Company computes earnings per share based on the weighted number of shares of common stock and dilutive potential common share equivalents outstanding. This includes all issued and outstanding share-based payments.

Long-lived Asset Impairment

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company will compare the undiscounted cash flows expected to be generated by that asset to its carrying amount. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals. Impairment is displayed under the caption "Operating expenses" in the Company's Consolidated Statements of Comprehensive Income.

Debt Issuance Costs and Discounts

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method over the term of the related instruments. Debt discounts are accreted to interest expense using the effective interest method. Debt issuance costs and debt discounts are presented as a direct deduction from the carrying amount of debt on the Company's Consolidated Balance Sheet.

Regulatory Accounting and Regulation

Certain activities of the Company are subject to rate regulation by the FCC for interstate telecommunication service and the Regulatory Commission of Alaska (“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 regulation as a non-dominant interexchange carrier by the FCC for interstate telecommunication services and the RCA for intrastate telecommunication services. Wireless, Internet and other non-common carrier services are not subject to rate regulation.

Taxes Collected from Customers and Remitted to Government Authorities

The Company excludes taxes collected from customers and payable to government authorities from revenue. Taxes payable to government authorities are presented as a liability on the Consolidated Balance Sheet.

Derivative Financial Instruments

The Company does not enter into derivative contracts for speculative purposes. The Company recognizes all asset or liability derivatives at fair value. The accounting for changes in fair value is contingent on the intended use of the derivative and its designation as a hedge. Derivatives that are not hedges are adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in fair value either offset the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or are recognized in “Other comprehensive income (loss)” until the hedged transaction is recognized in earnings. On the date a derivative contract is entered into, the Company designates the derivative as either a fair value or cash flow hedge. The Company formally assesses, both at the hedge's inception and on an on-going basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in the fair values or cash flows of hedged items. If the Company determines that a derivative is not effective as a hedge or that it has ceased to be effective, the Company discontinues hedge accounting prospectively. Amounts recorded to accumulated other comprehensive loss from the date of the derivative’s inception to the date of ineffectiveness are amortized to earnings over the remaining term of the hedged item. If the hedged item is settled prior to its originally scheduled date, any remaining accumulated comprehensive loss associated with the derivative instrument is reclassified to earnings. Termination of a derivative instrument prior to its scheduled settlement date may result in charges for termination fees.

Dividend Policy

The Company’s dividend policy is set by the Company’s Board of Directors and is subject to the terms of its credit facilities and the continued current and future performance and liquidity needs of the Company. Dividends on the Company’s common stock are not cumulative to the extent they are declared. As of the date of the financial statements, the Board had not authorized the payment of a dividend since 2012. See Note 21 “*Subsequent Events*” for information regarding a one-time dividend declared in the first quarter of 2020.

Share Repurchase Program

In the first quarter of 2017, the Company’s Board of Directors authorized a share repurchase program pursuant to which the Company could repurchase up to $10,000 of its common stock effective March 13, 2017 through December 31, 2019. Under the program, repurchases could be conducted through open market purchases or through privately-negotiated transactions in accordance with all applicable securities laws and regulations, including through Rule 10b5-1 trading plans. The timing and amount of repurchases was determined based on the Company’s evaluation of its financial position including liquidity, the trading price of its stock, debt covenant restrictions, general business and market conditions and other factors. The Company used cash on hand to fund share repurchases. Share repurchases are accounted for as treasury stock.

As of December 31, 2019, the Company had repurchased 1 million shares under the program at a weighted average price of $1.81 per share with an aggregate value of $1,812.

Concentrations of Risk

Cash is maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits and the Company enters into arrangements to collateralize these amounts with securities of the underlying financial institutions. Generally, these deposits may be redeemed upon demand. The Company has not experienced any losses on such deposits.

The Company also depends on a limited number of suppliers and vendors for equipment and services for its network. The Company's subscriber base and operating results could be adversely affected if these suppliers experience financial or credit difficulties, service interruptions, or other problems.

As of December 31, 2019, approximately 54% of the Company's employees are represented by the International Brotherhood of Electrical Workers, Local 1547 ("IBEW"). The Master Collective Bargaining Agreement ("CBA") between the Company and the IBEW, which is effective through December 31, 2023, governs the terms and conditions of employment for all IBEW represented employees working for the Company in the state of Alaska and has significant economic impacts on the Company as it relates to wage and benefit costs and work rules that affect our ability to provide superior service to our customers. The Company considered relations with the IBEW to be stable in 2019; however, any deterioration in the relationship with the IBEW would have a negative impact on the Company's operations.

The Company provides voice, broadband and managed IT services to its customers throughout Alaska. Accordingly, the Company's financial performance is directly influenced by the competitive environment in Alaska, and by economic factors specifically in Alaska. The most significant economic factor is the level of Alaskan oil production and the per barrel price of relevant crude oil. A significant majority of the state's unrestricted revenue comes from taxes assessed upon the production of this resource, and the price of crude oil impacts the level of investment by resource development companies. The drop in crude oil prices in recent years has resulted in the State of Alaska reducing its spending, which had a dampening impact on the overall state economy. In 2018, oil prices recovered to their highest levels since 2014, but declined marginally in 2019. Employment levels declined in 2016 through 2018 and grew in 2019. Other important factors influencing the Alaskan economy include the level of tourism, government spending, and the movement of United States military personnel. Any further deterioration in these factors, particularly over a sustained period of time, would likely have a negative impact on the Company's performance.

As an entity that relies on the Federal Communications Commission ("FCC") and state regulatory agencies to provide stable funding sources to provide services in high cost areas, the Company is also impacted by any changes in regulations or future funding mechanisms that are being established by these regulatory agencies. In 2019, 9% of the Company's total revenues were derived from high cost support and 6% were derived from the rural health care universal service support mechanism.

The Company considers the vulnerabilities of its network and IT systems to various cyber threats. While the Company has implemented several mitigating policies, technological safeguards and some insurance coverage, it is not possible to prevent every possible threat to its network and IT systems from deliberate cyber related attacks.

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, the Company adopted ASC 842, "*Leases*" ("ASC 842") on a modified retrospective basis. Accordingly, information presented for periods prior to 2019 have not been recast. Adoption of ASC 842 resulted in the establishment of right of use ("ROU") assets and associated liabilities totaling $82,020 representing the Company's right to use the underlying assets and the present value of the future lease payments over the terms of the Company's operating leases. The Company elected the package of practical expedients, which among other things, does not require reassessment of lease classification. Adoption of ASC 842 did not have a material effect on the Company's finance leases and its consolidated statements of Comprehensive Income and Cash Flows. See Note 11 "*Leases*" for a summary of the Company's lease accounting policies and other disclosures required under ASC 842.

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Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2017-12, "*Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*" (ASU 2017-12") on a prospective basis. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness and, for qualifying hedges, requires the entire change in the fair value of the hedging instrument to be presented in the same income statement line as the hedged item. The Company's hedges, consisting of a pay-fixed, receive-floating interest rate swaps, are fully effective. Therefore, adoption of ASU 2017-12 did not have any impact on the Company's financial statements. See Note 7 "*Fair Value Measurements*" for the disclosures required by ASU 2017-12.

Effective January 1, 2019, the Company adopted ASU No. 2018-16, "*Derivatives and Hedging (Topic 815), Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*" ("ASU 2018-16"). Permitting use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes will facilitate the London Interbank Offered Rate ("LIBOR") to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies. ASU 2018-16 was required to be adopted concurrently with ASU 2017-12. Adoption of ASU 2018-16 did not affect the Company's financial statements and related disclosures.

Accounting Pronouncements Issued Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *"Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments"* ("ASU 2016-13"). The amendments in ASU 2016-13, and subsequent amendments, introduce a forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables. ASU 2016-13 is effective for the Company's 2023 fiscal year and early adoption is permitted. Adoption on a modified-retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption is required. The Company is evaluating the effect ASU 2016-13 and subsequent updates will have on its financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*" ("ASU 2018-13"). The amendments in ASU 2018-13 are intended to improve the effectiveness of fair value measurement disclosures in the notes to the financial statements. The new guidance eliminates the requirement to disclose (i) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) the policy for timing of transfers between levels; and (iii) the valuation processes for Level 3 fair value measurements. The new guidance also requires the disclosure of (i) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and (ii) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. Adoption on a retrospective basis to all periods presented is required. The Company is evaluating ASU 2018-13 and, based on its existing assets and liabilities measured at fair value, does not currently believe that adoption will have a material effect on its financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, "*Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20), Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*" ("ASU 2018-14"). The amendments in ASU 2018-14 are intended to improve the effectiveness of disclosures in the notes to the financial statements about employer-sponsored defined benefit plans. The new guidance eliminates, among other items, the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. Expanded disclosures required under ASU 2018-14 include an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. ASU 2018-14 is effective for fiscal years beginning after December 15, 2020 and early adoption is permitted. Adoption on a retrospective basis to all periods presented is required. The Company is evaluating the effect ASU 2018-14 will have on its disclosures.

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In August 2018, the FASB issued ASU No. 2018-15, "*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*" ("ASU 2018-15"). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. Adoption may be applied on either a retrospective or prospective basis. The Company is evaluating the effect ASU 2018-15 will have on its financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*" ("ASU 2019-12"). The amendments in ASU 2019-12 remove certain exceptions to the general principals of Topic 740 and improve and simplify other areas of Topic 740. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020 and early adoption is permitted. Adoption is to be applied on a retrospective, modified-retrospective or prospective basis based on the specific amendment in the update. The Company is evaluating the effect ASU 2019-12 will have on its financial statements and related disclosures and doesn't currently expect the effect to be material.

2. REVENUE RECOGNITION

Revenue Recognition Policies

Revenue Accounted for in Accordance with ASC 606

At contract inception, the Company assesses the goods and services promised to the customer and identifies the performance obligation for each promise to transfer a good or service that is distinct. The Company considers all obligations whether they are explicitly stated in the contract or are implied by customary business practices.

The Company's broadband and voice revenue includes service, installation and equipment charges. The primary performance obligation in contracts for broadband and voice services is the provision of that service over time to the customer and revenue is recognized as that service is provided to the customer. The Company also charges certain of its broadband and voice service customers for equipment installed on the customers' premise, physical possession, control and ownership of which pass to the customer upon installation. Revenue is recognized for these obligations at the point of installation. The contract price is allocated between the service, installation and equipment components based on their relative standalone selling prices. Installation and equipment revenue is not a significant component of broadband and voice revenue. Revenue associated the Company's Lifeline customer base (included in the Consumer voice and other category) is less certain and is therefore recognized on a cash basis as payments are received.

Managed IT revenues include the sale, configuration and installation of equipment and the subsequent provision of ongoing IT services. Revenue is recognized on the sale, configuration and installation of equipment when physical possession, control and ownership of the equipment has been passed to the customer. The customer is typically billed for equipment separately from the subsequent IT services. Revenue associated with ongoing IT services is recognized as that service is provided. The contract price is allocated to each of these performance obligations based on their relative standalone selling prices. Revenue and cost of sales is recognized on the resale of equipment and other products only when the Company has control of the product, inventory risk and the discretion to establish pricing prior to transfer to the customer. For the resale of products where the Company does not meet these criteria, revenue is recognized at the net of the selling price to the customer and the Company's cost.

The Company enters into contracts with its rural health care customers and is subject to various regulatory requirements associated with the provision of these services. Revenues associated with rural health care customers are recognized based on the amount the Company expects to collect as evidenced in its contract with the customer and the Company's and customer's agreement with the FCC as the relevant service is provided. Payment for the services is made, in part, by the customer. The Company also receives funding support for these services through the FCC's rural health care universal service support mechanism. Funding through the FCC represents the predominant portion of the total funding. The amount expected to be collected from the FCC is based on program funding levels and actual or recent historical approval levels of customer applications. As of December 31, 2019, the Universal Service Administrative Company ("USAC") had issued funding commitment letters for all of the Company's rural health care customer applications for Funding Year 2018 (July 1, 2018 through June 30, 2019). For Funding Year 2019 (July 1, 2019 through June 30, 2020), the FCC had approved the Company's cost-based rural rates for the majority of its customers and USAC began issuing funding commitment letters in February 2020.

Regulatory access revenue includes (i) special access, which is primarily access to dedicated circuits sold to wholesale customers, substantially all of which is generated from interstate services; and (ii) cellular access, which is the transport of tariffed local network services between switches for cellular companies based on individually negotiated contracts. Regulatory access revenue is recognized as the service is provided to the customer.

Certain contracts with customers provide for customer payment in advance of or subsequent to the Company providing the associated goods or services. Such payments include customer funding of enhancements or additions to the Company's network and other related assets. As provided for under ASC 606, a financing component has not been applied if the time between payment by the customer and provision of the goods or services by the Company is one year or less. The Company has also not applied a financing component to certain contracts which include an advance customer payment associated with service to be provided over a period extending beyond one year. The advance payments provided for in these contracts is not material individually or in the aggregate.

Substantially all recurring non-usage sensitive service revenues are billed one month in advance and are deferred until the service has been provided to the customer. Non-recurring and usage sensitive revenues are billed in arrears and are recognized when the relevant service is provided. Equipment sales and installation are billed following customer acceptance. Payment terms for the contracts discussed above are typically thirty days.

Revenue Accounted for in Accordance with Other Guidance

Deferred revenue capacity liabilities are established for IRUs on the Company's network provided to third parties and are typically accounted for as operating leases. A deferred revenue liability is established at fair value and amortized to revenue on a straight-line basis over the contractual life of the relevant contract. Exchanges of IRUs with other carriers are accounted for as operating leases if the arrangement has commercial substance.

The Company has also established deferred revenue liabilities for other agreements outside the scope of ASC 606, including business combinations and non-monetary transactions. Revenue associated with these agreements is recognized in accordance with the relevant accounting guidance.

Regulatory access revenue includes interstate and intrastate switched access, consisting of services based primarily on originating and terminating access minutes from other carriers. The Company assess its customers for surcharges, typically on a monthly basis, as required by various state and federal regulatory agencies, and remits these surcharges to these agencies. These pass-through surcharges include Federal Universal Access and State Universal Access. These surcharges vary from year to year, and are primarily recognized as revenue, and the subsequent remittance to the state or federal agency as a cost of sale and service. The charges are assessed on only a portion of the services provided. Other non-pass-through surcharges are collected from customers as authorized by the regulatory body. The amount charged is based on the type of line: single line business, multi-line business, consumer or lifeline. The rates are established based on federal or state orders. These charges are recorded as revenue and do not have a direct associated cost. Rather, they represent a revenue recovery mechanism established by the FCC or the Regulatory Commission of Alaska.

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High-cost support revenue consists of interstate and intrastate universal support funds and similar revenue streams structured by federal and state regulatory agencies that allow the Company to recover its cost of providing universal service in Alaska. Funding under the FCC Connect America Fund ("CAF") Phase II order specific to Alaska Communications generally requires the Company to provide broadband service to unserved locations throughout the designated coverage area by the end of a specified build-out period, and meet interim milestone build-out obligations. In addition to federal high cost support, the Company was designated by the State of Alaska as a Carrier of Last Resort ("COLR") in five of the six study areas. In addition to COLR, the Company receives Carrier Common Line ("CCL") support. As a COLR the Company is required to provide services essential for retail and carrier-to-carrier telecommunication throughout the applicable coverage area. High-cost support revenue is recognized when cash is received. Effective in 2019, the COLR and CCL funding mechanisms were eliminated and replaced with the Essential Network Support ("ENS") funding mechanism. Funding levels under ENS are approximately half of those under the prior mechanisms.

The Company collects sales and other similar taxes from its customers on behalf of various governmental authorities and remits these taxes to the appropriate authorities. The collection of such taxes is not recognized as revenue.

Disaggregation of Revenue

The following table provides the Company's revenue disaggregated on the basis of its primary markets, customers, products and services for the years ended December 31, 2019 and 2018:

	2019			2018		
	Accounted for Under ASC 606	Accounted for Under Other Guidance	Total Revenue	Accounted for Under ASC 606	Accounted for Under Other Guidance	Total Revenue
Business and Wholesale Revenue						
Business broadband	$ 61,549	$ -	$ 61,549	$ 60,697	$ -	$ 60,697
Business voice and other	27,394	-	27,394	28,429	-	28,429
Managed IT services	6,494	-	6,494	5,742	-	5,742
Equipment sales and installations	4,698	-	4,698	5,127	-	5,127
Wholesale broadband	36,408	-	36,408	31,931	-	31,931
Wholesale voice and other	5,617	-	5,617	6,000	-	6,000
Operating leases and other deferred revenue	-	8,404	8,404	-	6,668	6,668
Total Business and Wholesale Revenue	142,160	8,404	150,564	137,926	6,668	144,594
Consumer Revenue						
Broadband	26,589	-	26,589	26,144	-	26,144
Voice and other	10,431	-	10,431	11,158	-	11,158
Total Consumer Revenue	37,020	-	37,020	37,302	-	37,302
Regulatory Revenue						
Access (1)	19,942	-	19,942	23,982	-	23,982
Access (2)	-	4,474	4,474	-	6,896	6,896
High-cost support	-	19,694	19,694	-	19,694	19,694
Total Regulatory Revenue	19,942	24,168	44,110	23,982	26,590	50,572
Total Revenue	$ 199,122	$ 32,572	$ 231,694	$ 199,210	$ 33,258	$ 232,468

(1) Includes customer ordered service and special access.
(2) Includes carrier of last resort and carrier common line.

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Business broadband revenue includes revenue associated with rural health care customers. Consumer voice and other revenue includes revenue associated with the FCC's Lifeline program.

Timing of Revenue Recognition

Revenue accounted for in accordance with ASC 606 consisted of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Services transferred over time	$ 174,482	$ 170,101
Goods transferred at a point in time	4,698	5,127
Regulatory access revenue (1)	19,942	23,982
Total revenue	$ 199,122	$ 199,210

(1) Includes customer ordered service and special access.

Transaction Price Allocated to Remaining Performance Obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations for contracts with customers that are unsatisfied, or partially unsatisfied, accounted for in accordance with ASC 606 was approximately $83,915 at December 31, 2019. Revenue will be recognized as the Company satisfies the associated performance obligations. For equipment delivery, installation and configuration, and certain managed IT services, which comprise approximately $1,090 of the total, the performance obligation is currently expected to be satisfied during the next twelve months. For business broadband, voice and other managed IT services, which comprise approximately $82,825 the total, the performance obligation will be satisfied as the service is provided over the terms of the contracts, which range from one to ten years. The Company's agreements with its consumer customers are typically on a month-to-month basis. Therefore, the Company's provision of future service to these customers is not reflected in the above discussion of future performance obligations.

Contract Assets and Liabilities

The Company incurs certain incremental costs to obtain contracts that it expects to recover. These costs consist primarily of sales commissions and other directly related incentive compensation payments (reported as contract additions in the table below) which are dependent upon, and paid upon, successfully entering into individual customer contracts. The resulting contract asset is amortized to expense over the relevant contract life consistent with recognition of the associated revenue. In the event a contract with a customer is cancelled or modified, the unamortized portion of the associated contract asset is written off or adjusted as required. Incremental costs of obtaining contracts for which the term is one year or less are expensed as incurred. The Company does not incur material contract fulfillment costs associated with its contracts with customers. The cost of the Company's network and related equipment, and enhancements to the network required under customer contracts, is accounted for in accordance with ASC 360, "Property, Plant and Equipment." As described above, customer premise equipment constitutes a separate performance obligation under the contract and is sold to the customer. Modems are sold to the customer upon installation and are accounted for in accordance with ASC 330, "Inventory."

Certain contracts allow customers to modify their contract. When a contract is modified, the Company evaluates the change in scope or price of the contract to determine if the modification should be treated as a separate contract, if there is a termination of the existing contract and creation of a new contract, or if the modification should be considered a change associated with the existing contract. When a customer adds a distinct service to an existing contract for the standalone selling price of that service, the new service is treated as a separate contract.

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The table below provides a reconciliation of the contract assets associated with contracts with customers accounted for in accordance with ASC 606 for the years ended December 31, 2019 and 2018. Contract modifications and cancellations did not have a material effect on contract assets in the years ended December 31, 2019 and 2018. Contract assets are classified as “Other assets” on the consolidated balance sheet.

	2019	2018
Balance at beginning of period	$ 8,052	$ 6,898
Contract additions	3,070	4,881
Amortization	(3,797)	(3,727)
Impairments	(83)	-
Balance at end of period	$ 7,242	$ 8,052

The Company recorded a charge for uncollectible accounts receivable of $258 and $2,745 in the years ended December 31, 2019 and 2018, respectively, associated with its contracts with customers. See Note 4 “*Accounts Receivable*.”

The table below provides a reconciliation of the contract liabilities associated with contracts with customers accounted for in accordance with ASC 606 for the years ended December 31, 2019 and 2018. Contract liabilities consist of deferred revenue and are included in “Accounts payable, accrued and other current liabilities” and “Other long-term liabilities, net of current portion.”

	2019	2018
Balance at beginning of period	$ 2,766	$ 1,150
Contract additions	2,575	2,407
Revenue recognized	(1,438)	(791)
Balance at end of period	$ 3,903	$ 2,766

3. JOINT VENTURE

In 2015, the Company entered into a series of transactions including the acquisition of a fiber optic network on the North Slope arctic area of Alaska and the establishment of AQ-JV to own, operate and market part of that network. The network provides reliable fiber-optic connectivity where only high-cost microwave and high-latency satellite communications was previously available. Through AQ-JV, this network has been made available to other telecom carriers in the market.

The Company determined that the joint venture is a Variable Interest Entity as defined in ASC 810, “Consolidation.” The Company consolidates the financial results of AQ-JV based on its determination that, the 50 percent voting interest of each party notwithstanding, for accounting purposes it holds a controlling financial interest in, and is the primary beneficiary of, the Joint Venture. This determination was based on (i) the Company’s expected future utilization of certain assets of the Joint Venture in the operation of the Company’s business; and (ii) the Company’ engineering, design, installation, service and maintenance expertise in the telecom industry and its existing relationships and presence in the Alaska telecom market are expected to be significant factors in the successful operation of the joint venture. There was no gain or loss recognized by the Company on the initial consolidation of the joint venture. The Company has accounted for and reported QHL’s 50 percent ownership interest in the AQ-JV as a noncontrolling interest.

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The table below provides certain financial information about the joint venture included on the Company's consolidated balance sheet at December 31, 2019 and 2018. Cash may be utilized only to settle obligations of the joint venture. Because the joint venture is an LLC, and the Company has not guaranteed its operations, the joint venture's creditors do not have recourse to the general credit of the Company.

	2019	2018
Cash	$ 270	$ 270
Property, plant and equipment, net of accumulated depreciation of $408 and $309	$ 1,733	$ 1,832

The operating results and cash flows of the joint venture in the years 2019 and 2018 were not material to the Company's consolidated financial results.

4. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at December 31, 2019 and 2018:

	2019	2018
Retail customers	$ 22,101	$ 21,732
Wholesale carriers	13,157	9,315
Other	3,723	4,361
	38,981	35,408
Less: allowance for doubtful accounts	(4,627)	(3,936)
Accounts receivable, net	$ 34,354	$ 31,472

The following table presents the activity in the allowance for doubtful accounts for the years ended December 31, 2019 and 2018, which is associated entirely with the Company's contracts with customers.

	2019	2018
Balance at January 1	$ 3,936	$ 2,729
Provision for uncollectible accounts	257	2,745
Charged to other accounts	1,253	(921)
Deductions	(819)	(617)
Balance at December 31	$ 4,627	$ 3,936

As of December 31, 2019, USAC had issued funding commitment letters for all of the Company's rural health care customer applications for Funding Year 2018 (July 1, 2018 through June 30, 2019). For Funding Year 2019 (July 1, 2019 through June 30, 2020), the FCC had approved the Company's cost-based rural rates for the majority of its customers and USAC began issuing funding commitment letters in February 2020. Accounts receivable, net, associated with rural health care customers was $6,827 and $8,122 at December 31, 2019 and 2018, respectively. Rural health care accounts are a component of the Retail Customers category in the above table. See Note 2 "*Revenue Recognition*" for additional information.

5. OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following at December 31, 2019 and 2018:

	2019	2018
Income tax receivable (1)	$ 2,510	$ 5,087
Prepaid expense	3,528	3,878
Other	3,579	3,204
Total prepayments and other current assets	$ 9,617	$ 12,169

(1) See Note 16 "*Income Taxes*."

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6. CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at December 31, 2019 and 2018:

	2019	2018
Accounts payable - trade	$ 14,918	$ 14,627
Accrued payroll, benefits, and related liabilities	12,193	13,473
Deferred capacity and other revenue	7,311	6,095
Other	4,686	6,762
Total accounts payable, accrued and other current liabilities	$ 39,108	$ 40,957

Advance billings and customer deposits consist of the following at December 31, 2019 and 2018:

	2019	2018
Advance billings	$ 3,730	$ 3,992
Customer deposits	31	32
Total advance billings and customer deposits	$ 3,761	$ 4,024

7. FAIR VALUE MEASUREMENTS

The Company has developed valuation techniques based upon observable and unobservable inputs to calculate the fair value of non-current monetary assets and liabilities. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1- Quoted prices for identical instruments in active markets.
- Level 2- Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3- Significant inputs to the valuation model are unobservable.

Financial assets and liabilities are classified within the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment and may affect the valuation of the assets and liabilities being measured, as well as their level within the fair value hierarchy.

The fair values of cash equivalents, restricted cash, other short-term monetary assets and liabilities and finance leases approximate carrying values due to their nature. The carrying values of the Company's senior credit facilities and other long-term obligations of $178,245 and $172,494 at December 31, 2019 and 2018, respectively, approximate fair value primarily as a result of the stated interest rates of the 2019 Senior Credit Facility and 2017 Senior Credit Facility approximating current market rates (Level 2).

Fair Value Measurements on a Recurring Basis

The following table presents the Company's financial assets measured at fair value on a recurring basis as of December 31, 2019 and 2018 at each hierarchical level. There were no transfers into or out of Levels 1 and 2 during 2019.

	December 31, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets:								
Other assets:								
Interest rate swaps	$ -	$ -	$ -	$ -	$ 458	$ -	$ 458	$ -
Liabilities:								
Other long-term liabilities:								
Interest rate swaps	$ 288	$ -	$ 288	$ -	$ -	$ -	$ -	$ -

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Derivative Financial Instruments

The Company currently uses interest rate swaps to manage variable interest rate risk. At low LIBOR rates, payments under the swaps increase the Company's cash interest expense, and at high LIBOR rates, they have the opposite effect.

The outstanding amount of the swaps as of a period end are reported on the balance sheet at fair value, represented by the estimated amount the Company would receive or pay to terminate the swaps. They are valued using models based on readily observable market parameters for all substantial terms of the contracts and are classified within Level 2 of the fair value hierarchy.

Under the terms of the 2019 Senior Credit Facility, the Company is required to enter into or obtain an interest rate hedge sufficient to effectively fix or limit the interest rate on borrowings under the agreement of a minimum of $90,000 with a weighted average life of at least two years. In 2017, as required under the terms of its 2017 Senior Credit Facility, the Company entered into a pay-fixed, receive-floating interest rate swap in the notional amount of $90,000, with an interest rate of 6.49425%, inclusive of a 5.0% LIBOR spread, and a maturity date of June 28, 2019. Upon repayment of the outstanding principal balance of the 2017 Senior Credit Facility on January 15, 2019, this swap was assigned to the 2019 Senior Credit Facility through its maturity date of June 28, 2019. On June 28, 2019, the Company entered into two pay-fixed, receive-floating, interest rate swaps. Each swap was in the initial notional amount of $67,500, has an interest rate of 6.1735% inclusive of a 4.5% LIBOR spread, and a maturity date of June 30, 2022. The swaps are with different counter parties. Changes in fair value of interest rate swaps are recorded to accumulated other comprehensive loss and reclassified to interest expense when the hedged transaction is recognized in earnings. Cash payments and receipts associated with interest rate swaps are classified as cash flows from operating activities, consistent with the hedged interest payments. See Note 10 "*Long-Term Obligations*" and Note 13 "*Accumulated Other Comprehensive Loss.*"

The following table presents the notional amount, fair value and balance sheet classification of the Company's derivative financial instruments designated as cash flow hedges as of December 31, 2019 and 2018. The fair values of both interest rate swaps were liabilities at December 31, 2019 and were hedges of the same interest rate risk.

	Balance Sheet Location	**Notional Amount**	**Fair Value**
At December 31, 2019:			
Interest rate swaps	Other long-term liabilities	$ 133,313	$ 288
At December 31, 2018:			
Interest rate swaps	Other assets	$ 90,000	$ 458

The following table presents gains and losses before income taxes on the Company's interest rate swaps designated as cash flow hedges for the years ending December 31, 2019 and 2018.

	2019	**2018**
(Loss) gain recognized in accumulated other comprehensive loss	$ (40)	$ 387
Gain reclassified from accumulated other comprehensive loss	$ 706	$ 444

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The following table presents a reconciliation of the carrying value of the Company's interest rate swaps at December 31, 2019 and 2018:

	2019	2018
Asset at January 1	$ 458	$ 515
Reclassified from other assets and other long-term liabilities to accumulated other comprehensive loss	(40)	387
Change in fair value credited to interest expense	(706)	(444)
(Liability) asset at December 31	$ (288)	$ 458

The following table presents the effect of cash flow hedge accounting on the Company's Statements of Comprehensive Income for the years ended December 31, 2019 and 2018:

	2019	2018
Recorded as Interest Expense:		
Hedged interest payments	$ (7,698)	$ (6,370)
Gain on interest rate swaps	706	444

Fair Value Measurements on a Non-Recurring Basis

Deferred Capacity Revenue

The Company entered into an agreement to provide wholesale services to another carrier on February 2, 2015. A national valuation firm was engaged to assist management in the determination of the fair value of the obligation which was determined to be $41,287 at February 2, 2015. The obligation is amortized to revenue on a straight-line basis over the contract lives of 10 to 30 years. The total carrying value of the service obligation was $31,113 and $33,184 at December 31, 2019 and 2018, respectively, and is included in “Other long-term liabilities, net of current portion” and “Accounts payable, accrued and other current liabilities” on the Consolidated Balance Sheet.

Other Items

The Company entered into agreements in connection with the acquisition of the fiber optic network on the North Slope of Alaska and the establishment of the joint venture with QHL. These transactions included the exchange of certain assets and liabilities, all of which were established at fair value on the date of the transactions.

The fair value of the IRU assets and obligations were $2,304 and $4,153, respectively, at the measurement date of April 2, 2015. IRU assets are included in “Property, plant and equipment” and IRU obligations are included in “Accounts payable, accrued and other current liabilities” and “Other long-term obligations” on the Consolidated Balance Sheet. The carrying value of these items at December 31, 2019 and 2018 was as follows:

	2019	2018
IRU Assets	$ 1,964	$ 2,041
IRU Obligations	3,441	3,594

No impairment of long-lived assets was recognized during 2019 and 2018.

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8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2019 and 2018:

	2019	2018	Useful Lives
Land, buildings and support assets*	$ 204,834	$ 197,381	5 - 42
Central office switching and transmission	396,565	387,008	5 - 12
Outside plant, cable and wire facilities	765,640	750,492	10 - 50
Other	25,423	17,126	5
Construction work in progress	32,442	38,615	
	1,424,904	1,390,622	
Less: accumulated depreciation and amortization	(1,042,546)	(1,017,442)	
Property, plant and equipment, net	$ 382,358	$ 373,180	

* Depreciation charges are not recorded for land.

Capitalized interest associated with construction in progress for the years ended December 31, 2019 and 2018 was $1,379 and $2,001, respectively. The capitalization rate used was based on a weighted average of the Company's long-term debt outstanding, and for the years ended December 31, 2019 and 2018 was 6.47% and 7.29%, respectively.

The above table includes property, plant and equipment held under finance leases. The Company also leases various land, buildings, right-of-ways and personal property under operating lease arrangements. See Note 11 "*Leases*" for additional information.

9. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligation is included in "Other long-term liabilities, net of current portion" on the Consolidated Balance Sheet and represents the estimated obligation related to the removal and disposal of certain property and equipment in both leased and owned properties.

The following table provides the changes in the asset retirement obligation:

	2019	2018
Balance at January 1	$ 5,024	$ 4,088
Asset retirement obligation	85	805
Accretion expense	243	214
Settlement of obligations	(179)	(83)
Balance at December 31	$ 5,173	$ 5,024

10. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31, 2019 and 2018:

	2019	2018
2019 senior secured credit facility due 2024	$ 177,750	$ -
Debt discount	(2,234)	-
Debt issuance costs	(1,863)	-
2017 senior secured credit facility due 2023	-	171,750
Debt discount	-	(2,024)
Debt issuance costs	-	(2,182)
Finance leases and other long-term obligations	2,729	2,768
Total debt	176,382	170,312
Less current portion	(8,906)	(2,289)
Long-term obligations, net of current portion	$ 167,476	$ 168,023

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2020	$	8,906
2021		9,067
2022		11,333
2023		15,851
2024		135,122
Thereafter		200
Total maturities	$	180,479

2019 Senior Credit Facility

On January 15, 2019, the Company entered into an amended and restated credit facility consisting of an Initial Term A Facility in the amount of $180,000, a Revolving Facility in an amount not to exceed $20,000 and a Delayed-Draw Term A Facility in an amount not to exceed $25,000 (together the “2019 Senior Credit Facility” or “Agreement”). The Agreement also provides for Incremental Term A Loans up to an aggregate principal amount of the greater of $60,000 and trailing twelve month EBITDA, as defined in the Agreement. On January 15, 2019, proceeds from the Initial Term A Facility of $178,335, net of discounts of $1,665, were used to repay in full the outstanding principal balance of the Term A-1 Facility and Term A-2 Facility under the Company’s 2017 Senior Credit Facility of $112,500 and $59,250, respectively, pay accrued and unpaid interest of $590, and pay fees and expenses associated with the transaction totaling $2,270. The 2017 Senior Credit Facility was terminated on January 15, 2019. Discounts, debt issuance costs and fees associated with the 2019 Senior Credit Facility totaling $2,683 were deferred and will be charged to interest expense over the term of the agreement.

Amounts outstanding under the Initial Term A Facility, Revolving Facility, Delayed-Draw Facility and Incremental Term A Loans bear interest at LIBOR plus 4.5% per annum. The Company may, at its discretion and subject to certain limitations as defined in the Agreement, select an alternate base rate at a margin that is 1.0% lower than the counterpart LIBOR margin.

Principal payments on the Initial Term A Facility, Delayed-Draw A Facility and any amounts outstanding under the Incremental Term A Loans are due commencing in the third quarter of 2019 as follows: the third quarter of 2019 through the second quarter of 2020 – $1,125 per quarter; the third quarter of 2020 through the second quarter of 2022 – $2,250 per quarter; the third quarter of 2022 through the second quarter of 2023 – $3,375 per quarter; and the third quarter of 2023 through the fourth quarter of 2023 – $4,500 per quarter. The remaining outstanding principal balance, including any amounts outstanding under the Revolving Facility, is due on January 15, 2024. This schedule is subject to mandatory prepayments under certain conditions, including the Company’s generation of excess cash flow as defined in the Agreement. As a result of the generation of excess cash flow in 2019, a prepayment of principal in the amount of $2,104 is required in the first quarter of 2020.

There were no amounts outstanding under the Revolving Facility, Delayed-Draw Term A Facility and Incremental Term A Loans at December 31, 2019.

The obligations under the 2019 Senior Credit Facility are secured by substantially all the personal property and real property of the Company, subject to certain agreed exceptions.

The 2019 Senior Credit Facility contains customary representations, warranties and covenants, including covenants limiting the incurrence of debt, the payment of dividends and repurchase of the Company’s common stock.

The 2019 Senior Credit Facility provides for events of default customary for credit facilities of this type, including non-payment defaults on other debt, misrepresentation, breach of covenants, representations and warranties, change of control, and insolvency and bankruptcy.

Under the terms of the 2019 Senior Credit Facility, the Company is required to enter into or obtain an interest rate hedge sufficient to effectively fix or limit the interest rate on borrowings under the agreement of a minimum of $90,000 with a weighted average life of at least two years. Upon repayment of the outstanding principal balance of the 2017 Senior Credit Facility on January 15, 2019, the pay-fixed, receive-floating interest rate swap in the notional amount of $90,000, with an interest rate of 6.49425%, inclusive of a 5.0% LIBOR spread, and a maturity date of June 28, 2019 was assigned to the 2019 Senior Credit Facility. On June 28, 2019, the Company entered into two pay-fixed, receive-floating, interest rate swaps. Each swap was in the initial notional amount of $67,500, has an interest rate of 6.1735% inclusive of a 4.5% LIBOR spread, and a maturity date of June 30, 2022. The swaps are with different counter parties.

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2017 Senior Credit Facility

On January 15, 2019, the Company utilized proceeds from the 2019 Senior Credit Facility to repay in full the outstanding principal balance of its 2017 Senior Credit Facility in the amount of $171,750. The Company recorded a loss of $2,830 on the extinguishment of debt associated with this transaction, including the write-off of debt issuance costs and third-party fees.

The obligations under the 2017 Senior Credit Facility were secured by substantially all of the personal property and certain material real property owned by the Company and its wholly-owned subsidiaries, with certain exceptions.

As required under the terms of the 2017 Senior Credit Facility, the Company entered into interest rate hedges sufficient to effectively fix or limit the interest rate on borrowings under the agreement of a minimum of $90,000 with a weighted average life of at least two years. See Note 7 "*Fair Value Measurements*" for additional information.

6.25% Convertible Notes due 2018

On May 1, 2018, the Company repurchased the outstanding balance of its 6.25% Notes. The cash settlement totaled $10,358, including principal of $10,044 and accrued interest of $314. Settlement was funded utilizing restricted cash of $10,044 and cash on hand of $314. There was no gain or loss associated with the repurchase.

The following table details the interest components of the 6.25% Notes contained in the Company's Consolidated Statements of Comprehensive Income for the year ended December 31, 2018:

		2018
Coupon interest expense	$	208
Amortization of the debt discount		18
Total included in interest expense	$	226

Finance Leases and Other Long-term Obligations

The Company is a lessee under various finance leases and other financing agreements totaling $2,729 and $2,768 at December 31, 2019 and 2018, respectively, and with maturities through 2033. See Note 11 "*Leases*" for additional information.

Debt Issuance Costs

Debt issuance costs totaling $2,356 associated with the 2019 Senior Credit Facility were deferred and will be amortized to interest expense over the term of the agreement. Amortization of debt issuance costs were $1,338 and $691 in the years ended December 31, 2019 and 2018, respectively, including $817 and zero classified as loss on extinguishment of debt in 2019 and 2018, respectively.

Debt Discounts

Accretion of debt discounts charged to interest expense or loss on extinguishment of debt in 2019 and 2018, totaled $1,455 and $662, respectively, including $761 and zero classified as loss on extinguishment of debt in 2019 and 2018, respectively.

11. LEASES

The Company adopted the provisions of ASC 842 effective in the first quarter of 2019 on a modified retrospective basis. See Note 1 "*Summary of Significant Accounting Policies*" for a summary of the effect of initial adoption on the Company's consolidated financial statements.

The Company applied the following practical expedients as provided for under ASC 842:

(i) The determination of whether expired or existing contracts contain leases at the date of adoption was not reassessed;
(ii) The classification of existing or expired leases at the date of adoption was not reassessed;
(iii) The provisions of ASC 842 were not applied to lease agreements with a term of 12 months or less;
(iv) Non-lease components, which are not material, were combined with lease components and, accordingly, consideration was not allocated between these two elements;
(v) Existing lease agreements were not reassessed to identify any initial direct costs; and
(vi) Hindsight was applied to determine changes in lease terms and assess for the impairment of ROU assets.

Lease Agreements Under Which the Company is the Lessee

The Company enters into agreements for land, land easements, access rights, IRUs, co-located data centers, buildings, equipment, pole attachments and personal property. These assets are utilized in the provision of broadband and telecommunications services to the Company's customers. An agreement is determined to be a lease if it conveys to the Company the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined as the Company having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. This determination is made at contract inception. Operating leases are included in operating lease right of use assets and current and noncurrent operating lease liabilities on the consolidated balance sheet. Finance leases are included in property, plant and equipment and current portion of long-term obligations and long-term obligations on the consolidated balance sheet.

ROU assets represent the Company's right to use the underlying asset for the term of the operating lease and operating lease liabilities represent the Company's obligation to make lease payments over the term of the lease. ROU assets and operating lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the term of the lease.

The terms of the Company's leases are primarily fixed. A limited number of leases include a variable payment component based on a pre-determined percentage or index.

Most of the Company's lease agreements include extension options which vary between leases but are generally consistent with industry practice. Extension options are exercised as required to meet the Company's service obligations and other business requirements. Extension options are included in the determination of the ROU asset if, at lease inception, it is reasonably certain that the option will be exercised.

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. The terms of these provisions vary by contract. Upon the exercise of an early termination option, the ROU asset and associated liability are remeasured to reflect the present value of the revised cash flows. Early terminations recorded in the year ended December 31, 2019 were not material.

The Company's operating and finance lease agreements do not include residual value guarantees, embedded leases or impose material restrictions or covenants on the Company's operations. It has no lease arrangements with related parties. The Company has subleases associated with certain leased assets. Such arrangements are not material.

The Company entered into additional operating lease commitments that had not yet commenced as of December 31, 2019 with a present value totaling approximately $464. These leases are primarily associated with the Company's CAF Phase II services, are expected to commence in 2020, and have terms of 7 to 25 years.

The discount rate applied to determine the present value of the future lease payments is based on the Company's incremental borrowing rate which is derived from recent secured borrowing arrangements entered into by the Company and publicly available information for instruments with similar terms.

Short-term and variable lease cost recorded during the year ended December 31, 2019 were not material.

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The Company did not enter into any sale and leaseback transactions during the year ended December 31, 2019.

The following tables provide certain quantitative information about the Company's lease agreements under which it is the lessee as of and for the year ended December 31, 2019. The maturities of lease liabilities are presented in twelve-month increments beginning January 1, 2020.

	Year Ended December 31, 2019
Lease Cost	
Finance lease cost:	
Amortization of right of use assets	$ 188
Interest on lease liabilities	270
Operating lease costs	7,865
Total lease cost	$ 8,323

	At December 31, 2019
Balance Sheet Information	
Operating leases:	
Right of use assets	$ 80,991
Liabilities - current	$ 2,795
Liabilities - noncurrent	78,767
Total liabilities	$ 81,562
Finance leases:	
Property, plant and equipment	$ 5,800
Accumulated depreciation and amortization	(3,699)
Property, plant and equipment, net	$ 2,101
Current portion of long-term obligations	$ 53
Long-term obligations, net of current portion	2,676
Total finance lease liabilities	$ 2,729

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	At December 31, 2019	
	Operating Leases	Financing Leases
Maturities of Lease Liabilities		
Year 1	$ 7,284	$ 318
Year 2	7,529	327
Year 3	7,433	336
Year 4	7,122	345
Year 5	6,934	355
Thereafter	159,455	3,472
Total lease payments	195,757	5,153
Less imputed interest	(115,093)	(2,424)
Total present value of lease obligations	80,664	2,729
Present value of current obligations	(1,897)	(53)
Present value of long-term obligations	$ 78,767	$ 2,676

Other Information	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	$ 270
Operating cash flows from operating leases	7,293
Financing cash flows from finance leases	39
Right of use assets obtained in exchange for new operating lease liabilities	828
Weighted-average remaining lease term (in years):	
Finance leases	14
Operating leases	29
Weighted-average discount rate:	
Finance leases	9.8%
Operating leases	6.9%

Lease Agreements Under Which the Company is the Lessor

The Company’s agreements under which it is the lessor are primarily associated with the use of its network assets, including IRUs for fiber optic cable, colocation and buildings. An agreement is determined to be a lease if it coveys to the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined as the lessee having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. This determination is made at contract inception. Exchanges of IRUs with other carriers are accounted for as leases if the arrangement has commercial substance. All of the Company’s agreements under which it is the lessor have been determined to be operating leases.

Lease payments are recognized as income on a straight-line basis over the term of the agreement, including scheduled changes in payments not based on an index or otherwise determined to be variable in nature. Any changes in payments based on an index are reflected in income in the period of the change. The underlying leased asset is reported as a component of property, plant and equipment on the balance sheet.

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Initial direct costs associated with the lease incurred by the Company are deferred and expensed over the term of the lease.

Certain of the Company's operating lease agreements include extension options which vary between leases but are generally consistent with industry practice. Extension options are not included in the determination of lease income unless, at lease inception, it is reasonably certain that the option will be exercised.

The Company's operating leases do not include purchase options.

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. The terms of these provisions vary by contract. Upon the exercise of an early termination option, any deferred rent receivable, deferred income and unamortized initial direct costs are written off. The underlying asset is assessed for impairment giving consideration to the Company's ability to utilize the asset in its business. There were no early terminations recorded in the year ended December 31, 2019.

The Company does not have material sublease arrangements as the lessor or lease arrangements with related parties.

The Company did not have sales-type leases or direct finance leases as of December 31, 2019.

The underlying assets associated with the Company's operating leases are accounted for under ASC 360, "Property, Plant and Equipment." The assets are depreciated on a straight-line basis over their estimated useful life, including any periods in which the Company expects to utilize the asset subsequent to termination of the lease.

The Company's operating lease agreements may include a non-lease component associated with operation and maintenance services. Consideration received for these services are recognized as income on a straight-line basis consistently with the lease components. Certain operating lease arrangements include a separate maintenance and service agreement. Consideration received under these separate agreements are recognized as income when the relevant service is provided to the lessee.

The following tables provide certain quantitative information about the Company's operating lease agreements under which it is the lessor as of and for the year ended December 31, 2019. Lease income is classified as revenue on the Statement of Comprehensive Income. The carrying value of the underlying leased assets is not material.

	Year Ended December 31, 2019
Lease Income	
Total lease income	$ 3,646

	At December 31, 2019
Maturities of Future Undiscounted Lease Payments	
Year 1	$ 1,469
Year 2	1,209
Year 3	478
Year 4	447
Year 5	427
Thereafter	2,741
Total future undiscounted lease payments	$ 6,771

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12. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following at December 31, 2019 and 2018:

	2019	2018
Deferred GCI capacity revenue, net of current portion	$ 29,036	$ 31,113
Other deferred IRU capacity revenue, net of current portion	34,440	25,732
Other deferred revenue, net of current portion	4,825	2,113
Other	10,219	8,869
Total other long-term liabilities	$ 78,520	$ 67,827

Amortization of deferred revenue included in the Consolidated Statements of Comprehensive Income was $8,440 and $7,407 in the years ended December 31,2019 and 2018, respectively.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity in accumulated other comprehensive loss for the years ended December 31, 2019 and 2018:

	Defined Benefit Pension Plans	Interest Rate Swaps	Total
Balance at December 31, 2017	$ (2,765)	$ 369	$ (2,396)
Other comprehensive (loss) income before reclassifications	(399)	275	(124)
Reclassifications from accumulated comprehensive loss to net income	161	(316)	(155)
Net other comprehensive loss	(238)	(41)	(279)
Reclassifications from accumulated comprehensive loss to retained earnings	-	-	-
Balance at December 31, 2018	(3,003)	328	(2,675)
Other comprehensive loss before reclassifications	(115)	(29)	(144)
Reclassifications from accumulated comprehensive loss to net income	48	(506)	(458)
Net other comprehensive loss	(67)	(535)	(602)
Reclassifications from accumulated comprehensive loss to retained earnings	-	-	-
Balance at December 31, 2019	$ (3,070)	$ (207)	$ (3,277)

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The following table summarizes the reclassifications from accumulated other comprehensive loss to net income for the years ended December 31, 2019 and 2018, respectively:

	2019	2018
Amortization of defined benefit plan pension items: (1)		
Amortization of loss (2)	$ 67	$ 225
Income tax effect	(19)	(64)
After tax	48	161
Amortization of gain on interest rate swap: (3)		
Reclassification to interest expense	(706)	(444)
Income tax effect	200	128
After tax	(506)	(316)
Total reclassifications net of income tax	$ (458)	$ (155)

(1) See Note 14 "*Retirement Plans*" for additional information regarding the Company's pension plans.
(2) Included in "Other income (expense), net" on the Company's Consolidated Statements of Comprehensive Income.
(3) See Note 7 "*Fair Value Measurements*" for additional information regarding the Company's interest rate swaps.

Amounts reclassified to net income from our defined benefit pension plan and interest rate swaps have been presented within "Other income (expense), net" and "Interest expense," respectively, in the Statements of Comprehensive Income. The estimated amount to be reclassified from accumulated other comprehensive loss as an increase in interest expense within the next twelve months is $71.

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14. RETIREMENT PLANS

Multi-employer Defined Benefit Plan

Pension benefits for substantially all of the Company's Alaska-based employees are provided through the AEPF. The Company pays the AEPF 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 for, or allocated separately to, the individual employer.

The following table provides additional information about the AEPF multi-employer pension plan.

Plan name	Alaska Electrical Pension Plan		
Employer Identification Number	92-6005171		
Pension plan number	001		
Pension Protection Act zone status at the plan's year-end:			
December 31, 2019	Green		
December 31, 2018	Green		
Plan subject to funding improvement plan	No		
Plan subject to rehabilitation plan	No		
Employer subject to contribution surcharge	No		
Company contributions to the plan for the year ended:			Greater than 5% of Total Contributions to the Plan
December 31, 2019	$	6,588	Yes
December 31, 2018	$	6,492	Yes
Name and expiration date of collective bargaining agreements requiring contributions to the plan:			
Collective Bargaining Agreement Between Alaska Communications Systems and Local Union 1547 IBEW	December 31, 2023		
Outside Agreement Alaska Electrical Construction between Local Union 1547 IBEW and Alaska Chapter National Electrical Contractors Association Inc.	June 30, 2022		
Inside Agreement Alaska Electrical Construction between Local Union 1547 IBEW and Alaska Chapter National Electrical Contractors Association Inc.	October 31, 2022		

The Company cannot accurately project any change in the plan status in future years given the uncertainty of economic conditions or the effect of actuarial valuations versus actual performance in the market. Minimum required future contributions to the AEPF are subject to the number of employees in each classification and/or base compensation of employees in future years.

Defined Contribution Plan

The Company provides a 401(k) retirement savings plan covering substantially all of its employees. The plan allows for discretionary contributions as determined by the Board of Directors, subject to Internal Revenue Code limitations. The Company made a $288 and $209 matching contribution in 2019 and 2018, respectively.

Defined Benefit Plan

The Company 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 CenturyTel, Inc.'s Alaska properties, whereby assets and liabilities of the CenturyTel Plan were transferred to the ACS Retirement Plan ("Plan") on September 1, 1999. Accrued benefits under the Plan were determined in accordance with the provisions of the CenturyTel Plan and upon completion of the transfer, covered employees ceased to accrue benefits under the CenturyTel Plan. On November 1, 2000, the Plan was amended to conform early retirement reduction factors and various other terms to those provided by the AEPF. 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, as amended ("ERISA"). The Company uses a December 31 measurement date for the Plan. The Plan is not adequately funded under ERISA at December 31, 2019. The Company contributed $81 to the Plan in 2019 and $192 in 2018. The Company plans to contribute approximately $889 to the Plan in 2020 and management is also estimating what additional contributions the Company may be required to make in subsequent years in the event the value of the Plan's assets remain volatile or decline.

(Unaudited, In Thousands Except Per Share Amounts)

The following is a calculation of the funded status of the ACS Retirement Plan using beginning and ending balances for 2019 and 2018 for the projected benefit obligation and the plan assets:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 14,499	$ 15,798
Interest cost	604	566
Actuarial loss (gain)	1,221	(872)
Benefits paid	(1,166)	(993)
Benefit obligation at end of year	15,158	14,499
Change in plan assets:		
Fair value of plan assets at beginning of year	10,871	12,534
Actual return (loss) on plan assets	1,662	(863)
Employer contribution	81	192
Benefits paid	(1,166)	(992)
Fair value of plan assets at end of year	11,448	10,871
Funded status	$ (3,710)	$ (3,628)

The Plan's projected benefit obligation equals its accumulated benefit obligation. The 2019 and 2018 liability balance of $3,710 and $3,628 respectively, is recorded on the Consolidated Balance Sheets in "Other long-term liabilities."

In the third quarter of 2019, the Company concluded that almost all participants in the Plan are inactive through either retirement or termination. In accordance with ASC 715, "Compensation – Retirement Benefits," the amortization period for certain costs associated with the Plan was changed from the expected future working lifetime of current active employees covered by the Plan to the expected future lifetime of inactive participants. This change was applied effective January 1, 2019. The amortization of loss in the table below reflects a $352 credit recorded in the third quarter of 2019 for the cumulative effect of the change.

Net periodic pension expense is reported as a component of "Other income (expense), net" in the Statement of Comprehensive Income. The following table presents the net periodic pension expense for the Plan for 2019 and 2018:

	2019	2018
Interest cost	$ 604	$ 566
Expected return on plan assets	(678)	(792)
Amortization of loss	141	451
Net periodic pension expense	$ 67	$ 225

In 2020, the Company expects amortization of net losses of $143.

	2019	2018
Loss recognized as a component of accumulated other comprehensive loss:	$ 4,289	$ 4,191

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The assumptions used to account for the Plan as of December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate for benefit obligation	3.20%	4.30%
Discount rate for pension expense	4.30%	3.70%
Expected long-term rate of return on assets	6.53%	6.53%
Rate of compensation increase	0.00%	0.00%

The discount rate for December 31, 2019 and 2018 was calculated using a proprietary yield curve based on above median AA rated corporate bonds. The expected long-term rate-of-return on assets rate is the best estimate of future expected return for the asset pool, given the expected returns and allocation targets for the various classes of assets.

Based on risk and return history for capital markets along with asset allocation risk and return projections, the following asset allocation guidelines were developed for the Plan:

Asset Category	Minimum	Maximum
Equity securities	50%	80%
Fixed income	20%	50%
Cash equivalents	0%	5%

The Plan's asset allocations at December 31, 2019 and 2018 by asset category are as follows:

Asset Category	2019	2018
Equity securities*	66%	64%
Debt securities*	33%	35%
Other/Cash	1%	1%

*May include mutual funds comprised of both stocks and bonds.

The fundamental investment objective of the Plan is to generate a consistent total investment return sufficient to pay Plan benefits to retired employees while minimizing the long-term cost to the Company. The long-term (10 years and beyond) Plan asset growth objective is to achieve a rate of return that exceeds the actuarial interest assumption after fees and expenses.

Because of the Company's long-term investment objectives, the Plan administrator is directed to resist being reactive to short-term capital market developments and to maintain an asset mix that is continuously rebalanced to adhere to the plan investment mix guidelines. The Plan's investment goal is to protect the assets' long-term purchasing power. The Plan's assets are managed in a manner that emphasizes a higher exposure to equity markets versus other asset classes. It is expected that such a strategy will provide a higher probability of meeting the plan's actuarial rate of return assumption over time.

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The following table presents major categories of plan assets as of December 31, 2019, and inputs and valuation techniques used to measure the fair value of plan assets regarding the ACS Retirement Plan:

	Fair Value Measurement at Reporting Date Using			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market/cash	$ 38	$ -	$ 38	$ -
Equity securities (Investment Funds)*				
International growth	2,215	2,215	-	-
U.S. small cap	1,341	1,341	-	-
U.S. medium cap	692	692	-	-
U.S. large cap	3,338	3,338	-	-
Debt securities (Investment Funds)*				
Certificate of deposits	2,411	2,411	-	-
Fixed income	1,400	-	1,400	-
Total fair value	$ 11,435	$ 9,997	$ 1,438	$ -

*May include mutual funds comprised of both stocks and bonds.

The benefits expected to be paid in each of the next five years and in the aggregate for the five fiscal years thereafter are as follows:

2020	$ 1,091
2021	$ 1,095
2022	$ 1,082
2023	$ 1,071
2024	$ 1,056
2025-2029	$ 4,945

Post-retirement Health Benefit Plan

The Company has a separate executive post-retirement health benefit plan. On December 31, 2019, the plan was underfunded by $381 and held no assets. The net periodic post-retirement cost for 2019 and 2018 was $26 and $22, respectively.

15. EARNINGS PER SHARE

Earnings per share is based on the weighted average number of shares of common stock and dilutive potential common share equivalents outstanding. Basic earnings per share assumes no dilution and is computed by dividing net income or loss available to Alaska Communications by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of the Company.

The Company's 6.25% Notes were convertible by the holder beginning February 1, 2018 at an initial conversion rate of 97.2668 shares of common stock per one thousand dollars principal amount of the 6.25% Notes. This is equivalent to an initial conversion price of approximately $10.28 per share of common stock. Given that the Company's current share price was well below $10.28, the Company did not anticipate that there would be a conversion of the 6.25% Notes into equity and determined that it had the intent and ability to settle the principal and interest payments on its 6.25% Notes in cash. The Company settled the Tender Offer to purchase it's outstanding 6.25% Notes for cash on April 17, 2017. On May 1, 2018, the Company repurchased the outstanding balance of the 6.25% Notes. See Note 10 "*Long-Term Obligations*." Accordingly, 321 shares related to the 6.25% Notes were excluded from the calculation of diluted earnings per share for the year ended December 31, 2018.

(Unaudited, In Thousands Except Per Share Amounts)

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2019 and 2018:

	2019	2018
Net income attributable to Alaska Communications	$ 4,928	$ 9,080
Tax-effected interest expense attributable to convertible notes	NA	NA
Net income attributable to Alaska Communications assuming dilution	$ 4,928	$ 9,080
Weighted average common shares outstanding:		
Basic shares	53,379	53,042
Effect of stock-based compensation	898	798
Effect of 6.25% convertible notes	NA	NA
Diluted shares	54,277	53,840
Income per share attributable to Alaska Communications:		
Basic	$ 0.09	$ 0.17
Diluted	$ 0.09	$ 0.17

16. INCOME TAXES

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act, (“TCJA”) was enacted. The TCJA provides for sweeping changes in United States tax rates and tax provisions which affected the Company as of December 31, 2017 and for periods beginning after January 1, 2018. Effective for years beginning after December 31, 2017, the maximum corporate tax rate decreased to a flat rate of 21%. This decrease in the tax rate resulted in the remeasurement of existing deferred tax assets and liabilities as of the enactment date and resulted in a decrease to existing net deferred tax assets of $3,851. In addition, the TCJA provides for existing Federal AMT tax credits to be refunded from 2018 through 2021. Accordingly, as of December 31, 2017, the Company reclassified AMT tax credits of $8,913 from non-current deferred tax assets to non-current long-term tax receivables. The federal AMT credits were reduced by $569 related to the applicable budget sequestration rate of 6.6%. The Company evaluated the TCJA and concluded that all information was available to complete the accounting for the effects of the tax reform in the fourth quarter of 2017. In the first quarter of 2018, the Company recorded an additional benefit of $703 associated with the effects of the TCJA. In the fourth quarter of 2018, the Company reversed the federal AMT credit sequestration reduction of $569 recorded in 2017 based on Internal Revenue Service guidance published in January 2019, resulting in a corresponding reduction in the provision for income taxes. As of December 31, 2018, the Company had reclassified $5,087 of existing AMT tax credits from non-current tax receivable to current tax receivable.

Consolidated income before income tax was as follows:

	2019	2018
Income before income tax	$ 7,600	$ 11,029

The income tax provision for the years ended December 31, 2019 and 2018 was comprised of the following:

	2019	2018
Current:		
Federal income tax	$ -	$ (732)
State income tax	(60)	6
Total current benefit	(60)	(726)
Deferred:		
Federal, excluding operating loss carry forwards	(175)	(1,123)
State, excluding operating loss carry forwards	(86)	(31)
Change in valuation allowance	(20)	(42)
Tax benefit of operating loss carry forwards:		
Federal	2,329	2,771
State	777	1,192
Total deferred expense	2,825	2,767
Total income tax expense	$ 2,765	$ 2,041

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The following table provides a reconciliation of income tax expense at the Federal statutory rate of 21% to the recorded income tax expense for the years ended December 31, 2019 and 2018:

	2019	2018
Computed federal income taxes at the statutory rate	$ 1,616	$ 2,335
Expense (benefit) in tax resulting from:		
State income taxes (net of Federal benefit)	731	824
Enacted rate change	-	(703)
Alternative minimum tax sequestration	-	(569)
Other	415	236
Stock-based compensation	23	(40)
Change in valuation allowance	(20)	(42)
Total income tax expense	$ 2,765	$ 2,041

Income tax expense was charged to the statement of comprehensive income and statement of stockholders' equity as follows:

	2019	2018
Statement of comprehensive income:		
Income tax expense	$ 2,765	$ 2,041
Other comprehensive income (loss), tax effect	$ (238)	$ (110)

The Company accounts for income taxes under the asset-liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided when it is "more likely than not" that the benefits of existing deferred tax assets will not be realized in a future period. As of December 31, 2019 and 2018, the Company had valuation allowances on certain state net operating loss carryforwards of $142 and $162, respectively. As of December 31, 2019 and 2018, the change in the valuation allowance was $(20) and $(42), respectively. At December 31, 2019, it is more likely than not that the results of future operations will generate sufficient taxable income to realize existing deferred tax assets, other than the state net operating loss carryforwards noted above. Therefore, no additional valuation allowance is necessary.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2019 and 2018, respectively, are as follows:

	2019	2018
Deferred tax assets:		
Net operating loss carry forwards	$ 13,635	$ 16,742
Operating lease liabilities	23,374	-
Deferred GCI capacity revenue	8,839	9,428
Reserves and accruals	8,700	8,947
Intangibles and goodwill	855	944
Fair value on interest rate swaps	82	-
Pension liability	1,054	1,031
Allowance for doubtful accounts	1,314	1,118
Other	222	-
Total deferred tax assets	58,075	38,210
Valuation allowance	(142)	(162)
Deferred tax assets after valuation allowance	57,933	38,048
Deferred tax liabilities:		
Property, plant and equipment	(37,152)	(37,320)
Operating lease right of use assets	(23,011)	-
Fair value on interest rate swaps	-	(130)
Revenue contract assets	(2,173)	(2,407)
Other	-	(8)
Total deferred tax liabilities	(62,336)	(39,865)
Net deferred tax liability	$ (4,403)	$ (1,817)

As of December 31, 2019, the Company has available Federal alternative minimum tax credits of $2,155 and which are classified as a non-current income tax receivable. As of December 31, 2019, the Company has available Federal and state net operating loss carry forwards of $53,728 and $31,977, respectively, which have various expiration dates beginning in 2031 through 2037.

The Company files consolidated income tax returns for Federal and state purposes in addition to separate tax returns of certain subsidiaries in multiple state jurisdictions. As of December 31, 2019, the Company is not under examination by any income tax jurisdiction. The Company is no longer subject to examination in the United States for years prior to 2016.

The Company accounts for income tax uncertainties using a threshold of “more-likely-than-not” in accordance with the provisions of ASC 740, “Income Taxes.” As of December 31, 2019, the Company has reviewed all of its tax filings and positions taken on its returns and has not identified any material current or future effect on its consolidated results of operations, cash flows or financial position. As such, the Company has not recorded any tax, penalties or interest on tax uncertainties. It is Company policy to record any interest on tax uncertainties as a component of income tax expense.

17. STOCK INCENTIVE PLANS

Under the Company’s stock incentive plan, Alaska Communications, through the Compensation and Personnel Committee of its Board of Directors, may grant stock options, restricted stock, stock-settled stock appreciation rights, performance share units and other awards to officers, employees, consultants, and non-employee directors. Upon the effective date of the Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan, as amended and restated on June 30, 2014, (“2011 Incentive Award Plan”), the Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan and the ACS Group, Inc. 1999 Non-Employee Director Stock Compensation Plan, (together the “Prior Plans”) were retired. All future awards will be granted from the 2011 Incentive Award Plan. The Alaska Communications Systems Group, Inc. 2012 ESPP was approved by the Company’s shareholders in June 2012 and the ACS 1999 Employee Stock Purchase Plan (“1999 ESPP”) was retired on June 30, 2012. References to “stock incentive plans” include, as applicable, the 2011 Incentive Award Plan, the 2012 ESPP, the 1999 ESPP and the Prior Plans. On June 25, 2018, the Company increased the number of shares reserved for issuance under the 2011 Incentive Award Plan by 3,000 shares. An aggregate of 22,210 shares of the Company’s common stock have been authorized for issuance under its stock incentive plans. At December 31, 2019, a total of 2,276 shares remain available for future issuance under the Company’s equity compensation plans, including the 2011 Incentive Award Plan and 2012 Employee Stock Purchase Plan. Stock-based compensation expense reflects forfeitures of share-based awards when they occur.

2011 Incentive Award Plan

On June 10, 2011, Alaska Communications shareholders approved the 2011 Incentive Award Plan, which was amended and restated on June 30, 2014 and June 25, 2018, and which terminates in 2021. Following termination, all shares granted under this plan, prior to termination, will continue to vest under the terms of the grant when awarded. All remaining unencumbered shares of common stock previously allocated to the Prior Plans were transferred to the 2011 Incentive Award Plan. In addition, to the extent that any outstanding awards under the Prior Plans are forfeited or expire or such awards are settled in cash, such shares will again be available for future grants under the 2011 Incentive Award Plan. The Company grants Restricted Stock Units and Performance Stock Units as the primary equity-based incentive for executive and certain non union-represented employees. The disclosures below are primarily associated with RSU and PSU grants awarded in 2017, 2018 and 2019.

Restricted Stock Units and Non-Employee Director Stock Compensation

The Company measures the fair value of RSUs based on the number of shares granted and the quoted closing market price of the Company’s common stock on the date of grant. RSU’s granted in 2017 vest ratably over three years, RSUs granted in 2018 vest ratably over three years or cliff vest in one year, and RSUs granted in 2019 vest ratably over the three-year period ending March 1, 2022. Since January 2008, the Company has maintained a policy which requires that non-employee directors receive a portion of their annual retainer in the form of Alaska Communications stock. This requirement may be suspended for specified periods and was suspended beginning in the second quarter of 2018 through 2019 due the limited availability of shares. Non-employee director stock compensation vests when granted. The directors make an annual election on whether to have the stock issued or to have it deferred.

In the second quarter of 2019, RSU’s granted to the Company’s former Chief Executive Officer in 2017 and 2018 were modified. The vesting dates were accelerated from 2020 and 2021 to June 2019, and the awards were revalued. The modification resulted in a net increase in share-based compensation expense of $112 recorded in 2019. The modification is included in grants and cancellations in the table below.

(Unaudited, In Thousands Except Per Share Amounts)

The following table summarizes the RSU, LTIP and non-employee director stock compensation activity for the year ended December 31, 2019:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2018	1,185	$ 1.88
Granted	610	$ 1.68
Vested	(770)	$ 1.86
Canceled or expired	(233)	$ 1.93
Nonvested at December 31, 2019	792	$ 1.74

Performance Based Units

PSUs granted prior to 2017 vested ratably over three years beginning at the grant date, while PSUs granted in 2017 vest at the end of the 2.5-year performance period, subject to achievement of certain performance conditions, achievement of a market condition and approval of the Compensation and Personnel Committee of the Board of Directors. As of December 31, 2019, certain Company performance targets were deemed probable of achievement and the relevant stock compensation was expensed accordingly. The PSUs granted in 2018 will vest in three equal installments, or tranches, if certain stock price thresholds and service thresholds are achieved. PSUs granted in the third quarter of 2019 will vest proportionally over the three-year period ending in March 2022 subject to the achievement of certain Company performance targets.

Share-based compensation expense subject to a market condition is recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

In the second quarter of 2019, certain PSU's granted to the Company's former Chief Executive Officer in 2017 and 2018 were modified. The vesting dates were accelerated from 2019, 2020 and 2021 to June 2019, and the awards were revalued. The modification resulted in a net increase in share-based compensation expense of $102 recorded in 2019. The modification is included in grants and cancellations in the table below.

The following table summarizes PSU activity for the year ended December 31, 2019:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2018	1,938	$ 1.10
Granted	1,437	$ 0.94
Vested	-	$ -
Canceled or expired	(1,746)	$ 1.00
Nonvested at December 31, 2019	1,629	$ 1.07

Selected Information on Equity Instruments and Share-Based Compensation

Selected information on equity instruments and share-based compensation under the plan for the years ended December 31, 2019 and 2018 is as follows:

	Years Ended December 31, 2019	Years Ended December 31, 2018
Total compensation cost for share-based payments	$ 1,580	$ 1,757
Weighted average grant-date fair value of equity instruments granted	$ 1.16	$ 0.97
Total fair value of shares vested during the period	$ 1,432	$ 1,534
Unamortized share-based payments	$ 1,124	$ 1,438
Weighted average period in years to be recognized as expense	1.69	1.06

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Condensed Consolidated Financial Statements
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Share-based compensation expense is classified as “Selling, general and administrative expense” in the Company’s Consolidated Statements of Comprehensive Income.

The Company purchases, from shares authorized under the 2011 Incentive Award Plan, sufficient vested shares to cover minimum employee payroll tax withholding requirements upon the vesting of restricted stock. The Company expects to repurchase approximately 240 shares in 2020. This amount is based upon an estimation of the number of shares of restricted stock and performance share awards expected to vest during 2020.

At December 31, 2019, 2,093 shares remain available for future issuance under the Company’s 2011 Incentive Award Plan.

Alaska Communications Systems Group, Inc. 2012 Employee Stock Purchase Plan

The Alaska Communications Systems Group, Inc. 2012 Employee Stock Purchase Plan was approved by the Company’s shareholders in June 2012. The 2012 ESPP will terminate upon the earlier of (i) the last exercise date prior to the tenth anniversary of the adoption date, unless sooner terminated in accordance with the 2012 ESPP; or (ii) the date on which all purchase rights are exercised in connection with a change in ownership of the Company. A participant in the 2012 ESPP will be granted a purchase right to acquire shares of common stock at six-month intervals on an ongoing basis, subject to the continuing availability of shares under the 2012 ESPP. Each participant may authorize periodic payroll deductions in any multiple of 1% (up to a maximum of 15%) of eligible compensation to be applied to the acquisition of common stock at semiannual intervals. The 2012 ESPP imposes certain limitations upon a participant’s rights to acquire common stock. No participant will have any shareholder rights with respect to the shares covered by their purchase rights until the shares are actually purchased on the participant’s behalf. No adjustments will be made for dividends, distributions or other rights for which the record date is prior to the date of the actual purchase.

The Company reserved 1,500 shares of its common stock for issuance under the 2012 ESPP. The fair value of each purchase right under the 2012 ESPP is charged to compensation expense over the offering period to which the right pertains, and is reflected in total compensation cost for share-based payments in the above table. Shares purchased by employees and the associated compensation expense under the 2012 ESPP, which is reflected in the preceding table, were not material in the years ended December 31, 2019 and 2018.

At December 31, 2019, 183 shares remain available for future issuance under the Company’s 2012 ESPP.

18. SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statement of financial position at December 31, 2019 and 2018 that sum to the total of these items reported in the statements of cash flows:

	2019	2018
Cash and cash equivalents	$ 26,662	$ 13,351
Restricted cash	1,631	1,634
Total cash, cash equivalents and restricted cash	$ 28,293	$ 14,985

The following table presents supplemental non-cash transaction information for the years ended December 31, 2019 and 2018:

	2019	2018
Supplemental Non-cash Transactions:		
Capital expenditures incurred but not paid at December 31	$ 5,950	$ 4,998
Additions to ARO asset	$ 85	$ 805

(Unaudited, In Thousands Except Per Share Amounts)

19. BUSINESS SEGMENTS

The Company operates its business under a single reportable segment. The Company's chief operating decision maker assesses the financial performance of the business as follows: (i) revenues are managed on the basis of specific customers and customer groups; (ii) costs are managed and assessed by function and generally support the organization across all customer groups or revenue streams; (iii) profitability is assessed at the consolidated level; and (iv) investment decisions and the assessment of existing assets are based on the support they provide to all revenue streams.

The following table presents service and product revenues from external customers for the years ended December 31, 2019 and 2018:

	2019	2018
Business and Wholesale Revenue		
Business broadband	$ 61,785	$ 60,934
Business voice and other	28,660	28,429
Managed IT services	6,494	5,742
Equipment sales and installations	4,698	5,127
Wholesale broadband	43,310	38,362
Wholesale voice and other	5,617	6,000
Total Business and Wholesale Revenue	150,564	144,594
Consumer Revenue		
Broadband	26,589	26,144
Voice and other	10,431	11,158
Total Consumer Revenue	37,020	37,302
Total Business, Wholesale, and Consumer Revenue	187,584	181,896
Regulatory Revenue		
Access	24,416	30,878
High cost support	19,694	19,694
Total Regulatory Revenue	44,110	50,572
Total Operating Revenue	$ 231,694	$ 232,468

The Company's revenues are derived entirely from external customers in the United States and its long-lived assets are held entirely in the United States.

20. COMMITMENTS AND CONTINGENCIES

The Company enters into purchase commitments with vendors in the ordinary course of business, including minimum purchase agreements. The Company also has long-term purchase contracts with vendors to support the on-going needs of its business. These purchase commitments and contracts have varying terms and in certain cases may require the Company to buy goods and services in the future at predetermined volumes and at fixed prices.

In June 2017, the Company received a letter from USAC's auditors inquiring about past funding requests under the Rural Health Care program, all of which were previously approved by USAC. After clarifying the request, the Company responded to the auditors with the requested information through the remainder of 2017 and mid-way into 2018. Late in 2018, the auditors asked the Company to comment on preliminary audit findings, and the Company responded with a letter dated December 21, 2018. After more than a year without communications from the auditors, on February 24, 2020, the Company received a draft audit report from USAC. The draft audit report alleges violations of the FCC's rules for establishing rural rates and urban rates, the provisioning and billing of ineligible services and products, and violations of the FCC's competitive bidding rules. The Company was invited to comment on this draft audit report, and the Company intends to seek correction of numerous factual errors it believes are contained in that report. In addition, the Company has had conversations with USAC's auditors and the Company is compiling a list of proposed clarifications, corrections and modifications to the draft audit report. As a result of these conversations and comments to be submitted by the Company, USAC's auditors may revise their findings, including the amounts they recommend USAC seek to recover. USAC's auditors are expected to issue a final audit report incorporating the Company's responses that will be sent to USAC's Rural Health Care division to review and determine if corrective action would be appropriate. In the event that the Company disagrees with USAC's final audit report, the Company can appeal that decision to USAC's Rural Health Care division and/or the FCC. The Company intends to vigorously defend against the conclusions of the draft audit report and, if necessary, appeal the final audit findings. Based on these draft findings, the Company has determined that it is probable that resolution of these matters will result in the recognition of a contingent liability and charge to expense. The Company does not currently have sufficient information to reasonably estimate the amount, or a range, of the potential charge.

The Company is involved in various other claims, legal actions and regulatory proceedings arising in the ordinary course of business and establishes an accrual when a specific contingency is probable and estimable. The Company recorded litigation accruals totaling $1,367 at December 31, 2019 against certain current claims and legal actions. The Company also faces contingencies that are reasonably possible to occur that cannot currently be estimated. The Company believes that the disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, comprehensive income or cash flows. It is the Company's policy to expense costs associated with loss contingencies, including any related legal fees, as they are incurred.

21. SUBSEQUENT EVENTS

On March 9, 2020, the Company’s Board of Directors declared a one-time cash dividend of $0.09 per share of common stock to be paid on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. The dividend payment is expected to total approximately $5.0 million.

Exhibit 21.1

Subsidiaries of the Company

Subsidiary	**DBA**	**Jurisdiction of Incorporation or Organization**
Alaska Communications Systems Holdings, Inc.	Alaska Communications, ACS	Delaware
Alaska Communications Systems Group, Inc.	Alaska Communications, ACS	Delaware
ACS of the Northland, LLC	Alaska Communications, ACS	Alaska
ACS of Alaska, LLC	Alaska Communications, ACS	Alaska
ACS of Fairbanks, LLC	Alaska Communications, ACS	Alaska
ACS of Anchorage, LLC	Alaska Communications, ACS	Delaware
ACS Wireless, Inc.	Alaska Communications, ACS	Alaska
ACS Long Distance, LLC	Alaska Communications, ACS	Alaska
Alaska Communications Internet, LLC	Alaska Communications, ACS	Alaska
Alaska Communications LLC	Alaska Communications, ACS	Alaska
ACS Messaging, Inc.	Alaska Communications, ACS	Alaska
ACS InfoSource, Inc.	Alaska Communications, ACS	Alaska
ACS Cable Systems, LLC	Alaska Communications, ACS	Delaware
Alaska Communications Services, Inc.	Alaska Communications, ACS	Alaska
ACS of Alaska License Sub, LLC	Alaska Communications, ACS	Alaska
ACS of the Northland License Sub, LLC	Alaska Communications, ACS	Alaska
ACS of Fairbanks License Sub, LLC	Alaska Communications, ACS	Alaska
ACS of Anchorage License Sub, LLC	Alaska Communications, ACS	Alaska
ACS Wireless License Sub, LLC	Alaska Communications, ACS	Alaska
ACS Long Distance License Sub, LLC	Alaska Communications, ACS	Alaska
Crest Communications Corporation	Alaska Communications, ACS	Delaware
WCI Cable, Inc.	Alaska Communications, ACS	Delaware
Alaska Northstar Communications, LLC	Alaska Communications, ACS	Delaware
Northstar License Corporation	Alaska Communications, ACS	Delaware
WCIC Hillsboro, LLC	Alaska Communications, ACS	Delaware
WCI Lightpoint, LLC	Alaska Communications, ACS	Delaware
Northern Lights Holdings, Inc.	Alaska Communications, ACS	Delaware
WorldNet Communications, Inc.	Alaska Communications, ACS	Delaware
Alaska Fiber Star, LLC	Alaska Communications, ACS	Alaska
Alaska Fiber Star License Corporation	Alaska Communications, ACS	Delaware
TekMate, LLC	Alaska Communications, ACS	Alaska

In addition to the wholly owned subsidiaries listed above, the Company has a fifty percent interest in ACS - Quintillion JV, LLC, an Alaska Limited Liability Company.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-226124, No. 333-199923, No. 333-181660, and No. 333-175179) of Alaska Communications Systems Group, Inc. of our reports dated March 16, 2020, relating to the consolidated financial statements of Alaska Communications Systems Group, Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in the method of accounting for leases) and the effectiveness of internal control over financial reporting of Alaska Communications Systems Group, Inc. appearing in this Annual Report on Form 10-K for the year ended December 31, 2019.

/s/ Moss Adams LLP

Spokane, Washington
March 16, 2020

Sarbanes-Oxley Section 302(a) Certification

I, William Bishop, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Communications Systems Group, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 16, 2020 /s/ William Bishop

William Bishop

President and Chief Executive Officer

Alaska Communications Systems Group, Inc.

Exhibit 31.2

Sarbanes-Oxley Section 302(a) Certification

I, Laurie Butcher, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Communications Systems Group, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 16, 2020	/s/ Laurie Butcher
	Laurie Butcher
	Chief Financial Officer
	Alaska Communications Systems Group, Inc.

Exhibit 32.1

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

In connection with the Annual Report of Alaska Communications Systems Group, Inc. (the “Company”) on Form 10-K for the fiscal year ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Bishop, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: March 16, 2020 /s/ William Bishop

William Bishop

President and Chief Executive Officer

Alaska Communications Systems Group, Inc.

Exhibit 32.2

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

In connection with the Annual Report of Alaska Communications Systems Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurie Butcher, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: March 16, 2020/s/ Laurie Butcher

Laurie Butcher

Chief Financial Officer

Alaska Communications Systems Group, Inc.