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, 2020

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ **No** ☒

As of August 4, 2020, there were outstanding 53,668,057 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, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 44,379	$ 26,662
Restricted cash	1,628	1,631
Short-term investments	134	134
Accounts receivable, net of allowance of $4,117 and $4,627	27,989	34,354
Materials and supplies	8,056	8,900
Prepayments and other current assets	13,591	9,617
Total current assets	95,777	81,298
Property, plant and equipment	1,436,987	1,424,904
Less: accumulated depreciation and amortization	(1,055,336)	(1,042,546)
Property, plant and equipment, net	381,651	382,358
Operating lease right of use assets	88,232	80,991
Other assets	10,191	12,598
Total assets	$ 575,851	$ 557,245
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term obligations	$ 9,059	$ 8,906
Accounts payable, accrued and other current liabilities	43,929	39,108
Advance billings and customer deposits	3,639	3,761
Operating lease liabilities - current	10,065	2,795
Total current liabilities	66,692	54,570
Long-term obligations, net of current portion	163,589	167,476
Deferred income taxes	5,497	4,403
Operating lease liabilities - noncurrent	79,117	78,767
Other long-term liabilities, net of current portion	89,268	78,520
Total liabilities	404,163	383,736
Commitments and contingencies		

Alaska Communications stockholders' equity:		
Common stock, $.01 par value; 145,000 authorized; 54,822 issued and 53,823 outstanding at June 30, 2020; 54,085 issued and 53,085 outstanding at December 31, 2019	548	541
Treasury stock, 1,000 shares at cost	(1,812)	(1,812)
Additional paid in capital	162,240	161,844
Retained earnings	15,342	15,367
Accumulated other comprehensive loss	(5,434)	(3,277)
Total Alaska Communications stockholders' equity	170,884	172,663
Noncontrolling interest	804	846
Total stockholders' equity	171,688	173,509
Total liabilities and stockholders' equity	$ 575,851	$ 557,245

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Operating revenues	$ 59,456	$ 57,395	$ 117,722	$ 114,304
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	27,134	26,356	54,248	51,983
Selling, general and administrative	16,225	18,718	31,619	35,374
Depreciation and amortization	10,033	9,200	19,873	17,879
Loss (gain) on disposal of assets, net	14	(95)	100	(97)
Total operating expenses	53,406	54,179	105,840	105,139
Operating income	6,050	3,216	11,882	9,165
Other income and (expense):				
Interest expense	(2,739)	(3,096)	(5,698)	(6,152)
Loss on extinguishment of debt	-	(31)	-	(2,830)
Interest income	68	95	143	170
Other income (expense), net	33	(122)	414	-
Total other income and (expense)	(2,638)	(3,154)	(5,141)	(8,812)
Income before income tax expense	3,412	62	6,741	353
Income tax expense	(996)	(46)	(1,956)	(144)
Net income	2,416	16	4,785	209
Less net loss attributable to noncontrolling interest	(24)	(19)	(42)	(53)
Net income attributable to Alaska Communications	2,440	35	4,827	262
Other comprehensive (loss) income:				
Minimum pension liability adjustment	69	19	137	39
Income tax effect	(19)	(5)	(38)	(11)
Amortization of defined benefit plan loss	(33)	122	(66)	243
Income tax effect	9	(35)	18	(69)
Interest rate swap marked to fair value	(598)	47	(3,476)	34
Income tax effect	170	(14)	988	(10)
Reclassification to interest expense	391	(224)	391	(451)
Income tax effect	(111)	64	(111)	128
Total other comprehensive loss	(122)	(26)	(2,157)	(97)
Total comprehensive income attributable to Alaska Communications	2,318	9	2,670	165
Net loss attributable to noncontrolling interest	(24)	(19)	(42)	(53)
Total other comprehensive income attributable to noncontrolling interest	-	-	-	-
Total comprehensive loss attributable to noncontrolling interest	(24)	(19)	(42)	(53)
Total comprehensive income (loss)	$ 2,294	$ (10)	$ 2,628	$ 112

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Net income per share attributable to Alaska Communications:				
Basic	$ 0.05	$ 0.00	$ 0.09	$ 0.00
Diluted	$ 0.04	$ 0.00	$ 0.09	$ 0.00
Weighted average shares outstanding:				
Basic	53,976	53,799	53,799	53,591
Diluted	54,342	54,569	54,295	54,599

See Notes to Condensed Consolidated Financial Statements

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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,	
	2020	**2019**	**2020**	**2019**
Number of Common Shares Issued and Outstanding				
Balance at beginning of period	53,561	53,610	53,085	53,268
Issuance of common stock pursuant to stock plans, $.01 par	262	283	738	625
Purchases of common stock, $.01 par	-	(119)	-	(119)
Balance at end of period	53,823	53,774	53,823	53,774
Total Stockholders' Equity - Beginning Balance	$ 168,861	$ 170,065	$ 173,509	$ 169,750
Common Stock				
Balance at beginning of period	546	536	541	533
Issuance of common stock pursuant to stock plans, $.01 par	2	4	7	7
Balance at end of period	548	540	548	540
Treasury Stock				
Balance at beginning of period	(1,812)	-	(1,812)	-
Purchases of common stock, $.01 par	-	(205)	-	(205)
Balance at end of period	(1,812)	(205)	(1,812)	(205)
Additional Paid In Capital				
Balance at beginning of period	161,709	160,704	161,844	160,514
Stock-based compensation	409	(9)	718	489
Surrender of shares to cover minimum withholding taxes on stock-based compensation	-	(143)	(439)	(448)
Issuance of common stock pursuant to stock plans, $.01 par	122	102	117	99
Balance at end of period	162,240	160,654	162,240	160,654
Retained Earnings				
Balance at beginning of period	12,902	10,666	15,367	10,439
Net income attributable to Alaska Communications	2,440	35	4,827	262
Cash dividends declared, $0.09 per common share	-	-	(4,852)	-
Balance at end of period	15,342	10,701	15,342	10,701
Accumulated Other Comprehensive Loss				
Balance at beginning of period	(5,312)	(2,746)	(3,277)	(2,675)
Other comprehensive loss	(122)	(26)	(2,157)	(97)
Balance at end of period	(5,434)	(2,772)	(5,434)	(2,772)
Noncontrolling Interest				
Balance at beginning of period	828	905	846	939
Net loss attributable to noncontrolling interest	(24)	(19)	(42)	(53)
Balance at end of period	804	886	804	886
Total Stockholders' Equity - Ending Balance	$ 171,688	$ 169,804	$ 171,688	$ 169,804

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash Flows from Operating Activities:		
Net income	$ 4,785	$ 209
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,873	17,879
Loss (gain) on disposal of assets, net	100	(97)
Amortization of debt issuance costs and debt discount	644	606
Loss on extinguishment of debt	-	2,830
Amortization of deferred capacity revenue	(3,071)	(2,259)
Stock-based compensation	718	489
Deferred income tax expense	1,950	138
Charge for uncollectible accounts	(394)	(32)
Amortization of right-of-use assets	1,257	1,148
Other non-cash (income) expense, net	(66)	244
Changes in operating assets and liabilities	21,176	7,178
Net cash provided by operating activities	46,972	28,333
Cash Flows from Investing Activities:		
Capital expenditures	(18,412)	(20,432)
Capitalized interest	(631)	(609)
Change in unsettled capital expenditures	(702)	(551)
Proceeds on sale of assets	-	19
Net cash used by investing activities	(19,745)	(21,573)
Cash Flows from Financing Activities:		
Repayments of long-term debt	(4,378)	(171,768)
Proceeds from the issuance of long-term debt	-	180,000
Debt issuance costs and discounts	-	(2,683)
Cash paid for debt extinguishment	-	(1,252)
Payment of cash dividend on common stock	(4,820)	-
Payment of withholding taxes on stock-based compensation	(439)	(448)
Purchases of treasury stock	-	(149)
Proceeds from the issuance of common stock	124	106
Net cash (used) provided by financing activities	(9,513)	3,806
Change in cash, cash equivalents and restricted cash	17,714	10,566
Cash, cash equivalents and restricted cash, beginning of period	28,293	14,985
Cash, cash equivalents and restricted cash, end of period	$ 46,007	$ 25,551
Supplemental Cash Flow Data:		
Interest paid	$ 5,708	$ 6,114
Income taxes paid, net	$ -	$ 10

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 statewide and interstate 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”)
- Crest Communications Corporation
- WCI Cable, Inc.
- WCIC Hillsboro, LLC
- Alaska Northstar Communications, LLC

- 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”)
- 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, 2019. 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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. The CARES Act provides for certain Federal income tax relief including the accelerated receipt of refundable Federal Alternative Minimum Tax (“AMT”) credits. This will result in the accelerated receipt by the Company of Federal AMT credits in the amount of $2,155 The CARES Act is not expected to have a material effect on the Company’s income tax provision or payments.

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, 2020, 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, 2019 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.

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, 2020, the Company adopted Accounting Standards Update ("ASU") No. 2018-13, "*Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*" ("ASU 2018-13") on a retrospective basis. ASU 2018-13 eliminates the requirement to disclose (i) the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) the policy for timing of transfers between levels; and (iii) the valuation processes for Level 3 fair value measurements. The new guidance also requires the disclosure of (i) changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and (ii) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company did not have any financial assets and liabilities measured at Level 3 and had no transfers between Level 1 and Level 2 during the six-month period ended June 30, 2020. Therefore, adoption of ASU 2018-13 had no effect on the Company's financial statements and related disclosures.

Effective January 1, 2020, the Company adopted ASU 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") on a prospective basis. ASU 2018-15 aligns 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. The Company did not incur any implementation costs associated with hosting arrangements that are service contracts during six-month period ended June 30, 2020. Therefore, adoption of ASU 2018-15 had no effect on the Company's financial statements and related disclosures.

Effective June 30, 2020, the Company adopted certain expedients offered in ASU No. 2020-04, "*Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" ("ASU 2020-04"). The amendments in ASU 2020-04 provide optional guidance for a limited period of time to ease the potential burden in accounting for reference rate reform on financial reporting. The amendments apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Optional expedients for cash flow hedging relationships affected by reference rate reform are offered if certain criteria are met. The amendments in ASU 2020-04 are effective as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments in ASU 2020-04 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company adopted the following two expedients: (i) asserted that the variable rate interest payments on its 2019 Senior Credit Facility subject to changes in LIBOR and which are hedged through interest rate swaps, are probable of being made regardless of any modification in terms related to reference rate reform; and (ii) elects to continue its current method of assessing the effectiveness of its interest rate swaps. Adoption had no effect on the Company's financial statements and related disclosures. See Note 4, "*Fair Value Measurements and Derivative Financial Instruments*" and Note 8, "*Long-Term Obligations*."

Accounting Pronouncements Issued Not Yet Adopted

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

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

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

2. REVENUE

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.

Revenue is not recorded for the Company's provision of free or upgraded service in connection with the COVID-19 pandemic because cash will not be collected, the arrangements do not include an associated transaction price, or the contract with the customer has not been modified, as required under ASC 606.

Beginning late in the first quarter of 2020, in response to the COVID-19 pandemic, the Company offered certain customers free or upgraded service, and suspended service termination and termination fees for late payment. These actions have not had a material impact on the Company's existing contracts with its customers, the associated contract assets and liabilities and future performance obligations.

(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 revenue streams structured by federal regulatory agencies that allow the Company to recover its cost of providing universal service in Alaska.

Disaggregation of Revenue

The following table provides the Company's revenue disaggregated on the basis of its primary markets, customers, products and services for the three and six-month periods ended June 30, 2020 and 2019:

	June 30, 2020			June 30, 2020		
	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	$ 15,994	$ -	$ 15,994	$ 31,347	$ -	$ 31,347
Business voice and other	6,802	-	6,802	13,659	-	13,659
Managed IT services	1,300	-	1,300	2,527	-	2,527
Equipment sales and installations	1,192	-	1,192	2,606	-	2,606
Wholesale broadband	11,123	-	11,123	21,376	-	21,376
Wholesale voice and other	1,344	-	1,344	2,632	-	2,632
Operating leases and other deferred revenue	-	2,269	2,269	-	4,660	4,660
Total Business and Wholesale Revenue	37,755	2,269	40,024	74,147	4,660	78,807
Consumer Revenue						
Broadband	6,796	-	6,796	13,488	-	13,488
Voice and other	2,380	-	2,380	4,829	-	4,829
Total Consumer Revenue	9,176	-	9,176	18,317	-	18,317
Regulatory Revenue						
Access (1)	4,572	-	4,572	9,263	-	9,263
Access (2)	-	761	761	-	1,488	1,488
High-cost support	-	4,923	4,923	-	9,847	9,847
Total Regulatory Revenue	4,572	5,684	10,256	9,263	11,335	20,598
Total Revenue	$ 51,503	$ 7,953	$ 59,456	$ 101,727	$ 15,995	$ 117,722

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

	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

(1) Includes customer ordered service and special access.
(2) Includes Essential Network Support ("ENS").

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, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Services transferred over time	$ 45,739	$ 43,301	$ 89,858	$ 86,050
Goods transferred at a point in time	1,192	1,008	2,606	1,888
Regulatory access revenue (1)	4,572	4,919	9,263	10,035
Total revenue	$ 51,503	$ 49,228	$ 101,727	$ 97,973

(1) Includes customer ordered service and special access.

(Unaudited, In Thousands Except Per Share Amounts)

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 $80,307 at June 30, 2020. 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 $2,244 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 $78,063 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.

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, 2020. Contract modifications did not have a material effect on contract assets in the six-month period ended June 30, 2020. Contract assets are classified as "Other assets" on the consolidated balance sheet.

	2020
Balance at January 1	$ 7,242
Contract additions	1,508
Amortization	(1,836)
Balance at June 30	$ 6,914

The Company recorded a credit for uncollectible accounts receivable of $394 in the six-month period ended June 30, 2020 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, 2020. 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."

	2020
Balance at January 1	$ 3,903
Contract additions	354
Revenue recognized	(789)
Balance at June 30	$ 3,468

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, 2020 and December 31, 2019. 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.

	2020	2019
Cash	$ 270	$ 270
Property, plant and equipment, net of accumulated depreciation of $457 and $408	$ 1,684	$ 1,733

The operating results and cash flows of the joint venture in the three and six-month periods of 2020 and 2019 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.

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

The fair values of cash equivalents, restricted cash, other short-term monetary assets and liabilities and finance leases approximate carrying values due to their nature. The carrying values of the Company's senior credit facilities and other long-term obligations of $174,238 and $178,245 at June 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, at each hierarchical level:

	June 30, 2020				December 31, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Other long-term liabilities:								
Interest rate swaps	$ 3,373	$ -	$ 3,373	$ -	$ 288	$ -	$ 288	$ -

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. On June 28, 2019, the Company entered into two pay-fixed, receive-floating, interest rate swaps. Each swap is in the initial notional amount of $67,500, has an interest rate of 6.1735% inclusive of a 4.5% LIBOR spread, and a maturity date of June 30, 2022. The swaps are with different counter parties. Changes in fair value of interest rate swaps are recorded to accumulated other comprehensive loss and reclassified to interest expense when the hedged transaction is recognized in earnings. Cash payments and receipts associated with interest rate swaps are classified as cash flows from operating activities. 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, 2020 and December 31, 2019.

	Balance Sheet Location	Notional Amount	Fair Value
At June 30, 2020:			
Interest rate swaps	Other long-term liabilities	$ 131,625	$ 3,373
At December 31, 2019:			
Interest rate swaps	Other assets	$ 133,313	$ 288

The following table presents gains and losses 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, 2020 and 2019.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
(Loss) gain recognized in accumulated other comprehensive loss	$ (598)	$ 47	$ (3,476)	$ 34
(Loss) gain reclassified from accumulated other comprehensive loss to income	(391)	224	(391)	451

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, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Recorded as Interest Expense:				
Hedged interest payments	$ (1,677)	$ (1,603)	$ (3,758)	$ (3,197)
(Loss) gain on interest rate swap	(391)	224	(391)	451

5. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at June 30, 2020 and December 31, 2019:

	2020	2019
Retail customers	$ 20,467	$ 22,101
Wholesale carriers	7,266	13,157
Other	4,373	3,723
	32,106	38,981
Less: allowance for doubtful accounts	(4,117)	(4,627)
Accounts receivable, net	$ 27,989	$ 34,354

The following table presents the activity in the allowance for doubtful accounts for the six-month period ended June 30, 2020, which is associated entirely with the Company's contracts with customers:

	2020
Balance at January 1	$ 4,627
Provision (recovery) for uncollectible accounts	(394)
Charged to other accounts	-
Deductions	(116)
Asset at June 30	$ 4,117

The provision for uncollectible accounts is derived through an analysis of account aging profiles and a review of historical recovery experience. Accounts receivable are charged off against the allowance when management confirms it is probable amounts will not be collected. This policy has not been revised as a result of the COVID-19 pandemic. However, to the extent aging profiles, recovery experience and specific customer accounts have been affected by the COVID-19 pandemic, such affects are included in the allowance for doubtful accounts.

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As of June 30, 2020, USAC had issued funding commitment letters for all of the Company’s rural health care customer applications for Funding Year 2018 (July 1, 2018 through June 30, 2019). For Funding Year 2019 (July 1, 2019 through June 30, 2020), the FCC had approved the Company’s cost-based rural rates and USAC had issued funding commitment letters. Accounts receivable, net, associated with rural health care customers was $4,294 and $6,827 at June 30, 2020 and December 31, 2019, respectively. Rural health care accounts are a component of the Retail Customers category in the above table.

6. OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following at June 30, 2020 and December 31, 2019:

	2020	2019
Income tax receivable	$ 4,659	$ 2,510
Prepaid expense	3,737	3,528
Other	5,195	3,579
Total prepayments and other current assets	$ 13,591	$ 9,617

7. CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at June 30, 2020 and December 31, 2019:

	2020	2019
Accounts payable - trade	$ 16,221	$ 14,918
Accrued payroll, benefits, and related liabilities	11,633	12,193
Deferred capacity and other revenue	9,920	7,311
Other	6,155	4,686
Total accounts payable, accrued and other current liabilities	$ 43,929	$ 39,108

Advance billings and customer deposits consist of the following at June 30, 2020 and December 31, 2019:

	2020	2019
Advance billings	$ 3,608	$ 3,730
Customer deposits	31	31
Total advance billings and customer deposits	$ 3,639	$ 3,761

8. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30, 2020 and December 31, 2019:

	2020	2019
2019 senior secured credit facility due 2024	$ 173,396	$ 177,750
Debt discount	(1,863)	(2,234)
Debt issuance costs	(1,590)	(1,863)
Finance leases and other long-term obligations	2,705	2,729
Total long-term obligations	172,648	176,382
Less current portion	(9,059)	(8,906)
Long-term obligations, net of current portion	$ 163,589	$ 167,476

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As of June 30, 2020, the aggregate maturities of long-term obligations were as follows:

2020 (July 1 - December 31)	$	4,529
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)		133,018
Thereafter		2,303
Total maturities of long-term obligations	$	176,101

2019 Senior Credit Facility

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

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

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

There were no amounts outstanding under the Revolving Facility, Delayed-Draw Term A Facility and Incremental Term A Loans at June 30, 2020.

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. On June 28, 2019, the Company entered into two pay-fixed, receive-floating, interest rate swaps. Each swap is in the initial notional amount of $67,500, has an interest rate of 6.1735% inclusive of a 4.5% LIBOR spread, and a maturity date of June 30, 2022. The swaps are with different counter parties.

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2017 Senior Credit Facility

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

9. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following at June 30, 2020 and December 31, 2019:

	2020	2019
Other deferred IRU capacity revenue, net of current portion	$ 44,489	$ 34,440
Deferred GCI capacity revenue, net of current portion	28,003	29,036
Other deferred revenue, net of current portion	4,378	4,825
Other	12,398	10,219
Total other long-term liabilities	$ 89,268	$ 78,520

Amortization of deferred revenue included in the Consolidated Statements of Comprehensive Income was $2,704 and $2,054 in the three-month periods ended June 30, 2020 and 2019, respectively, and $5,061 and $4,079 in the six-month periods ended June 30, 2020 and 2019, respectively.

10. LEASES

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. Operating leases are included in operating lease right of use assets and current and noncurrent operating lease liabilities on the consolidated balance sheet. Finance leases are included in property, plant and equipment and current portion of long-term obligations and long-term obligations on the consolidated balance sheet.

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. Early terminations recorded in the six-month period ended June 30, 2020 were not material.

The Company entered into additional operating lease commitments that had not yet commenced as of June 30, 2020 with a present value totaling approximately $2,345. These leases consist primarily of agreements associated with the Company's CAF Phase II services which are expected to commence in 2020 and have terms of 7 to 30 years.

Short-term and variable lease cost recorded during the three and six-month periods ended June 30, 2020 and 2019 were not material.

The Company did not enter into any sale and leaseback transactions during the six-month period ended June 30, 2020.

The following table presents lease costs for agreements under which the Company is the lessee for the three and six-month periods ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Finance lease cost:				
Amortization of right-of-use assets	$ 47	$ 19	$ 94	$ 39
Interest on lease liabilities	66	68	133	136
Operating lease costs	2,232	1,955	4,200	3,910
Total lease cost	$ 2,345	$ 2,042	$ 4,427	$ 4,085

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The following table provides information included on the consolidated balance sheet for agreements under which the Company is the lessee as of June 30, 2020 and December 31, 2019.

	2020	2019
Operating leases:		
Right of use assets	$ 88,232	$ 80,991
Liabilities - current	$ 10,065	$ 2,795
Liabilities - noncurrent	79,117	78,767
Total liabilities	$ 89,182	$ 81,562
Finance leases:		
Property, plant and equipment	$ 5,800	$ 5,800
Accumulated depreciation and amortization	(3,793)	(3,699)
Property, plant and equipment, net	$ 2,007	$ 2,101
Current portion of long-term obligations	$ 59	$ 53
Long-term obligations, net of current portion	2,646	2,676
Total finance lease liabilities	$ 2,705	$ 2,729

The following table presents the maturities of lease liabilities at June30, 2020 in twelve-month increments beginning July 1, 2020.

	Operating Leases	Financing Leases
Year 1	$ 14,733	$ 322
Year 2	7,622	331
Year 3	7,492	340
Year 4	7,172	350
Year 5	7,148	360
Thereafter	157,105	3,293
Total lease payments	201,272	4,996
Less imputed interest	(113,159)	(2,291)
Total present value of lease obligations	88,113	2,705
Present value of current obligations	(8,996)	(59)
Present value of long-term obligations	$ 79,117	$ 2,646

The following table presents other information about agreements under which the Company is the lessee as of and for the six-month periods ended June 30, 2020 and 2019.

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 133	$ 136
Operating cash flows from operating leases	3,784	3,914
Financing cash flows from finance leases	24	18
Right-of-use assets obtained in exchange for new operating lease liabilities	151	243
Weighted-average remaining lease term (in years):		
Finance leases	13	14
Operating leases	27	30
Weighted-average discount rate:		
Finance leases	9.8%	9.8%
Operating leases	6.9%	6.9%

(Unaudited, In Thousands Except Per Share Amounts)

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.

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. There were no early terminations recorded in the six-month period ended June 30, 2020.

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, 2020.

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

The following table presents lease income for agreements under which the Company is the lessor for the three and six-month periods ended June 30, 2020 and 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,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Total lease income	$ 1,424	$ 855	$ 2,595	$ 1,716

The following table presents the maturities of future undiscounted lease payments at June 30, 2020 in twelve-month increments beginning July 1, 2020.

Year 1	$ 1,444
Year 2	792
Year 3	461
Year 4	457
Year 5	406
Thereafter	2,586
Total future undiscounted lease payments	$ 6,146

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity in accumulated other comprehensive loss for the six-month period ended June 30, 2020:

	Defined Benefit Pension Plan	**Interest Rate Swaps**	**Total**
Balance at December 31, 2019	$ (3,070)	$ (207)	$ (3,277)
Other comprehensive income (loss) before reclassifications	99	(2,488)	(2,389)
Reclassifications from accumulated comprehensive loss to net income	(48)	280	232
Net other comprehensive income (loss)	51	(2,208)	(2,157)
Balance at June 30, 2020	$ (3,019)	$ (2,415)	$ (5,434)

The following table summarizes the reclassifications from accumulated other comprehensive loss to net income for the three and six-month periods ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Amortization of defined benefit plan pension items:				

Amortization of loss	$ (33)	$ 122	$ (66)	$ 243
Income tax effect	9	(35)	18	(69)
After tax	(24)	87	(48)	174
Amortization of gain on interest rate swap:				
Reclassification to interest expense	391	(224)	391	(451)
Income tax effect	(111)	64	(111)	128
After tax	280	(160)	280	(323)
Total reclassifications, net of income tax	$ 256	$ (73)	$ 232	$ (149)

Amounts reclassified to net income from our defined benefit pension plan and interest rate swaps have been presented within “Other income (expense), net” and “Interest expense,” respectively, in the Statements of Comprehensive Income. The estimated amount to be reclassified from accumulated other comprehensive loss as an increase in interest expense within the next twelve months is $1,837. 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.

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 2018, 2019 and 2020.

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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 2020 vest ratably over three years. Expense associated with RSUs is recognized utilizing the graded vesting methodology.

The following table summarizes the RSU, LTIP and non-employee director stock compensation activity for the six-month period ended June 30, 2020.

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	792	$ 1.74
Granted	501	2.59
Vested	(406)	1.79
Canceled or expired	-	-
Nonvested at June 30, 2020	887	$ 2.20

Performance Stock Units

In the second quarter of 2020, PSUs were issued to the Company's officers and certain other employees. Vesting of a portion of these PSUs is subject to the Company's achievement of a cumulative performance target for the years 2020, 2021 and 2022, and vesting of another portion is subject to the Company's achievement of specified stock price thresholds between June 16, 2020 and June 15, 2023. Vesting of the 2020 PSUs is also subject to the provision of requisite service by the recipient.

The fair value of PSUs subject to the performance targets is based on the number of shares granted and the quoted closing market price of the Company's common stock on the date of grant. They will vest over a three-year period. Share-based compensation expense will be recorded based on the Company's assessment of the probability of those targets being met and recorded over the three-year vesting period as required. At June 30, 2020, the targets were deemed probable of achievement and the relevant stock compensation expense was recorded in the three-month period ended June 30, 2020.

The Company measured the fair value of the 2020 PSUs for which vesting of each of three tranches is subject to achievement of specified stock price thresholds using a Monte Carlo simulation model as more fully described below. 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.

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The table below sets forth the average grant date fair value assumptions used in the Monte Carlo simulation model for the 2020 PSUs.

Valuation (grant) date		June 17, 2020
Number of units granted		135
Fair market value of the Company's Common Stock	$	2.61
Risk-free interest rate		0.23%
Expected dividend yield		0%
Expected volatility		40.71%
Simulation period (in years)		3
Estimated fair value per award:		
Vesting Tranche 1	$	1.19
Vesting Tranche 2	$	1.28
Vesting Tranche 3	$	1.32

- *Fair Market Value* - based on the quoted closing price of the Company’s common stock.
- *Risk-free interest rate* - based on the 3-year term-matched zero-coupon risk-free interest rate derived from the U.S. Treasury constant maturities yield curve on the valuation date.
- *Dividend Yield* - based on the fact that the Company, with the exception of a one-time dividend paid in the second quarter of 2020, has not paid cash dividends since 2012 and does not anticipate paying cash dividends in the foreseeable future.
- *Expected Volatility* - Based on the historical volatility of the Company’s common stock over the 3-year period preceding the grant date.
- *Stock price vesting hurdles:*
  - *Tranche 1 $3.25*
  - *Tranche 2 $3.75*
  - *Tranche 3 $4.25*
- *Performance Period* - based on the period of time from the valuation date through the end of the performance period.

Vesting of all 2020 PSUs is subject to approval by the Compensation and Personnel Committee of the Board of Directors.

Shares associated with PSUs granted in 2017, vesting of which were subject to achievement of certain performance conditions and approval of the Compensation and Personnel Committee of the Board of Directors, were issued in the first quarter of 2020.The PSUs granted in 2018 will vest in three equal installments, or tranches, if certain stock price thresholds and service thresholds are achieved. As of June 30, 2020, the stock price thresholds had not been met. PSUs granted in the third quarter of 2019 will vest at the end of the three-year period ending in March 2022 subject to the achievement of certain Company performance targets. As of June 30, 2020, achievement of the Company performance target was deemed to be probable.

(Unaudited, In Thousands Except Per Share Amounts)

The following table summarizes the PSU activity for the six-month period ended June 30, 2020.

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2019	1,629	$ 1.07
Granted	478	2.18
Vested	(297)	1.76
Canceled or expired	(268)	1.43
Nonvested at June 30, 2020	1,542	$ 1.22

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, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total compensation cost for share-based payments	$ 409	$ (9)	$ 718	$ 489
Weighted average grant-date fair value of equity instruments granted (per share)	$ 2.41	$ 0.53	$ 2.41	$ 0.53
Total fair value of shares vested during the period	$ 370	$ 436	$ 1,618	$ 1,427
At June 30:				
Unamortized share-based payments			$ 2,740	$ 293
Weighted average period (in years) to be recognized as expense			2.0	0.9

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

On June 16, 2020 the Company's shareholders approved the Amended 2012 Employee Stock Purchase Plan (the "Amended 2012 ESPP"). The amendments extended the term of the plan to December 31, 2030 and increased the number of shares of common stock reserved for future issuance under the plan by 600 shares.

On July 24, 2020, the Company registered an additional 600 shares which may offered or issued to eligible individuals under the Amended 2012 ESPP.

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.

Weighted average restricted stock units of 67 and 34 were excluded from the calculation of diluted earnings per share for the three and six-month periods ended June 30, 2020, respectively, because they were out of the money and, therefore, anti-dilutive.

Weighted average restricted stock units of 47 and 64 were excluded from the calculation of diluted earnings per share for the three and six-month periods ended June 30, 2019, respectively, because they were out of the money and, therefore, anti-dilutive.

(Unaudited, In Thousands Except Per Share Amounts)

The calculation of basic and diluted earnings per share for the three and six-month periods ended June 30, 2020 and 2019 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income attributable to Alaska Communications	$ 2,440	$ 35	$ 4,827	$ 262
Weighted average common shares outstanding:				
Basic shares	53,976	53,799	53,799	53,591
Effect of stock-based compensation	366	770	496	1,008
Diluted shares	54,342	54,569	54,295	54,599
Net income per share attributable to Alaska Communications:				
Basic	$ 0.05	$ 0.00	$ 0.09	$ 0.00
Diluted	$ 0.04	$ 0.00	$ 0.09	$ 0.00

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 (the "Plan") on September 1, 1999. As of June 30, 2020, 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, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Interest cost	$ 117	$ 150	$ 234	$ 300
Expected return on plan assets	(186)	(169)	(371)	(339)
Amortization of loss	36	141	71	282
Net periodic pension expense	$ (33)	$ 122	$ (66)	$ 243

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

15. STOCKHOLDERS' EQUITY

Treasury Stock

The Company does not currently have an authorized share repurchase program. Common stock repurchased under prior authorizations were accounted for as treasury stock.

Dividends

The Company’s dividend policy is set by the Company’s Board of Directors and is subject to the terms of its credit facilities and the continued current and future performance and liquidity needs of the Company. Dividends on the Company’s common stock are not cumulative to the extent they are declared. On March 9, 2020, the Company’s Board of Directors declared a one-time cash dividend of $0.09 per share of common stock to be paid on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. The dividend totaled $4,852 of which $4,820 was paid in the second quarter of 2020. The remaining $32 is associated with deferred Board of Directors compensation and will be paid in future periods.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Restricted cash of $1,628 at June 30, 2020 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 $28. Restricted cash of $1,631 at December 31, 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.

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The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statement of financial position at June 30, 2020 and 2019 that sum to the total of these items reported in the statement of cash flows:

	June 30,	
	2020	2019
Cash and cash equivalents	$ 44,379	$ 23,920
Restricted cash	1,628	1,631
Total cash, cash equivalents and restricted cash	$ 46,007	$ 25,551

The following table presents supplemental non-cash transaction information for the six-month periods ended June 30, 2020 and 2019:

	2020	2019
Supplemental Non-cash Transactions:		
Capital expenditures incurred but not paid at June 30	$ 5,285	$ 4,488
Dividends payable at June 30, 2020	$ 32	$ -
Additions to ARO asset	$ 83	$ 25
Unsettled share repurchases	$ -	$ 56

17. 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.

18. COMMITMENTS AND CONTINGENCIES

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

In February 2020, the Company received a draft audit report from USAC in connection with USAC's inquiry into the Company's funding requests under the Rural Health Care program for certain customers for funding years 2012 through 2016 (July 2012 through June 2017). The draft audit report alleges violations of the FCC's rules for establishing rural rates and urban rates, the provisioning and billing of ineligible services and products, and violations of the FCC's competitive bidding rules. The Company intends to vigorously defend against the conclusions of the draft audit report and, if necessary, appeal the final audit findings. Based on these draft findings, the Company has determined that it is probable that resolution of these matters will result in the recognition of a contingent liability and charge to expense. The Company does not currently have sufficient information to reasonably estimate the amount, or a range, of the potential charge.

The Company is involved in various 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 $1,200 at June 30, 2020 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):

- A major public health issue, such as an epidemic or pandemic, could adversely affect global, national and state economies, the operations and financial stability of our customers and vendors, and our operations, financial performance and liquidity
- our ability to continue to develop and fund attractive, integrated products and services to evolving industry standards, and meet the pressure from competition to offer these services at lower prices
- unforeseen challenges when entering new markets and our ability to recognize and react to actions, products or services of competitors that threaten our competitive advantage in the marketplace
- our size, because we are a smaller sized competitor in the markets we serve and we compete against large competitors with substantially greater resources
- governmental and public policy changes and audits and investigations, including on-going changes in our revenues, or obligations for current and prior periods related to these programs, resulting from regulatory actions affecting on-going support for state programs such as Essential Network Support, and federal programs such as the rural health care universal service support mechanism, including ascertainment of the "urban rate" and "rural rate" used to determine federal support payments for services we provide to our rural health care customers for current and prior periods, some of which are currently under audit or subject to an inquiry
- our ability to comply with the regulatory requirements to contribute to the Universal Service Fund and receive support payments from that fund
- our ability to obtain and appropriately allocate resources to support our growth objectives
- our ability to maintain successful arrangements with our represented employees
- our ability to keep pace with rapid technological developments and changing standards in the telecommunications industry, including on-going capital expenditures needed to upgrade our network to industry competitive speeds, particularly in light of expected 5G deployments by mobile wireless carriers
- our ability to maintain our cost structure as a focused broadband and managed IT services company, which could impact both cash flow from operating activities and our overall financial condition
- disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber-attacks or security breaches of the physical infrastructure, operating systems or devices that our customers use to access our products and services; due to the COVID-19 pandemic, many of our employees are temporarily working remotely, which may pose additional data security risks
- our ability to adequately invest in the maintenance and upgrade of our networks and other information technology systems

- the Alaskan economy, which has been impacted by continued low crude oil prices which are creating a significant impact on both the level of spending by the State of Alaska and the level of investment in resource development projects by natural resource exploration and development companies in Alaska, together with the ongoing cuts to the state of Alaska budget and resulting spending reductions, all of which may impact the economy in the markets we serve and impact our future financial performance
- our ability to invest sufficiently in our underlying physical infrastructure, including buildings, fleet and related equipment
- the ability to attract, recruit, retain and develop our workforce, and implement succession planning necessary for achieving our business plan
- structural declines for voice and other legacy services within the telecommunications industry
- the success or failure of any future acquisitions or other major transactions
- the actions of activist stockholders, which could cause us to incur significant expense, hinder execution of our business strategy and impact our stock price
- unanticipated damage to one or more of our undersea fiber optic cables resulting from construction or digging mishaps, fishing boats or other reasons
- a maintenance or other failure of our network or data centers
- a failure of information technology systems
- a third-party claim that the Company is infringing upon their intellectual property, resulting in litigation or licensing expenses, or the loss of our ability to sell or support certain products
- unanticipated costs required to fund our post-retirement benefit plans, or contingent liabilities associated with our participation in a multi-employer pension plan
- geologic or other natural disturbances relevant to the location of our operations
- our ability to meet the terms of our financing agreements and to draw down additional funds under the facility to meet our liquidity needs
- the cost and availability of future financing, at the terms, and subject to the conditions necessary, to support our business and pursue growth opportunities; our debt could also have negative consequences for our business; for example, it could increase our vulnerability to general adverse economic and industry conditions, or limit our flexibility in planning for, or reacting to, changes in our business and the telecommunications industry; in addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities; if we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the lenders and other parties to those arrangements could accelerate the maturity of some or all of our outstanding indebtedness
- our success in providing broadband solutions to the North Slope and western Alaska
- the success of the Company's expansion into managed IT services, including the execution of those services for customers
- 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, 2019 and this Quarterly Report on Form 10-Q.

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, our revenue performance relative to our largest competitor suggests that we are gaining market share in the markets we are serving. A third-party market study indicates that we have a market share of close to 40% for “near net” opportunities, that is, within one mile of our fiber network.

The sections that follow provide information about important aspects of our operations and investments and include discussions of our results of operations, financial condition and sources and uses of cash. In addition, we have highlighted key trends and uncertainties to the extent practical. 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.

Operating Initiatives

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

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

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

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

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

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

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 and price trends of bandwidth
- the growth in demand for bandwidth
- decline in demand for voice and other legacy services

- local customer preferences
- unemployment levels
- housing activity and development patterns

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

19 pandemic negatively impacted the Alaska economy beginning in the first quarter of 2020. Certain of these impacts are discussed below. The duration of the pandemic and ultimate impact on the Alaska and U.S. economy is uncertain.

Historically, the Alaska economy has benefited from a stable employment base, including a growing tourism industry. The Alaskan economy entered a moderate recession beginning in the second half of 2015 and certain areas of the economy showed improvement beginning in 2018. Employment levels declined approximately 1.3% and 0.3% in 2017 and 2018, respectively, and increased approximately 0.6% in 2019. The increase in 2019 was driven by growth in leisure and hospitality, oil and gas, health care, professional and business services and construction, offset by declines in state government and retail. The COVID-19 pandemic has negatively impacted the leisure and hospitality, retail and transportation segments of the Alaskan economy and the economy at large. Beginning in March 2020, unemployment claims increased significantly, primarily as a result of the COVID-19 pandemic. In June 2020, the state's unemployment rate was 12.3%, double the rate reported over the past eight years. Anchorage's unemployment rate was 12.0% in June, with job losses realized in almost all employment categories. The population of Alaska grew marginally in 2016, remained steady in 2017 and declined slightly in 2018 and 2019. Economic indicators have been impacted by the substantial decline in the price of crude oil in 2015 through 2017. Crude oil prices recovered somewhat in 2018 but declined marginally in 2019. During the first quarter of 2020, in part as a result of the COVID-19 pandemic, crude oil prices declined significantly. In the second quarter, crude oil prices recovered somewhat but remain below recent historical levels. State revenue relies on tax revenue from the production of crude oil and investment in resource development projects by exploration companies in Alaska. The state's budget deficit has been reduced from $3.7 billion in 2015 to $0.4 billion in 2019 primarily through spending reductions and utilization of interest earned on the state's permanent fund. The 2020 budget originally projected a $0.1 million surplus. Recent significant declines in oil prices and other impacts from the COVID-19 pandemic are expected to result in a deficit in 2020. The prospect of continued lower tax revenue continues to impact the overall economy and may affect our future financial performance.

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.

COVID-19 Pandemic

The COVID-19 pandemic has negatively impacted global, national and local economies, disrupted global supply chains and created significant volatility and disruptions to financial markets. The COVID-19 pandemic has also impacted the Company's customers, suppliers, employees and other aspects of its business, including an increase in demand for its broadband and managed IT services. In response to economic pressures impacting the Company's customers and the community at large as a result of the COVID-19 pandemic, we implemented the following actions in 2020:

- Working to increase bandwidth, as needed, for participants in the rural health care program at no charge to the customer. Timing is subject to FCC guidance and its waiver of certain rules.

- Offered kindergarten through grade 12, university students and teachers who do not have internet service, unlimited internet service at no charge through the end of the 2019-2020 school year.
- Not terminating service to residential and small business customers in the event they are unable to pay us for services due to disruptions caused by the COVID-19 pandemic.
- Waiving late fees incurred by residential and small business customers resulting from their economic circumstances related to the COVID-19 pandemic.
- Waiving long distance overage fees, as appropriate, related to the COVID-19 pandemic.
- Extension of technical support hours.
- Proactively monitoring our network and prioritizing the augmentation of network links.
- Working with local and state utilities, governments and educational institutions to ensure they have the necessary resources.
- Established remote working arrangements, including work-from-home, for most of our administrative employees.
- Implementation of travel restrictions.
- Established appropriate arrangements for our customer service representatives and customers.
- Proactively assessing and managing facilities and other costs.
- In July, offered a one-time cash incentive to employees who volunteered to retire or otherwise terminate their employment, subject to management approval. This offer was made, in part, to mitigate the negative impact of the pandemic on our financial results. The cost of this program is not expected to be significant.

As described in "Results of Operations" below, the COVID-19 pandemic did not have a direct material effect on the Company's revenue in the first six months of 2020 but did directly result in an estimated $0.8 million increase in costs during that period. Additional current and potential financial impacts include the following:

- The estimated fair value of service or upgraded service provided to customers without charge was $1.0 million in the first six months of 2020. These services were not recorded as revenue because no cash was expected to be collected from the customer. The Company's incremental cost of providing this service was not significant.
- Implementation of certain agreements with other carriers under which the Company is a lessee and lessor of dark fiber have been delayed from the fourth quarter of 2020 to 2021.
- Certain customers have delayed orders for the provision of service.
- As a result of the customer accommodations noted above, collection of account receivable from certain customers has been delayed.
- Disruption of certain of our business and wholesale customers' operations.
- Disruption of the Alaska economy, including crude oil prices and the leisure and hospitality industries, could negatively impact demand for our products and services.
- Reductions in consumer spending.
- Government imposed travel restrictions and other actions could reduce the efficiency of our operations and result in higher costs.

- Declines in revenue and cash flows could require that we further reduce operating cost and capital spending.
- Delays, cancellation and other disruptions in the provision of products and services by our vendors.
- Disruption to the financial markets could limit our access to financing and other sources of capital.

We are continuing to assess the potential future impact of the COVID-19 pandemic. This is a rapidly evolving situation and we cannot predict the extent or duration of the pandemic, its effects on the global, national or local economy and its longer-term effects on the demand for our products and services, operations, financial condition, results of operations or cash flows, which could be material. We will continue to closely monitor the situation and make the appropriate adjustments to our operations as required and appropriate.

In March 2020, the Federal government passed legislation, including the CARES Act, intended to provide economic relief to individuals, families and businesses. This relief includes cash payments, additional unemployment benefits, grants, forgivable loans and additional funding (through the FCC) for telemedicine services and devices. The FCC has also relaxed competitive bidding rules and delayed certain deadlines under the E-Rate and rural health care programs. The CARES Act has provided for the accelerated receipt of the Company's AMT credits. The Company is continuing to review the legislation and other actions for further potential implications to the Company and its customers.

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, 2019, 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

Interconnection with Local Telephone Companies and Access to Other Facilities

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

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

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

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

Rural Health Care ("RHC") Universal Service Support Program

On March 27, 2020, the President signed into law the "Coronavirus Aid, Relief, and Economic Security Act," which, among other things, appropriates $200 million for the FCC to help health care providers provide connected care services to patients at their homes or mobile locations in response to the novel Coronavirus 2019 disease (COVID-19) pandemic. Over the ensuing three months, the FCC used these funds to create the "COVID-19 Telehealth Program," and made over 500 awards, comprising the entire sum, to health care providers in the lower 48 contiguous states, the District of Columbia, and Guam, but none to health care providers in Alaska. At the same time, the FCC's Report and Order also created the "Connected Care Pilot Program," which will make an additional $100 million in universal service funding available over three years to study how the FCC can help support the trend towards connected care services, particularly for low-income Americans and veterans. While it is too soon to assess the impact, if any, of the Connected Care Pilot Program on our business, programs of this type that make the telehealth and telemedicine services more affordable could stimulate greater demand for those services in Alaska.

In December 2019, the FCC approved our RHC rural rates for Funding Year 2019, which started July 1, 2019. We began to receive funding commitment letters for the associated services for Funding Year 2019 in February 2020, and have now received successful funding commitments from USAC for all of our rural health care customers for Funding Year 2019. We filed a request in January 2020 for approval of our RHC rural rates for Funding Year 2020, which began July 1, 2020. On February 28, 2020, the FCC requested additional information which we provided on March 26, 2020. On April 17, 2020 the FCC followed up seeking additional information about our rates and actual demand for Funding Year 2020. With the FCC's agreement, we expect to provide the updated information before August 31, 2020. We cannot predict when the FCC will act on our pending request for FCC approval of our Funding Year 2020 rural rates nor when USAC will issue funding commitments for RHC-supported services.

On August 1, 2019, the FCC adopted an order making comprehensive changes to the rules governing the competitive bidding process and the method for determining the urban and rural rates used to calculate the amount of RHC Telecommunications Program support payments for which a health care provider is eligible. The changes to the urban and rural rate rules do not take effect until Funding Year 2021, which will begin July 1, 2021, and USAC is conducting a lengthy implementation process. Among other things, the FCC's Order directed USAC to develop and publish a database by July 1, 2020, containing rates that will be used to set rural rates for Funding Year 2021 and beyond. The FCC's Order divided Alaska into four geographic zones, and the rural rate in each zone will be capped at the median of the rural rates for similar services offered in that zone, as identified by USAC.

On October 21, 2019, an appeal challenging the new method of setting rates for supported services was filed in the United States Court of Appeals for the District of Columbia Circuit, adding further uncertainty to the ultimate outcome of this proceeding. Similarly, the Company and several other parties have filed Petitions for Reconsideration of the FCC's August 2019 Report and Order, asking the FCC to reconsider some of its changes to the rural healthcare rate-setting process. Among other changes, we asked the FCC to give the Wireline Competition Bureau (the "Bureau") instead of USAC responsibility for creating the database; to provide more detailed guidance directing the Bureau to differentiate among broadband services based on additional service level, security, reliability, and other factors when creating the rural rate database; to make the rate database applicable only in cases where the rural health care provider received fewer than two competitive bids; and to set the rural rate cap, where applicable, based on the average rate, not the median, in the database. Both the D.C. Circuit appeal and the Petitions for Reconsideration filed with the FCC remain pending.

On July 1, 2020, USAC published a database containing available rural rates and rate medians that will cap the amount of RHC support eligible healthcare providers may receive for a given service in a particular geographic zone, starting in Funding Year 2021. We are in the process of evaluating the impact of these rates on our ability to continue to serve our rural healthcare provider customers from Funding Year 2021 onward, but it is likely to have an adverse impact on our economic ability to continue to serve some of our rural healthcare customers. We have requested that the full FCC review USAC's effort and associated guidance from the Bureau concerning the database, delay the effectiveness of the new rural rates, and direct the Bureau to implement the changes we requested in our Petition for Reconsideration.

We are unable to predict the eventual impact of the D.C. Circuit's review of the FCC's Order, or the outcome of our Petition for Reconsideration or our Application for Review. If the rural rate caps established using the database medians are too low, we may be unable to continue to serve rural health care customers in the most expensive portions of each rural zone. We are continuing to evaluate the impact of the funding cap constraints, ongoing uncertainty and unpredictability in the Rural Health Care Universal Service Support Mechanism, and the impact of the rule changes on our rural health care customers and revenues in light of these ongoing developments. At this time, we are unable to predict the outcome of these challenges to the FCC's new Rural Health Care rules or the impact the new rules may have on our business, financial condition, results of operations or liquidity.

USAC Audit of RHC Program Funding Requests

In addition to the prospective changes to the RHC program discussed above, the FCC and USAC have undertaken reviews of current and past funding requests**.** In June 2017, the Company received a letter from USAC's auditors inquiring about past funding requests, all of which were previously approved by USAC. After clarifying the request, the Company responded to the auditors with the requested information through the remainder of 2017 and mid-way into 2018. Late in 2018, the auditors asked the Company to comment on some preliminary audit findings, and the Company responded with a letter dated December 21, 2018. After more than a year without communications from the auditors, on February 24, 2020, the Company received a draft audit report from USAC that is described more fully in Note 18 "*Commitments and Contingencies*" in the Notes to Consolidated Financial Statements. The draft audit report alleges violations of the FCC's rules for establishing rural rates and urban rates, the provisioning and billing of ineligible services and products, and violations of the FCC's competitive bidding rules. The Company was invited to comment on this draft audit report, and we are in the process of seeking correction of numerous factual and legal errors that we believe are contained in that report. In addition, the Company has had conversations with USAC's auditors to discuss these perceived errors. As a result of these conversations and comments being submitted by the Company, USAC's auditors may revise their findings, including the amounts they recommend USAC seek to recover. USAC's auditors are expected to issue a final audit report incorporating the Company's responses that will be sent to USAC's Rural Health Care Division to review and determine if corrective action would be appropriate. In the event that the Company disagrees with USAC's final audit report, the Company can appeal that decision to USAC's Rural Health Care Division and/or the FCC. At this time, we cannot predict the contents or timing of the final USAC audit report, the outcome of the audit or the impact on our business, financial condition, results of operations or liquidity.

FCC Inquiry into Company's RHC Program Participation

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

CAF Phase II

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

We are continuing to work toward meeting our CAF Phase II obligations in a capital-efficient manner, including the delivery of broadband Internet access services meeting CAF Phase II requirements using a fixed wireless platform and DSL in some instances. On July 21, 2020, we announced that we now offer voice and broadband service meeting our CAF Phase II commitments to over 16,000 rural Alaskans. The Company is therefore more than half way to the total number required by December 31, 2025 under CAF Phase II.

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 C-band spectrum on Eutelsat's satellite, E115WB, for a term of 15 years. We have steadily expanded this network to serve nearly 40 sites, primarily in rural and remote areas of the state. We expect this approach to provide us with greater predictability and stability in the availability and cost of long-haul transport connectivity to our customers that must be served by satellite.

On March 3, 2020, the FCC released the text of a Report and Order clearing the lower portion of that band (3.7-4.0 GHz) of virtually all satellite services in the 48 contiguous United States and the District of Columbia. The Report and Order allowed continued use of that spectrum for satellite services in other areas of the nation, including Alaska, essentially preserving the status quo. As a result, the FCC's decision has little to no effect on our authority to continue to offer C-band satellite communications services to our Alaska customers in the future.

Call Authentication

On December 30, 2019, Congress enacted the Telephone Robocall Abuse Criminal Enforcement and Deterrence (TRACED) Act. Among other things, the TRACED Act seeks to reduce the number of unwanted calls ("robocalls") in which the calling party deceive the recipient by falsifying the Caller ID information to make it appear that the call is from someone the recipient knows or can trust. To do so, the TRACED Act directs the FCC to require all voice service providers to implement "STIR/SHAKEN" standards developed by the Internet Engineering Task Force (IETF) and the Alliance for Telecommunications Industry Solutions (ATIS) for authenticating and verifying caller ID information for calls carried in the IP portions of their networks, and implement an effective caller ID authentication framework in the non-IP portions of their networks. The law requires service providers to take these steps no later than 18 months from enactment.

On March 31, 2020, the FCC issued a Report and Order implementing this law by mandating that all voice service providers implement the STIR/SHAKEN framework in the Internet Protocol (IP) portions of their networks by June 30, 2021. In a related Notice of Proposed Rulemaking, the FCC sought comment on additional issues, including proposals for implementing the law with respect to non-IP networks and "intermediate" providers of voice service, as well as a potential extension of time for small providers that serve 100,000 or fewer voice service subscriber lines, which would include us. Until the FCC resolves these important additional issues, we cannot assess the potential impact of these requirements on our business.

On July 16, 2020, the FCC adopted a further Report and Order concerning the blocking of illegal and unwanted robocalls before they reach consumers. To encourage the blocking of scam robocalls and maliciously spoofed telemarketing campaigns under the TRACED Act, the FCC adopted two safe harbors from liability for the unintended or inadvertent blocking of wanted calls. The first safe harbor protects phone companies that use reasonable analytics, including caller ID authentication information, to identify and block illegal or unwanted calls from liability. The second safe harbor protects providers that block call traffic from bad actor upstream voice service providers that pass illegal or unwanted calls along to other providers, when those upstream providers have been notified but fail to take action to stop these calls.

Network Equipment

On March 12, 2020, the Secure and Trusted Communications Networks Act of 2019 was signed into law, prohibiting the use of federal universal service funds to obtain communications equipment or services from a company that poses a national security risk to U.S. communications networks. In addition, under the law, each communications provider must submit an annual report to the FCC regarding whether it has purchased, rented, leased, or otherwise obtained any prohibited equipment and, if so, provide a detailed justification for such action. Previously, in November 2019, the FCC preliminarily designated Huawei and ZTE as companies that pose such risks. Currently, Alaska Communications believes that little or no equipment from those manufacturers is present in our network. On July 16, 2020, the FCC adopted a Second Further Notice of Proposed Rulemaking, seeking comment on additional questions concerning the implementation of that Act.

National Suicide Prevention Lifeline

On July 16, 2020, the FCC adopted a Report and Order designating the three-digit code "988" as the National Suicide Prevention Lifeline, and directed all service providers to enable use of that code to reach suicide prevention and crisis intervention services no later than July 16, 2022. There are 87 area codes across the country, including the "907" area code used throughout Alaska, where local calls may be dialed using seven digits, and where "988" is used as a three-digit telephone exchange prefix. To ensure that calls are not erroneously routed to the National Suicide Prevention Hotline when a user intends to dial a seven-digit call starting with "988," the FCC required all 87 of the affected area codes to transition to ten-digit dialing for all calls during the transition period. As a result of these changes, Alaska Communications will need to upgrade and reprogram its switches throughout the state, and assist with consumer education efforts with respect to these new dialing patterns. We are unable to predict with certainty that it will be possible to implement all of the necessary changes within the time required, or the effect of these changes on our business expenses and results.

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.

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

Telecommunications Modernization Act

In late December 2019, the RCA opened R-19-002 to consider the Alaska Telephone Associations Petition to revise the RCA's regulation as a result of SB 83 or the Telecommunications Modernization Act. The comment and reply comment period ended February 3, 2020 and are under consideration by the RCA.

Business Plan Core Principles

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

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

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

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

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

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

We believe we can create value for our shareholders by:

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

Revenue Sources by Customer Group

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

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

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

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

- **Business and Wholesale**

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

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

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

Consumer

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

Regulatory

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

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

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

replaced with the ENS funding mechanism. Funding levels under ENS are approximately half of those under the prior mechanisms.

Total Federal and State Support	$	24,168	54.8%	10.4%
Total Regulatory Revenue	$	44,110		19.0%
Total Revenue	$	231,694		

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Executive Summary

As described below, the COVID-19 pandemic negatively impacted year-over-year operating income by approximately $0.7 million and $0.8 million in the second quarter and first six months of 2020, respectively. While the pandemic did not have a material effect on the Company's revenue, free or upgraded service with a total value of approximately $1.0 million has been provided to certain customers in 2020.

Operating Revenues

Total revenue of $59.5 million increased $2.1 million, or 3.6%, in the second quarter of 2020 compared with the second quarter of 2019. Business and wholesale revenue increased $3.0 million reflecting a $3.1 million increase in total broadband revenue. Rural health care revenue was $3.5 million in both the second quarter of 2020 and 2019. Consumer revenue of $9.2 million was down marginally year over year. As anticipated, regulatory access revenue declined $0.8 million due to the restructuring and contribution capping (and thereby reducing) of AUSF support. The COVID-19 pandemic did not have a material effect on revenue in the second quarter and first six months of 2020.

Operating Income

Operating income of $6.1 million in the second quarter of 2020 increased $2.8 million, or 88.1%, compared with $3.2 million in the second quarter of 2019. This improvement reflects the growth in revenue and lower selling, general and administrative expenses, partially offset by increases in other operating expenses. These items are discussed in more detail below.

Operating Metrics

Business broadband average monthly revenue per user ("ARPU") of $369.14 in the second quarter of 2020 increased from $339.75 in the second quarter of 2019. Business broadband connections of 14,661 at June 30, 2020 declined from connections of 15,141 at June 30, 2019. 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 32,115 at June 30, 2020 declined from 32,411 at June 30, 2019, and consumer broadband ARPU of $70.69 in the second quarter of 2020 increased from $68.15 in the second quarter of 2019.

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

	June 30,			
		2020		**2019**
Voice:				
At quarter end:				
Business access lines		66,939		68,978
Consumer access lines		21,769		24,302
Quarter:				
ARPU - business	$	27.68	$	26.84
ARPU - consumer	$	34.35	$	33.96
Year-to-date:				
ARPU - business	$	27.54	$	26.06
ARPU - consumer	$	34.64	$	34.37
Broadband:				
At quarter end:				
Business connections		14,661		15,141
Consumer connections		32,115		32,411
Quarter:				
ARPU - business	$	369.14	$	339.75
ARPU - consumer	$	70.69	$	68.15
Year-to-date:				
ARPU - business	$	362.07	$	337.89
ARPU - consumer	$	70.14	$	67.00

Liquidity

We generated cash from operating activities of $47.0 million in the first six months of 2020 compared with $28.3 million in the first six months of 2019. This improvement reflects higher earnings in 2020 and cash receipts associated with deferred revenue agreements.

In the first six months of 2020 and 2019, we invested a total of $19.7 million and $21.6 million, respectively, in capital, including capitalized interest and net of the settlement of items accrued in previous periods. Success based capital spending was $12.6 million in 2020 compared with $13.9 million in 2019.

Net debt (defined as total debt excluding debt issuance costs, less cash and cash equivalents) at June 30, 2020 was $131.7 million compared with $153.8 million at December 31, 2019. The decrease reflects cash generated from operating activities during in the first and second quarters including receipts associated with deferred revenue agreements, partially offset by capital spending and principal payments the 2019 Senior Credit Facility and other obligations.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

The following table summarizes our results of operations for the three-month periods ended June 30, 2020 and 2019. Revenue and the associated analysis is presented by customer and product category, combining revenue accounted for under ASC 606 and other guidance.

(in thousands)	2020	2019	Change	% Change
Revenue				
Business and wholesale revenue				
Business broadband	$ 16,258	$ 15,437	$ 821	5.3%
Business voice and other	7,180	7,241	(61)	-0.8%
Managed IT services	1,300	1,517	(217)	-14.3%
Equipment sales and installations	1,192	1,008	184	18.3%
Wholesale broadband	12,750	10,443	2,307	22.1%
Wholesale voice and other	1,344	1,392	(48)	-3.4%
Total business and wholesale revenue	40,024	37,038	2,986	8.1%
Consumer revenue				
Broadband	6,796	6,694	102	1.5%
Voice and other	2,380	2,647	(267)	-10.1%
Total consumer revenue	9,176	9,341	(165)	-1.8%
Total business, wholesale and consumer revenue	49,200	46,379	2,821	6.1%
Growth in broadband revenue	*9.9%*			
Regulatory revenue				
Access	5,333	6,093	(760)	-12.5%
High cost support	4,923	4,923	-	0.0%
Total regulatory revenue	10,256	11,016	(760)	-6.9%
Total revenue	$ 59,456	$ 57,395	$ 2,061	3.6%
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	27,134	26,356	778	3.0%
Selling, general and administrative	16,225	18,718	(2,493)	-13.3%
Depreciation and amortization	10,033	9,200	833	9.1%
Loss (gain) on disposal of assets, net	14	(95)	109	NM
Total operating expenses	53,406	54,179	(773)	-1.4%
Operating income	6,050	3,216	2,834	88.1%
Other income and (expense):				
Interest expense	(2,739)	(3,096)	357	-11.5%
Loss on extinguishment of debt	-	(31)	31	NM
Interest income	68	95	(27)	-28.4%
Other income, net	33	(122)	155	NM
Total other income and (expense)	(2,638)	(3,154)	516	-16.4%
Income before income tax expense	3,412	62	3,350	NM
Income tax expense	(996)	(46)	(950)	NM
Net income	2,416	16	2,400	NM
Less net loss attributable to noncontrolling interest	(24)	(19)	(5)	26.3%
Net income attributable to Alaska Communications	$ 2,440	$ 35	$ 2,405	NM

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Operating Revenue

The COVID-19 pandemic did not have a material effect on the Company's revenue in the second quarter of 2020.

Business and Wholesale

Business and wholesale revenue of $40.0 million increased $3.0 million, or 8.1%, in the second quarter of 2020 from $37.0 million in the second quarter of 2019. Wholesale broadband revenue increased $2.3 million, and business broadband and equipment sales and installations increased $0.8 million and $0.2 million respectively. These increases were partially offset by a $0.2 million decline in managed IT services and a $0.1 million decline in voice and other. The increase in business broadband revenue was due primarily to an increase in ARPU to $369.14 in the second quarter of 2020 from $339.75 in the second quarter of 2019, partially offset by a decline in connections from 15,141 to 14,661. Business broadband revenue in the second quarter of 2020 also includes $0.4 million resulting from the resolution of a funding issue with one of the Company's rural health care customers. Rural health care revenue was $3.5 million in both the second quarter of 2020 and 2019 and represented 5.9% and 6.1% of consolidated revenue in 2020 and 2019, respectively. 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, 2020 and 2019 as follows:

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019
GCI capacity revenue	$ 516	$ 516
Other deferred capacity revenue	1,195	617
Total deferred capacity revenue	1,711	1,133
Other deferred revenue	993	921
Total	$ 2,704	$ 2,054

Consumer

Consumer revenue of $9.2 million in the second quarter of 2020 compares with $9.3 million in the second quarter of 2019. Broadband revenue increased $0.1 million year over year as lower connections were offset by an increase in ARPU to $70.69 from $68.15. Voice and other revenue decreased $0.3 million due to 2,533 fewer connections, partially offset by an increase in ARPU to $34.35 from $33.96 in the prior year.

Regulatory

Regulatory revenue of $10.3 million decreased $0.8 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 $27.1 million increased $0.8 million, or 3.0%, in the second quarter of 2020 from $26.3 million in the second quarter of 2019 due primarily to higher circuit installation and labor costs and access charges. This increase also reflects approximately $0.5 million of costs associated with the COVID-19 pandemic, consisting primarily of incremental costs incurred due to delays in the activation of satellite service and disconnection of higher-cost third-party circuits as a result of travel restrictions. These increases were partially offset by lower utility costs and other expenses.

Selling, General and Administrative

Selling, general and administrative expenses of $16.2 million decreased $2.5 million, or 13.3%, in the second quarter of 2020 from $18.7 million in the second quarter of 2019 due primarily to lower labor costs and a decrease in the provision for doubtful accounts receivable. These decreases were partially offset by $0.2 million of incremental costs associated with the COVID-19 pandemic including an increase in the provision for doubtful accounts receivable and installation costs for free services. Labor costs in 2020 included $1.6 million of termination benefit expense for the Company's former CEO.

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Depreciation and Amortization

Depreciation and amortization expense of $10.0 million increased $0.8 million, or 9.1%, in the second quarter of 2020 from $9.2 million in the second quarter of 2019. This increase was due primarily to the completion of various capital projects.

Other Income and Expense

Interest expense of $2.7 million in the second quarter of 2020 declined from $3.1 million in the second quarter of 2011 due to a lower average interest rate and reduced borrowing levels.

Income Taxes

Income tax expense and the effective tax rate in the second quarter of 2020 were $1.0 million and 29.2%, respectively. 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.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of the AQ-JV was $24 thousand and $19 thousand in the second quarter of 2020 and 2019, respectively.

Net Income Attributable to Alaska Communications

Net income attributable to Alaska Communications of $2.4 million in the second quarter of 2020 compares with $35 thousand in the same period of 2019. The year over year results reflect the revenue and expense items discussed above.

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Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

The following table summarizes our results of operations for the six-month periods ended June 30, 2020 and 2019. Revenue and the associated analysis is presented by customer and product category, combining revenue accounted for under ASC 606 and other guidance.

(in thousands)	2020	2019	Change	% Change
Revenue				
Business and wholesale revenue				
Business broadband	$ 31,897	$ 30,704	$ 1,193	3.9%
Business voice and other	14,416	14,242	174	1.2%
Managed IT services	2,527	3,176	(649)	-20.4%
Equipment sales and installations	2,606	1,888	718	38.0%
Wholesale broadband	24,729	20,705	4,024	19.4%
Wholesale voice and other	2,632	2,818	(186)	-6.6%
Total business and wholesale revenue	78,807	73,533	5,274	7.2%
Consumer revenue				
Broadband	13,488	13,162	326	2.5%
Voice and other	4,829	5,380	(551)	-10.2%
Total consumer revenue	18,317	18,542	(225)	-1.2%
Total business, wholesale and consumer revenue	97,124	92,075	5,049	5.5%
Growth in broadband revenue	*8.6%*			
Regulatory revenue				
Access	10,751	12,382	(1,631)	-13.2%
High cost support	9,847	9,847	-	0.0%
Total regulatory revenue	20,598	22,229	(1,631)	-7.3%
Total operating revenues	$ 117,722	$ 114,304	$ 3,418	3.0%
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	54,248	51,983	2,265	4.4%
Selling, general and administrative	31,619	35,374	(3,755)	-10.6%
Depreciation and amortization	19,873	17,879	1,994	11.2%
Loss (gain) on disposal of assets, net	100	(97)	197	NM
Total operating expenses	105,840	105,139	701	0.7%
Operating income	11,882	9,165	2,717	29.6%
Other income and (expense):				
Interest expense	(5,698)	(6,152)	454	-7.4%
Loss on extinguishment of debt	-	(2,830)	2,830	NM
Interest income	143	170	(27)	-15.9%
Other income, net	414	-	414	NM
Total other income and (expense)	(5,141)	(8,812)	3,671	-41.7%
Income before income tax expense	6,741	353	6,388	NM
Income tax expense	(1,956)	(144)	(1,812)	NM
Net income	4,785	209	4,576	NM

Less net loss attributable to noncontrolling interest	(42)	(53)	11	-20.8%
Net income attributable to Alaska Communications	$ 4,827	$ 262	$ 4,565	NM

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Operating Revenue

The COVID-19 pandemic did not have a material effect on the Company's revenue in the six-month period of 2020.

Business and Wholesale

Business and wholesale revenue of $78.8 million increased $5.3 million, or 7.2%, in the six-month period of 2020 from $73.5 million in the six-month period of 2019. Wholesale broadband revenue increased $4.0 million, business broadband revenue increased $1.2 million and equipment sales and installations and voice revenue increased $0.7 million and $0.2 million, respectively. These increases were partially offset by a $0.7 million decline in managed IT services and $0.1 million decline in wholesale voice and other. The increase in business broadband revenue was due primarily to an increase in ARPU to $362.07 in 2020 from $337.89 in 2019, partially offset by a decline in connections from 15,141 to 14,61 and lower rural health care revenue. Business broadband revenue in the first six months of 2020 also includes $0.4 million resulting from the resolution of a funding issue with one of the Company's rural health care customers. Rural health care revenue of $6.8 million in the six-month period of 2020 decreased from $7.6 million in 2019 and represented 5.8% and 6.6% of consolidated revenue in 2020 and 2019, respectively.

Business and wholesale revenue includes the amortization of deferred revenue for the six-month periods ended June 30, 2020 and 2019 as follows:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
GCI capacity revenue	$ 1,032	$ 1,027
Other deferred capacity revenue	2,039	1,232
Total deferred capacity revenue	3,071	2,259
Other deferred revenue	1,990	1,820
Total	$ 5,061	$ 4,079

Consumer

Consumer revenue of $18.3 million in the six-month period of 2020 compares with $18.5 million in the six-month period of 2019. Broadband revenue increased $0.3 million year over year as lower connections were offset by an increase in ARPU to $70.14 from $67.00. Voice and other revenue decreased $0.6 million due primarily to 2,533 fewer connections. ARPU was essentially unchanged.

Regulatory

Regulatory revenue of $20.6 million decreased $1.6 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 $54.2 million increased $2.2 million, or 4.4%, in the six-month period of 2020 from $52.0 million in the six-month period of 2019 due primarily to higher circuit installation and labor costs. This increase also reflects approximately $0.5 million of costs associated with the COVID-19 pandemic, consisting primarily of incremental costs incurred due to delays in the activation of satellite service and disconnection of higher-cost third-party circuits as a result of travel restrictions. These increases were partially offset by lower utility costs and other expenses.

Selling, General and Administrative

Selling, general and administrative expenses of $31.6 million decreased $3.8 million, or 10.6%, in the six-month period of 2020 from $35.4 million in the six-month period of 2019 due primarily to lower labor costs and a decrease in the provision for doubtful accounts receivable. These decreases were partially offset by $0.3 million of incremental costs associated with the COVID-19 pandemic including an increase in the provision for doubtful accounts receivable and installation costs for free services. Labor costs in 2020 included $1.6 million of termination benefit expense for the Company's former CEO.

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Depreciation and Amortization

Depreciation and amortization expense of $19.9 million increased $2.0 million, or 11.2%, in the six-month period of 2020 from $17.9 million in the six-month period of 2019. This increase was due primarily to the completion of various capital projects.

Other Income and Expense

Interest expense of $5.7 million in the six-month period of 2020 declined from $6.2 million in the six-month period of 2019 due reduced borrowing levels and a lower average interest rate. The loss on extinguishment of debt of $2.8 million in the six-month period of 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 2020 were $2.0 million and 29.0%, respectively. 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.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of the AQ-JV was $42 thousand and $53 thousand in the six-month periods of 2020 and 2019, respectively.

Net Income Attributable to Alaska Communications

Net income attributable to Alaska Communications of $4.8 million in the six-month period of 2020 compares with $0.3 million in the same period of 2019. 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 2020 through internally generated funds and cash on hand. At June 30, 2020, we had $44.4 million of cash and cash equivalents, $1.6 million of restricted cash and $20.0 million available under our revolving credit facility.

Our major sources and uses of funds in the six months ended June 30, 2020 and 2019 were as follows:

(in thousands)		2020		2019
Net cash provided by operating activities	$	46,972	$	28,333
Capital expenditures	$	(18,412)	$	(20,432)
Change in unsettled capital expenditures	$	(702)	$	(551)
Repayments of long-term debt	$	(4,378)	$	(171,768)
Proceeds from the issuance of long-term debt	$	-	$	180,000
Debt issuance costs and discounts	$	-	$	(2,683)
Cash paid for debt extinguishment	$	-	$	(1,252)
Payment of cash dividend on common stock	$	(4,820)	$	-
Interest paid [1]	$	(5,708)	$	(6,114)

[1] Included in net cash provided by operating activities.

Cash Flows from Operating Activities

Cash provided by operating activities of $47.0 million in the first six months of 2020 reflects net income excluding non-cash items (defined as cash provided by operating activities excluding changes in operating assets and liabilities) of $25.1 million, receipts associated with deferred revenue arrangements of $18.8 million and collection of accounts receivable from rural health care customers. Cash provided by operating activities in the first six months of 2020 reflects cash outflows of approximately $0.5 million for incremental costs associated with the COVID-19 pandemic.

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 Flows from Investing Activities

Cash used by investing activities of $19.7 million in the first six months of 2020 consisted of expenditures on capital. Of $18.4 million incurred in 2020, $12.6 million was success based.

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, $13.9 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. We also engage in capital projects which may be pre-funded, in part, by the customer. Capital spending is typically higher during the second and third quarters. We intend to fund future capital expenditures primarily with cash on hand and net cash generated from operations.

Cash Flows from Financing Activities

Cash used by financing activities of $9.5 million in the first six months of 2020 consisted primarily of principal payments on the 2019 Senior Credit Facility totaling $4.4 million, including a prepayment of $2.1 million required due to the generation of excess cash flow in 2019, and the payment of a one-time cash dividend on common stock of $4.8 million.

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.

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.

As described above in the discussion of cash flows, the COVID-19 pandemic did not have a material impact on the Company's cash flows through June 30, 2020. It has also not impacted the Company's access to capital and financial resources and overall liquidity through June 30, 2020. Management does not currently expect that it will have a material impact during the next twelve months. The Company has identified and implemented actions to proactively mitigate actual and potential impacts. This is a rapidly evolving situation and we cannot predict the extent or duration of the pandemic, its effects on the global, national or local economy and its longer-term effects on the demand for our products and services, operations, financial condition, results of operations or cash flows, which could be material. We will continue to closely monitor the situation and make the appropriate adjustments to our operations as required and appropriate.

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

Certain of our capital projects are prefunded, in part, by the customer to whom the associated services will be provided. We also enter into lease agreements, including for dark fiber, requiring significant long-term funding commitments. The leased fiber is typically subleased to our customers who, in some cases, prefund their payments to the Company.

As of June 30, 2020, total long-term obligations outstanding, including current portion, were $176.1 million, consisting of $173.4 million in term loans under our 2019 Senior Credit Facility and $2.7 million in capital lease and other obligations. As of June 30, 2020, we had $44.4 million in cash and access to the full amount of the $20.0 million revolving credit facility under our 2019 Senior Credit Facility. Certain deferred revenue lease arrangements for which cash was received in advance require future investments in capital to support the service to be provided.

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

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The actual net total leverage ratio was 2.54 at June 30, 2020.

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 remaining applicable periods for purposes of calculating this ratio are the four consecutive fiscal quarters ending March 31, 2020 and thereafter. The minimum fixed charge coverage ratio is 1.10 to 1.00. The actual fixed charge coverage ratio was 1.53 at June 30, 2020.

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 5.81% at June 30, 2020.

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 initial total notional amount of $135.0 million, effectively fixing the interest payments on 75% of the outstanding principle.

On March 9, 2020, the Company’s Board of Directors declared a one-time cash dividend of $0.09 per share of common stock which was paid on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. A payment of $4.8 million was made in the second quarter. The remaining $32 thousand is associated with deferred Board of Director compensation and will be paid in future periods.

As of June 30, 2020, USAC had issued funding commitment letters for all of the Company’s rural health care customer applications for Funding Year 2018 (July 1, 2018 through June 30, 2019). For Funding Year 2019 (July 1, 2019 through June 30, 2020), the FCC had approved the Company’s cost-based rural rates and USAC had issued funding commitment letters. We recorded revenue from the rural health care program of $6.8 million and $7.6 million in the first six months of 2020 and 2019, respectively. Our accounts receivable balance for rural health care customers, net of amounts reserved, was $4.3 million at June 30, 2020 and $6.8 million at December 31, 2019.

OUTLOOK

COVID-19 Pandemic

The “COVID-19 Pandemic” section above summarizes the pandemic and the Company’s response. We are continuing to assess the potential future impact of the COVID-19 pandemic. This is a rapidly evolving situation and we cannot predict the extent or duration of the pandemic, its effects on the global, national or local economy and its longer-term effects on the demand for our products and services, operations, financial condition, results of operations or cash flows, which could be material. We will continue to closely monitor the situation and make the appropriate adjustments to our operations as required and appropriate.

Other

Subject to the duration and magnitude of the COVID-19 pandemic, 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. This growth driven by continued demand for broadband as businesses migrate their IT infrastructure to the cloud, deployment of small cell networks, expansion into managed IT services, investments by Federal agencies in long haul broadband infrastructure and continued progress in serving new school districts. Continued state of Alaska budget constraints may negatively impact these growth opportunities. We expect to see solid performance from our carrier and federal customers as well as opportunities in markets enabled by the North Slope networks. Driven by our network investments in fiber fed wifi and fixed wireless, we expect to strengthen our competitive position serving small business and residential customers. Growth in these areas is expected to be somewhat offset by continued pressure in the rural health care program.

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

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

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 this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2019 for further information regarding these risks.

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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, 2020, we have recorded litigation accruals of $1.2 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, 2020, we employed 576 regular full-time employees, 7 regular part-time employees and 3 temporary employees, compared with 569, 8 and 4, respectively at December 31, 2019. Approximately 54% 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, 2019. 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.

The following critical accounting policies have been updated to reflect the potential effects of the COVID-19 pandemic.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the Consolidated Statements of Cash Flows. The Company does not have any off-balance sheet credit exposure related to its customers. Allowances for uncollectible receivables are established and incurred during the period. These estimates are derived through an analysis of account aging profiles and a review of historical recovery experience. Receivables are charged off against the allowance when management confirms it is probable amounts will not be collected. Subsequent recoveries, if any, are credited to the allowance. The Company records bad debt expense as a component of "Selling, general and administrative expense" in the Consolidated Statements of Comprehensive Income. As a result of changing market conditions due to the COVID-19 pandemic, the policy for determining the allowance for uncollectible accounts receivable will be adjusted if required.

Revenue Recognition

The Company accounts for revenue in accordance with ASC 606 and other guidance. Revenue is typically recognized as services or products are provided to the customer based on the amount of consideration expected to be collected from the customer or other sources. See Note 2 "*Revenue Recognition*" for a summary of the Company's revenue recognition policies. As a result of changing market conditions due to theCOVID-19 pandemic, the policy for assessment of the consideration expected to be collected will be adjusted if required.

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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 Chief 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 Chief Executive Officer and our Chief 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 chief executive officer and chief 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 Chief Executive Officer and our Chief Financial Officer, we have evaluated any changes in our internal control over financial reporting that occurred during the second quarter of 2020 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, 2020, we have recorded litigation accruals of $1.2 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, 2019, 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

Other than as described below, 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, 2019.

The following risk factors have been updated to reflect the potential effects of the COVID-19 pandemic.

A major public health issue, such as an epidemic or pandemic, and including the current COVID-19 pandemic, could adversely affect our operations and financial performance.

The COVID-19 pandemic has negatively impacted the global, national and state of Alaska economies. It has caused disruption to certain of our business customers' operations and could result in changes to our wholesale customers' operations and reductions in consumer spending, all of which could negatively impact our revenue, collection of accounts receivable and cash flows. Disruptions to the financial markets could limit our access to debt and other sources of capital. Our operations, including the provision of services and products to our customers and maintenance of the supporting infrastructure, rely on products, resources and our employees inside and outside the state of Alaska. A major public health issue, including the COVID-19 pandemic, could disrupt the timely receipt of those products and resources, the productivity of our employees, our provision of products and services to our customers and negatively affect our operations, financial results and liquidity. Adverse effects on our operations to date include delayed implementation of dark fiber agreements with suppliers and customers, delays in the provision of other services to certain customers, disruption in the operations of certain of our business and wholesale customers, negative impacts on the Alaskan economy and the delayed provision of services from certain vendors.

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

All industries that rely on technology in customer interactions are increasingly at risk for cyber-attacks. A cyber-attack could be levied against our network, causing disruption of operations and service, requiring implementation of greater network security measures, and resulting in lost revenue due to lost service. A cyber-attack could also be targeted to infiltrate customer proprietary and other data, breaching customer privacy, resulting in misuse of customer information and other data, and possibly leading to litigation over privacy breaches and causing harm to the Company's reputation. In the event of a cyber-attack, Company insiders could utilize their knowledge of such an attack in trading the Company's publicly traded shares. We rely on a variety of procedures to guard against cyber-attacks, and to take appropriate actions in the event of a cyber-attack, but the frequency of threats from these attacks is growing globally and the risk to us is also growing. Due to the COVID-19 pandemic, many of our employees are temporarily working remotely, which may pose additional data security risks.

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

Because of its inherent limitations, and irrespective of the existence of material weaknesses, our internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that such controls may become inadequate because of changes in conditions, or the degree of compliance with policies and procedures may deteriorate. The effects of the COVID-19 pandemic may also impact our financial reporting systems and internal control over financial reporting. Any of these circumstances could cause our financial reporting to be unreliable.

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

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.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Location
4.1	Description of Alaska Communications Systems Group, Inc.'s Securities	Filed herewith
10.1	Alaska Communications Systems Group, Inc. 2020 Non-Employee Director Compensation and Reimbursement Policy	Filed herewith
10.2	Alaska Communications Systems Group, Inc. Amended and Restated 2012 Employee Stock Purchase Plan	Filed herewith
31.1	Certification of William Bishop, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Laurie Butcher, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of William Bishop, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of Laurie Butcher, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101)	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 10, 2020

/s/ William Bishop
William Bishop
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2020

/s/ Laurie Butcher
Laurie Butcher

Chief Financial Officer
(Principal Financial Officer)

Description of the Registrant's Securities
Registered Pursuant to Section 12 of the Securities Exchange Act of 1934

The following is a brief description of the securities of Alaska Communications Systems Group, Inc. (the "Company," "Corporation," "we," "us" and "our") registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended. The following description of the Company's common stock, par value $0.01 per share, is subject in all respects to the General Corporate Law of the State of Delaware (the "DGCL") and to the full text of the Company's amended and restated certificate of incorporation (the "certificate of incorporation") and the Company's amended and restated by-laws (the "by-laws").

General

Pursuant to our certificate of incorporation, our authorized capital stock consists of:

- 145,000,000 shares of common stock, par value $0.01 per share; and
- 5,000,000 shares of preferred stock, par value $0.01 per share.

Common Stock

Voting Rights

Holders of our common stock are entitled to one vote for each share held of record on all matters to which stockholders are entitled to vote generally, including the election or removal of members of our Board of Directors (or "Directors"). The common stock shall vote together as a single class.

Dividends

Subject to the provisions of the certificate of incorporation and any preferred stock designation, the Board of Directors may, in its sole discretion, declare dividends upon stock of the Corporation out of funds of the Corporation available for dividends, such sum or sums as the Board of Directors from time to time in their discretion deem proper for such purposes and the Board of Directors shall deem conducive to the interests of the Corporation. The Company's stockholders have no contractual or other legal right to dividends.

The Company's dividend policy as set by the Board of Directors is also subject to the terms of its credit facilities and the continued current and future performance and liquidity needs of the Company. Dividends on the Company's common stock are not cumulative to the extent they are declared.

In the fourth quarter of 2012, the Board of Directors suspended the quarterly dividend. Since that point, the Board of Directors has declared a single one-time dividend which as paid in 2020.

Preferred Stock

Our certificate of incorporation authorizes our Board of Directors to provide for the issuance of all or any shares of the preferred stock, in one or more series, and to fix for each such series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issue of such series as may be permitted by the DGCL. The number of authorized shares of preferred stock may be increased or decreased (but not below the number of shares thereof outstanding) by the affirmative vote of the holders of a majority of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote in the election of Directors, voting together as a single class, without a separate vote of the holders of the preferred stock, or any series thereof, unless a vote of any such holders is required pursuant to any preferred stock designation. We could issue a series of preferred stock that could, depending on the terms of the series, impede or discourage an acquisition attempt or other transaction that some, or a majority of, stockholders might believe to be in its best interests or in which a stockholder might receive a premium for our common stock over the market price of the common stock.

Change in Ownership Provisions

The Company and its Board of Directors may, at its discretion, take actions from time to time to avoid a change in ownership as defined in Section 382 of the Internal Revenue Code of 1986 as amended. Such actions may include establishment of a tax benefits preservation plan which provides for the issuance of a special series of preferred stock and is intended to protect the Company's income tax net operating losses.

Director Removals, Resignations and Vacancies

Any Director or Directors may be removed either for or without cause at any time by the affirmative vote of the holders of a majority of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of Directors at an annual meeting or a special meeting of shareholders.

Any Director may resign at any time upon notice to the Chairman of the Board, the Chief Executive Officer or the Secretary of the Corporation. Unless otherwise provided in the certificate of incorporation or the by-laws, when one or more Directors resign from the Board of Directors, effective at a future date, a majority of the Directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective. The acceptance of a resignation shall not be necessary to make it effective.

If the office of any Director becomes vacant or any new directorship is created, the remaining Directors in office, though less than a quorum, by a majority vote of the Directors then in office, may appoint any qualified person to fill such vacancy or new directorship, who shall hold office for the unexpired term and until his or her successor shall be elected and shall qualify. If the office of any Director becomes vacant or any new directorship is created and there are no remaining Directors, the stockholders may elect any qualified person to fill such vacancy or new directorship at a special meeting called for such purpose.

Special Stockholder Meetings

Our by-laws provide that special meetings of the stockholders for any purpose or purposes may be called by the Chairman of the Board, the President or by resolution of the Board of Directors adopted by a majority of the total number of authorized Directors.

Requirements for Advance Notification of Director Nominations and Stockholder Proposals

Our by-laws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as Directors. For a stockholder to propose a nomination of a person or persons for election to the Board of Directors, or bring any other business to a vote at a stockholders' meeting, the stockholder must provide timely written notice to the secretary of the Corporation not less than 120 calendar days or more than 150 calendar days prior to the first anniversary of the preceding year's annual meeting, provided, however, that in the event that the date of the annual meeting is advanced by more than 30 calendar days from such anniversary date, notice by the stockholder to be timely must be delivered not later than the close of business on the later of the 120th calendar day prior to such annual meeting or the 10th calendar day following the day on which the public disclosure of the date of such meeting is first made by the Corporation.

Stockholder Action Without a Meeting

Unless otherwise provided by the certificate of incorporation, any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take the action were delivered to the Corporation in accordance with Section 228 of the DGCL.

In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than 10 calendar days after the date upon which the resolution fixing the record date is adopted by the Board of Directors.

Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary of the Corporation, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within 10 calendar days after the date on which such a request is received, adopt a resolution fixing the record date.

Amendments to the Certificate of Incorporation and By-Laws

The Corporation reserves the right at any time from time to time to amend, alter, change or repeal any provision contained in its certificate of incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, Directors or any other persons whomsoever by and pursuant to its certificate of incorporation in its present form or as hereafter amended are granted subject to the right reserved.

The Board of Directors is authorized and empowered to make, alter, amend and repeal the by-laws by a majority vote of the Directors present at any meeting at which a quorum of the Directors is present, or by written consent in accordance with the DGCL.

Limitations on Liability and Indemnification of Officers and Directors

A Director shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except for liability (i) for any breach of the Director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the Director derived an improper personal benefit.

Our amended and restated by-laws provide that we must indemnify and advance expenses to our Directors and officers to the fullest extent authorized by the DGCL. We are also expressly authorized to, and do, carry directors' and officers' insurance for our Directors, officers and certain employees for some liabilities. We believe that these indemnification provisions and insurance are useful to attract and retain qualified Directors and executive officers.

The limitation of liability and indemnification provisions in our amended and restated by-laws may discourage shareholders from bringing a lawsuit against our Directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against Directors and officers, even though such an action, if successful, might otherwise benefit us and our shareholders. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against Directors and officers pursuant to these indemnification provisions.

Transfer Agent and Registrar

Computershare Limited is the transfer agent and registrar for our common stock.

Exhibit 10.1

2020 Alaska Communications Systems Group, Inc.
Non-Employee Director Compensation and Reimbursement Policy

Objective

The objectives of this Policy are to provide compensation to Non-Employee Directors that helps to align the interests of Non-Employee Directors with stockholders', and to attract and retain Non-Employee Directors that will contribute to the Company's success and stockholder returns. This Policy will become effective June 16, 2020.

Eligibility

Each Non-Employee Director shall be eligible to participate in the Policy. Any Non-Employee Director who becomes an employee of the Company shall not thereafter be entitled to compensation under this Policy, but shall retain all existing compensation pursuant to the terms of this Policy. Employee Directors are specifically excluded from receiving any compensation under this Policy.

Compensation Schedule

The Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan governs Non-Employee Directors' Annual Retainer and associated Cash and Stock compensation.

Board Service Compensation	
Annual Cash Retainer	$ 50,000
Annual Equity Grant	$ 50,000
Committee Chair Cash Retainers	
Audit	$ 20,000
Compensation	$ 15,000
Nominating & Governance	$ 10,000
Committee Member Cash Retainers	
Audit	$ 5,000
Compensation	$ 4,000
Nominating & Governance	$ 3,000
Additional Board Chair Cash Retainer	$ 40,000

Cash compensation components are paid in quarterly installments within 7 days of the close of the calendar quarter. Cash compensation shall be prorated for any quarter in which a Non-Employee Director serves only a portion of that quarter.

Equity compensation components, as outlined above, are granted at the first Board meeting immediately following the Company's annual meeting (the "grant date") and will become vested as of the earlier of: (1) the one-year anniversary of the grant date; or (2) the day of the next annual meeting, for Non-Employee Directors serving their full term. The number of shares granted will be determined based on 10-day average closing stock price on June 15, 2020. Equity compensation amounts will not be prorated, except in the event that a new Non-Employee Director is appointed between the grant date and the next annual meeting date, then in that case, an equity grant will be made prorated for the time in service and vesting at the same time as other Non-Employee Director grants vest. If a Director chooses to voluntarily terminate their service before a grant vests, the equity grant will be forfeited.

When the Board of Directors determines that the balance of shares available for grant under the 2011 Incentive Award Plan is insufficient, the annual equity grant will be paid in cash on a quarterly basis as provided for cash retainers. Non-Employee Directors will be obligated to use compensation paid in cash under this provision to make open market purchases of the Company's common shares to the extent purchases are compliant with the Company's Insider Trading Policy and applicable SEC and NASDAQ rules.

Committee Chair and Committee Member Retainers and Additional Board Chair Retainer compensation for directors that have role transitions during a calendar quarter shall be prorated for the time served in each role during the quarter.

Separating Non-Employee Directors will receive their stock and cash compensation on the same payment schedule as all other Non-Employee Directors.

Common Stock Holding Requirements

Each Non-Employee Director is expected to hold common stock issued by the Company equivalent to at least three times his or her annual cash retainer by the fifth anniversary of such Director's continuous service to the Board as a Director. Company common stock shall include common stock equivalents (common stock adjusted for stock splits, stock dividends, recapitalizations, and the like). If the minimum holding period is not met within the required time frame, a Director must hold all stock granted to him or her through the compensation program until the minimum holding level is achieved. Once the guideline is achieved, if the value of the shares declines below the guideline level, each Director will be deemed in compliance as long as the related shares are not sold, and future stock grants are held until the guideline is again achieved.

Reimbursement of Reasonable Expenses

Reasonable expenses incurred by Non-Employee Directors that are directly associated with service as a director for Alaska Communications Systems Group, Inc. will be reimbursable under this Policy. Examples of reimbursable expenses include reasonable travel, food, lodging, and service expenses incurred in the course of attending Board of Director and Committee meetings.

For purposes of the reimbursement of travel expenses, “reasonable travel” includes a first-class airline ticket for round trip transport along the most practicable direct route. Within reasonable limits, side trips or additional travel may be included in a Director’s itinerary. In such cases, however, the Company will reimburse no more than the lowest qualifying fare for a direct round trip available on the date the travel was arranged, with such fare documentation to be provided by the Director. Directors are at all times expected to arrange for travel at the earliest practicable time to minimize the cost of reimbursable airline ticket expense.

Expenses incurred by Directors in connection with matters other than the attendance of Board or Committee meetings shall receive approval for reimbursement from the CEO or, if the CEO is unavailable, by the Board Chair or Lead Director in advance of a Director’s incursion of the expenses.

Non-Employee Directors desiring reimbursement of expenses may complete a “Request for Reimbursement of Reasonable Expenses” form (Exhibit A) and submit to the Corporate Secretary no later than 30 days following the incursion of the expense. Expenses must be submitted for reimbursement within ninety (90) days of being incurred, or the right to reimbursement will be forfeited.

Administration

The Board has delegated authority to administer this Policy to the Compensation and Personnel Committee of the Board (the “Committee”), which shall have full authority to construe and interpret the Policy, to establish, amend and rescind rules and regulations relating to the Policy, and to take all such actions and make all such determinations in connection with the Policy as it may deem necessary or desirable.

The Committee has delegated day-to-day administration of Policy provisions to the Secretary of the Company.

Amendment and Termination

The Committee may amend, alter, or discontinue the Policy at any time. The Committee shall have authority to amend the Policy to take into account changes in law and tax and accounting rules as well as other developments.

Effectiveness of Policy

The Policy shall become effective June 16, 2020

Alaska Communications Systems Group, Inc.
Non-Employee Director Expense Reimbursement Request

Meeting Date	Transportation	Lodging	Breakfast	Lunch	Dinner	Other

Please attach copies of receipts and other documentation of reasonable specificity for requested expense reimbursements. Please note, credit card statements alone generally will not constitute reasonable documentation. Submit the completed form to:

Corporate Secretary
Attn: Tiffany Smith
Alaska Communications
600 Telephone Ave., MS 65
Anchorage, AK 99503

Expenses will usually be reimbursed within 30 days of Alaska Communications' receipt of this form. If you have questions about expense reimbursement under this policy, please contact Leonard Steinberg at 907-297-3105.

Signature: ______________________________ Date: ______________________________

Print Name: ______________________________

Exhibit 10.2

This document constitutes part of a prospectus covering securities that we have registered under the Securities Act of 1933

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

2,100,000 shares of Common Stock, par value $0.01 per share
Issuable under the Alaska Communications Systems Group, Inc. Amended and Restated 2012 Employee Stock Purchase Plan

This Prospectus relates to 2,100,000 shares of common stock ("Common Stock") of Alaska Communications Systems Group, Inc. (the "Company") reserved for issuance from time to time in connection with the Alaska Communications Systems Group, Inc. Amended and Restated 2012 Employee Stock Purchase Plan (the "Plan").

The Plan generally provides for the grant to and the automatic exercise by eligible employees of options to purchase shares of Common Stock through payroll deductions during consecutive six-month offering periods. The Company holds payroll deductions as general corporate assets, and will not hold such payroll deductions in a trust or other fund. The outstanding Common Stock of the Company is listed on the Nasdaq Global Select Market under the ticker symbol "ALSK."

The main features of the Plan are summarized in this Prospectus. However, if there are any inconsistencies between this Prospectus and the Plan or the terms of any option, the Plan and the terms of the option will always control.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Individuals should rely only on the information contained in this document or that the Company has referred to them. The Company has not authorized anyone to provide information that is different. The Company is offering to sell, and seeking offers to buy, shares of Common Stock only in jurisdictions which permit offers and sales. The information contained in this Prospectus is accurate only as of the date of this Prospectus.

Copies of the Plan and additional information about the Plan can be obtained without charge upon written or oral request to: Alaska Communications Systems Group, Inc., 600 Telephone Avenue, Anchorage, Alaska 99503, telephone number (907) 297-3000.

THE DATE OF THIS PROSPECTUS IS JULY 17, 2020.

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AVAILABLE INFORMATION

The Company is subject to the reporting and information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files periodic reports, proxy statements and other information with the SEC. Periodic reports, proxy statements and other information filed by the Company in accordance with the Exchange Act can be inspected and copied at the SEC's public reference room in Washington, D.C. , and copies of which can be obtained from the SEC upon payment of prescribed fees. Electronic reports, proxy statements and other information filed through the SEC's Electronic Data Gathering, Analysis and Retrieval system are publicly available through the SEC's web site (http://www.sec.gov). The Company's Common Stock is listed on the Nasdaq Global Select Market under the ticker symbol "ALSK." Additional updating information with respect to the Company's Common Stock may be provided in the future to participants by means of appendices to this Prospectus or delivery of other documents.

The Company has filed with the SEC one or more Registration Statement on Form S-8 (including all amendments thereto, the "Registration Statement") with respect to the securities offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information about the Company and the securities offered hereby, reference is made to the Registration Statement and the exhibits thereto, which may be examined without charge at the SEC's public reference room in Washington, D.C. 20549, and copies of which may be obtained from the SEC upon payment of the prescribed fees.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, which we have filed with the SEC, are incorporated by reference in this Prospectus:

- Our annual report on Form 10-K for the year ended December 31, 2019, filed on March 16, 2020, which contains our audited financial statements for the latest fiscal year for which such statements have been filed;
- Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, filed on May 11, 2020;
- All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by our annual report on Form 10-K referenced above (excluding any documents or portions thereof that are furnished under Item 2.02 or Item 7.01 of a current report on Form 8-K, and any exhibits included with such Items); and
- The description of our Common Stock contained in our registration statement on Form 8-A (Registration No. 000-28167), filed by us with the SEC under Section 12(b) of the Exchange Act, on November 17, 1999, including any amendments or reports filed for the purpose of updating such description.

In addition, the Company deems all documents subsequently filed by the Company with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act to be incorporated by reference in this Prospectus after the date of this Prospectus and prior to the filing of a post-effective amendment which indicates that the Company has sold all securities offered or which deregisters all securities then remaining unsold (except as to any portion of a document or current report furnished under current Items 2.02 or 7.01 of Form 8-K that is not deemed filed under such provisions). The Company deems all such documents to be a part of this Prospectus from the respective dates of filing such documents.

The Company further deems any statement contained in a document incorporated or deemed to be incorporated by reference into this Prospectus to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. The Company will not deem any such statement so modified or superseded to constitute a part of this Prospectus except as so modified or superseded.

The Company will provide copies of all documents which it has incorporated into this Prospectus by reference (not including the exhibits to such information, unless such exhibits are specifically incorporated by reference in such information) without charge to each person, including any beneficial owner, to whom the Company has delivered this Prospectus, upon a written or oral request. The Company will also provide copies of this Prospectus, as amended or supplemented from time to time, any other documents (or parts of documents) that constitute part of the Prospectus under Section 10(a) of the Securities Act of 1933, as amended (the "Securities Act"), or which Rule 428(b) under the Securities Act requires the Company to deliver, and its Annual Report to Stockholders, without charge to each such person, including upon written or oral request. Such persons should direct all requests to:

Alaska Communications Systems Group, Inc.
600 Telephone Avenue
Anchorage, Alaska 99503
Tel: (907) 297-3000

SUMMARY OF THE PLAN

The purpose of the Plan is to assist eligible employees in acquiring a stock ownership interest in the Company, to help eligible employees provide for their future security and to encourage them to remain in the employment of the Company and its designated subsidiaries.

The Plan generally provides for the grant and the automatic exercise of options to purchase shares of Common Stock through payroll deductions during successive six-month offering periods (unless the plan administrator changes the duration of future offering periods). The Plan is intended to qualify as an "employee stock purchase plan" as defined in Section 423 of the Internal Revenue Code of 1986, as amended (the "Code").

The Employee Retirement Income Security Act of 1974 does not govern the Plan. In addition, the Plan does not qualify under Section 401(a) of the Code.

Because this is a summary, it does not contain all the information that may be important to participants. To the extent any provision of this summary is inconsistent with the terms of the Plan, the Plan will prevail. Participants may obtain a copy of the Plan and additional information about the Plan, without charge, by written or oral request to the Company:

Alaska Communications Systems Group, Inc.
600 Telephone Avenue
Anchorage, Alaska 99503
Tel: (907) 297-3000

Securities Subject to the Plan

Under the terms of the Plan, the maximum aggregate number of authorized shares of Common Stock for issuance under the Plan is 2,100,000 shares of Common Stock. The Board of Directors of the Company (the "Board") or a committee of the Board appointed to administer the Plan (the "Committee") will proportionately adjust:

- the aggregate number of shares of Common Stock subject to the Plan;
- the number of shares of Common Stock subject to outstanding options; and
- the price per share of outstanding options;

if there is any increase or decrease in the number of issued shares of Common Stock as a result of any dividend or other distribution, reorganization, merger, consolidation, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other increase or decrease in such shares of Common Stock affected without receipt of consideration by us as a result of which the Board or the Committee determines the foregoing adjustments are appropriate. The number of shares of Common Stock available for issuance under the Plan was reduced by the number of shares of Common Stock issued under the Company's 1999 Employee Stock Purchase Plan (the "Prior Plan") in respect of the offering period in effect on the date the Board originally adopted the Plan in 2012.

The Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the open market or otherwise.

We will use proceeds from the sale of the shares of Common Stock pursuant to the exercise of options under the Plan for general corporate purposes.

Grant of Options; Offering Periods

The Plan grants to eligible employees nontransferable options to purchase shares of Common Stock. Options are granted on the first trading day (i.e., a day on which the stock exchange or national market system on which the Common Stock is listed is open for trading) of each offering period (the "enrollment date"). Such options are automatically exercised on the last trading day that is also a Company business day of each offering period ("exercise date"). The first day of each offering period is either January 1 or July 1 of each year, unless otherwise determined by the plan administrator.

Eligibility to Participate

You will be eligible to participate in any offering period if, on the first day of the period, you are one of our employees or our designated subsidiaries' employees,

- who does not, immediately after the option is granted, own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or a parent or subsidiary of the Company (stock that you may purchase under options or that we attribute to you under Section 424(d) of the Code will be counted for this purpose);
- whose customary employment is for more than 20 hours per week; and

- whose customary employment is for more than 5 months in any calendar year.

We cannot grant an option that would permit your rights to purchase stock under all employee stock purchase plans maintained by the Company and its affiliates, and which are intended to qualify under Section 423 of the Code, to accrue at a rate which exceeds twenty five thousand dollars ($25,000) of fair market value of Common Stock (as of the time the options are granted) for each calendar year in which your option is outstanding at any time.

Election to Participate

You may enroll in the Plan by submitting the prescribed enrollment form to us no later than the filing deadline communicated to employees for the applicable offering period, or, if there is no specific deadline communicated to employees, then no later than the 15th day of the month (or if such day is not a business day for the Company or the applicable subsidiary, on the immediately preceding business day) before the enrollment date.

Your authorization will enroll you in the Plan for each successive offering period until you:

- submit a new authorization;

- withdraw from participation in the Plan; or

- become ineligible to participate in the Plan.

Your election to participate in the Plan must specify the whole percentage of your compensation, not less than one percent (1%), nor more than fifteen percent (15%), that you desire to use for the purchase of shares of Common Stock under the Plan.

Payroll Deductions

Throughout the offering period we will reduce your cash compensation on an after-tax basis through payroll deductions. The payroll deductions will be used to purchase shares of Common Stock at the end of each offering period. The payroll deduction will equal a specified whole percentage of your compensation, not less than one percent (1%), nor more than fifteen percent (15%), payable on each payday. For purposes of the Plan, your compensation means your full base salary, including shift differential, and overtime paid to you by the Company or a designated subsidiary. “Compensation” does not include

- cash incentives, bonuses or commissions;

- any amounts contributed by the Company or a designated subsidiary to any pension plan;

- any automobile or relocation allowances (or reimbursement of any such expenses);

- any amounts paid as a starting bonus or finder’s fee;

- equity compensation (including performance stock, performance stock units, restricted stock, restricted stock units or other equity awards) and any amounts realized from the exercise of any stock options or other equity incentive awards;

- any amounts paid by the Company or a designated subsidiary for other fringe benefits, such as health and welfare, hospitalization and group life insurance benefits, or perquisites, or paid in lieu of such benefits; or

- other similar forms of extraordinary compensation, as determined by the plan administrator.

You may change your payroll deduction percentage by submitting the prescribed percentage change form to us not later than the 15th day (or if such day is not a business day for the Company or the applicable subsidiary, on the immediately preceding business day) of the last month of the offering period. You may decrease your payroll deduction percentage only once during an offering period. Such change in rate shall be effective not later than the first full payroll period following 10 business days after the Company’s stock plan administration department receives the new subscription agreement (or such shorter or longer period as may be determined by the plan administrator, in its sole discretion).

We may discontinue your payroll deductions during an offering period to the extent we determine that your payroll deductions during such offering period would result in purchases of Common Stock in excess of the limitations described under “Eligibility to Participate” above and “Purchase Price” below. Payroll deductions will recommence on the first day of the next offering period, subject to the limitations described above.

We will hold your payroll deductions throughout the offering period as general unsecured corporate assets. We will credit this amount in an account established under the Plan for you. At the end of each offering period, your option to purchase shares of Common Stock under the Plan will be exercised automatically. We will use the amount in your account to pay the exercise price of your option and determine the number of shares of Common Stock issuable to you for that period.

We will not credit any interest on payroll deductions credited to your account under the Plan.

Purchase Price

Currently, the number of shares that an individual may purchase shall not exceed 10,000 shares of Common Stock for any offering period.

The per share purchase price for our Common Stock for any offering period will equal the lesser of:

- eighty-five percent (85%) of the fair market value of a share of Common Stock on the first trading day of the offering period in which you are participating, or

- eighty-five percent (85%) of the fair market value of a share of Common Stock on the exercise date with respect to the offering period in which you are participating.

We will determine the fair market value of a share of Common Stock, as of any given date, as follows:

- If our Common Stock is listed on any established stock exchange or national market system, then its fair market value shall be the closing sales price for a share of Common Stock as quoted on such exchange or system for such date (or the closing bid, if no sales were reported) or, if there is no closing sales price for a share of Common Stock on such date, then it will be the closing sales price (or the closing bid, if no sales were reported) for a share of Common Stock on the last trading date immediately prior to such date during which a bid or sale occurred, in each case, as reported in *The Wall Street Journal* or such other source as the plan administrator deems reliable;

- If our Common Stock is not listed on an established stock exchange or national market system, but is regularly quoted by a recognized securities dealer, then its fair market value shall be the mean of the closing bid and asked prices for the Common Stock on such date, or if no closing bid and asked prices were reported for such date, the date immediately prior to such date during which closing bid and asked prices were quoted for the Common Stock, in each case, as reported in *The Wall Street Journal* or such other source as the plan administrator deems reliable; or

- If our Common Stock is neither listed on an established stock exchange or a national market system nor regularly quoted by a recognized securities dealer, its fair market value shall be established by the plan administrator in good faith.

Exercise of Options

Your option will be automatically exercised on the exercise date (i.e., last trading day that is also a Company business day of each offering period). The maximum number of whole and any fractional shares (rounded to the nearest hundredth) of Common Stock subject to the option shall be purchased for you with the accumulated payroll deductions in your account. Unused accumulated payroll deductions in excess of $1.00 will be refunded to you; amounts less than $1.00 will be rounded down to zero.

As promptly as practicable after each exercise date on which a purchase of shares occurs, the Company may arrange for the deposit, into your account with any broker designated by the Company to administer the Plan, of the number of shares purchased upon exercise of your option.

If options may be exercised in an amount which exceeds the total number of shares of Common Stock remaining available under the Plan on the applicable enrollment date, or the number of shares available for such purchase under the Plan on such exercise date, the plan administrator may, in its sole discretion, (x) provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on the enrollment date or exercise date, as applicable, in as uniform a manner as shall be practicable and as it will determine in its sole discretion to be equitable among all participants, and continue all offering periods then in effect, or (y) provide that the Company shall make a pro rata allocation of the shares available for purchase on the enrollment date or exercise date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants, and terminate any or all offering periods then in effect.

We will not pay any interest on any unapplied payroll deductions.

Withdrawal from Participation

You can avoid the automatic exercise of your option if you submitted the prescribed withdrawal form to us not later than the 15th day (or if such day is not a business day for the Company or the applicable subsidiary, on the immediately preceding business day) of the last month of the offering period. All of your payroll deductions credited to your account during the offering period will be paid to you as soon as reasonably practicable after receipt of notice of withdrawal and your option for the offering period will be automatically terminated and no further payroll deductions for the purchase of shares will be made for such offering period or thereafter. We will not pay any interest on any payroll deductions. You will need to submit a new enrollment form if you wish to resume participation in the Plan as described under "Election to Participate" above.

Cessation of Participation

If you cease to be an eligible employee for any reason, provided that such event is not later than the 15th day (or if such day is not a business day for the Company or the applicable subsidiary, on the immediately preceding business day) of the last month of the offering period, you will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to your account during the offering period will be paid to you or, in the case of your death, to the person or persons entitled thereto pursuant to the terms of the Plan, as soon as reasonably practicable and your option for the offering period will be automatically terminated. If you cease to be an eligible employee later than the 15th day (or if such day is not a business day for the Company or the applicable subsidiary, on the immediately preceding business day) of the last month of the offering period, for any reason, you will be deemed to have elected to withdraw from the Plan effective immediately after the exercise date and no further payroll deductions will be withheld from compensation paid after such exercise date.

Effect of Leaves of Absences on Participation

For purposes of the Plan, the employment relationship shall be treated as continuing intact in the event you are on sick leave or other leave of absence approved by the Company or a designated subsidiary and meeting the requirements of Treasury Regulation Section 1.421-1(h)(2). Where the period of leave exceeds 90 days and your right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave; provided, however, that this 90 day leave limitation shall not apply to you if you work a supervisor-approved, regular work schedule, of five or more months in each calendar year.

Administration of the Plan

The Plan will be administered by the Board unless and until the Board delegates administration to a committee. The Committee will consist of at least two members of our Board of Directors, each of whom is a "non-employee director" within the meaning of Rule 16b-3 of the Exchange Act. We will pay all costs of administering the Plan. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. Each member of the Committee shall serve for a term commencing on a date specified by the Board and continuing until the member dies or resigns or is removed from office by the Board.

It shall be the duty of the plan administrator to conduct the general administration of the Plan in accordance with the provisions of the Plan. The plan administrator shall have the power to interpret the Plan and the terms of the options and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules.

No member of the Board will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan and the options, and all members of the Board will be fully protected by the Company in respect to any such action, determination or interpretation. The Board may at any time exercise the duties of the Committee under the Plan.

The plan administrator may designate an agent to assist in the administration of the Plan. This agent may establish and maintain individual accounts for each of the participants in the Plan.

Inquiries regarding administration of the Plan may be directed to the Company at the address and telephone number under "Summary of the Plan" above.

Rights as a Stockholder

You will not have any rights as a stockholder as to the shares of Common Stock covered by an option until we have issued and delivered such shares to you or your account following the exercise of your option. We generally will not adjust for most dividends or distributions or other rights for shares of Common Stock if the record date is prior to the date of such issuance.

All eligible employees will have equal rights and privileges under the Plan so that the Plan qualifies as an “employee stock purchase plan” under Section 423 of the Code. Any provision of the Plan that is inconsistent with the equal rights and privileges requirement of Section 423 of the Code will automatically be reformed to comply with such requirement.

Reports

Individual bookkeeping accounts shall be maintained for each participant in the Plan. Statements of account shall be given to participating employees at least annually, which statements shall set forth the amounts of payroll deductions utilized for purchases within the reporting period, the purchase price, the number of shares purchased and the remaining cash balance, if any.

Options Not Transferable

You cannot assign or transfer any option granted under the Plan, except by will or the laws of descent and distribution. During your lifetime, only you may exercise the option. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw funds from an offering period in accordance with the terms of the Plan.

Notice of Disposition of Shares

Each participant shall give prompt notice to the Company of any disposition or other transfer of any shares of Common Stock purchased upon exercise of an option under the Plan. Such notice shall specify the date of such disposition or other transfer and the amount realized, in cash, other property, assumption of indebtedness, or other consideration, by the participant in such disposition or other transfer.

Sales of Shares

The Company has filed a Registration Statement with the SEC to register the shares of Common Stock issuable under the Plan. If the Registration Statement ceases to be effective, you may not be able to exercise your options or freely sell the shares you purchase unless an exemption from registration is available under federal and state securities laws. Exemptions from registration are very limited and might be unavailable.

Sales of shares purchased under the Plan are also subject to compliance with our insider trading policy that prohibits buying or selling Company securities while you are aware of material, nonpublic information. Certain individuals who are considered “affiliates” for purposes of Rule 144 of the Securities Act must resell any shares acquired in compliance with the applicable requirements of Rule 144.

Dissolution, Liquidation or Merger of the Company

If there is a dissolution or liquidation of the Company, the offering period then in progress will be shortened by setting a new exercise date and will terminate immediately prior to the consummation of such dissolution or liquidation, unless provided otherwise by the plan administrator. The new exercise date will be before the date of the Company’s proposed dissolution or liquidation and the plan administrator will notify each participant in writing, at least 10 business days prior to the new exercise date, that the exercise date for the participant’s option has been changed to the new exercise date and that the participant’s option will be exercised automatically on the new exercise date, unless the participant has withdrawn from the offering period pursuant to the terms of the Plan.

If there is a proposed sale of all or substantially all of the assets of the Company, a proposed merger of the Company with or into another corporation, each outstanding option under an ongoing offering period shall be assumed or an equivalent option substituted by the successor corporation or acquirer or a parent or subsidiary of the successor corporation or acquirer. If the successor corporation or acquirer refuses to assume or substitute for the outstanding options under an ongoing offering period, the offering period will be shortened by setting a new exercise date. The new exercise date will be before the date of the proposed transaction. The Company will notify each participant in writing, at least 10 business days prior to the new exercise date, that the exercise date for the offering period has been changed to the new exercise date and that the purchase shall automatically occur on the new exercise date, unless the participant has withdrawn from the offering period pursuant to the terms of the Plan. The new exercise date may be set and may occur regardless of whether a proposed sale or merger is actually consummated and we and our affiliates will have no liability to any participant in the Plan in connection with the establishment of a new exercise date.

Effectiveness, Amendment and Termination of the Plan

The Board may amend or terminate the Plan at any time. However, a Plan amendment will be subject to stockholder approval to the extent required by applicable laws, regulations or rules.

The Board may terminate the Plan at any time, provided no such termination may affect any then outstanding options under the Plan. Except as indicated above, the Board may also modify the Plan from time to time. The Board may terminate an offering period if the Board determines that such termination is in the best interests of the Company and its stockholders, in which case the payroll deductions credited to each participant's account will be paid to them as soon as reasonably practicable following the termination of the offering period.

The Plan will remain in effect until December 31, 2030, unless sooner terminated by the Board pursuant to the terms of the Plan.

FEDERAL INCOME TAX CONSEQUENCES ASSOCIATED WITH THE PLAN

The Plan is intended to qualify as an "employee stock purchase plan" as defined in Section 423 of the Code. The following is a general summary under current law of the material United States federal income tax consequences to participants in the Plan. This summary deals with the general tax principles that apply and is provided only for general information. Some kinds of taxes, such as foreign taxes and state and local income taxes, are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. This summary does not discuss all aspects of income taxation that may be relevant to participants in light of their personal investment circumstances. This summarized tax information is not tax advice.

Grant of Option; Exercise of Option

You will not recognize taxable income on the date we grant an option to you under the Plan (*i.e.*, the first trading day of the offering period), nor will you recognize taxable income on the date you exercise the option and purchase shares of Common Stock (*i.e.*, the last trading day of each offering period).

Sale of Common Stock after the Holding Period

If you do not dispose of the shares of Common Stock you purchase upon exercise of your option under the Plan, within two (2) years after the date on which we granted the option, or within one (1) year after the date on which you purchase the shares (the "Holding Period"), or if you die while owning the shares, you will be taxed in the year in which you dispose of the shares of Common Stock, or the year closing with your death, whichever applies, as follows:

- You will recognize ordinary income on an amount equal to the lesser of:
  - — the excess, if any, of the fair market value of the shares of Common Stock on the date on which you disposed of such shares or the date on which you died, as applicable, over the amount paid for the shares, or
  - — the excess of the fair market value of the shares of Common Stock on the date we granted the option, over the purchase price, determined assuming that the option was exercised on the date granted; and
- You will recognize as capital gain any further gain realized by you when you dispose of the shares of Common Stock (after increasing the tax basis in these shares by the amount of ordinary income realized as described above).

Sale of Common Stock during the Holding Period

If you dispose of your shares of Common Stock purchased upon exercise of your option before the Holding Period expires, you will be taxed in the year in which you dispose of such shares:

- You will recognize ordinary income, reportable for the year of the disposition of such shares of Common Stock, to the extent of the excess of the fair market value of such shares on the date on which you exercised the option, over the purchase price for such shares; and
- You will recognize as capital gain any further gain realized by you when you dispose of the shares of Common Stock (after increasing the tax basis in these shares by the amount of ordinary income realized as described above).

If you dispose of the shares of Common Stock before the Holding Period expires and the amount realized is less than the fair market value of our Common Stock at the time of exercise, you will be taxed in the year in which you dispose of such shares, as follows:

- You will recognize ordinary income to the extent of the excess of the fair market value of such shares of Common Stock on the date on which you exercised the option, over the purchase price for such shares; and
- You will recognize a capital loss to the extent the fair market value of such shares of Common Stock on the exercise date exceeds the amount realized on the sale.

Our Deduction

We (or any subsidiary of ours that employs you) are entitled to a tax deduction only to the extent that you recognize ordinary income because you dispose of the Common Stock before the Holding Period expires.

Other Tax Consequences

We recommend that you consult your personal tax advisors with respect to the federal, foreign (if applicable), state and local tax aspects of option grants, option exercises and any subsequent dispositions of Common Stock acquired under the Plan.

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 10, 2020

/s/ William Bishop
William Bishop
President and Chief Executive Officer
Alaska Communications Systems Group, Inc.

Exhibit 31.2

Sarbanes-Oxley Section 302(a) Certification

I, Laurie Butcher, certify that:

1. I have reviewed this 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 10, 2020

/s/ Laurie Butcher
Laurie Butcher
Chief Financial Officer
Alaska Communications Systems Group, Inc.

Exhibit 32.1

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

In connection with the Quarterly Report of Alaska Communications Systems Group, Inc. (the “Company”) on Form 10-Q for the period ending June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William Bishop, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: August 10, 2020

/s/ William Bishop
William Bishop
President and Chief Executive Officer
Alaska Communications Systems Group, Inc.

Exhibit 32.2

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

In connection with the Quarterly Report of Alaska Communications Systems Group, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laurie Butcher, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

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

Date: August 10, 2020

/s/ Laurie Butcher
Laurie Butcher
Chief Financial Officer
Alaska Communications Systems Group, Inc.