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

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 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, Anchorage, Alaska 99503-6091
(Address of principal executive offices) (Zip Code)

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

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

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 the 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 [X] Non-accelerated filer [ ] Smaller reporting company [X]
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 Exchange Act).
Yes ☐ **No** ☒

As of July 31, 2019, there were outstanding 53,532,252 shares of Common Stock, $.01 par value, of the registrant.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Condensed Consolidated Balance Sheets
(Unaudited, In Thousands Except Per Share Amounts)

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 23,920	$ 13,351
Restricted cash	1,631	1,634
Short-term investments	134	134
Accounts receivable, net of allowance of $4,653 and $3,936	22,471	31,472
Materials and supplies	7,984	6,737
Prepayments and other current assets	10,674	12,169
Total current assets	66,814	65,497
Property, plant and equipment	1,405,566	1,390,622
Less: accumulated depreciation and amortization	(1,029,094)	(1,017,442)
Property, plant and equipment, net	376,472	373,180
Deferred income taxes	432	498
Operating lease right of use assets	80,458	-
Other assets	15,283	16,010
Total assets	$ 539,459	$ 455,185
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term obligations	$ 4,546	$ 2,289
Accounts payable, accrued and other current liabilities	38,187	40,957
Advance billings and customer deposits	3,806	4,024
Operating lease liabilities - current	2,517	-
Total current liabilities	49,056	47,270
Long-term obligations, net of current portion	173,499	168,023
Deferred income taxes	2,348	2,315
Operating lease liabilities - noncurrent	77,937	-
Other long-term liabilities, net of current portion	66,815	67,827
Total liabilities	369,655	285,435
Commitments and contingencies		
Common stock, $.01 par value; 145,000 authorized; 53,893 issued and 53,774 outstanding at June 30, 2019; 53,268 issued and outstanding at December 31, 2018	540	533
Treasury stock, 119 shares at cost	(205)	-
Additional paid in capital	160,654	160,514
Retained earnings	10,701	10,439
Accumulated other comprehensive loss	(2,772)	(2,675)
Total Alaska Communications stockholders' equity	168,918	168,811
Noncontrolling interest	886	939
Total stockholders' equity	169,804	169,750
Total liabilities and stockholders' equity	$ 539,459	$ 455,185

See Notes to Condensed Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Condensed Consolidated Statements of Comprehensive (Loss) Income
(Unaudited, In Thousands Except Per Share Amounts)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating revenues	$ 57,395	$ 59,578	$ 114,304	$ 115,550
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	26,356	26,542	51,983	52,375
Selling, general and administrative	18,718	16,507	35,374	32,519
Depreciation and amortization	9,200	8,197	17,879	16,984
(Gain) loss on disposal of assets, net	(95)	44	(97)	41
Total operating expenses	54,179	51,290	105,139	101,919
Operating income	3,216	8,288	9,165	13,631
Other income and (expense):				
Interest expense	(3,096)	(3,401)	(6,152)	(6,905)
Loss on extinguishment of debt	(31)	-	(2,830)	-
Interest income	95	24	170	38
Other (expense) income, net	(122)	(91)	-	13
Total other income and (expense)	(3,154)	(3,468)	(8,812)	(6,854)
Income before income tax expense	62	4,820	353	6,777
Income tax expense	(46)	(1,418)	(144)	(1,306)
Net income	16	3,402	209	5,471
Less net loss attributable to noncontrolling interest	(19)	(40)	(53)	(72)
Net income attributable to Alaska Communications	35	3,442	262	5,543
Other comprehensive (loss) income:				
Minimum pension liability adjustment	19	57	39	114
Income tax effect	(5)	(16)	(11)	(32)
Amortization of defined benefit plan loss	122	91	243	182
Income tax effect	(35)	(26)	(69)	(52)
Interest rate swap marked to fair value	47	107	34	412
Income tax effect	(14)	(31)	(10)	(118)
Reclassification to interest expense	(224)	(97)	(451)	(122)
Income tax effect	64	28	128	35
Total other comprehensive (loss) income	(26)	113	(97)	419
Total comprehensive income attributable to Alaska Communications	9	3,555	165	5,962
Net loss attributable to noncontrolling interest	(19)	(40)	(53)	(72)
Total other comprehensive income attributable to noncontrolling interest	-	-	-	-
Total comprehensive loss attributable to noncontrolling interest	(19)	(40)	(53)	(72)
Total comprehensive (loss) income	$ (10)	$ 3,515	$ 112	$ 5,890
Net income per share attributable to Alaska Communications:				
Basic	$ 0.00	$ 0.06	$ 0.00	$ 0.10
Diluted	$ 0.00	$ 0.06	$ 0.00	$ 0.10
Weighted average shares outstanding:				
Basic	53,799	53,111	53,591	52,897
Diluted	54,569	53,888	54,599	53,829

See Notes to Condensed Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited, In Thousands Except Per Share Amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Number of Common Shares Issued and Outstanding				
Balance at beginning of period	53,610	53,111	53,268	52,526
Issuance of common stock pursuant to stock plans, $.01 par	283	73	625	658
Purchases of common stock, $.01 par	(119)	-	(119)	-
Balance at end of period	53,774	53,184	53,774	53,184
Total Stockholders' Equity - Beginning Balance	$ 170,065	$ 161,695	$ 169,750	$ 154,510
Common Stock				
Balance at beginning of period	536	531	533	525
Issuance of common stock pursuant to stock plans, $.01 par	4	1	7	7
Balance at end of period	540	532	540	532
Treasury Stock				
Balance at beginning of period	-	-	-	-
Purchases of 119 shares of common stock, $.01 par	(205)	-	(205)	-
Balance at end of period	(205)	-	(205)	-
Additional Paid In Capital				
Balance at beginning of period	160,704	158,795	160,514	158,969
Stock-based compensation	(9)	325	489	567
Surrender of shares to cover minimum withholding taxes on stock-based compensation	(143)	-	(448)	(410)
Issuance of common stock pursuant to stock plans, $.01 par	102	110	99	104
Balance at end of period	160,654	159,230	160,654	159,230
Retained Earnings (Accumulated Deficit)				
Balance at beginning of period	10,666	3,460	10,439	(3,579)
Net income attributable to Alaska Communications	35	3,442	262	5,543
Cumulative effect of new accounting principles adopted	-	-	-	4,938
Balance at end of period	10,701	6,902	10,701	6,902
Accumulated Other Comprehensive Loss				
Balance at beginning of period	(2,746)	(2,090)	(2,675)	(2,396)
Other comprehensive (loss) income	(26)	113	(97)	419
Balance at end of period	(2,772)	(1,977)	(2,772)	(1,977)
Noncontrolling Interest				
Balance at beginning of period	905	999	939	991
Net loss attributable to noncontrolling interest	(19)	(40)	(53)	(72)
Contributions from noncontrolling interest	-	-	-	40
Balance at end of period	886	959	886	959
Total Stockholders' Equity - Ending Balance	$ 169,804	$ 165,646	$ 169,804	$ 165,646

See Notes to Condensed Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited, In Thousands)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash Flows from Operating Activities:		
Net income	$ 209	$ 5,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,879	16,984
(Gain) loss on disposal of assets, net	(97)	41
Amortization of debt issuance costs and debt discount	606	689
Loss on extinguishment of debt	2,830	-
Amortization of deferred capacity revenue	(2,259)	(1,930)
Stock-based compensation	489	567
Income tax expense	144	1,306
Charge for uncollectible accounts	(32)	1,092
Amortization of right-of-use assets	1,148	-
Other non-cash expense, net	244	181
Income taxes receivable	-	(36)
Changes in operating assets and liabilities	7,172	(2,007)
Net cash provided by operating activities	28,333	22,358
Cash Flows from Investing Activities:		
Capital expenditures	(20,432)	(17,081)
Capitalized interest	(609)	(891)
Change in unsettled capital expenditures	(551)	(1,632)
Proceeds on sale of assets	19	-
Net cash used by investing activities	(21,573)	(19,604)
Cash Flows from Financing Activities:		
Repayments of long-term debt	(171,768)	(20,506)
Proceeds from the issuance of long-term debt	180,000	14,000
Debt issuance costs and discounts	(2,683)	-
Cash paid for debt extinguishment	(1,252)	-
Cash proceeds from noncontrolling interest	-	40
Payment of withholding taxes on stock-based compensation	(448)	(410)
Purchases of treasury stock	(149)	-
Proceeds from the issuance of common stock	106	111
Net cash provided (used) by financing activities	3,806	(6,765)
Change in cash, cash equivalents and restricted cash	10,566	(4,011)
Cash, cash equivalents and restricted cash, beginning of period	14,985	16,168
Cash, cash equivalents and restricted cash, end of period	$ 25,551	$ 12,157
Supplemental Cash Flow Data:		
Interest paid	$ 6,114	$ 7,251
Income taxes paid, net	$ 10	$ 4

See Notes to Condensed Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited, In Thousands Except Per Share Amounts)

1. 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 telecommunications network.

The accompanying unaudited condensed consolidated financial statements represent the consolidated financial position, comprehensive income, stockholders’ equity and cash flows of Alaska Communications Systems Group, Inc. 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.
- WCIC 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.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and notes included in this Quarterly Report on Form 10-Q have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. Certain information and note disclosures normally included in financial statements prepared in accordance with Generally Accepted Accounting Principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the SEC. The Company believes the disclosures made are adequate to make the information presented not misleading.

See Note 10 “*Leases*” for a summary of the Company’s lease accounting policies and related disclosures.

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 fifty percent ownership interest in the joint venture as a noncontrolling interest.

In the opinion of management, the unaudited condensed consolidated financial statements contain all normal, recurring adjustments necessary to present fairly the consolidated financial position, comprehensive income, stockholders’ equity and cash flows for all periods presented. Comprehensive income for the three and six-month periods ended June 30, 2019, is not necessarily indicative of comprehensive income which might be expected for the entire year or any other interim periods. The balance sheet at December 31, 2018 has been derived from the audited financial statements as of that date but does not include all information and notes required by GAAP for complete financial statements. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Employee Termination Benefits

In the second quarter of 2019, the Company recorded a charge of $1,595 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 Accounting Standards Codification ("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 $1,267 were made in the third quarter of 2019 and the balance will be paid in the fourth quarter of 2019 and 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 12 "*Stock Incentive Plans*."

Share Repurchase Program

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 may 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 will 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 intends to use cash on hand to fund share repurchases subject to, among other things, federal and state securities, corporate and other laws and regulations, and the Company's financing arrangements. Share repurchases are accounted for as treasury stock.

As of June 30, 2019, the Company had repurchased 118,825 shares under the program at a weighted average price of $1.72 per share with an aggregate value of $205.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and the accompanying notes, including estimates of operating revenues, probable losses and expenses. Actual results could differ materially from those estimates.

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 10 "*Leases*" for a summary of the Company's lease accounting policies and other disclosures required under ASC 842.

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 4 "Fair Value Measurements and Derivative Financial Instruments" 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 fiscal years beginning after December 15, 2019. The Company is evaluating the effect ASU 2016-13 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 hierarch; (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. 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. The Company is evaluating the effect ASU 2018-14 will have on its disclosures.

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. The Company is evaluating the effect ASU 2018-15 will have on its financial statements and related disclosures.

2. REVENUE RECOGNITION

Revenue Recognition Policies

Revenue Accounted for in Accordance with ASC 606, "Revenue from Contracts with Customers" ("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.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited, In Thousands Except Per Share Amounts)

The Company's broadband and voice revenue includes service, installation and equipment charges. Managed IT revenues include the sale, configuration and installation of equipment and the subsequent provision of ongoing IT services. 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 Federal Communications Commission ("FCC") as the relevant service is provided. 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.

Revenue Accounted for in Accordance with Other Guidance

Deferred revenue capacity liabilities are established for indefeasible rights of use ("IRUs") on the Company's network provided to third parties and are typically accounted for as operating leases. Regulatory access revenue includes interstate and intrastate switched access, consisting of services based primarily on originating and terminating access minutes from other carriers. 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.

Disaggregation of Revenue

The following tables provide the Company's revenue disaggregated on the basis of its primary markets, customers, products and services for the three and six-month periods ended June 30, 2019 and 2018:

	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	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	$ 15,378	$ -	$ 15,378	$ 30,586	$ -	$ 30,586
Business voice and other	6,953	-	6,953	13,657	-	13,657
Managed IT services	1,517	-	1,517	3,176	-	3,176
Equipment sales and installations	1,008	-	1,008	1,888	-	1,888
Wholesale broadband	8,720	-	8,720	17,271	-	17,271
Wholesale voice and other	1,392	-	1,392	2,818	-	2,818
Operating leases and other deferred revenue	-	2,070	2,070	-	4,137	4,137
Total Business and Wholesale Revenue	34,968	2,070	37,038	69,396	4,137	73,533
Consumer Revenue						
Broadband	6,694	-	6,694	13,162	-	13,162
Voice and other	2,647	-	2,647	5,380	-	5,380
Total Consumer Revenue	9,341	-	9,341	18,542	-	18,542
Regulatory Revenue						
Access (1)	4,919	-	4,919	10,035	-	10,035
Access (2)	-	1,174	1,174	-	2,347	2,347
High-cost support	-	4,923	4,923	-	9,847	9,847
Total Regulatory Revenue	4,919	6,097	11,016	10,035	12,194	22,229
Total Revenue	$ 49,228	$ 8,167	$ 57,395	$ 97,973	$ 16,331	$ 114,304

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited, In Thousands Except Per Share Amounts)

	Three Months Ended June 30, 2018			Six Months Ended June 30, 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	$ 16,950	$ -	$ 16,950	$ 30,550	$ -	$ 30,550
Business voice and other	7,038	-	7,038	13,889	-	13,889
Managed IT services	1,191	-	1,191	2,456	-	2,456
Equipment sales and installations	1,460	-	1,460	2,382	-	2,382
Wholesale broadband	7,795	-	7,795	15,851	-	15,851
Wholesale voice and other	1,442	-	1,442	2,930	-	2,930
Operating leases and other deferred revenue	-	1,602	1,602	-	3,183	3,183
Total Business and Wholesale Revenue	35,876	1,602	37,478	68,058	3,183	71,241
Consumer Revenue						
Broadband	6,695	-	6,695	13,187	-	13,187
Voice and other	2,759	-	2,759	5,636	-	5,636
Total Consumer Revenue	9,454	-	9,454	18,823	-	18,823
Regulatory Revenue						
Access (1)	6,052	-	6,052	12,259	-	12,259
Access (2)	-	1,670	1,670	-	3,380	3,380
High-cost support	-	4,924	4,924	-	9,847	9,847
Total Regulatory Revenue	6,052	6,594	12,646	12,259	13,227	25,486
Total Revenue	$ 51,382	$ 8,196	$ 59,578	$ 99,140	$ 16,410	$ 115,550

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

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 three and six-month periods ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Services transferred over time	$ 43,301	$ 43,870	$ 86,050	$ 84,499
Goods transferred at a point in time	1,008	1,460	1,888	2,382
Regulatory access revenue (1)	4,919	6,052	10,035	12,259
Total revenue	$ 49,228	$ 51,382	$ 97,973	$ 99,140

(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 $96,897 at June 30, 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 $1,476 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 $95,421 of 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.

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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 table below provides a reconciliation of the contract assets associated with contracts with customers accounted for in accordance with ASC 606 for the six-month period ended June 30, 2019. Contract modifications and cancellations did not have a material effect on contract assets in the six-month period ended June 30, 2019. Contract assets are classified as "Other assets" on the consolidated balance sheet.

Balance at January 1	$	8,052
Contract additions		1,600
Amortization		(1,910)
Balance at June 30	$	7,742

The Company recorded a credit to the provision for uncollectible accounts receivable of $32 in the six-month period ended June 30, 2019 associated with its contracts with customers. See Note 5 "*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 six-month period ended June 30, 2019. 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."

Balance at January 1	$	2,766
Contract additions		1,174
Revenue recognized		(525)
Balance at June 30	$	3,415

3. JOINT VENTURE

The table below provides certain financial information about the AQ-JV included on the Company's consolidated balance sheet at June 30, 2019 and December 31, 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 $359 and $309	$	1,782	$	1,832

The operating results and cash flows of the joint venture in the three and six-month periods of 2019 and 2018 were not material to the Company's consolidated financial results.

4. FAIR VALUE MEASUREMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

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 and 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.

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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 financing leases approximate carrying values due to their nature. The carrying values of the Company's senior credit facilities and other long-term obligations of $180,166 and $172,494 at June 30, 2019 and December 31, 2018, respectively, approximate fair value primarily as a result of the stated interest rates of the 2019 Senior Credit Facility approximating current market rates (Level 2).

The following table presents the Company's financial assets measured at fair value on a recurring basis as of June 30, 2019 and December 31, 2018, at each hierarchical level. There were no transfers into or out of Levels 1 and 2 during the first six months of 2019:

	June 30, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Other assets:								
Interest rate swaps	$ 40	$ -	$ 40	$ -	$ 458	$ -	$ 458	$ -

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 is in the 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. See Note 8 "*Long-Term Obligations*" and Note 11 "*Accumulated Other Comprehensive Loss.*"

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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 June 30, 2019 and December, 31, 2018. The fair values of both interest rate swaps were assets at June 30, 2019 and were hedges of the same interest rate risk.

	Balance Sheet Location	Notional Amount	Fair Value
At June 30, 2019:			
Interest rate swaps	Other assets	$ 135,000	$ 40
At December 31, 2018:			
Interest rate swaps	Other assets	$ 90,000	$ 458

The following table presents gains before income taxes on the Company's interest rate swaps designated as a cash flow hedge for the three and six-month periods ending June 30, 2019 and 2018.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Gain recognized in accumulated other comprehensive loss	$ 47	$ 107	$ 34	$ 412
Gain reclassified from accumulated other comprehensive loss to income	224	97	451	122

The following table presents the effect of cash flow hedge accounting on the Company's Statements of Comprehensive Income for the three and six-month periods ending June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Recorded as Interest Expense:				
Hedged interest payments	$ (1,603)	$ (1,575)	$ (3,197)	$ (3,062)
Gain on interest rate swap	224	97	451	122

5. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at June 30, 2019 and December 31, 2018:

	2019	2018
Retail customers	$ 16,838	$ 21,732
Wholesale carriers	5,831	9,315
Other	4,455	4,361
	27,124	35,408
Less: allowance for doubtful accounts	(4,653)	(3,936)
Accounts receivable, net	$ 22,471	$ 31,472

The following table presents the activity in the allowance for doubtful accounts for the six-month period ended June 30, 2019, which is associated entirely with the Company's contracts with customers:

	2019
Balance at January 1	$ 3,936
Provision for uncollectible accounts	(32)
Charged to other accounts	1,253
Deductions	(504)
Asset at June 30	$ 4,653

USAC has 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). Accounts receivable, net, associated with rural health care customers was $2,816 and $8,122 at June 30, 2019 and December 31, 2018, respectively. Rural health care accounts are a component of the retail customers category in the above table.

(Unaudited, In Thousands Except Per Share Amounts)

6. OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following at June 30, 2019 and December 31, 2018:

	2019	2018
Income tax receivable	$ 5,091	$ 5,087
Prepaid expense	2,948	3,878
Other	2,635	3,204
Total prepayments and other current assets	$ 10,674	$ 12,169

7. CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at June 30, 2019 and December 31, 2018:

	2019	2018
Accounts payable - trade	$ 11,935	$ 14,627
Accrued payroll, benefits, and related liabilities	12,320	13,473
Deferred capacity and other revenue	7,170	6,095
Other	6,762	6,762
Total accounts payable, accrued and other current liabilities	$ 38,187	$ 40,957

Advance billings and customer deposits consist of the following at June 30, 2019 and December 31, 2018:

	2019	2018
Advance billings	$ 3,774	$ 3,992
Customer deposits	32	32
Total advance billings and customer deposits	$ 3,806	$ 4,024

8. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30, 2019 and December 31, 2018:

	2019	2018
2019 senior secured credit facility due 2024	$ 180,000	$ -
Debt discount	(2,585)	-
Debt issuance costs	(2,121)	-
2017 senior secured credit facility due 2023	-	171,750
Debt discount	-	(2,024)
Debt issuance costs	-	(2,182)
Capital leases and other long-term obligations	2,751	2,768
Total long-term obligations	178,045	170,312
Less current portion	(4,546)	(2,289)
Long-term obligations, net of current portion	$ 173,499	$ 168,023

(Unaudited, In Thousands Except Per Share Amounts)

As of June 30, 2019, the aggregate maturities of long-term obligations were as follows:

2019 (July 1 - December 31)	$	2,272
2020 (January 1 - December 31)		6,802
2021 (January 1 - December 31)		9,067
2022 (January 1 - December 31)		11,333
2023 (January 1 - December 31)		15,851
2024 (January 1 - December 31)		135,122
Thereafter		2,304
Total maturities of long-term obligations	$	182,751

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 $2,216. 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 $2,684 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 – 0.625% per quarter; the third quarter of 2020 through the second quarter of 2022 – 1.25% per quarter; the third quarter of 2022 through the second quarter of 2023 – 1.875% per quarter; and the third quarter of 2023 through the fourth quarter of 2023 – 2.5% per quarter. The remaining outstanding principal balance, including any amounts outstanding under the Revolving Facility, is due on January 15, 2024.

There were no amounts outstanding under the Revolving Facility, Delayed-Draw Term A Facility and Incremental Term A Loans at June 30, 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 is in the 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.

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.

9. OTHER LONG-TERM LIABILITIES

Other long-term liabilities, consisting primarily of deferred capacity and other revenue, was as follows at June 30, 2019 and December 31, 2018:

	2019	2018
Deferred GCI capacity revenue, net of current portion	$ 30,080	$ 31,113
Other deferred IRU capacity revenue, net of current portion	24,554	25,732
Other deferred revenue, net of current portion	2,590	2,113
Other	9,591	8,869
Total other long-term liabilities	$ 66,815	$ 67,827

10. LEASES

The Company adopted the provisions of ASC 842 effective in the first quarter of 2019 on a modified retrospective basis. Refer to 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 coveys 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 ROU 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.

(Unaudited, In Thousands Except Per Share Amounts)

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. There were no early terminations recorded in the six-month period ended June 30, 2019.

The Company's operating and financing 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 June 30, 2019 with a present value totaling approximately $640. These leases are primarily associated with the Company's CAF Phase II services, are expected to commence in 2019 and 2020, and have terms of 4 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.

The Company did not recognize any short-term lease cost, variable lease cost, enter into any sale and leaseback transactions or obtain right-of-use assets in exchange for operating and finance leases during the six-month period ended June 30, 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 three and six-month periods ended June 30, 2019. The maturities of lease liabilities are presented in twelve-month increments beginning July 1, 2019.

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Lease Cost		
Finance lease cost:		
Amortization of right-of-use assets	$ 19	$ 39
Interest on lease liabilities	68	136
Operating lease costs	1,955	3,910
Total lease cost	$ 2,042	$ 4,085

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		At June 30, 2019
Balance Sheet Information		
Operating leases:		
ROU assets	$	80,458
Liabilities - current	$	2,517
Liabilities - noncurrent		77,937
Total liabilities	$	80,454
Finance leases:		
Property, plant and equipment	$	2,519
Accumulated depreciation and amortization		(1,410)
Property, plant and equipment, net	$	1,109
Current portion of long-term obligations	$	46
Long-term obligations, net of current portion		2,705
Total finance lease liabilities	$	2,751

	At June 30, 2019			
		Operating Leases		Financing Leases
Maturities of Lease Liabilities				
Year 1	$	7,058	$	314
Year 2		7,392		322
Year 3		7,284		331
Year 4		7,151		341
Year 5		6,855		350
Thereafter		159,594		3,652
Total lease payments		195,334		5,310
Less imputed interest		(115,494)		(2,559)
Total present value of lease obligations		79,840		2,751
Present value of current obligations		(1,903)		(46)
Present value of long-term obligations	$	77,937	$	2,705

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Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$	136
Operating cash flows from operating leases		3,914
Financing cash flows from finance leases		18
Right-of-use assets obtained in exchange for new operating lease liabilities		243
Weighted-average remaining lease term (in years):		
Finance leases		14
Operating leases		30
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.

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 six-month period ended June 30, 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 financing leases as of June 30, 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.

(Unaudited, In Thousands Except Per Share Amounts)

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 three and six-month periods ended June 30, 2019. Lease income is classified as revenue on the Statement of Comprehensive Income. The carrying value of the underlying leased assets is not material.

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Lease Income		
Total lease income	$ 855	$ 1,716

	At June, 30 2019
Maturities of Future Undiscounted Lease Payments	
Year 1	$ 1,130
Year 2	1,088
Year 3	625
Year 4	369
Year 5	365
Thereafter	2,928
Total future undiscounted lease payments	$ 6,505

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity in accumulated other comprehensive income (loss) for the six-month period ended June 30, 2019:

	Defined Benefit Pension Plan	Interest Rate Swaps	Total
Balance at December 31, 2018	$ (3,003)	$ 328	$ (2,675)
Other comprehensive income before reclassifications	28	24	52
Reclassifications from accumulated comprehensive income (loss) to net income	174	(323)	(149)
Net other comprehensive income (loss)	202	(299)	(97)
Balance at June 30, 2019	$ (2,801)	$ 29	$ (2,772)

(Unaudited, In Thousands Except Per Share Amounts)

The following table summarizes the reclassifications from accumulated other comprehensive loss to net income for the three and six-month periods ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Amortization of defined benefit plan pension items:				
Amortization of loss	$ 122	$ 91	$ 243	$ 182
Income tax effect	(35)	(26)	(69)	(52)
After tax	87	65	174	130
Amortization of gain on interest rate swap:				
Reclassification to interest expense	(224)	(97)	(451)	(122)
Income tax effect	64	28	128	35
After tax	(160)	(69)	(323)	(87)
Total reclassifications, net of income tax	$ (73)	$ (4)	$ (149)	$ 43

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 income as a reduction in interest expense within the next twelve months is $252. See Note 4 "*Fair Value Measurements and Derivative Financial Instruments*."

12. STOCK INCENTIVE PLANS

Under the Company's stock incentive plan, stock options, restricted stock, stock-settled stock appreciation rights, performance share units and other awards may be granted to officers, employees, consultants, and non-employee directors. Long-term incentive awards ("LTIP") were granted to executive management annually through 2010.

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 ("RSUs") and Performance Stock Units ("PSUs") 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 and 2018.

Restricted Stock Units

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. RSUs granted in 2018 vest ratably over three years.

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 in the second quarter. 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 six-month period ended June 30, 2019.

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	1,185	$ 1.88
Granted	171	1.65
Vested	(768)	1.86
Canceled or expired	(208)	1.96
Nonvested at June 30, 2019	380	$ 1.78

Performance Stock Units

The PSUs granted in 2018 will vest in three equal installments, or tranches, if certain stock price thresholds and service thresholds are achieved.

The Company measured the fair value of the 2018 PSUs using a Monte Carlo simulation model. 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 decrease in share-based compensation expense of $165 in the second quarter. The modification is included in grants and cancellations in the table below.

The following table summarizes the PSU activity for the six-month period ended June 30, 2019.

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	2,070	$ 0.85
Granted	779	0.28
Vested	-	-
Canceled or expired	(1,318)	0.91
Nonvested at June 30, 2019	1,531	$ 0.51

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The following table provides selected information about the Company's share-based compensation as of and for the three and six-month periods ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total compensation cost for share-based payments	$ (9)	$ 325	$ 489	$ 567
Weighted average grant-date fair value of equity instruments granted (per share)	$ 0.53	$ 1.75	$ 0.53	$ 1.76
Total fair value of shares vested during the period	$ 436	$ -	$ 1,427	$ 1,524
At June 30:				
Unamortized share-based payments			$ 293	$ 1,315
Weighted average period (in years) to be recognized as expense			0.9	1.3

13. EARNINGS PER SHARE

Earnings per share are 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 attributable to Alaska Communications by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of the Company. Potential common share equivalents include restricted stock granted to employees and deferred shares granted to directors.

Effective in 2015, the Company discontinued use of the "if converted" method in calculating diluted earnings per share in connection with its contingently convertible debt. Accordingly, 322 and 648 shares related to the 6.25% Notes were excluded from the calculation of diluted earnings per share for the three and six-month periods ended June 30, 2018. On May 1, 2018, the Company repurchased the outstanding balance of the 6.25% Notes. See Note 8 "*Long-Term Obligations*."

The calculation of basic and diluted earnings per share for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income attributable to Alaska Communications	$ 35	$ 3,442	$ 262	$ 5,543
Weighted average common shares outstanding:				
Basic shares	53,799	53,111	53,591	52,897
Effect of stock-based compensation	770	777	1,008	932
Diluted shares	54,569	53,888	54,599	53,829
Net income per share attributable to Alaska Communications:				
Basic	$ 0.00	$ 0.06	$ 0.00	$ 0.10
Diluted	$ 0.00	$ 0.06	$ 0.00	$ 0.10

(Unaudited, In Thousands Except Per Share Amounts)

14. RETIREMENT PLANS

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 to the AEPF. As a multi-employer defined benefit plan, the accumulated benefits and plan assets are not determined for, or allocated separately to, the individual employer. This plan was not in endangered or critical status during the plan year.

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 on September 1, 1999. As of June 30, 2019, this plan is not fully funded under the Employee Retirement Income Security Act of 1974, as amended.

The following table presents the net periodic pension expense for the ACS Retirement Plan for the three and six-month periods ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest cost	$ 150	$ 141	$ 300	$ 282
Expected return on plan assets	(169)	(198)	(339)	(396)
Amortization of loss	141	148	282	296
Net periodic pension expense	$ 122	$ 91	$ 243	$ 182

Net periodic pension expense is included in the line item "Other (expense) income, net" in the Statements of Comprehensive Income.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Restricted cash of $1,631 at June 30, 2019 consisted of certificates of deposit of $1,600 required under the terms of certain contracts to which the Company is a party and other restricted cash of $31. Restricted cash of $1,634 at December 31, 2018 consisted of certificates of deposit of $1,600 required under the terms of certain contracts to which the Company is a party and other restricted cash of $34.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statement of financial position at June 30, 2019 and 2018 that sum to the total of these items reported in the statement of cash flows:

	June 30,	
	2019	2018
Cash and cash equivalents	$ 23,920	$ 10,388
Restricted cash	1,631	1,769
Total cash, cash equivalents and restricted cash	$ 25,551	$ 12,157

The following table presents supplemental non-cash transaction information for the six-month periods ended June 30, 2019 and 2018:

	2019	2018
Supplemental Non-cash Transactions:		
Capital expenditures incurred but not paid at June 30	$ 4,488	$ 3,520
Additions to ARO asset	$ 25	$ 708
Unsettled share repurchases	$ 56	$ -

16. 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.

17. 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.

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business. The Company establishes an accrual when a particular contingency is probable and estimable, and has recorded litigation accruals totaling $1,516 at June 30, 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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS AND ANALYSTS' REPORTS

This Form 10-Q and our future filings 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 ("Exchange Act"), as amended. We intend such 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. These 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. Such forward-looking statements may be contained in this Form 10-Q under Item 2. 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 investigations, including on-going changes in our revenues, or obligations for current and prior periods related to these programs, resulting from regulatory actions affecting inter-carrier compensation, on-going support for state programs such as Essential Network Support obligations, 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, as well as 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. Maintaining our cost structure is key to generating cash flow from operating activities. If we fail to effectively manage our costs, our financial condition will be impacted
- 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. The proposed cuts to the state 2020 budget, current legislative impasse and potential spending reductions may impact the economy in the markets we serve and impact our future financial performance

- our ability to invest sufficiently in our underlying 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
- our business and operations could be negatively affected as a result of 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
- our ability to repurchase shares of our Common Stock under our repurchase program
- the success of the Company’s expansion into managed IT services, including the execution of those services for customers
- our internal control over financial reporting may not be effective, which could cause our financial reporting to be unreliable
- the matters described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

In light of 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-Q 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-Q.

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.

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, we sponsored a third-party market study in the fourth quarter of 2018 which suggests that our market share in "near net", that is, within one mile of our fiber footprint, may be closer to 40%. This is consistent with our hypothesis that from a revenue performance perspective, relative to our largest competitor we are gaining market share in the markets we are serving.

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.

The Alaska Economy

We operate in a geographically diverse state with unique characteristics. We monitor the state of the economy and, 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 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

The population of Alaska, which declined marginally in 2018, is approximately 740,000 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 drivers 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 retail price of oil that transits the pipeline from the North Slope. The price of crude oil dropped substantially during 2014 through 2016, and increased marginally in 2017 and 2018. The decline in the price of crude oil has impacted the state in two ways:

1. Resource based companies reduced their level of spending in the state, and in particular the North Slope, through reducing their operating costs.
2. The State of Alaska budget represents approximately 15% of the states total economy. The state's budget deficit was reduced from $3.7 billion in 2015 to $0.7 billion in 2019 primarily through spending reductions and utilization of interest earned on the state's permanent fund. Reduced spending by the state has had a dampening effect on overall economic activity in the state. Proposed further reductions to the state's 2020 budget, the current legislative impasse and potential resulting reduced spending may impact the economy in the markets we serve.

Economists anticipate that slowly increasing oil prices and growing industry optimism bode well for continued new development and increased activity on the North Slope in 2019, supporting an increase in the volume of oil moving through the pipeline and the generation of revenue for the state government.

Economists believe the Alaskan economy entered a moderate recession beginning in the second half of 2015. Certain areas of the economy showed improvement beginning in 2018. Employment levels in the state declined approximately 0.3% in 2018 (compared with a 1.3% decline in 2017) driven by declines in the oil and gas industry, construction, and Federal and state government, offset by increases in health care and local government. The negative effects of the recession have been mitigated by diversity in the Alaskan economy, including growth in the health care and tourism industries. However, economists believe that, without a long-term solution to the state budget deficit, a full economic recovery may remain elusive.

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.

Regulatory Update

The items reported under Part I, Item 1. Business – Regulation in our Annual Report on Form 10-K for the year ended December 31, 2018, are updated as follows. This section should be read in conjunction with the corresponding items previously disclosed in our Annual Report.

US Federal Regulatory Matters

Rural Health Care Support Program

As described in our most recent Form 10-K, in November 2018, USAC approved the rural rates for the services we provide to our rural health care customers for Funding Year 2018, which began on July 1, 2018 and ends on June 30, 2019.

We are also working to reduce the level of regulatory and business uncertainty associated with our rural health care business in two additional ways. First, in November 2018, we requested FCC approval for rural rates for Funding Year 2019, which began July 1, 2019, in an attempt to shorten the USAC funding request approval process and bring greater certainty to the competitive bidding process for rural health care provider services that began in January 2019.The FCC did not act on this request before the start of Funding Year 2019. Even though Funding Year 2019 is now underway, the rates, when approved, will nevertheless apply to services we have provided to rural health care customers beginning on July 1, 2019

Second, we have continued to advocate for the FCC to expeditiously adopt rules to reform and modernize the Rural Health Care Telecommunications Program, on which the majority of health care providers in Alaska rely, in the proceeding that began in December 2017. On July 11, 2019, FCC Chairman Pai proposed a draft Order reforming these rules, which was adopted by the FCC at its monthly meeting on August 1, 2019. This order makes 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 the 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. In the meantime, it remains impossible to predict the impact the new rules will have. 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.

CAF Phase II

CAF Phase II supplanted the CAF Phase I frozen support mechanism and requires recipients to provide broadband service to unserved locations throughout the designated coverage area by the end of a specified build-out period, as well as to meet interim milestone build-out obligations.

On October 31, 2016, the FCC released its order adopting CAF Phase II ("CAF II") for the only price cap carrier in Alaska, Alaska Communications. Under that order, we will receive approximately $19.7 million annually (the same amount we received as CAF I high cost frozen support) for the ten-year period starting January 1, 2016 and continuing through December 31, 2025. To receive this support, we committed to provide voice and broadband Internet access service to 31,571 locations in census blocks that are unserved or only partially served by any unsubsidized competitor. These will include approximately 26,000 locations that did not previously have access to broadband Internet access service.

The Company filed notices with the FCC as part of a challenge process to include partially served locations within census blocks supported by an unsubsidized competitor. As a result, the Company was able to include over 1,700 additional locations toward meeting its deployment obligations.

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

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 72 MHz of C-band spectrum on Eutelsat's satellite, E115WB, for a term of 15 years. In June 2018, the FCC granted our application to expand that network to include new customer sites, and we have since requested authority to double the amount of spectrum we are authorized to use, up to 144 MHz, and serve additional sites. We expect this arrangement 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. Since that time, we have continued to expand our C-band network.

Our C-band satellite earth stations use the 3.7 - 4.2 GHz band to receive downlink transmissions from geostationary satellites. On April 19, 2018, the Wireless Telecommunications, International, and Public Safety Bureaus of the FCC announced an immediate, temporary freeze on the filing of new or modification applications for fixed-satellite service earth station licenses, receive-only earth station registrations, and fixed microwave licenses in the 3.7 - 4.2 GHz portion of the C-band spectrum, in order to preserve the current landscape of authorized operations in that band while the Commission continues to examine opportunities to permit expanded terrestrial use of that band for mobile broadband and additional fixed services. On June 26, 2018, we filed an application for modification of our license to add ten additional earth station sites to serve the Kuspuk School District and requested a waiver of the FCC's freeze on such filings. These requests were granted by and order released by the FCC on August 1, 2019.

On July 13, 2018, the FCC issued a Notice of Proposed Rulemaking seeking comment on options for expanding terrestrial use of the 3.7 - 4.2 GHz band for "5G" services. In response, we have filed comments and reply comments advocating for continued access to this spectrum for satellite downlink operations in Alaska. We are unable to predict the outcome of this proceeding. If the FCC adopts rules that limit our ability to license or register additional satellite earth stations in this band, or expands terrestrial transmissions in the 3.7 - 4.2 GHz band, it may become more difficult or costly for us to use this band, or necessitate relocation of our services to alternative spectrum bands.

In October 2018, the FCC also opened a proceeding to examine possible new terrestrial uses of the 6 GHz band, including the 5.925-6.425 GHz spectrum used for C-band satellite uplink transmissions originating from terrestrial earth stations to geostationary satellites in orbit. Because C-band earth stations are transmitting in that band, not receiving, we expect any increase in terrestrial use of the 6 GHz band to have a less severe impact on our satellite C-band network than would use of the 3.7 - 4.2 GHz receive band. Nevertheless, we are unable at this time to predict the outcome of these proceedings, or to assess any potential future impact on our C-band satellite services.

State of Alaska Regulatory Matters

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. The RCA has opened an "information docket" to evaluate and scope a comprehensive AUSF reform rulemaking that might include consideration of the Fund's continued need. The RCA also opened a rulemaking to review the regulations specific to AUSF shortfalls. A final decision in that matter was issued in late December, 2017. These rules were transmitted to the Lt. Governor for signature and became effective April, 2018. They eliminate the hierarchy of shortfall payments except for Lifeline and administrative operating expenses.

In January, 2018, the RCA opened a rulemaking to repeal the AUSF effective July 31, 2019, and sought comments and reply comments. The Alaska Telephone Association and its members filed a plan to cap the fund and distributions. AT&T, GCI, and Alaska Communications also filed comments and reply comments. A hearing was scheduled in April. A final order was issued by the RCA on October 24, 2018 with changes to the distribution to be effective January 1, 2019.

Prior to changes to the AUSF distribution, AUSF supported a portion of certain higher cost carriers' switching costs, the costs of Lifeline service (which supports rates of low-income customers), the Carrier of Last Resort ("COLR"), Carrier Common Line ("CCL") support program and other costs associated with regulated service. These funding mechanisms have been eliminated and replaced with a new funding mechanism called Essential Network Support ("ENS"). In addition, the AUSF surcharge has been capped at 10%.

In response to the FCC's order eliminating Lifeline qualifying programs approved by state regulatory commissions, the Alaskan telecommunications industry has proposed a waiver of the state qualifying programs to align the state and federal qualifying programs. The RCA granted that waiver prior to December 2, 2016 when the new rules went into effect. In August 2017, the RCA opened a docket, R-17-002, on Lifeline to align the programs with the federal rules and revise the certification and verification procedures to reflect revised federal procedures. Lifeline service providers have been operating under an RCA order that aligns some issues and companies made tariff filings to align their procedures. This rulemaking is somewhat ministerial in nature but may become moot depending on the outcomes of the AUSF docket R-18-001. Comments were submitted in September 2017. The regulation docket has a final decision deadline of August 25, 2019.

Other State Regulatory Matters

On May 14, 2019, the Alaska State Legislature passed Senate Bill 83 which is expected to be signed by the governor in due course. The bill will eliminate 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. We are studying the likely effects of the bill and have begun to prepare for its implementation.

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,
- Generating Adjusted EBITDA and Adjusted Free Cash Flow growth through margin management, and
- Careful allocation of capital, including selectively investing success based capital into opportunities that generate appropriate returns on investments.

2019 Operating Initiatives

- Continue our focus on robust broadband growth as the foundation of our other initiatives.
- Ignite success in the Consumer customer market, including the Mass Market group, through the expansion and enhancement of our products, services and the supporting infrastructure.
- Continue to strengthen our Enterprise and Carrier customer group, which is the primary driver of our Business and Wholesale group, through increased focus on specific products and services.
- Improve market penetration of our MIT products and services.

- Build on our work in 2018 in the areas of network modernization through SD-WAN, Fixed Wireless Access, fiber fed Multi-Dwelling Units, Optical Transport Network modernization, and adding product capabilities that leverage our network.
- Effectively manage operating expenses and capital spending to improve our margin profile over the long term.
- Continue to meet our CAF II deployment obligations.
- Successful implementation of an IT project targeted at replacing several of our legacy IT systems.
- Continued emphasis on employee engagement and effective communication.
- Evaluate strategic opportunities in and out of Alaska that address scale and geographic diversification and reduce the risk of investments made in our company.

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 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 over the next few years. 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 2018. More recently, we 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 have 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.

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The following table summarizes our primary sources of regulatory revenue and their contribution to total revenue in 2018 (dollars in thousands).

Source	Description	2018 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.	$ 4,548	9.0%	2.0%
Total Access Charges		$ 4,548	9.0%	2.0%
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.	$ 7,874	15.6%	3.4%
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.	$ 11,560	22.8%	5.0%
Total Surcharges		$ 19,434	38.4%	8.4%
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	39.0%	8.5%
COLR and CCL	The Company was designated by the State of Alaska as a COLR in five of the six study areas. In addition to COLR, the Company received CCL support. We do 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.	$ 6,896	13.6%	2.9%
Total Federal and State Support		$ 26,590	52.6%	11.4%
Total Regulatory Revenue		$ 50,572		21.8%
Total Revenue		$ 232,468		

Executive Summary

Operating Revenues

Total revenue of $57.4 million declined $2.2 million, or 3.7%, in the second quarter of 2019 compared with the second quarter of 2018. Rural health care revenue of $3.5 million in the second quarter 2019 decreased $3.1 million from $6.6 million in 2018. Rural health care revenue in the second quarter of 2018 was favorably impacted by a $2.1 million cumulative adjustment for the effect of Funding Year 2017 (July 1, 2017 through June 30, 2018) funding increases. Regulatory access revenue declined $1.6 million due to the restructuring and contribution capping (and thereby reducing) of AUSF support. This decline was anticipated. Partially offsetting these declines was a $2.7 million net increase in other business and wholesale revenue.

Operating Income

Operating income of $3.2 million in the second quarter of 2019 declined $5.1 million, or 61.2%, compared with the second quarter of 2018 due to lower revenue and higher operating expenses, including termination benefits for the Company's former Chief Executive Officer ("CEO"). These items are discussed in more detail below.

Operating Metrics

Business broadband average monthly revenue per user ("ARPU") of $340.77 in the second quarter of 2019 decreased from $369.46 in the second quarter of 2018 due primarily to the favorable effect of the $2.1 million rural health care adjustment in 2018 described above. ARPU increased from $334.94 in the first quarter of 2019. Business broadband connections of 15,050 at June 30, 2019 declined marginally from connections of 15,368 at June 30, 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.

Consumer broadband connections of 32,401 at June 30, 2019 declined from 33,432 at June 30, 2018, and consumer broadband ARPU of $68.17 in the second quarter of 2019 increased from $66.23 in the second quarter of 2018. However, the proportion of connections of 10 Mbps or higher continues to increase, reflecting our focus on offering higher speed connections.

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

	June 30, 2019	June 30, 2018
Voice:		
At quarter end:		
Business access lines	67,984	70,494
Consumer access lines	24,337	27,411
Quarter:		
ARPU - business	$ 27.03	$ 25.38
ARPU - consumer	$ 33.94	$ 31.43
Year-to-date:		
ARPU - business	$ 26.25	$ 25.18
ARPU - consumer	$ 34.35	$ 32.03
Broadband:		
At quarter end:		
Business connections	15,050	15,368
Consumer connections	32,401	33,432
Quarter:		
ARPU - business	$ 340.77	$ 369.46
ARPU - consumer	$ 68.17	$ 66.23
Year-to-date:		
ARPU - business	$ 338.90	$ 333.06
ARPU - consumer	$ 67.02	$ 65.22

Liquidity

We generated cash from operating activities of $28.3 million in the first six months of 2019 compared with $22.4 million in the first six months of 2018. This improvement primarily reflects lower accounts receivable associated with rural health care customers, partially offset by lower earnings.

In the first six months of 2019 and 2018, we invested a total of $21.6 million and $19.6 million, respectively, in capital, including capitalized interest and net of the settlement of items accrued in previous periods.

Net debt (defined as total debt excluding debt issuance costs, less cash and cash equivalents) at June 30, 2019 was $158.8 million compared with $161.2 million at December 31, 2018. The decrease reflects cash generated from operating activities during in the first two quarters and net cash proceeds from the refinancing transaction, largely offset by capital spending and the increased principal balance of the 2019 Senior Credit Facility.

As described in more detail below, on January 15, 2019, the Company 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.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

The following table summarizes our results of operations for the three-month periods ended June 30, 2019 and 2018. Revenue and the associated analysis is presented by customer and product category, combining revenue accounted for under ASC 606 and other guidance.

	Three Months ended June 30,			
(in thousands)	2019	2018	Change	% Change
Operating revenues:				
Business and wholesale revenue				
Business broadband	$ 15,437	$ 17,009	$ (1,572)	-9.2%
Business voice and other	7,241	7,038	203	2.9%
Managed IT services	1,517	1,191	326	27.4%
Equipment sales and installations	1,008	1,460	(452)	-31.0%
Wholesale broadband	10,443	9,338	1,105	11.8%
Wholesale voice and other	1,392	1,442	(50)	-3.5%
Total business and wholesale revenue	37,038	37,478	(440)	-1.2%
Consumer revenue				
Broadband	6,694	6,695	(1)	0.0%
Voice and other	2,647	2,759	(112)	-4.1%
Total consumer revenue	9,341	9,454	(113)	-1.2%
Total business, wholesale and consumer revenue	46,379	46,932	(553)	-1.2%
Growth in broadband revenue	*-1.4%*			
Regulatory revenue				
Access	6,093	7,722	(1,629)	-21.1%
High cost support	4,923	4,924	(1)	0.0%
Total regulatory revenue	11,016	12,646	(1,630)	-12.9%
Total operating revenues	$ 57,395	$ 59,578	$ (2,183)	-3.7%
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	26,356	26,542	(186)	-0.7%
Selling, general and administrative	18,718	16,507	2,211	13.4%
Depreciation and amortization	9,200	8,197	1,003	12.2%
(Gain) loss on disposal of assets, net	(95)	44	(139)	NM
Total operating expenses	54,179	51,290	2,889	5.6%
Operating income	3,216	8,288	(5,072)	-61.2%
Other income and (expense):				
Interest expense	(3,096)	(3,401)	305	-9.0%
Loss on extinguishment of debt	(31)	-	(31)	NM
Interest income	95	24	71	NM
Other expense, net	(122)	(91)	(31)	34.1%
Total other income and (expense)	(3,154)	(3,468)	314	-9.1%
Income before income tax expense	62	4,820	(4,758)	-98.7%
Income tax expense	(46)	(1,418)	1,372	NM
Net income	16	3,402	(3,386)	-99.5%
Less net loss attributable to noncontrolling interest	(19)	(40)	21	-52.5%
Net income attributable to Alaska Communications	$ 35	$ 3,442	$ (3,407)	-99.0%

Operating Revenue

Business and Wholesale

Business and wholesale revenue of $37.0 million decreased $0.5 million, or 1.2%, in the second quarter of 2019 from $37.5 million in the second quarter of 2018. Business broadband revenue decreased $1.6 million due primarily to lower rural health care revenue. Rural health care revenue of $3.5 million in the second quarter of 2019 decreased $3.1 million from $6.6 million in 2018. Rural health care revenue in the second quarter of 2018 was favorably impacted by a $2.1 million cumulative adjustment for the effect of Funding Year 2017 funding increases. This decline was largely offset by an increase in ARPU from $323.91 in 2018 (excluding the estimated effect of the $2.1 million favorable rural health care adjustment) to $340.77 in 2019. Connections were down marginally year over year. Wholesale broadband revenue increased $1.1 million, Managed IT services increased $0.3 million and voice and other revenue increased $0.2 million. Equipment sales and installations were down $0.5 million. 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 for the three-month periods ended June 30, 2019 and 2018 as follows:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
GCI capacity revenue	$ 516	$ 516
Other deferred capacity revenue	617	467
Total deferred capacity revenue	1,133	983
Other deferred revenue	921	820
Total	$ 2,054	$ 1,803

Consumer

Consumer revenue of $9.3 million in the second quarter of 2019 was down marginally from $9.5 million in the second quarter of 2018. Broadband revenue was unchanged year over year as lower connections were offset by an increase in ARPU to $68.17 from $66.23. Voice and other revenue decreased $0.1 million due to 3,074 fewer connections, partially offset by an increase in ARPU to $33.94 from $31.43 in the prior year.

Regulatory

Regulatory revenue of $11.0 million decreased $1.6 million year over year due primarily 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 $26.3 million decreased $0.2 million, or 0.7%, in the second quarter of 2019 from $26.5 million in the second quarter of 2018. A $0.8 million decrease in access charges and $0.3 million decrease in circuit installation costs were partially offset by increases in network support, labor, permitting and other costs totaling $0.9 million.

Selling, General and Administrative

Selling, general and administrative expenses of $18.7 million increased $2.2 million, or 13.4%, in the second quarter of 2019 from $16.5 million in the second quarter of 2018. This increase reflects a $2.4 million increase in labor costs including $1.6 million of termination benefit expense for the Company's former CEO.

Depreciation and Amortization

Depreciation and amortization expense of $9.2 million increased $1.0 million, or 12.2%, in the second quarter of 2019 from $8.2 million in the second quarter of 2018. This increase was due primarily to the completion of various capital projects, partially offset by certain assets reaching the end of their depreciable life.

Other Income and Expense

Interest expense of $3.1 million in the second quarter of 2019 declined from $3.4 million in the second quarter of 2018 due to a lower average interest rate and borrowing levels.

Income Taxes

Income tax expense and the effective tax rate in the second quarter of 2019 were $46 thousand and 74.2%, respectively. The effective tax rate reflects the impact of permanent book to tax differences on the relatively low level of pre-tax earnings. Income tax expense and the effective tax rate in the second quarter of 2018 were $1.4 million and 29.4%, respectively.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of the AQ-JV was $19 thousand and $40 thousand in the second quarter of 2019 and 2018, respectively.

Net Income Attributable to Alaska Communications

Net income attributable to Alaska Communications of $35 thousand in the second quarter of 2019 compares with $3.4 million in the same period of 2018. The year over year results reflect the revenue and expense items discussed above.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

The following table summarizes our results of operations for the six-month periods ended June 30, 2019 and 2018. Revenue and the associated analysis is presented by customer and product category, combining revenue accounted for under ASC 606 and other guidance.

	Six Months ended June 30,			
(in thousands)	2019	2018	Change	% Change
Operating revenues:				
Business and wholesale revenue				
Business broadband	$ 30,704	$ 30,668	$ 36	0.1%
Business voice and other	14,242	13,889	353	2.5%
Managed IT services	3,176	2,456	720	29.3%
Equipment sales and installations	1,888	2,382	(494)	-20.7%
Wholesale broadband	20,705	18,916	1,789	9.5%
Wholesale voice and other	2,818	2,930	(112)	-3.8%
Total business and wholesale revenue	73,533	71,241	2,292	3.2%
Consumer revenue				
Broadband	13,162	13,187	(25)	-0.2%
Voice and other	5,380	5,636	(256)	-4.5%
Total consumer revenue	18,542	18,823	(281)	-1.5%
Total business, wholesale and consumer revenue	92,075	90,064	2,011	2.2%
Growth in broadband revenue	*2.9%*			
Regulatory revenue				
Access	12,382	15,639	(3,257)	-20.8%
High cost support	9,847	9,847	-	0.0%
Total regulatory revenue	22,229	25,486	(3,257)	-12.8%
Total operating revenues	$ 114,304	$ 115,550	$ (1,246)	-1.1%
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	51,983	52,375	(392)	-0.7%
Selling, general and administrative	35,374	32,519	2,855	8.8%
Depreciation and amortization	17,879	16,984	895	5.3%
(Gain) loss on disposal of assets, net	(97)	41	(138)	NM
Total operating expenses	105,139	101,919	3,220	3.2%
Operating income	9,165	13,631	(4,466)	-32.8%
Other income and (expense):				
Interest expense	(6,152)	(6,905)	753	-10.9%
Loss on extinguishment of debt	(2,830)	-	(2,830)	NM
Interest income	170	38	132	NM
Other income, net	-	13	(13)	NM
Total other income and (expense)	(8,812)	(6,854)	(1,958)	28.6%
Income before income tax expense	353	6,777	(6,424)	-94.8%
Income tax expense	(144)	(1,306)	1,162	-89.0%
Net income	209	5,471	(5,262)	-96.2%
Less net loss attributable to noncontrolling interest	(53)	(72)	19	-26.4%
Net income attributable to Alaska Communications	$ 262	$ 5,543	$ (5,281)	-95.3%

Operating Revenue

Business and Wholesale

Business and wholesale revenue of $73.5 million increased $2.3 million, or 3.2%, in the six-month period of 2019 from $71.2 million in the six-month period of 2018. Wholesale broadband revenue increased $1.8 million, Managed IT services increased $0.7 million and voice and other revenue increased $0.2 million. Business broadband revenue decreased marginally due primarily to lower rural health care revenue. Rural health care revenue of $7.6 million in the six-month period of 2019 decreased $2.5 million from $10.1 million in 2018. 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. This decline was largely offset by an increase in ARPU from $326.66 (excluding the estimated effect of the $0.6 million favorable rural health care adjustment) in 2018 to $338.90 in 2019. Connections were down marginally year over year.

Business and wholesale revenue includes the amortization of deferred revenue for the six-month periods ended June 30, 2019 and 2018 as follows:

	Six Months Ended June 30,	
	2019	2018
GCI capacity revenue	$ 1,027	$ 1,027
Other deferred capacity revenue	1,232	903
Total deferred capacity revenue	2,259	1,930
Other deferred revenue	1,820	1,572
Total	$ 4,079	$ 3,502

Consumer

Consumer revenue of $18.5 million in the six-month period of 2019 declined $0.3 million from $18.8 million in the six-month period of 2018. Broadband revenue was unchanged year over year as lower connections were offset by an increase in ARPU to $67.02 from $65.22. Voice and other revenue decreased $0.3 million due to 3,074 fewer connections, partially offset by an increase in ARPU to $34.35 from $32.03 in the prior year.

Regulatory

Regulatory revenue of $22.2 million decreased $3.3 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 $52.0 million decreased $0.4 million, or 0.7%, in the six-month period of 2019 from $52.4 million in the six-month period of 2018. A $1.7 million decrease in access charges and $0.8 million decrease in circuit installation costs were partially offset by increases in network support, labor, permitting and other costs totaling $2.1 million.

Selling, General and Administrative

Selling, general and administrative expenses of $35.4 million increased $2.9 million, or 8.8%, in the six-month period of 2019 from $32.5 million in the six-month period of 2018. This increase reflects a $4.3 million increase in labor costs, including $1.6 million of termination benefit expense for the Company's former CEO, offset by a $1.1 million decrease in the provision for doubtful accounts receivable.

Depreciation and Amortization

Depreciation and amortization expense of $17.9 million increased $0.9 million, or 5.3%, in the six-month period of 2019 from $17.0 million in the six-month period of 2018. This increase was due primarily to the completion of various capital projects, partially offset by certain assets reaching the end of their depreciable life.

Other Income and Expense

Interest expense of $6.2 million in the six-month period of 2019 declined from $6.9 million in the six-month period of 2018 due to a lower average interest rate and borrowing levels. The loss on extinguishment of debt 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 the six-month period of 2019 were $144 thousand and 40.8%, respectively. The effective tax rate reflects the impact of permanent book to tax differences on the relatively low level of pre-tax earnings. Income tax expense in the six-month period of 2018 of $1.3 million reflects a $0.7 million benefit recorded in the first quarter to correct an overstatement of the income tax provision in 2017. Excluding this out-of-period adjustment, the income tax provision was $2.0 million and the effective tax rate was 29.6%.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of the AQ-JV was $53 thousand and $72 thousand in the six-month periods of 2019 and 2018, respectively.

Net Income Attributable to Alaska Communications

Net income attributable to Alaska Communications of $0.3 million in the six-month period of 2019 compares with $5.5 million in the same period of 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 and capital expenditures in the first six months of 2019 through internally generated funds and cash on hand. At June, 2019, we had $23.9 million of cash and cash equivalents, $1.6 million of restricted cash and $20.0 million available under our revolving credit facility.

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

Our major sources and uses of funds in the six months ended June 30, 2019 and 2018 were as follows:

	Six Months Ended June 30,			
(in thousands)		2019		2018
Net cash provided by operating activities	$	28,333	$	22,358
Capital expenditures	$	(20,432)	$	(17,081)
Change in unsettled capital expenditures	$	(551)	$	(1,632)
Repayments of long-term debt	$	(171,768)	$	(20,506)
Proceeds from the issuance of long-term debt	$	180,000	$	14,000
Debt issuance costs and discounts	$	(2,683)	$	-
Cash paid for debt extinguishment	$	(1,252)	$	-
Interest paid (1)	$	(6,114)	$	(7,251)

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

Cash Flows from Operating Activities

Cash provided by operating activities of $28.3 million in the first six months of 2019 reflects net income excluding non-cash items (defined as cash provided by operating activities excluding changes in operating assets and liabilities) of $21.2 million and a $9.0 million decrease in account receivable primarily associated with rural health care customers, partially offset by a $1.2 million increase in materials and supplies due to timing of construction projects.

Cash provided by operating activities of $22.4 million in the first six months of 2018 reflects net income excluding non-cash items (defined as cash provided by operating activities excluding changes in operating assets and liabilities) of $24.4 million and a $5.7 million net increase in accounts payable and other liabilities, offset by a $8.4 million increase in accounts receivable primarily associated with rural health care customers. The increase in accounts payable and other current liabilities includes cash receipts associated with new IRU capacity arrangements.

Cash Flows from Investing Activities

Cash used by investing activities of $21.6 million in the first six months of 2019 consisted of expenditures on capital. Of $20.4 million incurred in 2019, $13.6 million was success based.

Cash used by investing activities of $19.6 million in the first six months of 2018 consisted of expenditures on capital totaling $18.7 million. Of $17.1 million incurred in 2018, $10.1 million was success based.

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, and our decision to pursue specific acquisition and investment opportunities. Capital spending is typically higher during the second and third quarters. We intend to fund future capital expenditures with cash on hand and net cash generated from operations.

Cash Flows from Financing Activities

Cash provided by financing activities was $3.8 million in the first six months of 2019. Proceeds from the issuance of long-term debt of $180.0 million consisted of Term A Facility of the 2019 Senior Credit Facility. Repayments of long-term debt of $171.8 million consisted primarily of settlement of the 2017 Senior Credit Facility. Debt discount, issuance and extinguishment payments totaling $3.9 million were associated with the refinancing transaction. Cash payments of $149 thousand were associated with the Company's share repurchase program initiated in the second quarter of 2019.

Cash used by financing activities was $6.8 million in the first six months of 2018. Repayments of long-term debt of $20.5 million included scheduled principal payments on the term loan components of our 2017 Senior Credit Facility of $3.3 million, repayment of draws totaling $7.0 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 timing of 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 outside the rural health care market 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) holding capital spending to approximately $35 million annually.

On January 15, 2019, we entered into the 2019 Senior Credit Facility, consisting 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 – 0.625% per quarter; the third quarter of 2020 through the second quarter of 2022 – 1.25% per quarter; the third quarter of 2022 through the second quarter of 2023 – 1.875% per quarter; and the third quarter of 2023 through the fourth quarter of 2023 – 2.5% per quarter. The remaining outstanding principal balance, including any amounts outstanding under the Revolving Facility, is due on January 15, 2024.

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 2.97 at June 30, 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 1.22 at June 30, 2019.

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

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 6.36% at June 30, 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.

USAC has 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). As of the date of this report, the Company’s cost-based rural rates for Funding Year 2019 (July 1, 2019 through June 30, 2020) had not been approved by the FCC. Our accounts receivable balance for rural health care customers, net of amounts reserved, was $2.8 million at June 30, 2019 and $8.1 million at December 31, 2018.

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 the year ended December 31, 2018 for further information regarding these risks.

OUTLOOK

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. We expect the rural health care segment to begin to stabilize in 2019 as a result of program funding increases announced by the FCC in 2018. However, the pricing methodology for funding year 2019 and beyond is uncertain. 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 become more competitive serving small business and residential customers, while we focus on improving profitability by enhancing our online and self-serve capabilities. Growth in these areas is expected to be somewhat offset by reduced regulatory access revenue and 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 2019 by providing broadband coverage to an additional 10%, or approximately 3,200, of our target locations by the end of the year.

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.

LEGAL

We are involved in various claims, legal actions, personnel matters and regulatory proceedings arising in the ordinary course of business and as of June 30, 2019, we have recorded litigation accruals of $1.5 million against certain of those claims and legal actions. Estimates involved in developing these litigation accruals could change as these claims, legal actions and regulatory proceedings progress. See also Part II, Item 1. Legal Proceedings.

EMPLOYEES

As of June 30, 2019, we employed 566 regular full-time employees, 10 regular part-time employees and 5 temporary employees, compared with 584, 8 and 4, respectively at December 31, 2018. Approximately 53% of our employees are represented by the 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.

CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

We have identified certain policies and estimates as critical to our business operations and the understanding of our past or present results of operations. For additional discussion on the application of significant accounting policies, see "Critical Accounting Policies and Estimates" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018. These policies and estimates are considered critical because they had a material impact, or have the potential to have a material impact, on our financial statements and because they require significant judgments, assumptions or estimates.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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, deferred capacity revenue, legal contingencies, stock-based compensation and income taxes. 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.

New Accounting Pronouncements

See Note 1 "*Summary of Significant Accounting Polices*" to the condensed consolidated financial statements for a description of recently adopted accounting pronouncements and recently issued pronouncements not yet adopted.

ITEM 3. 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on the evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to ensure 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 principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosure.

Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, we have evaluated any changes in our internal control over financial reporting that occurred during the second 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various claims, legal actions, personnel matters and regulatory proceedings arising in the ordinary course of business. As of June 30, 2019, we have recorded litigation accruals of $1.5 million against certain current claims and legal actions. Other than as described above and as disclosed previously in Item 3. Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2018, we believe that the disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table presents the Company’s repurchase of its common stock based on the date of trade during the three-month period ended June 30, 2019.

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1 - 30, 2019	-	$ -	-	$ 10,000,000
May 1 - 31, 2019	-	$ -	-	$ 10,000,000
June 1 - 30, 2019	118,825	$ 1.72	118,825	$ 9,795,098
Total	118,825	$ 1.72	118,825	

(1) The average price paid per share includes brokerage commissions.
(2) 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.

Working Capital Restrictions and Other Limitations on the Payment of Dividends

Our 2019 Senior Credit Facility contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt and the payment of dividends. The 2019 Senior Credit Facility also requires that we maintain certain financial ratios.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit	Where Located
3.1	Amended and Restated By-Laws of Alaska Communications Systems Group, Inc., as amended and restated on April 5, 2019.	Exhibit 3.1 to Form 8-K (filed April 9, 2019)
10.1*	Employment Arrangement between Alaska Communications Systems, Group, Inc. and William Bishop dated April 3, 2019.	Exhibit 10.1 to Form 10-Q (filed May 10, 2019)
10.2*	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)
10.3*	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)
10.4*	Separation Agreement and Officer's Release between Alaska Communications Systems Group, Inc. and Anand Vadapalli dated June 12, 2019.	Filed herewith
31.1	Certification of William Bishop, Interim President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Laurie Butcher, Senior Vice President of Finance, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of William Bishop, Interim President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of Laurie Butcher, Senior Vice President of Finance, pursuant to 18 U.S.C. Section 1350, as adopted pursuant 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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

Date: August 8, 2019	/s/ William Bishop William Bishop Interim President and Chief Executive Officer (Principal Executive Officer)
Date: August 8, 2019	/s/ Laurie Butcher Laurie Butcher Senior Vice President of Finance (Principal Financial and Accounting Officer)

Exhibit 10.4

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
SEPARATION AGREEMENT AND OFFICER'S RELEASE

This Separation Agreement and Officer's Release ("Release") is made and entered into by and between Anand Vadapalli (referred to herein as "Executive") and Alaska Communications Systems Group, Inc. and its respective affiliates, subsidiaries, and any related or parent company or entity of which they are a part, including their successors and assigns (referred to herein as "the Company" or "Alaska Communications"), each of which is also referred to in this Release as a "party" or collectively with Executive as "the parties."

RECITALS

A. The Company has employed Executive as its President and Chief Executive Officer since 2011.

B. The terms of Executive's employment with the Company are memorialized in an Employment Agreement between Executive and the Company dated August 5, 2015, as amended by the First Amendment thereto dated October 4, 2017 and the Second Amendment thereto dated May 10, 2018; and were previously memorialized in an Employment Agreement between Executive and the Company dated April 1, 2013 and an Employment Agreement between Executive and the Company dated February 1, 2011 (collectively, the "Employment Agreements").

C. Executive and the Company have mutually agreed that the Employment Agreements shall terminate and Executive's employment with the Company shall end subject to the terms and conditions set forth in this Release.

Now, therefore, the parties agree as follows:

AGREEMENT

1. In consideration of the benefits provided for in Section 4 below, Executive hereby knowingly and voluntarily waives, releases and forever discharges the Company and all its past, present and future officers, directors, stockholders, employees, independent contractors, agents, representatives, attorneys, insurers, predecessors and successors in interest, (collectively, the "Released Parties") from any and all actual or potential claims, actions, complaints, charges, demands, rights, suits, liabilities, arbitrations, causes of action, damages, costs, expenses and compensation of any kind whatsoever, except for any claims based on the Released Parties' gross negligence or willful misconduct, based on any other theory of recovery, whether for compensatory or punitive damages or for equitable or other relief, which Executive ever may have had, now has or may subsequently accrue against the Released Parties, whether known, suspected or unknown to Executive, by reason of facts or circumstances which have occurred on or prior to the date that Executive has signed this Release, and which is in connection with, or in any way related to or arising out of, Executive's past or present employment or termination of employment with the Company, ("Released Claims"); provided, that such Released Claims shall not include any claims to enforce Executive's rights (i) to indemnification pursuant to this Release, applicable law or the Company's Articles of Incorporation, By-Laws or insurance for directors' and officers' liability or employment practices insurance coverage; (ii) under any generally applicable employee benefit plans; (iii) as a stockholder of the Company, or (iv) under this Release. Notwithstanding the generality of the preceding sentence, such Released Claims include, without limitation, and to the maximum extent permitted by law, any and all claims under any federal, state or local laws or regulations, and any claims based on tort, contract, breach of fiduciary duty, implied covenant of good faith and fair dealing, violation of public policy, other common law claims or derivative claims and any other theory of recovery or right of rehire, and specifically includes all claims under any applicable employment laws, including without limitation the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Equal Pay Act, Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Americans with Disabilities Act, the Reconstruction Era Civil Rights Act, the Civil Rights Act of 1991, the Rehabilitation Act of 1973, the Family and Medical Leave Act of 1992, Executive Order 11246, and all state or local laws regarding wage and hour, employment discrimination or employment in general, all as amended.

2. The Company will indemnify, defend, and hold harmless Executive from and against any claims, causes of action, suits, liability, damages, and costs (including reasonable attorney fees and costs of defense) for any actions arising out of or relating to Executive's employment with the Company, including but not limited to any actions by any government or regulatory agency or actions alleging employment law violations, so long as such actions do not arise from Executive's willful violation of law or Corporate Policy. Further, the Released Parties hereby knowingly and voluntarily waive, release and forever discharge Executive from any and all actual or potential claims, actions, complaints, charges, demands, rights, suits, liabilities, arbitrations, causes of action, damages, costs, expenses and compensation of any kind whatsoever, except for claims based on Executive's gross negligence or willful misconduct, based on any other theory of recovery, whether for compensatory or punitive damages or for equitable or other relief, which the Released Parties ever may have had, now have or may subsequently accrue against Executive, whether known, suspected or unknown to the Released Parties, by reason of facts or circumstances which have occurred on or prior to the date that Company has signed this Release, and which are in connection with or in any way related to or arising out of Company's past or present employment of Executive or termination of such employment.

3. Executive hereby represents that he has not filed (or assigned to a third party the right to file) any such Released Claim, nor will he in the future file, or assign to any third party the right to file, any Released Claim against the Company or the Released Parties arising out of or in any way related to or connected with Executive's employment or the termination of his employment with the Company, to the maximum extent such Released Claims may be legally waived.

4. Executive's final day of employment and final day of service as a member of the Company's Board of Directors is June 30, 2019 ("Separation"). The Employment Agreements are hereby terminated as of Separation, are superseded in their entirety by this Release, and have no further force and effect. In consideration for the agreements, promises and releases provided by Executive in this Release, following the expiration of the seven-day revocation period which is provided for in Section 18 of this Release, and only if such seven-day period has expired without Executive revoking the Release, the Company agrees to provide the following benefits:

(a) Base pay, annual incentives, and other cash payments and the opportunity to vest stock previously awarded in the future as set forth on the attached Exhibit A, less all relevant taxes and other withholdings.

(b) If Executive timely and properly elects COBRA continuation health coverage under the Company's group health plan, Executive will receive continued coverage in the health plan under COBRA through Company-provided premiums until the earliest of: (i) December 31, 2019, or (ii) written notice from Executive to the Company no later than the 15th day of each month that Executive has obtained other health coverage. (Executive has an affirmative obligation to provide such notice if alternative health coverage is obtained.) In addition, Executive is entitled to continue COBRA coverage at his expense in accordance with law.

(c) This Agreement shall be interpreted and applied in a manner compliant with the requirements of Section 409A of the Internal Revenue Code.

5. No additional payments shall be made, and Executive hereby specifically waives any and all rights to additional compensation (including all other future incentive compensation, bonuses, stock awards, stock vesting, payments for relocation or COBRA medical insurance beyond that provided herein, and any other payments or benefits, other than his base salary and employee benefits that are generally available to Alaska Communications employees for the period he was employed) that he might otherwise have had, whether under his Employment Agreement, Award Agreement, any document he received from the Company, or any other communication or promise from the Company, its officers, employees or the Board of Directors.

6. For up to 9 months following the Executive's final day of service as indicated in Section 4 of this Release, except in cases involving privately arranged block trades, Executive agrees that his daily trading volume in the public markets will not exceed ten percent (10%) of the average daily trading volume during the prior month. For purposes of this agreement, the average daily trading volume in the prior month shall be calculated by dividing the total number of shares traded during the prior month by the number of trading days in the prior month.

7. Executive and the Company each understand that the foregoing payments and consideration are received by Executive and paid by the Company in connection with the parties' resolution of all matters between them, including, but not limited to, all matters relating to the employment relationship and the termination of that relationship, and that neither this Release nor the aforesaid payments and consideration are to be construed as an admission on the part of any of either Executive or the Released Parties of any wrongdoing or liability, nor are they to be admissible as evidence in any proceeding, other than for enforcement of the provisions of this Release.

8. Executive represents and warrants that no promise or inducement to enter into this Release has been offered except as set forth expressly in this Release and that this Release is executed without reliance on any other statement or representation by Alaska Communications. This Release contains the entire agreement between the parties with regard to the matters set forth in it and shall be binding on and inure to the benefit of the successors and assigns of the parties. This Release is the exclusive, final and complete agreement between Executive and the Company, and the terms of this Release are contractual and not merely a recital.

9. Executive shall keep secret all "Confidential Information" of the Company, and will not disclose any such Confidential Information, directly or indirectly, under any circumstances or by any means, to anyone without the prior written consent of the Company. "Confidential Information" for purposes of this Release includes but is not limited to information about the Company's customers or potential customers, customer data, pricing and other terms and conditions under which the Company deals with customers or other companies, pricing and other information related to the actual or potential purchase or sale of Company stock, assets or products, financial and securitization arrangements, research materials, manuals, computer programs, systems, data, techniques, network maps, technical information, trade secrets, services and product development information, marketing plans and tactics, lists of suppliers and suppliers' prices and other terms and conditions, the processes and practices of the Company and any competitor companies, financial information, information prepared for or generated by the Alaska Communications Board of Directors, wages and salary information, labor agreements, personnel information, and any other information designated by the Company as Confidential Information or that Executive knows or should know is Confidential Information, including the Confidential Information of third parties, information subject to non-disclosure or confidentiality agreements, and all other proprietary information of the Company, whether oral, written or in electronic format, including all information defined in the Alaska Communications Corporate Compliance Program Manual as "Proprietary Information." Executive's obligation under this Section with respect to any specific item of Confidential Information ceases with respect to that item when the Confidential Information becomes known publicly through a source other than Executive's disclosure (whether direct or indirect).

10. For a period of 12 months after Executive's final day of employment, as indicated in section 4 of this Release, Executive will not, directly or indirectly, be an officer or director of, or be employed by, own, manage, operate, join, control or participate in the ownership, management, operation or control of, any "Competitor" of Alaska Communications. A "Competitor" for purposes of this Release shall include any person or entity which, directly competes with Alaska Communications for business within the state of Alaska, with such Alaska based business representing either: (i) a material portion of such Competitor's revenues; or (ii) a material focus of Executive's anticipated responsibilities with such Competitor. The 12-month restrictive period described in this section shall begin running as of Executive's final day of employment, as indicated in section 4 of this Release, regardless of whether Executive consults with, contracts with, or otherwise continues to provide services to the Company following Executive's final day of employment.

11. For a period of 12 months after Executive's final day of employment, as indicated in section 4 of this Release, Executive shall not, directly or indirectly: (i) solicit, influence, entice, or attempt to solicit, influence or entice, any officer, employee, agent, contractor, consultant, partner, joint venture, vendor, supplier or customer of Alaska Communications to terminate employment or other arrangement with Alaska Communications or to cease a business relationship with Alaska Communications; or (ii) solicit, influence, entice or attempt to solicit, influence or entice any officer, employee, agent, contractor, consultant, potential customer, distributor, partner, joint venture, vender or supplier of Alaska Communications to do business with or in any way become associated with any Competitor of Alaska Communications. The 12-month restrictive period described in this section shall begin running as of Executive's final day of employment, as indicated in section 4 of this Release, regardless of whether Executive consults with, contracts with, or otherwise continues to provide services to the Company following Executive's final day of employment.

12. As a condition of this Release, and subject to section 16 of this Release, Executive agrees not to make any oral or written statement about the Company relating to the Company's business or business systems, networks, methods, services, products, operations, finances, compliance with laws, or its present or past shareholders, partners, directors, officers, employees, agents, consultants, or other personnel, which is intended to or reasonably likely to disparage or hurt the Company's reputation. Subject to section 16, Executive also agrees to refrain from assisting any other person or persons with disparaging or harming the Company's reputation, including without limitation, the reputation of its officers, directors, or employees. The Company agrees that, subject to section 16 of this Release, none of its officers, directors or employees shall make any disparaging public statement, whether oral or written, about Executive, his qualifications, or his work at the Company, that is intended or reasonably likely to disparage or hurt Executive's reputation.

13. Executive shall not disclose the terms of his separation or this Release to anyone other than immediate family, financial advisors (if any) or legal counsel and must inform any immediate family, financial advisors, and legal counsel to which this Release is disclosed that they are prohibited from disclosing the terms of this Release to the same extent as Executive.

14. The parties acknowledge that unquantifiable and irreparable harm may occur as the result of violation or threatened violation of the terms of this Release; therefore, this Release shall be enforceable by either party through injunctive or other equitable relief proceedings before any court of competent jurisdiction, without limiting the moving party's remedies for monetary or other damages; provided, that any such remedies or judicial proceedings shall not excuse the non-moving party from the continued performance of all obligations under this Release.

15. Executive agrees to cooperate fully with the Company (i) in the transition of his duties in response to reasonable requests for information about the business or Executive's involvement and participation therein, including Executive's contacts with specific customers and potential customers; (ii) in the defense or prosecution of any claims or actions now in existence or which may be brought against or by or on behalf of the Company which relate to events or occurrences that transpired while Executive was employed by the Company; and (iii) in connection with any investigation or review by any federal, state or local regulatory, quasi-regulatory or self-governing authority (including, without limitation, the Securities and Exchange Commission) as such investigation or review relates to events or occurrences that transpired while Executive was employed by the Company. Executive's full cooperation shall include, but not be limited to, being available to meet and speak with officers or employees of the Company and/or its counsel at reasonable times and locations, executing accurate and truthful documents, appearing at the Company's request as a witness at depositions, trials or other proceedings without the necessity of a subpoena, and taking such other actions as may reasonably be requested by the Company and/or its counsel to effectuate the foregoing. In requesting such services, the Company will consider other commitments that Executive may have at the time of the request, and Executive's availability and obligations under this Section shall in all instances reasonably be subject to Executive's other commitments. The Company agrees to reimburse Executive for any reasonable, out-of-pocket travel, hotel and meal expenses incurred in connection with Executive's performance of obligations pursuant to this Section for which Executive has obtained prior, written approval from the Company. The Company shall reimburse Executive at a rate of $500/hour for any activities performed pursuant to this Section beginning January 1, 2020.

16. Nothing in this Release is intended to or shall preclude either party from providing testimony that such party reasonably and in good faith believes to be truthful in response to a valid subpoena, court order, regulatory request or other judicial, administrative or legal process or otherwise as required by law. Either party shall notify the other party in writing as promptly as practicable after receiving any such request of the anticipated testimony and at least ten days prior to providing such testimony (or, if such notice is not possible under the circumstances, with as much prior notice as is possible) to afford the other party a reasonable opportunity to challenge the subpoena, court order or similar legal process. Moreover, nothing in this Release shall be construed or applied so as to limit any person from providing candid statements that such party reasonably and in good faith believes to be truthful to any governmental or regulatory body or any self-regulatory organization.

17. Executive represents and warrants that he is not aware of any actions or omissions by any current or former officer, director, employee, agent, consultant, or representative of the Company (including Executive) through the date hereof that were or have been alleged to be (individually or in the aggregate) materially harmful or detrimental to the Company, its business, or its shareholders, including, without limitation, violations of any laws or accounting policies or principles, the taking of unreasonable tax positions, or the furnishing of inaccurate statements, invoices or other reports to any person or entity.

18. Executive has read this Release carefully, acknowledges that he has 21 days from the date of receipt of this Release to consider all of its terms, and is hereby advised to consult with an attorney and any other advisors of his choosing prior to executing this Release, and he has had ample opportunity to do so. If Executive has signed this Release before the end of this 21 day period, it is because he freely chose to do so after carefully considering its terms, and Executive fully understands that by signing below he is forever voluntarily giving up any right which he may have to sue or bring any other claims against the Released Parties, including any rights and claims under the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, and any other discrimination laws, whether federal or state, to the fullest extent permitted by law. He further understands that, under the law, Executive has a period of seven days after signing this Release within which to revoke the Release. To be effective, any such revocation of this Release must actually be received by the General Counsel of the Company within the seven-day revocation period.

19. Executive represents and acknowledges that he has not been threatened, coerced, or pressured in any manner, nor is he under duress from any source whatsoever, to sign this Release, and he agrees to all of its terms and has executed the Release freely, voluntarily and with full knowledge of its contents.

20. Each provision of this Release is intended to be severable. In the event a court or governmental agency of competent jurisdiction determines that any term or provision contained in this Release is illegal, invalid or unenforceable, such provision shall be severed from the remainder of the Release and shall not affect the other terms and provisions, which shall remain in full force and effect.

21. Protected Rights. It is understood and agreed by the undersigned that nothing contained in this Release limits Executive's ability to file a charge or complaint with any federal, state or local governmental agency or commission ("Government Agencies"). It is further understood that this Release does not limit Executive's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Alaska Communications. This Release does not limit Executive's right to receive an award for information provided to any Government Agencies.

22. It is understood and agreed by the undersigned that this Release shall be governed by and interpreted in accordance with the laws of the State of Alaska.

IN WITNESS WHEREOF, the parties have executed this Release as of the dates stated below.

Anand Vadapalli	**Alaska Communications Systems Group, Inc.**
By /s/ Anand Vadapalli Anand Vadapalli	**By** /s/ David Karp David Karp Chairman of the Board
June 12, 2019 Date	June 12, 2019____________ Date

EXHIBIT A: COMPENSATION SCHEDULE

Component	Negotiated Value	Payment / Vesting Requirements
Base Pay	$210,412.09	Paid in equal biweekly installments through 12/31/2019
Annual Incentive	$447,120.00	Paid at Separation
Existing Unvested Equity Awards		**See Note Below**
2017 RSU - Tranche 3 of 3	83,340 units	Vests in March 2020
2017 PSU - Tranche 1 of 1	274,146 units	Eligible for vesting with same performance factors and at same time as other executives in 2020
2018 RSU - Tranche 2 of 3	43,763 units	Vests in March 2020
2018 RSU - Tranche 3 of 3	43,764 units	Vests in March 2021
2018 PSU - Tranche 1 of 3	230,021 units	Eligible for vesting with same performance factors and at same time as other executives on or before July 20, 2019
2018 PSU - Tranche 2 of 3	209,873 units	Eligible for vesting with same performance factors and at same time as other executives on or before July 20, 2020
2018 PSU - Tranche 3 of 3	202,483 units	Eligible for vesting with same performance factors and at same time as other executives on or before July 20, 2021
2018 Restricted Cash - Tranche 2 of 3	$78,948.56	Vests in March 2020
2018 Restricted Cash - Tranche 3 of 3	$78,948.56	Vests in March 2021
2018 Performance Cash - Trance 1 of 1	$320,393.66	Eligible for vesting with same performance factors and at same time as other executives in 2021
2019 Long Term Award Equivalency	$855,089.64	Paid at Separation

Note:

The parties intend for the restricted and performance stock units (RSU and PSU) listed above as "Existing Unvested Equity Awards" to vest on schedule as if Executive remained employed by the Company, subject to any applicable performance-based criteria, despite the termination of Executive's employment. Should any applicable award agreement for an "Existing Unvested Equity Award" provide that Executive is ineligible for vesting as a result of the termination of Executive's employment, such agreement is hereby amended to allow for vesting following termination of employment and as is otherwise necessary to effectuate the parties' intent under this Release.

Notwithstanding the foregoing, if the Company enters into a change of control transaction such as an acquisition of the Company, any unvested portion of the "Existing Unvested Equity Awards" listed above as of the date of the definitive agreements for such a transaction shall vest in its entirety upon closing of such transaction.

Exhibit 31.1

Sarbanes-Oxley Section 302(a) Certification

I, William Bishop, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 8, 2019

/s/ William Bishop
William Bishop
Interim 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 quarterly report on Form 10-Q 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: August 8, 2019

/s/ Laurie Butcher
Laurie Butcher
Senior Vice President of Finance
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 Quarterly Report of Alaska Communications Systems Group, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Bishop, Interim 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: August 8, 2019

/s/ William Bishop
William Bishop
Interim 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 Quarterly Report of Alaska Communications Systems Group, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurie Butcher, Senior Vice President of Finance 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: August 8, 2019

/s/ Laurie Butcher
Laurie Butcher
Senior Vice President of Finance
Alaska Communications Systems Group, Inc.