

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

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **July 20, 2021**

ATN INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of incorporation)

001-12593
(Commission File Number)

47-0728886
(IRS Employer
Identification No.)

500 Cummings Center
Beverly, MA 01915
(Address of principal executive offices and zip code)

(978) 619-1300
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	ATNI	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. o

EXPLANATORY NOTE

This Current Report on Form 8-K/A is filed as an amendment to the [Current Report on Form 8-K filed July 22, 2021](#) by ATN International, Inc. (the “Company”) with the Securities and Exchange Commission and incorporated herein by reference, disclosing the completion of the acquisition of Alaska Communications Systems Group, Inc., a Delaware corporation (“Alaska Communications”). The purchase price of approximately \$353 million was funded with a combination of proceeds from the Company’s credit facility, a draw on a new credit facility, and a contribution from unaffiliated third-party investors. On July 22, 2021, the Company began consolidating the results of Alaska Communications within its financial statements in its US Telecom segment.

This amendment on Form 8-K/A is being filed to provide the historical consolidated financial statements of Alaska Communications and pro forma financial information required by Item 9.01(a) and (b) of Form 8-K. Except as described above, all other information in and exhibits to the original Form 8-K filed July 22, 2021 remain unchanged.

Item 9.01. Financial Statements and Exhibits.

(a)	Financial Statements of Businesses Acquired
	The audited consolidated financial statements of Alaska Communications at and for the year ended December 31, 2020, the notes related thereto and each of the Report of Management on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm contained therein, and the unaudited consolidated financial statements of Alaska Communications at and for the three months ended March 31, 2021, and the notes related thereto, are filed as Exhibits 99.1 and 99.2, respectively, to this Current Report on Form 8-K/A and incorporated by reference herein.
(b)	Pro Forma Financial Information
	The unaudited pro forma condensed combined financial information of the Company and Alaska Communications as of and for the three months ended March 31, 2021 and for the year ended December 31, 2020, and the notes related thereto, is filed as Exhibit 99.3 to this Current Report on Form 8-K and incorporated by reference herein.
(d)	Exhibits
	<p>Exhibit 2.1 Agreement and Plan of Merger, by and among Alaska Communications, Parent and Merger Sub* (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on January 4, 2021 (File No. 001-12593)).</p> <p>Exhibit 10.1 Amended and Restated Limited Liability Company Agreement of ALSK Holdings, dated as of July 21, 2021 by and among ALSK Holdings, the Company, F3C IV, certain affiliates of F3C IV, and certain other institutional investors (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on July 22, 2021 (File No. 001-12593)).</p> <p>Exhibit 10.2 Credit Agreement, dated as of July 22, 2021, by and among the Borrower, Parent and certain of the Parent’s direct and indirect subsidiaries, as guarantors, Fifth Third Bank, National Association, as Administrative Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on July 22, 2021 (File No. 001-12593)).</p> <p>Exhibit 23.1 Consent of Moss Adams LLP.</p> <p>Exhibit 99.1 Audited Consolidated Financial Statements of Alaska Communications Systems Group, Inc. at and for the year ended December 31, 2020, the notes related thereto and each of the Report of Management on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm contained therein (Annual Report on Form 10-K of Alaska Communications Systems Group, Inc. (File No. 001-38341), filed on March 16, 2021).</p> <p>Exhibit 99.2 Unaudited Consolidated Financial Statements of Alaska Communications Systems Group, Inc. at and for the three months ended March 31, 2021, and the notes related thereto (Quarterly Report on Form 10-Q of Alaska Communications Systems Group, Inc. (File No. 001-38341), filed on May 7, 2021).</p> <p>Exhibit 99.3 Unaudited pro forma condensed combined financial information of the Company and Alaska Communications at and for the three months ended March 31, 2021 and for the year ended December 31, 2020 and the notes related thereto.</p> <p>104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).</p> <p>* The Company has omitted schedules and other similar attachments to such agreement pursuant to Item 601(b) of Regulation S-K. The Company will furnish a copy of such omitted documents to the SEC upon request.</p>

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 hereunto duly authorized.

ATN INTERNATIONAL, INC.

By: /s/ Justin D. Benincasa
Justin D. Benincasa
Chief Financial Officer

Dated: October 1, 2021

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-238206) and Form S-8 (Nos. 333- 62416, 333-125179, 333-150940, 333-174935) of ATN International, Inc. of our reports dated March 16, 2021, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Alaska Communications Systems Group, Inc., appearing in this Current Report on Form 8-K/A of ATN International, Inc.

/s/ Moss Adams LLP

Spokane, Washington
October 1, 2021

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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

(State or other jurisdiction of incorporation or organization)

600 Telephone Avenue

Anchorage, Alaska

(Address of principal executive offices)

52-2126573

(I.R.S. Employer Identification No.)

99503-6091

(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on June 30, 2020 was approximately \$147 million computed upon the basis of the closing sales price of the Common Stock on that date. For purposes of this computation, shares

held by directors (and shares held by any entities in which they serve as officers) and named executive officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of March 1, 2021, there were outstanding 54,102,956 shares of Common Stock, \$.01 par value, of the registrant.

Documents Incorporated by Reference

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the registrant's definitive proxy statement for its 2021 Annual Meeting of Stockholders, or an amendment to this Form 10-K, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2020.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2020

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Cautionary Statement Regarding Forward Looking Statements and Analysts' Reports

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

- Our ability to successfully consummate the Merger Agreement with ATN International, Inc. and Freedom 3 Capital, LLC, and the potential disruption the merger could cause to our operations
- our ability to obtain and appropriately allocate resources to support our growth objectives
- 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
- the successful completion of our project for the development and installation of certain critical new IT systems associated with sales and opportunities, customer service delivery, operational support, customer billing and collection, analytics, and other applications; and our ability to adequately invest in the maintenance and upgrade of our networks and other information technology systems in the future
- our ability to invest sufficiently in our underlying physical infrastructure, including buildings, fleet and related equipment
- 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 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
- our size, because we are a smaller sized competitor in the markets we serve, and we compete against large competitors with substantially greater resources

- 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
- 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
- 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
- a maintenance or other failure of our network or data centers
- a failure of information technology systems
- our ability to maintain successful arrangements with our represented employees
- our ability to attract, recruit, retain and develop our workforce, and implement succession planning necessary for achieving our business plan
- 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
- the success of the Company's expansion into managed IT services, including the execution of those services for customers
- structural declines for voice and other legacy services within the telecommunications industry
- A major public health issue, such as an epidemic or pandemic, and including the current COVID-19 pandemic, could adversely affect global, national, state and local economies, the operations and financial stability of our customers and vendors, and our operations, financial performance and liquidity
- geologic or other natural disturbances relevant to the location of our operations
- unanticipated damage to one or more of our undersea fiber optic cables resulting from construction or digging mishaps, fishing boats or other reasons
- 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
- the success or failure of any future acquisitions or other major transactions
- 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
- our success in providing broadband solutions to the North Slope and western Alaska
- 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."

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

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

Basis of Presentation

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

Dollar amounts presented are in thousands unless stated otherwise.

PART I

Item 1. Business

Overview

We are a fiber broadband and managed IT services provider, offering technology and service enabled customer solutions to business and wholesale customers in and out of Alaska. We also provide telecommunication services to consumers in the most populated communities throughout the state. Our facilities-based communications network extends through the economically significant portions of Alaska and connects to the contiguous states via our two diverse undersea fiber optic cable systems. Our network is among the most expansive in Alaska and forms the foundation of service to our customers. We operate in a largely two-player terrestrial wireline market and we estimate our market share to be less than 25% statewide. A third-party market study conducted in the fourth quarter of 2018 indicates that we have market share of close to 40% for "near net" opportunities, that is, within one mile of our fiber network.

Merger

On December 31, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Project 8 Buyer, LLC ("Parent") and Project 8 Merger Sub ("Merger Sub"), two newly-formed entities owned by ATN International, Inc. and Freedom 3 Capital, LLC. On December 31, 2020, the Company terminated the previously announced merger agreement under which the Company would be acquired by Macquarie Capital (USA) and GCM Grosvenor through its Labor Impact Fund.

On the terms, and subject to the conditions, of the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Parent. As a result of the Merger, each share of the Company's common stock issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") (other than shares held by (i) the Company, Parent or Merger Sub and (ii) stockholders of the Company who have validly exercised and perfected their appraisal rights under Delaware law) will be converted at the Effective Time into the right to receive \$3.40 in cash, without interest, subject to any applicable withholding taxes (the "Merger Consideration").

Consummation of the Merger is subject to certain closing conditions, including, without limitation, (i) approval of the Merger by the Company's stockholders, (ii) absence of certain legal impediments, (iii) the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"); and (iv) receipt of regulatory approvals from the Federal Communications Commissions (the "FCC") (and, if required as a precondition for FCC approval, the Committee for the Assessment of Foreign Participation in the U.S. Telecommunications Services Sector ("Team Telecom Committee")) and from the Regulatory Commission of Alaska (the "RCA"). The waiting period under the HSR Act expired on February 16, 2021 at 11:59 p.m. Eastern Time. Filings with each of the FCC and the RCA were made on January 20, 2021. The RCA gave public notice of the application and requested any public comments by February 12, 2021. On February 8, 2021, the RCA issued an order stating that it had determined that Parent's application to acquire the Company was complete as filed on January 20, 2021. The order states that the RCA will issue a final order no later than July 19, 2021. The Company's stockholders approved the Merger at a special meeting of stockholders held on March 12, 2021.

Certain terms of the Merger Agreement are summarized below. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the full text of the Merger Agreement filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 31, 2020 and filed with the SEC on January 4, 2021, which is incorporated in its entirety herein by reference to this Annual Report on Form 10-K.

Restricted Stock Units and Performance Share Units

Immediately prior to the Effective Time, each restricted stock unit award issued under the stock plan of the Company that is subject solely to time-based vesting (a "Company RSU Award") and that is outstanding immediately prior to the Effective Time, whether or not vested, will be cancelled as of the Effective Time in exchange for an amount in cash equal to the product obtained by multiplying (i) the aggregate number of shares of Company Common Stock subject to such Company RSU Award by (ii) the Merger Consideration. Amounts payable with respect to the Company RSU Awards will be paid not later than the next regularly scheduled payroll date that is at least two business days following the closing of the Merger Agreement.

Immediately prior to the Effective Time, each restricted stock unit award issued under the stock plan of the Company that is subject solely to performance-based vesting (the "Company PSU Awards") and that is outstanding immediately prior to the Effective Time will be cancelled as of the Effective Time in exchange for an amount in cash equal to the product obtained by multiplying (i) the aggregate number of shares of Company Common Stock subject to such Company PSU Award by (ii) the Merger Consideration. The aggregate number of shares of Common Stock subject to any Company PSU Awards will be determined based on the degree of achievement of the performance goals set forth in the applicable award agreement as of the Effective Time or such earlier time as determined by the compensation committee of the Company's Board of Directors (the "Board") and such Company PSU Awards will no longer be subject to any performance-based vesting conditions. Amounts payable with respect to Company PSU Awards that are subject to vesting based on the price of Company Common Stock will be paid not later than the next regularly scheduled payroll date that is at least two business days following the closing of the Merger Agreement, and amounts payable with respect to all other Company PSU Awards will be paid not later than the next regularly scheduled payroll date that is at least two business days following the earliest of (a) the applicable time-based vesting date of the canceled Company PSU Award, (b) the date that is one year following the Effective Time, and (c) the termination of the employment of the former holder of such Company PSU Award without "cause," in any case without interest.

Immediately prior to the Effective Time, each share of Company Common Stock granted to the directors of the Company that is subject to a deferral election (a "Deferred Stock Award") and that is outstanding immediately prior to the Effective Time will be cancelled as of the Effective Time in exchange for an amount in cash equal to the product obtained by multiplying (i) the aggregate number of shares of Company Common Stock subject to such Deferred Stock Award by (ii) the Merger Consideration.

Financing

Parent and Merger Sub secured committed financing, consisting of a combination of (i) equity financing (the “Equity Financing”) to be provided by ATN International, Inc. and Freedom 3 Investments IV, LP, which have each agreed to capitalize Parent, subject to the terms and conditions set forth in equity commitment letters with respect to the Merger and (ii) debt financing (the “Debt Financing”) to be provided by Fifth Third Bank, National Association, subject to the terms and conditions set forth in the debt financing commitment letter with respect to the Merger. The Equity Financing and the Debt Financing, in the aggregate, will be sufficient for Parent, Merger Sub and the Surviving Corporation to pay the amounts required to be paid in connection with the Merger and the other transactions contemplated by the Merger Agreement. The Merger is not subject to a financing condition. The Equity Investors have also entered into limited guarantees with the Company to guarantee Parent’s obligation to pay the Parent Termination Fee (as defined in the Merger Agreement) and certain indemnity and recovery costs.

No-Shop Period

From and after the date of the Merger Agreement until the earlier of the Effective Time of the Merger or termination of the Merger Agreement in accordance with its terms, the Company will be subject to customary “no-shop” restrictions, subject to certain exceptions and “fiduciary out” provisions, as set forth in the Merger Agreement.

Termination

The Merger Agreement contains certain customary termination rights for the Company and Parent. Among other termination rights, the Merger Agreement can be terminated by either Parent or the Company if (i) the Merger is not consummated on or before December 31, 2021 (the “End Date”), which may be extended in increments of 30 days to no later than February 28, 2022 in connection with regulatory approvals, or (ii) any governmental authority of the United States or certain localities within the United States issues a final and non-appealable order permanently restraining or otherwise prohibiting the consummation of the transaction contemplated by the Merger Agreement.

In addition, the Merger Agreement includes certain termination fees payable by the Company or Parent if the Merger Agreement is terminated under certain circumstances.

Parent and Merger Sub have agreed to a standstill pursuant to the Merger Agreement, with respect to the Company and its subsidiaries, from December 31, 2020 until the earlier of (i) the Effective Time and (ii) the first anniversary of the termination of the Merger Agreement.

The Merger Agreement contains representations and warranties and covenants of the parties customary for a transaction of this nature.

The Merger is currently expected to close in the third quarter of 2021, although there can be no assurance that it will occur by that date. The transaction will result in the Company becoming a consolidated, majority owned subsidiary of ATN International, Inc.

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 spring semester 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 total cost of this program was \$0.2 million and is not included in incremental costs associated with COVID-19 described in “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The COVID-19 pandemic did not have a direct material effect on the Company’s revenue in 2020 but did directly result in an estimated \$1.5 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 \$2.2 million in 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. The situation continues to evolve, 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.

In February 2021, the Company and the Municipality of Anchorage entered into an agreement under which utility relief will be made available to certain of the Company's residential and small business customers located in Anchorage. The program is supported by a grant from the Municipality of Anchorage. These funds will be applied by the Company to the accounts of customers who have experienced financial hardship related to the COVID-19 pandemic and meet other requirements, subject to certain terms and conditions. Maximum funding under the grant is \$0.7 million and will be recorded as a credit to accounts receivable and, in part, to the provision for doubtful accounts in 2021.

Operating Initiatives

We are focused on being a customer centric fiber broadband 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 while minimizing 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 focus on and make investments in employee engagement to maximize the realization of an exceptional customer experience and maximize the effectiveness of our investments.

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

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

Markets, Services and Products

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

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

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

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

Network and Technology

Alaska Communications provides communications and IT solutions that connect Alaskans as well as customers in the continental United States to the world. This is based on an extensive facilities-based wireline telecommunications network in Alaska that we operate. We provide high-capacity data networking, internet connectivity, voice communications and IT Services. Networking services include Ethernet and IP routed services as well as switched and dedicated voice services. In addition, we offer other value-added services such as network hosting, managed IT services and long-distance services. We continuously upgrade our network to provide higher levels of performance, higher bandwidth speeds, increased levels of security and additional value-added services to our customers. We operate 181,000 terrestrial and submarine fiber miles which serve as the backbone of our network as well as now serving over 900 buildings with fiber. Our networks are monitored for performance around the clock in redundant monitoring centers to provide a high level of reliability and performance. Our network is extensive within Alaska’s urban areas and connects our largest markets, including Anchorage, Fairbanks and Juneau with each other and the contiguous states as well as many rural areas. We continue to utilize Fixed Wireless technology to reach even more customers, bringing total homes and businesses passed to more than 16,000 at the end of 2020. In 2020, we secured additional spectrum through the FCC auction for licenses in the shared Citizens Broadband Radio Service (“CBRS”). CBRS spectrum is effective in areas with lower population densities. We also continue to expand our Multi-Dwelling Unit (“MDU”) offering utilizing fiber or fixed wireless backhaul, with more than 7,000 MDUs now served.

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

Our network in Oregon and Washington includes terrestrial transport components linking our landing stations to a Network Operations Control Center in Hillsboro, Oregon and collocation facilities in Portland, Oregon and Seattle, Washington. In addition, AKORN[®], one of our undersea fiber optic cable systems, connects our Alaska network from Homer, Alaska to our facilities in Florence, Oregon along a diverse path within Alaska, the Pacific Northwest and undersea in the Pacific Ocean. Northstar, our other undersea fiber optic system, has cable landing facilities in Whittier, Juneau, and Valdez, Alaska, and Nedonna Beach, Oregon. In 2020, we completed major network upgrades to the Northstar fiber line, increasing capacity by more than five times. Our subsea capacity including the AKORN[®] and Northstar systems provides a total of 7,800 route miles, or about 26,000 fiber miles, of submarine fiber. Together, these fiber optic cables provide extensive bandwidth as well as survivability protection designed to serve our own, as well as our most demanding customers’ critical communications requirements. In 2017, we upgraded the AKORN system to be able to support 100GB circuits for customers. Further upgrades to the AKORN system were completed in 2019. Through our landing stations in Oregon, we also provide an at-the-ready landing point for other large fiber optic cables, and their operators, connecting the U.S. to networks in Asia and other parts of the world.

Our terrestrial fiber network on the North Slope of Alaska allows us to provide broadband solutions to the oil and gas sector in a market that previously had no competition and continue to advance our sales of managed IT services.

We have developed a satellite earth station network and acquired C-band transponder space on Eutelsat’s E115WB satellite. We began providing Internet backhaul connectivity in 2017, and continue to expand the satellite service, adding customers and upgrading equipment throughout 2018, 2019 and 2020.

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

Competition

Management estimates the Alaska wireline telecom and IT services market to be approximately \$1.65 billion. This market is comprised of the IT services market of approximately \$840 million, the broadband market of approximately \$700 million and the voice market of approximately \$110 million. Management estimates that over 85% of this market opportunity is from the business and wholesale customer segment. Based on a third-party market study conducted in the fourth quarter of 2018, management believes that approximately \$250 million of the telecom opportunity is “near net,” that is, within one mile of our fiber infrastructure.

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

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

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

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

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

Marketing

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

Sales and Distribution Channels

Our sales strategy combines primarily direct distribution channels to retain current customers and drive sales growth. In 2021, we will continue leveraging our direct sales channels’ focus on serving Business and Wholesale customers, our web and contact center channels for consumer customers, and expand our penetration of the military housing market for continued sustained performance. We are also continuing our efforts to improve customer service and move more consumer transactions to the web.

Customer Base

We generate our revenue through a diverse statewide customer base and there is no reliance on a single customer or small group of customers. Business and wholesale customers are our primary focus and they comprised 68% of our total revenue in 2020. Regulatory revenue and consumer revenue represented 17% and 15%, respectively, of the Company’s consolidated revenue in 2020.

Seasonality

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

Human Capital

Everything we do is only possible through our people. Our employees enable any and all initiatives to serve our customers and earn their business. We focus on and make investments in employee engagement to maximize the realization of an exceptional customer experience and maximize the effectiveness of our investments.

We depend on the availability of personnel with the requisite level of technical expertise in the telecommunications industry. Our ability to develop and maintain our networks and execute our business plan is dependent on the availability of technical engineering, IT, service delivery and monitoring, product development, sales, management, finance and other key personnel. Because our operations and customers are primarily based in Alaska, the recruiting and retention of employees can be challenging.

In response to the COVID-19 pandemic, the Company has established remote working arrangements, including work-from-home, for most of our administrative employees. Management has also implemented processes for frequent virtual interaction between individual employees and employee groups.

Our 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. The CBA has significant economic impacts on the Company as it relates to wage and benefit costs and work rules. We believe our labor costs are higher than our competitors who employ a non-unionized workforce. Work rules under the CBA limit our ability to efficiently manage our workforce and make the incremental cost of work performed outside normal work hours high.

As of December 31, 2020, we employed 564 regular full-time employees, 5 regular part-time employees and 5 temporary employees, compared with 569, 8 and 4, respectively at December 31, 2019. Approximately 54% of our employees are represented by the IBEW.

Management considers employee relations to be generally good.

Regulation

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

Overview

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

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

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

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

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

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

Federal Regulation

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

Rate Regulation

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

Interconnection with Local Telephone Companies and Access to Other Facilities

The Communications Act imposes a number of requirements on LECs. Generally, a LEC must: interconnect with other telecommunications carriers; 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, including obligations to unbundle certain elements of their networks for purchase by competitive LECs.

In general, in recent years, the FCC has granted forbearance providing incremental relief from some of the obligations the Communications Act imposes uniquely on ILECs. Most recently, on October 28, 2020, the FCC released an Order relieving ILECs from most obligations to unbundle local loops (DS-3, DS-1, DS-0, and narrowband voice-grade), as well as Operations Support Systems and dark fiber transport, in markets the FCC deems competitive subject to transition periods ranging between two and eight years. Previously, on August 2, 2019, the FCC relieved ILECs from the requirement to unbundle two-wire and four-wire analog voice-grade copper loops, as well as from the obligation to offer a wholesale discount on its telecommunications services sold to competitive entrants for resale. 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 of those 2019 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, in order to permit customers sufficient time to undertake a transition to alternative arrangements.

Interstate Access Charges

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

Special Access Pricing Flexibility and Business Data Services

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

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

On August 28, 2018, the United States Court of Appeals for the Eighth Circuit vacated portions of the FCC’s decision that ended prior regulation and tariffing of prices of legacy circuit-switched transport services offered by price cap carriers, like Alaska Communications, because it found that the FCC had not provided sufficient advance notice of that aspect of its decision. On July 12, 2019, following additional proceedings, the FCC re-adopted the majority of the forbearance relief that the Eighth Circuit had vacated, while leaving rate regulation in place on certain routes that the FCC believed to lack sufficient competition.

Transformation Order

A 2011 FCC order (the “Transformation Order”), capped our ILEC interstate and intrastate switched access rates and reciprocal compensation rates (“ICC rates”), and initiated a six-year transition of our terminating switched access and reciprocal compensation rates to zero, under a “bill-and-keep” model, in pursuit of the FCC’s goal that carriers will recover their costs from their end-users and, in some cases, universal service support mechanisms. That transition was complete as of July 1, 2018.

Federal Universal Service Support

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

USF Contributions

Under the Communications Act of 1934, as amended (the “Communications Act”) and FCC rules, telecommunications carriers and certain providers of telecommunications must contribute to the federal Universal Service Fund, which is the source of funding for the four support mechanisms described above. These contributions are based on end-user revenues from assessable interstate and international services. For the first calendar quarter of 2021, we are required to pay an amount equal to 31.8 percent of our interstate and international end-user telecommunications revenue towards the federal Universal Service Fund. That contribution rate changes every calendar quarter, and has increased sharply in recent years, both because of increases in demand for universal service support payments, and because the assessable revenue base has shrunk considerably over the past two decades. In the long term, the current contribution mechanism is likely to be unsustainable, and collapse of the Universal Service Fund would have a significant impact throughout our industry.

Rural Health Care Universal Service Support Program

The FCC's Rural Health Care Universal Service Support Mechanism (the "RHC program") provides funding to help make broadband telecommunications and Internet access services provided by the Company and other service providers affordable for eligible rural health care providers. It is comprised of two parts. The Telecommunications Program covers the difference between the "urban rate" for telecommunications services that rural healthcare providers use to deliver healthcare at rural locations, and the "rural rate" that they would otherwise be required to pay. The Healthcare Connect Fund covers 65 percent of the cost of a wider variety of broadband telecommunications, networking, and Internet access services and certain associated equipment. Rural Health Care revenues represented 5.3% of the Company's consolidated revenue in 2020.

The Company has participated in the RHC program since 2008. For the 2017 Funding Year, the FCC approved rural rates that were significantly reduced from the rates proposed by the Company. For Funding Years 2018, 2019, and 2020, we have likewise obtained FCC approval for our rural rates, generally at levels consistent with the reduced rates approved by the FCC for Funding Year 2017. The multi-step process of obtaining FCC approval for rates and then subsequently obtaining funding commitment letters from USAC has introduced varying degrees of delay in the process of obtaining support for the services we deliver to rural health care providers. Most recently, we received FCC approval for our Funding Year 2020 rates in January 2021, more than halfway through the funding year to which those rates relate (July 1, 2020 – June 30, 2021). USAC began issuing funding commitment letters in March 2021 and we are working with our healthcare provider customers to prepare and submit additional forms and documentation required to receive payment.

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 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. The Consolidated Appropriations Act, 2021, signed into law on December 27, 2020, appropriated a further \$250 million for the COVID-19 Telehealth Program, and directed that, to the extent feasible, at least one applicant in every state should receive an award of funding under the program.

The same FCC Report and Order also created the "Connected Care Pilot Program," which makes 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. The Connected Care Pilot Program will provide healthcare providers support for 85 percent of the cost of eligible services and network equipment, which include: (1) patient broadband internet access services, (2) health care provider broadband data connections, (3) other connected care information services, and (4) certain network equipment (*e.g.*, equipment necessary to make a supported broadband service function such as routers). The FCC accepted applications for Connected Care Pilot Program support between November 6 and December 7, 2020. On January 15, 2021, the FCC announced its initial set of awards to healthcare providers in 12 states, but none in Alaska. While it is too soon to assess the ultimate 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.

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 take effect for Funding Year 2021, which will begin July 1, 2021, and rural healthcare providers were permitted to solicit bids for services to be supported in Funding Year 2021 beginning on July 1, 2020. Among other things, the FCC's Order directed USAC to develop and publish a database by July 1, 2020, 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. The FCC's Order divided Alaska into four geographic zones, with the rural rate in each zone capped at the median of the rural rates for similar services offered in that zone, as identified by USAC. USAC published that rate database on July 1, 2020, following receipt of a June 30, 2020 letter providing significant guidance and directives from the FCC's Wireline Competition Bureau (the "Bureau"). Among those directions, the Bureau directed USAC to provide an additional two months, until August 31, 2020, for interested parties to supplement the database with additional relevant rates. USAC announced on October 1, 2020 that it had incorporated those additional rates into the database.

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 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 action in the D.C. Circuit Court of Appeals and the Petitions for Reconsideration filed with the FCC remain pending.

We believe that USAC's rural rate database, as currently constituted, is likely to have an adverse impact on our economic ability to continue to serve some of our rural healthcare customers. In particular, the rates established by the database would negatively impact our ability to continue to offer our full range of telecommunications services to rural healthcare providers supported by the Telecommunications Program in the more remote, higher-cost areas of the state. 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. On January 19, 2021, the FCC issued an order waiving the use of the database in Alaska for Funding Year 2021. The Order grants a similar waiver for Funding Year 2022, unless the Commission addresses the pending Petitions for Reconsideration within the coming year, *i.e.*, by January 19, 2022. In lieu of the database, while the waiver remains in effect, the Order authorizes support based on the most recent rural rate that the FCC has approved for the same service at the same healthcare facility within the past three funding years. As an alternative, Telecommunications Program rural rates may be established under the previously applicable rate rules that were in effect through Funding Year 2020. As with the action in the D.C. Circuit Court of Appeals and the Petitions for Reconsideration, the other issues raised in our Application for Review remain pending.

We are unable to predict the outcome or eventual impact of the D.C. Circuit's review of the FCC's Order, or the FCC's decision on our Petition for Reconsideration or our Application for Review, but the January 2021 waiver offers a measure of short-term stability for the Telecommunications Program while those reviews continue.

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 further communication from the auditors, on February 24, 2020, the Company received a draft audit report from USAC that is described more fully in Note 21 "*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, as of September 1, 2020, we have provided USAC with extensive comments in response. Our comments seek 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

The Company also received a Letter of Inquiry on March 18, 2018, from the FCC Enforcement Bureau requesting historical information regarding the Company's participation in the FCC's Rural Health Care program. In response, the Company produced voluminous records throughout 2018 and into the first quarter of 2019. On November 5, 2019, the Company received another letter from the FCC Enforcement Bureau requesting additional information, to which it responded on December 6, 2019. The Company is currently responding to an additional letter from the Enforcement Bureau dated January 22, 2020. As of the date of this Form 10-K, the FCC's Enforcement Bureau has not asserted any claims or 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.

Connect America Fund

The Transformation Order also replaced the FCC's previous set of explicit high-cost universal service support mechanisms for price cap carriers, like Alaska Communications, with the Connect America Fund ("CAF"). While the previous mechanisms were focused on supporting a portion of the cost of providing voice telephone service, the CAF shifted that focus to expanding the availability of affordable broadband services. On October 31, 2016, the FCC released its order establishing the requirements of CAF Phase II ("CAF II") for price cap carriers in Alaska, and specifically Alaska Communications, the only price cap carrier in Alaska. Under the CAF II order, we receive approximately \$19.7 million annually through December 31, 2025, subject to explicit broadband deployment conditions.

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.

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 a potential extension of time for small providers that serve 100,000 or fewer voice service subscriber lines, which would include us. On October 1, 2020, the FCC released an Order granting small providers, as proposed, an extension of time to implement STIR/SHAKEN until June 30, 2023.

The FCC's March 31, 2020 Notice of Proposed Rulemaking also sought comment on proposals for implementing the law with respect to "intermediate" providers of voice service, which, with respect to a call, is a provider that carries that call at any point, but neither originates nor terminates it. The FCC's October 1, 2020 Order requires us, by June 30, 2021, in our role as an intermediate provider, to implement the STIR/SHAKEN authentication framework in the IP portions of our network, in general so that IP calls retain caller ID authentication information throughout the entire call path. Specifically, with certain exceptions, we must be able to (a) pass any authenticated caller identification information received with a SIP call, to the subsequent provider; and (b) authenticate caller identification information for all calls we receive for which the caller identification information has not already been authenticated, if we will exchange the call with another provider using SIP. We are currently in the process of implementing these requirements.

On July 17, 2020, the FCC released 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 from liability that use reasonable analytics, including caller ID authentication information, to identify and block illegal or unwanted calls. 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. The FCC has announced that these rules took effect on October 14, 2020.

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.

Lifeline

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

The Consolidated Appropriations Act, 2021 appropriated \$3.2 billion to create the "Emergency Broadband Connectivity Fund," and directed the FCC to use that fund to establish a new "Emergency Broadband Benefit Program" ("EBBP"). The EBBP will provide eligible low-income consumers and students with a monthly subsidy for the purchase of broadband Internet access service from service providers that elect to participate in the program. While the monthly subsidy is \$50 in most of the nation, the EBBP will provide \$75 monthly throughout the state of Alaska, which is encompassed within the statute's definition of "Tribal lands." On Jan. 4, 2021, the FCC issued a Public Notice seeking comment on various implementation questions related to the EBBP, including the process by which service providers will formally elect to participate in the program and designate the broadband offerings that are eligible for the subsidy. While we cannot predict with certainty until after the FCC adopts final rules for the EBBP, we are carefully examining the benefits this new program may offer for Alaska.

E-Rate

The Company has provided telecommunications services, broadband Internet access services, and internal connections supported by the FCC's Schools and Libraries Universal Service Support Mechanism ("E-rate") for many years. E-rate support provides an invaluable means by which elementary and secondary schools in Alaska can afford those services, particularly in rural and remote, high-cost areas. Historically, E-rate has primarily supported services that connect eligible school buildings. On January 26, 2021, the Schools, Health & Libraries Broadband ("SHLB") Coalition filed a Petition seeking a declaratory ruling and associated rule waivers to permit schools and libraries temporarily to receive E-rate support for "off-campus" services used to support remote learning for students that lack reliable home broadband. If the FCC were to grant the relief that the Petition seeks, it could increase demand for our home broadband services, but also could increase the administrative burden and compliance risks associated with those services. We are unable to predict the impact of this Petition, if any, at this time.

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 over 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 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 allows 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.

Acquisition by ATN International, Inc.

On January 20, 2021, we filed a series of applications seeking FCC approval for the transfer of control of our licenses and authorizations to ATN International, Inc. We have discussed those applications with the FCC staff, and, on February 16, 2021, the FCC issued a Public Notice seeking public comment on the proposed transaction.

State Regulation

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

Alaska Universal Service Fund

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

In January 2018, the RCA opened a rulemaking to repeal the AUSF effective July 31, 2019 and sought comments and reply comments. A final order issued by the RCA on October 24, 2018 stopped short of repealing the AUSF but made changes to the distribution to be effective January 1, 2019, and capped contributions at 10% of intrastate telecommunications revenues. These changes resulted in shortfalls to carriers beginning in 2019. The RCA has announced its intent to open a new docket to consider further AUSF reforms in June 2021.

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. The RCA continues to consider this matter.

AC Systems Group and ATN International, Inc. Joint Application

The RCA opened Docket U-21-003 to consider the joint application filed by ATN International, Inc. and Alaska Communications Systems Group, Inc. for ATN International, Inc. to acquire an indirect controlling interest in the ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, ACS of the Northland, LLC, ACS Long Distance, LLC, and Alaska Fiber Star, LLC. The RCA issued a public notice seeking comments on the application and has established a schedule for completing its review of the application by July 2021.

Website Access to Reports

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

Code of Ethics

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

Additional Business Information

See “Item 1A, Risk Factors,” “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 20 “*Joint Venture*” and Note 23 “*Business Segments*” in the Notes to Consolidated Financial Statements for additional information, which is incorporated herein by reference.

Item 1A. Risk Factors

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

Risks Relating to the Merger Agreement with ATN International, Inc. and Freedom 3 Capital, LLC

There are material uncertainties and risks associated with the Merger Agreement.

On December 31, 2020, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Project 8 Buyer, LLC (“Parent”) and Project 8 Merger Sub (“Merger Sub”), newly formed entities owned by ATN International, Inc. and Freedom 3 Capital, LLC. Pursuant to the Merger Agreement, the Company will continue as the surviving corporation and a wholly-owned subsidiary of Parent. Below are material uncertainties and risks associated with the Merger Agreement and proposed Merger. If any of the risks develop into actual events, then the Company’s business, financial condition, results and ongoing operations, share price or prospects could be adversely affected.

- the future impact of the COVID-19 pandemic on the Company’s business, including but not limited to, the impact on its workforce, operations, supply chains, demand for products and services, and the Company’s financial results;
- the satisfaction of the conditions precedent to the consummation of the Merger, including, without limitation, the timely receipt of regulatory approvals (or any conditions, limitations or restrictions placed on such approvals);
- unanticipated difficulties or expenditures relating to the Merger;
- the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement, including, in circumstances which would require the Company to pay a termination fee or reimburse Parent for certain of its expenses;
- legal proceedings, judgments or settlements, including those that may be instituted against the Company, the Board, the Company’s executive officers and others following the announcement of the Merger;
- the possibility of disruption to the Company’s business, current plans and operations caused by the proposed Merger, or the announcement or pendency thereof, including increased costs and diversion of management time and resources;
- limitations placed on the Company’s ability to operate its business under the Merger Agreement;
- potential difficulties in employee retention due to the announcement and pendency of the Merger;
- the response of customers, distributors, suppliers, business partners and regulators to the announcement and pendency of the Merger;
- the Company’s and Parent’s ability to complete the proposed Merger on a timely basis or at all;
- the failure of the Merger to be completed on a timely basis or at all for any other reason;
- the possible adverse effect on the Company’s business and the price of the Company common stock if the Merger is not consummated in a timely manner or at all;
- the execution of the Company’s long-term growth objectives and business transformation initiatives;
- changes in accounting standards or tax rates, laws or regulations;
- management of professional staff, including dependence on key personnel, recruiting, retention, attrition and the ability to successfully integrate new personnel into the Company’s practices;
- the adequacy of our business, financial and information systems and technology;

- maintenance of effective internal controls;
- continued and sufficient access to capital; and
- other factors described in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2019 filed with the SEC on March 16, 2020 and subsequent Current Reports on Form 8-K and Quarterly Reports on Form 10-Q.

The proposed Merger may not be completed in a timely manner or at all.

Consummation of the Merger is subject to certain closing conditions, including, without limitation, (i) approval of the Merger by the Company's stockholders, (ii) absence of certain legal impediments, (iii) the expiration or termination of the required waiting period under the HSR Act and (iv) receipt of regulatory approvals from the FCC (and, if required as a precondition for FCC approval, Team Telecom Committee) and from the RCA. The waiting period under the HSR Act expired on February 16, 2021 at 11:59 p.m. Eastern Time. Filings with each of the FCC and the RCA were made on January 20, 2021. The RCA gave public notice of the application and requested any public comments by February 12, 2021. On February 8, 2021, the RCA issued an order stating that it had determined that Parent's application to acquire the Company was complete as filed on January 20, 2021. The order states that the RCA will issue a final order no later than July 19, 2021. The Company's stockholders approved the Merger at a special meeting of stockholders held on March 12, 2021.

The Merger Agreement may require the Company and Parent to comply with conditions imposed by regulatory entities, and neither the Company nor Parent is required to take certain actions as described in the Merger Agreement in connection with satisfying such conditions. There can be no assurance that regulators will not impose conditions, terms, obligation or restrictions and that such conditions, terms, obligations or restrictions will not result in the delay or abandonment of the Merger. There can be no assurance that all the required approvals and clearances will be obtained or will be obtained on a timely basis. In addition, certain other factors such as the change in administrative policy as a result of a new federal administration and the COVID-19 pandemic may also result in delays to the receipt of certain regulatory approvals required to consummate the Merger.

The obligation of each of the Company, Parent and Merger Sub to consummate the Merger is also conditioned on, subject to certain materiality and other qualifiers, the accuracy of the representations and warranties of the other party and the performance or compliance in all material respects by the other party of all its covenants and obligations under the Merger Agreement. While the Merger Agreement is not subject to any financing condition, if Parent or Merger Sub fails to obtain financing, the Merger may not be consummated. Each of the Company and Parent has the right to terminate the Merger Agreement under certain circumstances, as described in the Merger Agreement.

Failure to complete the Merger could negatively impact the Company's business, financial results and stock price.

If the Merger is delayed or not completed, the Company's ongoing businesses may be adversely affected and will be subject to several risks and consequences, including the following:

- decline in share price to the extent that the current price of the Company's common shares reflects an assumption that the Merger will be completed;
- negative publicity and a negative impression of the Company in the investment community;
- loss of business opportunities and the ability to effectively respond to competitive pressures; and
- the Company may be required, under certain circumstances, to pay Parent a termination fee and additional expenses.

The Company has incurred, and will incur, substantial direct and indirect costs as a result of the Merger.

The Company has incurred, and will continue to incur, significant costs, expenses and fees for professional advisors and other transaction costs in connection with the Merger, and some of these fees and costs are payable by the Company regardless of whether the Merger is consummated.

While the Merger Agreement is in effect, the Company is subject to restrictions on its business activities.

While the Merger Agreement is in effect, the Company is subject to restrictions on its business activities, generally requiring it to conduct its business in the ordinary course, consistent with past practice, and subjecting it to a variety of specified limitations absent Parent's prior consent. These limitations include, among other things, restrictions on the Company's ability to merge or, other than in the ordinary course of business substantially consistent with past practice, enter into a strategic alliance or similar legal partnership; subject to certain exceptions increase the salary, wages, benefits, bonuses or other cash compensation payable the Company's employees, officers, directors or independent contractors; hire, engage or terminate the employment or engagement of (other than for cause, as determined by the Company) any employee, officer, director, or independent contractor whose annual base cash compensation exceeds \$250; acquire other businesses and assets with a purchase price of \$500 individually or \$2,000 in the aggregate (other than inventory, supplies, intellectual property assets, raw materials, equipment or similar assets in the ordinary course of business and in amounts substantially consistent with past practice); sell, lease, pledge, transfer, abandon, subject to any lien or otherwise, dispose of its assets or properties in each case having a value in excess of \$500 individually or \$5,000 in the aggregate (except in the ordinary course of the Company's or its subsidiaries' business substantially consistent with past practice), institute, settle or agree to settle any proceedings, subject to certain exceptions; repurchase or issue securities, pay dividends, make capital expenditures above certain amounts; enter into any new line of business; voluntarily terminate, amend or fail to renew certain communications licenses; enter into any exclusivity or non-competition agreement; take certain actions relating to intellectual property; amend its organizational documents; and incur indebtedness. These restrictions could prevent the Company from pursuing strategic business opportunities, taking actions with respect to its business that it may consider advantageous and responding effectively and/or timely to competitive pressures and industry developments, and may as a result materially and adversely affect its business, results of operations and financial condition.

Shareholder Litigation

Between January 27, 2021 and February 17, 2021, twelve lawsuits were filed by stockholders of the Company in connection with the Merger Agreement. These shareholder lawsuits, and any additional litigation that could be filed, may prevent or delay the closing of the Merger, and/or result in significant costs to the Company in connection with defense, indemnification, and liability.

On January 27, 2021, the first such lawsuit was filed in the United States District Court for the Southern District of New York, captioned *Stein v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-00760, against the Company, members of the Board, ATN, F3C IV, F3C, Parent and Merger Sub; this case was voluntarily dismissed by the plaintiff on March 15, 2021. On February 1, 2021, three additional such lawsuits were filed against the Company and members of the Board: (i) *Zilch v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-00890, filed in the United States District Court for the Southern District of New York; (ii) *Coraci v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-00887, filed in the United States District Court for the Southern District of New York; and (iii) *Coulibaly v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-00131, filed in the United States District Court for the District of Delaware. On February 2, 2021, the fifth such lawsuit against the Company and members of Board was filed in the United States District Court for the Eastern District of Pennsylvania, captioned *Palkon v. Alaska Communications Systems Group, Inc.* On February 4, 2021, the sixth such lawsuit was filed against the Company and members of the Board in the United States District Court for the Southern District of New York, captioned *Raul v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-00988. On February 6, 2021, the seventh such lawsuit was filed against the Company and members of the Board in the United States District Court for the Eastern District of New York, captioned *Holodnak v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-00656 (this case was voluntarily dismissed by the plaintiff on March 8, 2021). On February 8, 2021, the eighth such lawsuit was filed against the Company and members of the Board in the United States District Court for the Southern District of New York, captioned *Cazort v. Alaska Communications Systems Group, Inc., et al.*, Case No. 1:21-cv-1139. On February 11, 2021, the ninth such lawsuit was filed against the Company and members of the Board in the United States District Court for the Southern District of New York, captioned *Bergquist v. Alaska Communications Group, Inc., et al.*, Case No. 1:21-cv-01226. On February 17, 2021, three additional such lawsuits were filed against the Company and members of the Board: (i) *Ryan v. Alaska Communications Group, Inc., et al.*, Case No. 1:21-cv-00222, filed in the United States District Court for the District of Delaware; (ii) *Flood v. Alaska Communications Group, Inc., et al.*, Case No. 1:21-cv-00224, filed in the United States District Court for the District of Delaware; and (iii) *Jenkins v. Alaska Communications Group, Inc., et al.*, Case No. 1:21-cv-01409, filed in the United States District Court for the Southern District of New York. On February 19, 2021, the Company and members of its Board filed a Motion for Transfer of Actions with the United States Judicial Panel on Multidistrict Litigation, requesting to centralize the twelve then-pending actions before one court.

In general, these lawsuits assert that the defendants failed to make adequate disclosures in the Company's preliminary and/or definitive proxy statement, filed with the SEC on January 25, 2021 and February 9, 2021, respectively, regarding the Merger Agreement. The Company believes that these allegations are without merit.

Risks Relating to Our Industry

Competition

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

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

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

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

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

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

We may be unable to negotiate reasonable rates for interconnection with other voice providers in certain rural markets.

As our wholesale voice providers review their legacy service offerings, reduce their service availability, and increase their pricing, we may be unable to find replacement services and providers at reasonable costs.

Diversification of Our Sources of Revenue

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

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

Our Cost Structure

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

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

Technological Advancements and Changes in Telecommunications Standards

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

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

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

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

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

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

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

Risks Relating to Our Debt

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

2019 Senior Credit Facility

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

Principal payments on the term facilities 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 facility.

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

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

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

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

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

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

Risks Related to our Business

Rural Health Care Universal Service Support Program

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

The Company received inquiries and requests for information from USAC, which administers the program, in connection with both current funding requests and, beginning with a letter dated June 2, 2017 from USAC’s auditors, prior period support payments. After the Company responded to the initial request for information about support payments prior to 2017, USAC’s auditors asked the Company to comment on some preliminary audit findings, and the Company responded with a letter dated December 21, 2018. On February 24, 2020, the Company received a draft audit report from USAC that is described more fully in Note 21 “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 has engaged in dialogue with USAC’s auditors and looks forward to resolving all of USAC’s concerns. At this time, the Company is unable to predict the outcome of this audit. Similar audits of other companies have resulted in the FCC recouping certain previously awarded support funds, which could have a material adverse effect on our business, financial position, results of operations, and liquidity.

The Company also received a Letter of Inquiry on March 18, 2018, from the FCC Enforcement Bureau requesting historical information regarding the Company's participation in the FCC's Rural Health Care program. In response, the Company produced voluminous records throughout 2018 and into the first quarter of 2019. On November 5, 2019, the Company received another letter from the FCC Enforcement Bureau requesting additional information, to which it responded on December 6, 2019. The Company is currently responding to an additional letter from the Enforcement Bureau dated January 22, 2020. As of the date of this Form 10-K, the FCC's Enforcement Bureau has not asserted any claims or 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.

Uncertainty and unpredictability in the Rural Health Care program negatively impacted the Company in 2017 through 2020 as revenue realized through the program declined in each of those years, and may have a negative impact on future revenue and demand for our services from rural healthcare providers.

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

Access and High Cost Support Revenue

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

We received approximately 1.4% and 1.7% of our operating revenues for the years ended December 31, 2020 and 2019, respectively, from access charges. The amount of revenue that we receive from these access charges is calculated in accordance with requirements set by the FCC and the RCA. Any change in these requirements may reduce our revenues and earnings. Access charges have consistently decreased in past years and we expect this trend to continue due to declines in legacy regulated products, changes in regulations, and migration to VoIP services which do not generate access revenue for us.

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

Regulations

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

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

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

The 2011 Transformation Order established a new framework for high cost universal service support that replaced existing support mechanisms that provide support to carriers, like us, that serve high-cost areas with new CAF support mechanisms and service obligations that are focused on broadband Internet access services. We recognized \$19.7 million in federal high cost universal service payment revenues to support our wireline operations in high cost areas in each of the twelve months ended December 31, 2020 and 2019. The FCC released its CAF Phase II order, specific to the Company, on October 31, 2016. As a result, we currently expect our high cost support revenue to be relatively unchanged for the next five years. Substantial changes are expected to be enacted by the FCC regarding our high cost support funding after 2025, and there is uncertainty regarding the future level of revenue as well as the future obligations tied to this funding. If we fail to meet our obligations under the CAF Phase II order, our revenue, results of operations and liquidity may be impacted.

Alaska's Economic Conditions

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

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

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

The population of Alaska, which has declined marginally every year since 2016, is approximately 730,000 with Anchorage, Fairbanks and Juneau serving as the primary population and economic centers in the state.

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

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

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

Public Health Issues

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.

North Slope Fiber Optic Network

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

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

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

Erosion of Access Lines

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

Our business generates revenue by delivering voice and data services over access lines. We have experienced net access line loss over the past few years and the rate of loss has been accelerating. During the years ended December 31, 2020 and 2019 our business access line erosion was 2,948 and 1,140, respectively, while over the same period our consumer access line erosion was 2,251 and 2,955 respectively. We expect to continue to experience net access line loss in our markets, affecting our revenues, earnings and cash flow from operating activities.

Network / E-911 Failure

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

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

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

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

Employees

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

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

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

Labor costs are a significant component of our expenses and, as of December 31, 2020, approximately 54% of our workforce is represented by the IBEW. The collective bargaining agreement between the Company and the IBEW, which is effective through December 31, 2023, governs the terms and conditions of employment for all IBEW represented employees working for the Company and has significant economic impacts on the Company as it relates to wage and benefit costs and work rules. We believe our labor costs are higher than our competitors who employ a non-unionized workforce because we are required by the CBA to contribute to the IBEW Health and Welfare Trust and the Alaska Electrical Pension Fund (“AEPF”) for benefit programs, including defined benefit pension plans and health benefit plans, that are not reflective of the competitive marketplace. Furthermore, work rules under the existing agreement limit our ability to efficiently manage our workforce and make the incremental cost of work performed outside normal work hours high. In addition, we may make strategic and operational decisions that require the consent of the IBEW. While we believe our relationship with the IBEW is constructive, and although the IBEW generally has provided necessary consents, the IBEW may not provide consent when we need it, it may require additional wages, benefits or other consideration be paid in return for its consent, or it may call for a work stoppage against the Company. The Company considered relations with the IBEW to be stable in 2020; however, any deterioration in the relationship with the IBEW would have a negative impact on the Company’s operations.

Vendors

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

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

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

Networks, Monitoring Centers and Data Hosting Facilities

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

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

Information Technology Systems

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

The efficient operation of the Company's business depends on back-office IT systems. The Company relies on back-office IT systems, including certain systems provided by third party vendors, to effectively manage customer billing, business data, communications, supply chain, order entry and fulfillment and other business processes. In October 2020, the Company completed a three-year project for the development, installation and activation of certain critical new systems associated with sales and opportunities, customer service delivery, operational support, customer billing and collection, analytics, and other applications. Some of the previously utilized systems were no longer supported under maintenance agreements from the underlying vendor. Deficiencies in the design or implementation of the systems, including the timely resolution of any operational issues, could disrupt the Company's business and result in a failure to collect accounts receivable, transaction errors, processing inefficiencies, and the loss of sales and customers, causing the Company's reputation and results of operations to suffer. In addition, IT systems may be vulnerable to damage or interruption from circumstances beyond the Company's control, including fire, natural disasters, systems failures, security breaches and viruses. Any such damage or interruption could have a material adverse effect on our business, financial position, results of operations and financial condition.

Undersea Fiber Optic Cable Systems

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

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

Managed IT Services

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

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

Physical Infrastructure

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

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

Intellectual Property

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

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

Security Breaches

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

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

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

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

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

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

Pension Plans

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

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

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

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

Key Members of Senior Management

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

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

Future Acquisitions

Future acquisitions could result in operating and financial difficulties.

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

Volatility Risks Related to our Common Stock

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

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

Location Specific Risk

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

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

Internal Control Over Financial Reporting

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal properties do not lend themselves to simple description by character and location. The components of our gross investment in property, plant and equipment consisted of the following as of December 31, 2020 and 2019:

(in thousands)	2020	2019
Land, buildings and support assets	\$ 214,326	\$ 204,834
Central office switching and transmission	402,182	396,565
Outside plant, cable and wire facilities	784,866	765,640
Other	32,391	25,423
Construction work in progress	19,178	32,442
	<u>\$ 1,452,943</u>	<u>\$ 1,424,904</u>

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

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

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

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

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

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

Item 3. Legal Proceedings

We are involved in various claims, legal actions, personnel matters and regulatory proceedings arising in the ordinary course of business. Refer to "Item 1, Business-Regulation" for a description of various legal proceedings involving regulatory matters.

We have recorded a liability for estimated litigation costs of \$2.0 million as of December 31, 2020, against certain current claims and legal actions. We believe that the disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, comprehensive income or cash flows. It is the Company's policy to expense costs associated with loss contingencies, including any related legal fees, as they are incurred.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

2020 Quarters	High	Low	2019 Quarters	High	Low
4 th	\$ 3.92	\$ 1.85	4 th	\$ 1.90	\$ 1.60
3 rd	\$ 2.86	\$ 1.88	3 rd	\$ 1.98	\$ 1.67
2 nd	\$ 2.80	\$ 1.65	2 nd	\$ 1.97	\$ 1.61
1 st	\$ 2.26	\$ 1.55	1 st	\$ 2.10	\$ 1.44

As of March 1, 2021, there were 54.1 million shares of our common stock issued and outstanding and approximately 308 record holders of our common stock. Because brokers and other institutions hold many of our shares of existing common stock on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

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

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

Additional factors that may affect our future dividend policy include:

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

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

On March 9, 2020, the Company’s Board of Directors declared a one-time cash dividend of \$0.09 per share of common stock to be paid on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. The dividend totaled \$4,852.

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

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

Securities Authorized for Issuance under Equity Compensation Plans

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

Common Stock Performance Graph

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

Issuer Purchases of Equity Securities

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

Item 6. Selected Financial Data

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

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

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

OVERVIEW

We are a fiber broadband and managed IT services provider, offering technology and service enabled customer solutions to business and wholesale customers in and out of Alaska. We also provide telecommunication services 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.

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

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

We have observed variances in the factors affecting the Alaska economy as compared to the U.S. as a whole. Some factors, particularly the price of oil and gas, have a greater direct impact on the Alaska economy compared to other macro-economic trends impacting the U.S. economy as a whole. 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. By December 2020, the state's unemployment rate had improved to 6.0% which is more in line with historic levels. Anchorage's unemployment rate was 10.6% in October, with job losses realized in almost all employment categories in 2020. Due to the volatility in reported employment levels, unemployment claims and the number of jobs during the pandemic, the calculated unemployment rates may be less precise than those reported in prior years. On balance, 2020 unemployment and job losses were at historically high levels through much of the year but showed some improvement during the third and fourth quarters. The population of Alaska declined marginally every year in 2017 through 2020. Economic indicators have been impacted by the substantial decline in the price of crude oil in 2015 through 2017. In 2018, oil prices recovered to their highest levels since 2014, but declined in 2019 and dropped dramatically in early 2020, in part as a result of the COVID-19 pandemic. In late 2020 they recovered to 2019 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 was 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. Due in part to recent significant declines in oil prices and other impacts from the COVID-19 pandemic, the state's 2020 budget deficit was \$1.1 billion and the 2021 budget deficit, as enacted, is \$1.0 billion. The prospect of continued lower tax revenue continues to impact the overall economy and may affect our future financial performance.

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

Our objective is to continue generating sector leading revenue growth in the broadband market through investments in sales, service, marketing and product development while expanding our broadband network capabilities through higher efficiencies, automation, new technology and expanded service areas. We 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.

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.
- **Deliver an Exceptional Customer Experience.** 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.
- **Augment and Expand our Network Capabilities and Services 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 to Drive Operational Excellence.** 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.
- **Accelerate the Growth of Broadband and Managed IT Solutions that Create Market Differentiation.** We are building on strength in designing and providing new products and solutions to our customers.

We believe we can create value for our shareholders by:

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

Revenue Sources by Customer Group

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

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

Business and Wholesale

Providing services to Business and Wholesale customers generates 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 also continue to expand 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 2020.

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 2020 (dollars in thousands).

Source	Description	2020 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 charges have declined an average of approximately 11% annually over the past three years.	\$ 3,418	8.3%	1.4%
Total Access Charges		\$ 3,418	8.3%	1.4%
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.	\$ 5,275	12.8%	2.2%
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.	\$ 9,882	24.0%	4.1%
Total Surcharges		\$ 15,157	36.8%	6.3%
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	47.9%	8.2%

ENS	We are required by the State of Alaska to provide and maintain local services for retail and carrier-to-carrier telecommunication throughout certain local exchange facilities. Funds received from the State under the Essential Network Support ("ENS") program is to be used to fund capital expenditures or pay ongoing operation and maintenance expenses.	\$ 2,873	7.0%	1.2%
Total Federal and State Support		<u>\$ 22,567</u>	<u>54.9%</u>	<u>9.4%</u>
Total Regulatory Revenue		\$ 41,142		17.1%
Total Revenue		<u><u>\$ 240,569</u></u>		

Executive Summary

As described below, the COVID-19 pandemic negatively impacted year-over-year operating income by approximately \$1.7 million in 2020. While the pandemic did not have a material effect on the Company's revenue, free or upgraded service with a total value of approximately \$2.2 million was provided to certain customers in 2020.

Operating Revenues

Total revenue of \$240.9 million increased \$8.9 million, or 3.8%, in 2020 compared with 2019. Business and wholesale revenue increased \$12.3 million reflecting a \$9.0 million increase in total broadband revenue and a \$4.8 million increase in equipment sales and installations. Rural health care revenue was \$12.8 million and \$14.2 million in 2020 and 2019, respectively. Consumer revenue of \$36.6 million was down marginally year over year. As anticipated, regulatory access revenue declined \$3.0 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 2020.

Operating Income

Operating income of \$11.9 million in 2020 declined \$10.0 million from \$21.9 million in 2019. The growth in revenue was offset by higher operating expenses, including \$9.6 million of merger transaction and termination costs and \$1.5 million of incremental costs associated with the COVID-19 pandemic. These items are discussed in more detail below.

Operating Metrics

Business broadband average monthly revenue per user ("ARPU") of \$364.82 in 2020 increased from \$342.05 in 2019. Business broadband connections of 14,652 at December 31, 2020, decreased from connections of 14,880 at December 31, 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 30,598 at December 31, 2020 declined from 31,480 at December 31, 2019. Consumer broadband ARPU of \$71.40 in 2020 increased from \$68.89 in 2019.

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

	2020	2019
Voice		
At December 31:		
Business access lines	65,294	68,242
Consumer access lines	20,578	22,829
For the year ended December 31:		
ARPU business	\$ 27.95	\$ 26.38
ARPU consumer	\$ 34.65	\$ 34.44
Broadband		
At December 31:		
Business connections	14,652	14,880
Consumer connections	30,598	31,480
For the year ended December 31:		
ARPU business	\$ 364.82	\$ 342.05
ARPU consumer	\$ 71.40	\$ 68.89

Liquidity

We generated cash from operating activities of \$57.1 million in 2020 compared with \$58.8 million in 2019. Results in 2020 reflect cash payments of \$7.2 for transaction and termination costs and cash outflows of approximately \$1.0 million for incremental cash expenditures associated with the COVID-19 pandemic.

In 2020 and 2019, we invested a total of \$50.2 million and \$45.5 million, respectively, in capital, including capitalized interest and net of the settlement of items accrued in previous periods. Success based capital spending was \$30.3 million in 2020 compared with \$30.1 million in 2019.

In 2020, we made a one-time cash dividend payment totaling \$4.8 million.

Net debt (defined as total debt excluding debt issuance costs, less cash and cash equivalents) at December 31, 2020 was \$151.9 million compared with \$153.8 million at December 31, 2019. The decrease reflects lower outstanding debt largely offset by lower cash due in part to the payment of transaction and termination costs totaling \$7.2 million.

Other Initiatives

We have expanded our network to 181,000 terrestrial and submarine fiber miles. In 2020, we secured additional spectrum through the FCC auction for licenses in the shared Citizens Broadband Radio Service. We also continue to expand our MDU offering utilizing fiber or fixed wireless backhaul, with more than 7,000 MDUs now served.

On December 31, 2020, the Company entered into a definitive agreement to be acquired by a newly formed entity owned by ATN International, Inc. and Freedom 3 Capital, LLC. The Company currently anticipates that the merger will close in the second half of 2021.

RESULTS OF OPERATIONS

The following tables summarize our results of operations for the years ended December 31, 2020 and 2019. Revenue information reflects the organization of revenue streams described in “Revenue Sources by Customer Group” above, combining revenue accounted for under ASC 606 and other guidance. All amounts are discussed at the consolidated level after the elimination of affiliate revenue and expense.

(in thousands)	2020	2019
Business and Wholesale Revenue		
Business broadband	\$ 64,238	\$ 61,785
Business voice and other	28,936	28,660
Managed IT services	5,052	6,494
Equipment sales and installations	9,508	4,698
Wholesale broadband	49,878	43,310
Wholesale voice and other	5,256	5,617
Business and Wholesale Revenue	<u>162,868</u>	<u>150,564</u>
<i>Growth in Business and Wholesale Revenue</i>	<i>8.2%</i>	
Consumer revenue		
Broadband	27,180	26,589
Voice and other	9,379	10,431
Consumer Revenue	<u>36,559</u>	<u>37,020</u>
Total Business, Wholesale, and Consumer Revenue	<u>199,427</u>	<u>187,584</u>
<i>Growth in Business, Wholesale and Consumer Revenue</i>	<i>6.3%</i>	
<i>Growth in Broadband Revenue</i>	<i>7.3%</i>	
Regulatory Revenue		
Access	21,448	24,416
High cost support	19,694	19,694
Total Regulatory Revenue	<u>41,142</u>	<u>44,110</u>
Total Revenue	<u>\$ 240,569</u>	<u>\$ 231,694</u>
<i>Growth in Total Revenue</i>	<i>3.8%</i>	
Operating expenses:		
Cost of services and sale (excluding depreciation and amortization)	112,443	105,615
Selling, general and administrative	65,773	66,718
Transaction and termination costs	9,550	-
Depreciation and amortization	40,667	37,276
Loss on disposal of assets, net	240	156
Total operating expenses	<u>228,673</u>	<u>209,765</u>
Operating income	11,896	21,929
Other income and (expense):		
Interest expense	(11,000)	(12,059)
Loss on extinguishment of debt	-	(2,830)
Interest income	174	385
Other	439	175
Total other income and (expense)	<u>(10,387)</u>	<u>(14,329)</u>
Income before income tax expense	1,509	7,600
Income tax expense	<u>(2,665)</u>	<u>(2,765)</u>
Net (loss) income	(1,156)	4,835
Less net loss attributable to noncontrolling interest	<u>(83)</u>	<u>(93)</u>
Net (loss) income attributable to Alaska Communications	<u>\$ (1,073)</u>	<u>\$ 4,928</u>

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

Operating Revenue

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

Business and Wholesale

Business and wholesale revenue of \$162.9 million increased \$12.3 million, or 8.2%, in 2020 from \$150.6 million in 2019. Wholesale broadband revenue increased \$6.6 million, business broadband revenue increased \$2.5 million and equipment sales and installations increased \$4.8 million. These increases were partially offset by a \$1.4 million decline in managed IT services and \$0.4 million decline in voice and other. The increase in business broadband revenue was due primarily to an increase in ARPU to \$364.82 in 2020 from \$342.05 in 2019, partially offset by a decline in connections from 14,880 to 14,652 and lower rural health care revenue. Rural health care revenue of \$12.8 million in 2020 decreased from \$14.2 million in 2019 and represented 5% and 6% of consolidated revenue in 2020 and 2019, respectively. The increase in business broadband revenue in 2020 also reflects \$0.4 million resulting from the resolution of a funding issue with one of the Company's rural health care customers.

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 included the amortization of deferred revenue in 2020 and 2019 as follows:

	2020	2019
GCI capacity revenue	\$ 2,077	\$ 2,071
Other deferred capacity revenue	4,593	2,584
Total deferred capacity revenue	6,670	4,655
Other deferred revenue	4,023	3,785
Total	<u>\$ 10,693</u>	<u>\$ 8,440</u>

Consumer

Consumer revenue of \$36.6 million in 2020 declined \$0.4 million, or 1.2%, from \$37.0 million in 2019. Broadband revenue increased \$0.6 million due to an increase in ARPU to \$71.40 from \$68.89, partially offset by a decline in connections to 30,598 from 31,480. Voice and other revenue decreased \$1.0 million due primarily to 2,251 fewer connections, partially offset by an increase in ARPU to \$34.65 from \$34.44.

Regulatory

Regulatory revenue of \$41.1 million decreased \$3.0 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 \$112.4 million increased \$6.8 million, or 6.5%, in 2020 from \$105.6 million in 2019 due primarily to a \$3.6 million increase in network support costs, a \$2.0 million increase in labor costs and a \$0.8 million increase in circuit installation costs. These increases are inclusive of approximately \$0.8 million in 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, and incremental costs incurred from customer utilization of long-distance services. These increases were partially offset by lower utility costs and other expenses.

Selling, General and Administrative

Selling, general and administrative expenses of \$65.8 million decreased \$0.9 million, or 1.4%, in 2020 from \$66.7 million in 2019 due primarily to lower labor costs and a decrease in the provision for doubtful accounts receivable. Labor costs in 2019 included \$1.7 million of termination benefit expense for the Company's former CEO. These decreases are net of approximately \$0.7 million in incremental costs associated with the COVID-19 pandemic, including the write-off of prepaid services to a vendor that ceased operations, an increase in the provision for doubtful accounts receivable and installation costs for free services.

Transaction and Termination Costs

The Company incurred costs totaling \$9.6 million in 2020 associated with the Merger Agreement and the terminated agreement with Macquarie Capital and GCM Grosvenor. These costs consist of attorney, financial advisory and other fees of \$2.8 million and a termination fee of \$6.8 million paid upon termination of the merger agreement with Macquarie Capital and GCM Grosvenor as required under that agreement.

Depreciation and Amortization

Depreciation and amortization expense of \$40.7 million increased \$3.4 million, or 9.1%, in 2020 from \$37.3 million in 2019. This increase was due primarily to the completion of various capital projects.

Other Income and Expense

Interest expense of \$11.0 million in 2020 declined from \$12.1 million in 2019 due to a lower average interest rate and reduced borrowing levels. The loss on extinguishment of debt of \$2.8 million in 2019 was associated with the settlement of the 2017 Senior Credit Facility in the first quarter.

Income Taxes

Income tax expense was \$2.7 million on income before income of \$1.5 million in 2020. Income tax expense included the effect of non-deductible transaction and termination costs totaling \$7.6 million, which consisted primarily of the \$6.8 million termination fee paid upon termination of the merger agreement with Macquarie Capital and GCM Grosvenor. Excluding the effect of non-deductible transaction and termination costs, the Company's effective tax rate was 30.5% in 2020.

Income tax expense and the effective tax rate in 2019 was \$2.8 million and 36.4%, respectively, and includes the impact of permanent book to tax differences of \$0.6 million and 8.1%, respectively.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of our joint venture with Quintillion Holdings, LLC was \$83 thousand and \$93 thousand in 2020 and 2019, respectively.

Net (Loss) Income Attributable to Alaska Communications

The net loss attributable to Alaska Communications of \$1.1 million in 2020 compares with net income of \$4.9 million in 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, capital expenditures, dividend payments and scheduled debt service under our 2019 Senior Credit Facility in 2020 through internally generated funds and cash on hand. At December 31, 2020, we had \$19.6 million in cash and cash equivalents and \$20.0 million available under our revolving credit facility.

A summary of significant sources and use of funds for the years ended December 31, 2020 and 2019 is as follows:

(in thousands)	2020	2019
Net cash provided by operating activities	\$ 57,119	\$ 58,815
Capital expenditures	\$ (48,243)	\$ (44,764)
Capitalized interest	\$ (1,364)	\$ (1,379)
Change in unsettled capital expenditures	\$ (579)	\$ 640
Repayments of long-term debt	\$ (8,908)	\$ (174,040)
Proceeds from the issuance of long-term debt	\$ -	\$ 180,000
Debt issuance costs	\$ -	\$ (2,683)
Cash paid for debt extinguishment	\$ -	\$ (1,252)
Payment of cash dividend on common stock	\$ (4,836)	\$ -
Purchases of treasury stock	\$ -	\$ (1,812)
Interest paid ⁽¹⁾	\$ 11,137	\$ 12,228
Income taxes refunded, net ⁽¹⁾	\$ 4,307	\$ 5,041

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

Cash Flows from Operating Activities

Cash provided by operating activities of \$57.1 million in 2020 reflects net income excluding non-cash items (defined as cash provided by operating activities excluding changes in operating assets and liabilities) of \$41.3 million and receipts associated with deferred revenue arrangements of \$23.8 million, partially offset by upfront payments of \$8.3 million associated with the lease of dark fiber to be utilized in the provision of services under deferred revenue arrangements. Cash provided by operating activities in 2020 reflects transaction and termination cost payments of \$7.2 million, consisting primarily of the \$6.8 million payment associated with termination of the agreement with Macquarie Capital and GCM Grosvenor, and cash outflows of approximately \$1.0 million for incremental cash expenditures associated with the COVID-19 pandemic.

Cash provided by operating activities of \$58.8 million in 2019 reflects net income excluding non-cash items of \$48.8 million, \$9.1 million of cash receipts associated with deferred revenue lease arrangements and a \$1.0 million net decrease in accounts receivable and other assets and liabilities. Cash receipts from the rural health care program were \$14.5 million in 2019.

Interest payments, net of cash interest income and including capitalized interest, were \$11.1 million and \$12.2 million in 2020 and 2019, respectively. Through interest rate swaps entered into on June 28, 2019, interest on approximately 75% of the term loan components of our 2019 Senior Credit Facility at December 31, 2020 was substantially fixed at an annual rate of 6.1735% for the period January 2021 through June 2022.

Cash Flows from Investing Activities

Cash used by investing activities of \$50.2 million in 2020 consisted of expenditures on capital (capital expenditures including capitalized interest and net of the change in unsettled capital expenditures) totaling \$50.2 million. Of \$48.2 million incurred in 2020, \$30.3 million was success based.

Cash used by investing activities of \$45.5 million in 2019 consisted of expenditures on capital totaling \$45.5 million. Of \$44.8 million incurred in 2019, \$30.1 million was success based versus maintenance.

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

Cash Flows from Financing Activities

Cash used by financing activities of \$14.0 million in 2020 included principal payments on the 2019 Senior Credit Facility totaling \$8.9 million, including a prepayment of \$2.1 million required due to the generation of excess cash flow in 2019. On March 9, 2020, the Company's Board of Directors declared a one-time cash dividend of \$0.09 per share of common stock payable on June 18, 2020 to shareholders of record as of the close of business on April 20, 2020. The dividend payment totaled \$4.8 million.

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

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; (vii) funding of costs associated with the Merger Agreement; and (viii) our ability to obtain adequate financing to support our business and pursue growth opportunities.

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

As described above in the discussion of cash flows, the COVID-19 pandemic resulted in an approximately \$1.0 million reduction in cash provided by operating activities in 2020. However, it has not impacted the Company's access to capital and financial resources, debt service and compliance with its debt covenants and overall liquidity through December 31, 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.

In February 2021, the Company and the Municipality of Anchorage entered into an agreement under which utility relief will be made available to certain of the Company's residential and small business customers located in Anchorage. The program is supported by a grant from the Municipality of Anchorage. The funds will be applied by the Company to the accounts of customers who have experienced financial hardship related to the COVID-19 pandemic and meet other requirements, subject to certain terms and conditions. Maximum funding under the grant is \$0.7 million and is currently expected to be received during 2021.

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 December 31, 2020, total long-term obligations outstanding, including current portion, were \$171.6 million, consisting of \$168.9 million in term loans under our 2019 Senior Credit Facility and \$2.7 million in capital lease and other obligations. As of December 31, 2020, we had \$19.6 million in cash and access to the full amount of the \$20.0 million revolving credit facility under our 2019 Senior Credit Facility. Certain deferred revenue lease arrangements for which cash was received in advance require future investments in capital to support the service to be provided.

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

2019 Senior Credit Facility

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

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

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

Financial covenants as defined in the Agreement are summarized below.

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

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

The actual net total leverage ratio was 2.51 at December 31, 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 December 31, 2020 and thereafter. The minimum fixed charge coverage ratio is 1.10 to 1.00. The actual fixed charge coverage ratio was 1.37 at December 31, 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 December 31, 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 total notional amount of \$135.0 million, effectively fixing the interest payments on 75% of the outstanding principle. Reference rate reform and the eventual transition from LIBOR-based interest rate expense is not expected to have a material effect on the Company's interest expense, interest payments or liquidity.

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

Other Matters

In 2019, the Company repurchased 1 million shares of its common stock at a weighted average price of \$1.81 per share with an aggregate value of \$1,812. The repurchases were under a program authorized by the Company's Board of Directors effective March 13, 2017 through December 31, 2019 and were accounted for as treasury stock.

The Federal Communications Act requires the FCC to establish a universal service program to ensure that affordable, quality telecommunications services are available to all Americans. We have received universal support in several forms, including support from the Federal Rural Health Care universal service support mechanism, which supports telemedicine and rural health care communications through increased connectivity. This program has been in existence since 1999 and is an important contributor in supporting health care programs in high cost areas of the United States, including Alaska. Following funding caps for the rural health care program in 2017, the FCC announced an increase in the annual program funding cap to \$571 million from the prior cap of \$400 million. This FCC order also provided for an annual adjustment to the funding cap to reflect inflation and the establishment of a process to carry forward unused funds from past funding years for use in future funding years. As of December 31, 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. In January 2021, the FCC approved the company's cost-based rural rates for Funding Year 2020 (July 1, 2020 through June 30, 2021) and USAC began issuing funding commitment letters in March 2021. We recorded revenue from the rural health care program of \$12.8 million in 2020 and \$14.2 million in 2019. Our accounts receivable balance for rural health care customers, net of amounts reserved, was \$7.8 million at December 31, 2020 and \$6.8 million at December 31, 2019. As a result of USAC's more rigorous review in recent years of requests for support from the Telecommunications Program, the Company has received inquiries and requests for information from USAC about compliance with service eligibility and rate requirements, both with respect to both current and past funding requests. Due to the geographic remoteness and the limited availability of staff, telemedicine will be a key facilitator of more timely and advanced medical attention across the state of Alaska and the demand for technology-enabled health care delivery will remain strong. We currently believe that the rural health care market will continue to grow in future years and will continue to be an important part of our business. However, as a business matter, we intend to continue factoring any uncertainty into our future planning.

OUTLOOK

Operating Results, Liquidity and Capital Resources

We expect to see continued strength in business and wholesale revenues, led by broadband revenue and managed IT services, focused on the larger enterprise and carrier customer segments. These revenue increases are driven by continued demand for broadband as businesses migrate their IT infrastructure to the cloud, deployment of small cell networks, growth in 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 and impacts from the COVID-19 pandemic 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, CBRS spectrum and fixed wireless, we expect to strengthen our competitive position serving small business and residential customers, including through the expansion of MDUs. 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 2021.

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.

ADDITIONAL INFORMATION

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

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

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

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

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

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

Income Taxes

We use the asset-liability method of accounting for income taxes and account for income tax uncertainties using the “more-likely-than-not” threshold. Under the asset-liability method, deferred taxes reflect the temporary differences between the financial and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent management determines it is more-likely-than-not that the value of our deferred tax assets will not be fully realized.

Recently Issued Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures.

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

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

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

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

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

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

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

Based on our evaluation using the Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Our independent registered public accounting firm has audited the effectiveness of the Company’s internal control over financial reporting as of December 31, 2020, and its report is included in “Item 8, Financial Statements and Supplementary Data” of the Annual Report on Form 10-K.

c. Changes in Internal Control over Financial Reporting.

During the fourth quarter of 2020, we completed a series of changes to our information technology environment, including the implementation of certain critical new systems associated with sales and opportunities, customer service delivery, operational support, customer billing and collection, analytics, and other applications. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated any changes in our internal control over financial reporting that occurred during the fourth quarter of 2020, including changes resulting from the implementation of new systems as described above, and have concluded that there were no changes to our internal control over financial reporting that materially affect, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated into this Form 10-K by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders or will be filed as an amendment to this Form 10-K on or before 120 days following December 31, 2020.

Item 11. Executive Compensation

Information on compensation of our directors and executive officers is incorporated into this Form 10-K by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders or will be filed as an amendment to this Form 10-K on or before 120 days following December 31, 2020.

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

Information with respect to security ownership of certain beneficial owners and management is incorporated into this Form 10-K by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders or will be filed as an amendment to this Form 10-K on or before 120 days following December 31, 2020.

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plans	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights ⁽¹⁾ (b)	Number of securities remaining available for future issuance under equity compensation plans ⁽²⁾ (excluding securities reflected in column (a)) (c)
Approved by security holders:			
Restricted stock	2,227,269	\$ -	2,404,020

(1) Outstanding rights consist of stock units without any exercise price.

(2) As of December 31, 2020, the number of shares remaining for issuance under equity compensation plans included 1,757,345 shares under the 2011 Plan and 646,675 under the Company's 2012 Employee Stock Purchase Plan.

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

Information with respect to such contractual relationships is incorporated into this Form 10-K by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders or will be filed as an amendment to this Form 10-K on or before 120 days following December 31, 2020.

Item 14. Principal Accountant Fees and Services

Information on our audit committee's pre-approval policy for audit services and information on our principal accounting fees and services is incorporated into this Form 10-K by reference to our Proxy Statement for our 2021 Annual Meeting of Stockholders or will be filed as an amendment to this Form 10-K on or before 120 days following December 31, 2020.

PART IV

Item 15. Exhibit and Financial Statement Schedules

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

- (1) Financial Statements: Our consolidated financial statements are submitted as a separate section of this Form 10-K. See “Index to Consolidated Financial Statements” which appears on page F-1.
- (2) Financial Statement Schedules: Financial statement schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto.
- (3) Exhibits: The exhibits to this report are listed below. Other than exhibits that are filed herewith, all exhibits listed below are exhibits of the Registrant and are incorporated herein by reference as exhibits thereto.

Exhibit No.	Exhibit	Where Located
2.1**	Agreement and Plan of Merger, by and among the Company, Parent and Merger Sub., dated December 31, 2020	Exhibit 2.1 to Form 8-K (filed January 4, 2021)
2.2**	Amendment No. 1 to Amended and Restated Agreement and Plan of Merger, dated December 21, 2020, by and among the Company, Parent and Merger Sub.	Exhibit 2.1 to Form 8-K (filed December 22, 2020)
2.3**	Amended and Restated Agreement and Plan of Merger, dated December 10, 2020, by and among the Company, Parent and Merger Sub.	Exhibit 2.1 to Form 8-K (filed December 10, 2020)
2.4**	Agreement and Plan of Merger by and among Alaska Communications Systems Group, Inc., Juneau Parent Co, Inc. and Juneau Merger Co, Inc., dated November 3, 2020.	Exhibit 2.1 to Form 8-K (filed November 3, 2020)
2.5**	Stock Purchase Agreement, dated April 1, 2008, by and among the Registrant, Crest Communications Corporation, and the selling stockholders specified therein.	Exhibit 2.1 to Form 8-K (filed April 7, 2008)
2.6	Asset Purchase and Contribution Agreement, dated as of June 4, 2012, among Alaska Communications Systems Group, Inc., General Communication, Inc., ACS Wireless, Inc., GCI Wireless Holdings, LLC and The Alaska Wireless Network, LLC, with Form of First Amended and Restated Operating Agreement of The Alaska Wireless Network, LLC among The Alaska Wireless Network, LLC, GCI Wireless Holdings, LLC, ACS Wireless, Inc., Alaska Communications Systems Group, Inc. and General Communication, Inc. attached thereto as Exhibit A (portions of this Exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934).	Exhibit 2.1 to Form 8-K (filed August 6, 2012)
2.7	Amendment, dated as October 1, 2012, to Asset Purchase and Contribution Agreement, dated as of June 4, 2012, among Alaska Communications Systems Group, Inc., General Communication, Inc., ACS Wireless, Inc., GCI Wireless Holdings, LLC and The Alaska Wireless Network, LLC.	Exhibit 2.1 to Form 8-K (filed October 2, 2012)

3.1	Amended and Restated Certificate of Incorporation of the Registrant.	Exhibit 3.1 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
3.2	Amended and Restated By-Laws of Alaska Communications Systems Group, Inc, as Amended and Restated as of November 2, 2020.	Exhibit 3.1 to Form 8-K (filed November 3, 2020)
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of Alaska Communications Systems Group, Inc.	Exhibit 3.1 to Form 8-K (filed January 9, 2018)
4.1	Specimen of Common Stock Certificate.	Exhibit 4.1 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
4.2	Section 382 Tax Benefits Preservation Plan, dated as of January 8, 2018 by and between Alaska Communications Systems Group, Inc. and Computershare Trust Company, N.A., as Rights Agent.	Exhibit 4.1 to Form 8-K (filed January 9, 2018)
4.3	Amendment No. 1, dated as of October 15, 2019, to the Tax Benefits Preservation Plan, dated as of January 8, 2018, by and between Alaska Communications Systems Group, Inc. and Computershare Trust Company, N.A., as Rights Agent.	Exhibit 4.1 to Form 8-K (filed October 18, 2019)
4.4	Certificate of Elimination of the Series A Junior Participating Preferred Stock.	Exhibit 4.2 to Form 8-K (filed October 18, 2019)
4.5	Description of Alaska Communications Systems Group, Inc.'s Securities	Filed herewith
10.1*	Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan.	Exhibit 10.8 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
10.2*	Form of Restricted Stock Agreement between the Registrant and certain participants in the Registrant's 1999 Stock Incentive Plan.	Exhibit 10.1 to Form 10-Q (filed August 3, 2007)
10.3*	Form of Performance Share Unit Agreement.	Exhibit 99.1 to Form 8-K/A (filed June 12, 2008)
10.4*	Form of Performance Cash Award Agreement	Exhibit 99.1 to Form 8-K (filed September 13, 2018)
10.5*	Form of Time-Based Cash Award Agreement	Exhibit 99.2 to Form 8-K (filed September 13, 2018)
10.6*	Amendment to Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan.	Exhibit 10.5 to Form 10-K (filed March 9, 2010)

10.7*	Alaska Communications Systems Group, Inc. 1999 Non-Employee Director Compensation Plan.	Exhibit 10.9 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
10.8*	Amendment to Alaska Communications Systems Group, Inc. 1999 Non-Employee Director Compensation Plan.	Exhibit 10.7 to Form 10-K (filed March 9, 2010)
10.9*	Alaska Communications Systems Group, Inc. 2020 Non-Employee Director Compensation and Reimbursement Policy	Exhibit 10.1 to Form 10-Q (filed August 10, 2020)
10.10*	Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan.	Exhibit 10.10 to Form S-1/A File No. 333-888753 (filed November 17, 1999)
10.11*	Alaska Communications Systems Group, Inc. 2012 Employee Stock Purchase Plan.	Appendix A to Schedule 14A (filed April 25, 2012)
10.12*	Amendment to Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan.	Exhibit 10.9 to Form 10-K (filed March 9, 2010)
10.13	Alaska Communications Systems Group, Inc. Amended and Restated 2012 Employee Stock Purchase Plan	Exhibit 10.2 to Form 10-Q (filed August 10, 2020)
10.14	Collective Bargaining Agreement, effective January 1, 2018, between Alaska Communications Systems Holdings, Inc. and the International Brotherhood of Electrical Workers, Local Union No. 1547.	Exhibit 10.1 to Form 8-K (filed March 5, 2018)
10.15	Confirmations of Convertible Bond Hedges by and between Alaska Communications Systems Group, Inc. and certain affiliates of the Initial Purchasers.	Exhibit 10.2 to Form 8-K (filed April 14, 2008)
10.16	Confirmations of Warrant Transactions by and between Alaska Communications Systems Group, Inc. and certain affiliates of the Initial Purchasers.	Exhibit 10.3 to Form 8-K (filed April 14, 2008)
10.17	First Amended and Restated Credit Agreement, dated as of January 15, 2019, by and among Alaska Communications, as the borrower, the Company and certain of its direct and indirect subsidiaries, as guarantors, ING Capital LLC, as administrative agent, and the lenders party thereto (portions redacted as marked pursuant to a confidential treatment request made with the Securities and Exchange Commission).	Exhibit 10.1 to Form 8-K (filed January 22, 2019)
10.18	First Amendment to First Amended and Restated Credit Agreement, dated as of December 21, 2020.	Exhibit 10.1 to Form 8-K (filed February 10, 2021)
10.19	Purchase Agreement, dated May 4, 2011, by and among the Company, the Guarantors named therein and J.P. Morgan Securities LLC, as representative of the several initial purchasers name therein.	Exhibit 10.1 to Form 8-K (filed May 11, 2011)

10.20*	Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan Restricted Stock Unit Agreement.	Exhibit 10.1 to Form 8-K (filed July 8, 2011)
10.21*	Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan Performance Stock Unit Agreement.	Exhibit 10.2 to Form 8-K (filed July 8, 2011)
10.22*	Alaska Communications Systems Group, Inc. Post-Employment Stock Incentive Award Vesting Policy.	Exhibit 10.3 to Form 8-K (filed July 8, 2011)
10.23*	Employment Arrangement between the Company and Leonard Steinberg.	Exhibit 10.1 to Form 8-K (filed January 26, 2012)
10.24*	The Alaska Communications Systems Group, Inc. Amended and Restated 2011 Incentive Award Plan.	Exhibit 99.1 to Form S-8 File No. 333-226124 (Filed July 11, 2018)
10.25	Purchase and Sale Agreement, dated December 4, 2014, by and between ACS, GCI, ACS Wireless, GCI Wireless, and AWN.	Exhibit 10.1 to Form 8-K (filed March 5, 2015)
10.26*	Employment Agreement between Alaska Communications Systems Group, Inc. and Anand Vadapalli entered into on August 5, 2015.	Exhibit 10.1 to Form 8-K (filed August 7, 2015)
10.27*	Employment Arrangement between Alaska Communications Systems Group, Inc. and Laurie Butcher.	Exhibit 10.1 to Form 8-K (filed November 29, 2018)
10.28*	The Alaska Communications Systems Group, Inc. 2016 Officer Severance Policy.	Exhibit 10.2 to Form 8-K (filed November 29, 2018)
10.29*	2015 Alaska Communications Systems Group, Inc. Non-Employee Director Compensation and Reimbursement Policy.	Exhibit 10.1 to Form 10-Q (filed May 9, 2016)
10.30	Credit Agreement, dated as of March 13, 2017, by and among Alaska Communications, as the borrower, the Company and certain of its direct and indirect subsidiaries, as guarantors, ING Capital LLC, as administrative agent, and the lenders party thereto.	Exhibit 10.1 to Form 8-K (filed March 15, 2017)
10.31*	Compensation Letter from Alaska Communications Systems Group, Inc. to Leonard Steinberg dated March 26, 2019.	Exhibit 10.2 to Form 10-Q (filed May 10, 2019)
10.32*	Compensation Letter from Alaska Communications Systems Group, Inc. to Laurie Butcher dated March 26, 2019.	Exhibit 10.3 to Form 10-Q (filed May 10, 2019)
10.33*	Employment Agreement between Alaska Communications Systems Group, Inc. and Diedre L. Williams dated September 20, 2019.	Exhibit 10.1 to Form 8-K (filed September 26, 2019)
10.34*	Employment Agreement between Alaska Communications Systems Group, Inc. and William H. Bishop effective October 14, 2019.	Exhibit 10.1 to Form 8-K (filed October 15, 2019)

10.35*	Compensation Letter between Alaska Communications Systems Group, Inc. and William H. Bishop dated July 5, 2019.	Exhibit 10.1 to Form 8-K (filed July 2, 2019)
10.36*	Separation Agreement and Officer's Release between Alaska Communications Systems Group, Inc. and Anand Vadapalli dated June 12, 2019.	Exhibit 10.4 to Form 10-Q (filed August 8, 2019)
10.37*	First Amendment to Employment Agreement between Anand Vadapalli and Alaska Communications Systems Group, Inc. entered into on August 5, 2015.	Exhibit 10.1 to Form 8-K (filed October 6, 2017)
10.38*	Second Amendment to Employment Agreement between Anand Vadapalli and Alaska Communications Systems Group, Inc. entered into on August 5, 2015.	Exhibit 10.1 to Form 8-K (filed May 14, 2018)
10.39*	Form of Director's and Officer's Indemnification Agreement	Exhibit 10.1 to Form 8-K (filed December 22, 2017)
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Moss Adams LLP relating to the audited financial statements of Alaska Communications Systems Group, Inc.	Filed herewith
31.1	Certification of William Bishop, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Laurie Butcher, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of William Bishop, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of Laurie Butcher, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
101.INS	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.

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

SIGNATURES

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

Date: March 16, 2021 Alaska Communications Systems Group, Inc.

By: /s/ William Bishop

William Bishop
President and Chief Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William Bishop</u> William Bishop	President and Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2021
<u>/s/ Laurie Butcher</u> Laurie Butcher	Chief Financial Officer (Principal Financial Officer)	March 16, 2021
<u>/s/ Tiffany Hoogerhyde</u> Tiffany Hoogerhyde	Vice President, Finance and Controller (Principal Accounting Officer)	March 16, 2021
<u>/s/ David W. Karp</u> David W. Karp	Chairman of the Board of Directors	March 16, 2021
<u>/s/ Peter D. Aquino</u> Peter D. Aquino	Director	March 16, 2021
<u>/s/ Wayne Barr, Jr.</u> Wayne Barr, Jr.	Director	March 16, 2021
<u>/s/ Benjamin C. Duster, IV</u> Benjamin C. Duster, IV	Director	March 16, 2021
<u>/s/ Shelly Lombard</u> Shelly Lombard	Director	March 16, 2021

Subsidiaries of the Company

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

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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-240080, No. 333-226124, No. 333-199923, No. 333-181660, and No. 333-175179) of Alaska Communications Systems Group, Inc. of our reports dated March 16, 2021, relating to the consolidated financial statements of Alaska Communications Systems Group, Inc. and the effectiveness of internal control over financial reporting of Alaska Communications Systems Group, Inc. appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Moss Adams LLP

Spokane, Washington
March 16, 2021

Sarbanes-Oxley Section 302(a) Certification

I, William Bishop, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Communications Systems Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2021 /s/ William Bishop

William Bishop

President and Chief Executive Officer

Alaska Communications Systems Group, Inc.

Sarbanes-Oxley Section 302(a) Certification

I, Laurie Butcher, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Communications Systems Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2021 /s/ Laurie Butcher

Laurie Butcher

Chief Financial Officer

Alaska Communications Systems Group, Inc.

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

In connection with the Annual Report of Alaska Communications Systems Group, Inc. (the “Company”) on Form 10-K for the fiscal year ending December 31, 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: March 16, 2021 /s/ William Bishop _____

William Bishop

President and Chief Executive Officer

Alaska Communications Systems Group, Inc.

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

In connection with the Annual Report of Alaska Communications Systems Group, Inc. (the "Company") on Form 10-K for the period ending December 31, 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 result of operations of the Company.

Date: March 16, 2021 /s/ Laurie Butcher _____

Laurie Butcher

Chief Financial Officer

Alaska Communications Systems Group, Inc.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Alaska Communications Systems Group, Inc. (the “Company”) as of December 31, 2020 and 2019, the related consolidated statements of comprehensive (loss) income, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Identification of Performance Obligations

As described in Note 3 to the consolidated financial statements, business and wholesale broadband revenue approximated \$106 million for the year ended December 31, 2020. 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 performance obligations whether they are explicitly stated in the contract or are implied by customary business practices.

We identified business and wholesale broadband revenue recognition, and in particular, the identification of distinct performance obligations as a critical audit matter because determining whether the Company’s promise to transfer a good or service is separately identifiable requires significant management judgment, taking into account all of the facts and circumstances, and in turn led to significant and subjective auditor judgment in performing procedures and evaluating audit evidence obtained.

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of internal controls over the occurrence, completeness, and timing of business and wholesale broadband revenue recognition, including controls designed to identify performance obligations.
- Testing a selection of business and wholesale broadband customer contracts to perform substantive procedures relating to the Company's revenue recognition conclusions, including, but not limited to, reviewing each contract selected to determine whether the Company's identified performance obligation is capable of being distinct and the promise to transfer the good or service is distinct within the context of the contract.

/s/ Moss Adams LLP

Spokane, Washington
March 16, 2021

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

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Alaska Communications Systems Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of comprehensive (loss) income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 16, 2021, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Moss Adams LLP

Spokane, Washington
March 16, 2021

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Balance Sheets
December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 19,644	\$ 26,662
Restricted cash	1,326	1,331
Short-term investments	434	434
Accounts receivable, net	41,893	34,354
Materials and supplies	7,624	8,900
Prepayments and other current assets	6,404	9,617
Total current assets	77,325	81,298
Property, plant and equipment	1,452,943	1,424,904
Less: accumulated depreciation and amortization	(1,062,027)	(1,042,546)
Property, plant and equipment, net	390,916	382,358
Operating lease right of use assets	89,821	80,991
Other assets	11,370	12,598
Total assets	\$ 569,432	\$ 557,245
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term obligations	\$ 9,067	\$ 8,906
Accounts payable, accrued and other current liabilities	49,700	42,869
Operating lease liabilities - current	3,392	2,795
Total current liabilities	62,159	54,570
Long-term obligations, net of current portion	159,641	167,476
Deferred income taxes	5,846	4,403
Operating lease liabilities - noncurrent	81,103	78,767
Other long-term liabilities, net of current portion	94,764	78,520
Total liabilities	403,513	383,736
Commitments and contingencies		
Alaska Communications stockholders' equity:		
Common stock, \$0.01 par value; 145,000 authorized; 54,875 issued and 53,875 outstanding at December 31, 2020; 54,085 issued and 53,085 outstanding at December 31, 2019	549	541
Treasury stock	(1,812)	(1,812)
Additional paid in capital	163,317	161,844
Retained earnings	9,442	15,367
Accumulated other comprehensive loss	(6,340)	(3,277)
Total Alaska Communications stockholders' equity	165,156	172,663
Noncontrolling interest	763	846
Total stockholders' equity	165,919	173,509
Total liabilities and stockholders' equity	\$ 569,432	\$ 557,245

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

	2020	2019
Operating revenues	\$ 240,569	\$ 231,694
Operating expenses:		
Cost of services and sales (excluding depreciation and amortization)	112,443	105,615
Selling, general and administrative	65,773	66,718
Transaction and termination costs	9,550	-
Depreciation and amortization	40,667	37,276
Loss on disposal of assets, net	240	156
Total operating expenses	<u>228,673</u>	<u>209,765</u>
Operating income	11,896	21,929
Other income and (expense):		
Interest expense	(11,000)	(12,059)
Loss on extinguishment of debt	-	(2,830)
Interest income	174	385
Other	439	175
Total other income and (expense)	<u>(10,387)</u>	<u>(14,329)</u>
Income before income tax expense	1,509	7,600
Income tax expense	<u>(2,665)</u>	<u>(2,765)</u>
Net (loss) income	(1,156)	4,835
Less net loss attributable to noncontrolling interest	<u>(83)</u>	<u>(93)</u>
Net (loss) income attributable to Alaska Communications	<u>(1,073)</u>	<u>4,928</u>
Other comprehensive (loss) income:		
Minimum pension liability adjustment	(1,683)	(161)
Income tax effect	480	46
Amortization of defined benefit plan (gain) loss	(102)	67
Income tax effect	28	(19)
Interest rate swap marked to fair value	(3,901)	(40)
Income tax effect	1,109	11
Reclassification of loss (gain) on interest rate swaps	1,405	(706)
Income tax effect	(399)	200
Total other comprehensive loss	<u>(3,063)</u>	<u>(602)</u>
Total comprehensive (loss) income attributable to Alaska Communications	<u>(4,136)</u>	<u>4,326</u>
Net loss attributable to noncontrolling interest	(83)	(93)
Total other comprehensive income attributable to noncontrolling interest	-	-
Total comprehensive loss attributable to noncontrolling interest	<u>(83)</u>	<u>(93)</u>
Total comprehensive (loss) income	<u>\$ (4,219)</u>	<u>\$ 4,233</u>
Net (loss) income per share attributable to Alaska Communications:		
Basic	<u>\$ (0.02)</u>	<u>\$ 0.09</u>
Diluted	<u>\$ (0.02)</u>	<u>\$ 0.09</u>
Weighted average shares outstanding:		
Basic	<u>54,013</u>	<u>53,379</u>
Diluted	<u>54,013</u>	<u>54,277</u>

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

	2020	2019
Number of Common Shares Issued and Outstanding		
Balance at beginning of period	53,085	53,268
Issuance of common stock pursuant to stock plans, \$.01 par	790	817
Purchases of common stock, \$.01 par	-	(1,000)
Balance at end of period	<u>53,875</u>	<u>53,085</u>
Total Stockholders' Equity - Beginning Balance	\$ 173,509	\$ 169,750
Common Stock		
Balance at beginning of period	541	533
Issuance of common stock pursuant to stock plans, \$.01 par	8	8
Balance at end of period	<u>549</u>	<u>541</u>
Treasury Stock		
Balance at beginning of period	(1,812)	-
Purchases of 1,000 shares of common stock, \$.01 par	-	(1,812)
Balance at end of period	<u>(1,812)</u>	<u>(1,812)</u>
Additional Paid In Capital		
Balance at beginning of period	161,844	160,514
Stock-based compensation	1,693	1,580
Surrender of shares to cover minimum withholding taxes on stock-based compensation	(456)	(453)
Issuance of common stock pursuant to stock plans, \$.01 par	236	203
Balance at end of period	<u>163,317</u>	<u>161,844</u>
Retained Earnings		
Balance at beginning of period	15,367	10,439
Net (loss) income attributable to Alaska Communications	(1,073)	4,928
Dividends declared	(4,852)	-
Balance at end of period	<u>9,442</u>	<u>15,367</u>
Accumulated Other Comprehensive Loss		
Balance at beginning of period	(3,277)	(2,675)
Other comprehensive loss	(3,063)	(602)
Balance at end of period	<u>(6,340)</u>	<u>(3,277)</u>
Noncontrolling Interest		
Balance at beginning of period	846	939
Net loss attributable to noncontrolling interest	(83)	(93)
Balance at end of period	<u>763</u>	<u>846</u>
Total Stockholders' Equity - Ending Balance	\$ <u>165,919</u>	\$ <u>173,509</u>

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(In Thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Net (loss) income	\$ (1,156)	\$ 4,835
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	40,667	37,276
Loss on the disposal of assets, net	240	156
Amortization of debt issuance costs and debt discount	1,234	1,215
Loss on extinguishment of debt	-	2,830
Amortization of deferred capacity revenue	(6,670)	(4,655)
Stock-based compensation	1,693	1,580
Deferred income tax expense	2,658	2,919
(Credit) charge for uncollectible accounts	(216)	257
Amortization of right-of-use assets	2,897	2,288
Other non-cash (income) expense, net	(91)	70
Changes in operating assets and liabilities	15,863	10,044
Net cash provided by operating activities	<u>57,119</u>	<u>58,815</u>
Cash Flows from Investing Activities:		
Capital expenditures	(48,243)	(44,764)
Capitalized interest	(1,364)	(1,379)
Change in unsettled capital expenditures	(579)	640
Proceeds on sale of assets	-	25
Net cash used by investing activities	<u>(50,186)</u>	<u>(45,478)</u>
Cash Flows from Financing Activities:		
Repayments of long-term debt	(8,908)	(174,040)
Proceeds from the issuance of long-term debt	-	180,000
Debt issuance costs	-	(2,683)
Cash paid for debt extinguishment	-	(1,252)
Payment of cash dividend on common stock	(4,836)	-
Payment of withholding taxes on stock-based compensation	(456)	(453)
Purchases of treasury stock	-	(1,812)
Proceeds from the issuance of common stock	244	211
Net cash used by financing activities	<u>(13,956)</u>	<u>(29)</u>
Change in cash and cash equivalents and restricted cash	(7,023)	13,308
Cash and cash equivalents and restricted cash, beginning of period	27,993	14,685
Cash and cash equivalents and restricted cash, end of period	<u>\$ 20,970</u>	<u>\$ 27,993</u>
Supplemental Cash Flow Data:		
Interest paid	\$ 11,137	\$ 12,228
Income taxes refunded, net	\$ (4,307)	\$ (5,041)

See Notes to Consolidated Financial Statements

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

**Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)**

1. DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements as of and for the years ended December 31, 2020 and 2019 represent the consolidated financial position, results of operations, stockholders’ equity and cash flows of Alaska Communications and the following wholly-owned subsidiaries:

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

In addition to the wholly-owned subsidiaries, the Company has a fifty percent controlling interest in ACS-Quintillion JV, LLC (“AQ-JV”), a joint venture formed by its wholly-owned subsidiary ACSC and Quintillion Holdings, LLC (“QHL”) in connection with the North Slope fiber optic network. See Note 20 “*Joint Venture*” for additional information.

On December 31, 2020, the Company entered into a definitive agreement to be acquired by a newly formed entity owned by ATN International, Inc. and Freedom 3 Capital, LLC. On December 31, 2020, the Company also terminated the previously announced agreement under which it would be acquired by Macquarie Capital and GCM Grosvenor. See Note 2 “*Merger Agreement*” for a summary of these matters.

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

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

Basis of Presentation

The consolidated financial statements and notes include all accounts and subsidiaries of the Company in which it maintains a controlling financial interest. Intercompany accounts and transactions have been eliminated. The Company consolidates the financial results of the AQ-JV based on its determination that, for accounting purposes, it holds a controlling financial interest in the joint venture and is the primary beneficiary of this variable interest entity. The Company has accounted for and reported QHL’s 50 percent ownership interest in the joint venture as a noncontrolling interest. See Note 20 “*Joint Venture*” for additional information. Certain reclassifications have been made to the prior years’ financial statements to conform to the current year presentation.

Other than as described in the notes to the consolidated financial statements, as of the date of the accompanying consolidated financial statements, the COVID-19 pandemic has not had a material effect on the Company’s accounting policies, financial statements and disclosures.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

**Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)**

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting the financial statements are those related to the realizable value of accounts receivable and long-lived assets, the value of derivative instruments, revenue, deferred capacity revenue, legal contingencies, stock-based compensation, operating leases and income taxes. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes is reasonable under the circumstances. Assumptions are adjusted as facts and circumstances dictate. Volatile capital markets, uncertainty regarding certain regulatory matters, the COVID-19 pandemic and the continuation of low crude oil pricing have combined to increase the uncertainty in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results may differ significantly from those estimates. Changes in those estimates will be reflected in the financial statements of future periods.

Cash and Cash Equivalents

For purposes of the Consolidated Balance Sheets and Consolidated Statements of Cash Flows, the Company generally considers all highly liquid investments with a maturity at acquisition of three months or less to be cash equivalents.

Restricted Cash

Restricted cash of \$1,326 at December 31, 2020 consists of certificates of deposits totaling \$1,300 required under the terms of certain contracts to which the Company is a party and other restricted cash of \$26. When the restrictions are lifted, the Company will transfer these funds into its operating accounts.

Trade Accounts Receivable and Allowance for Doubtful Accounts

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

Materials and Supplies

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

Property, Plant and Equipment

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

The Company is the lessee of equipment and buildings under finance leases expiring in various years through 2033. The assets and liabilities under finance leases are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the assets at the inception of the lease. The assets are amortized over the shorter of their related lease terms or the estimated productive lives. Amortization of assets under finance leases is included in depreciation and amortization expense. The Company is also the lessee of various land, building and personal property under operating lease agreements which are not classified as property, plant and equipment. See Note 10 “*Leases*” for additional information regarding the Company’s leases.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

**Notes to Consolidated Financial Statements
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(In Thousands, Except Per Share Amounts)**

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

Asset Retirement Obligations

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

Indefeasible Rights of Use

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

Intangible Assets

The Company's intangible assets consist of a spectrum licensing agreement with a carrying value of \$683 at December 31, 2020, which is included in "Other assets" on the Consolidated Balance Sheet.

Variable Interest Entities

The Company's ownership interest in the AQ-JV is a variable interest entity as defined in Accounting Standards Codification ("ASC") 810, "Consolidation." The Company consolidates the financial results of this entity based on its determination that, for accounting purposes, it holds a controlling financial interest in, and is the primary beneficiary of, the entity. The Company has accounted for and reported the interest of this entity's other owner as a noncontrolling interest. See Note 20 "Joint Venture" for additional information.

Deferred Capacity Revenue

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

Preferred Stock

The Company has 5 million shares of \$0.01 par value preferred stock authorized, none of which were issued or outstanding at December 31, 2020 and 2019.

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

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
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Leases

The Company accounts for leases in accordance with ASC 842, "Leases" ("ASC 842"). See Note 10 "Leases" for a summary of the Company's lease accounting policies and other disclosures required under ASC 842.

Revenue Recognition

The Company accounts for revenue in accordance with ASC 606, "Revenue from Contracts with Customers" ("ASC 606") and other guidance. See Note 3 "Revenue Recognition" for a summary of the Company's revenue recognition policies and other disclosures required under ASC 606.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense totaled \$3,616 and \$2,829 in 2020 and 2019, respectively, and is included in "Selling, general and administrative expense" in the Company's Consolidated Statements of Comprehensive (Loss) Income.

Share-based Payments

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

Restricted Stock Units ("RSUs")

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

Performance Share Units ("PSUs")

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

Employee Stock Purchase Plan ("ESPP")

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

Tax Treatment

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

Pension Benefits

Multi-employer Defined Benefit Plan

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

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

**Notes to Consolidated Financial Statements
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Defined Benefit Plan

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

Defined Contribution Plan

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

Income Taxes

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

Earnings per Share

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

Long-lived Asset Impairment

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

Debt Issuance Costs and Discounts

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

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

**Notes to Consolidated Financial Statements
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Regulatory Accounting and Regulation

Certain activities of the Company are subject to rate regulation by the Federal Communications Commission (“FCC”) for interstate telecommunication service and the Regulatory Commission of Alaska (“RCA”) for intrastate and local exchange telecommunication service. The Company, as required by the FCC, accounts for such activity separately. Long distance services of the Company are subject to regulation as a non-dominant interexchange carrier by the FCC for interstate telecommunication services and the RCA for intrastate telecommunication services. Wireless, Internet and other non-common carrier services are not subject to rate regulation.

Taxes Collected from Customers and Remitted to Government Authorities

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

Derivative Financial Instruments

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

Dividend Policy

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

Share Repurchase Program

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

Concentrations of Risk

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

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

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

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As of December 31, 2020, approximately 54% of the Company's employees are represented by the International Brotherhood of Electrical Workers, Local 1547 ("IBEW"). The Master Collective Bargaining Agreement ("CBA") between the Company and the IBEW, which is effective through December 31, 2023, governs the terms and conditions of employment for all IBEW represented employees working for the Company and has significant economic impacts on the Company as it relates to wage and benefit costs and work rules that affect our ability to provide superior service to our customers. The Company considered relations with the IBEW to be stable in 2020; however, any deterioration in the relationship with the IBEW would have a negative impact on the Company's operations.

The Company provides voice, broadband and managed IT services to its customers throughout Alaska. Accordingly, the Company's financial performance is directly influenced by the competitive environment in Alaska, and by economic factors specifically in Alaska. The most significant economic factor is the level of Alaskan oil production and the per barrel price of relevant crude oil.

As an entity that relies on the FCC and state regulatory agencies to provide stable funding sources to provide services in high cost areas, the Company is also impacted by any changes in regulations or future funding mechanisms that are being established by these regulatory agencies. In 2020, 8% of the Company's total revenues were derived from high cost support and 5% were derived from the rural health care universal service support mechanism.

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

Recently Adopted Accounting Pronouncements

Effective January 1, 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 years ended December 31, 2020 and 2019. 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 the year ended December 31, 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 9, "*Long-Term Obligations*" and Note 15, "*Fair Value Measurements and Derivative Financial Instruments*."

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Effective in 2020, the Company adopted 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. Adoption on a retrospective basis to all periods presented was required. The changes in disclosure requirements summarized above are reflected in Note 13, “*Retirement Plans*” and Note 18, “*Accumulated Other Comprehensive Loss*.”

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 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. MERGER AGREEMENT

On December 31, 2020, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Project 8 Buyer, LLC (“Parent”), and Project 8 MergerSub, Inc., a wholly-owned subsidiary of Parent (“Merger Sub”), pursuant to which the Company will be acquired by ATN International, Inc. and Freedom 3 Capital, LLC. On December 31, 2020, the Company also terminated the previously announced merger agreement pursuant to which the Company would be acquired by Macquarie Capital (USA) and GCM Grosvenor through its Labor Impact Fund.

On the terms, and subject to the conditions, of the Merger Agreement, Merger Sub will merge with and into the Company (the “Merger”), with the Company continuing as the surviving corporation (the “Surviving Corporation”) and a wholly-owned subsidiary of Parent. As a result of the Merger, each share of the Company’s common stock issued and outstanding immediately prior to the effective time of the Merger (the “Effective Time”) (other than shares held by (i) the Company, Parent or Merger Sub and (ii) stockholders of the Company who have validly exercised and perfected their appraisal rights under Delaware law) will be converted at the Effective Time into the right to receive \$3.40 in cash, without interest, subject to any applicable withholding taxes (the “Merger Consideration”).

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Consummation of the Merger is subject to certain closing conditions, including, without limitation, (i) approval of the Merger by the Company's stockholders, (ii) absence of certain legal impediments, (iii) the expiration or termination of the required waiting period under the HSR Act and (iv) receipt of regulatory approvals from the FCC (and, if required as a precondition for FCC approval, Team Telecom Committee) and from the RCA.

The Merger is currently expected to close in the third quarter of 2021, although there can be no assurance that it will occur by that date. The transaction will result in the Company becoming a consolidated, majority owned subsidiary of ATN International, Inc.

The Company incurred costs totaling \$9,550 in 2020 associated with the Merger Agreement and the terminated agreement with Juneau Parent Co, Inc. and Juneau Merger Co, Inc. These costs consist of attorney, financial advisory and other fees of \$2,750, and a termination fee of \$6,800 paid upon termination of the merger agreement with Juneau Parent Co, Inc. and Juneau Merger Co, Inc. as required under that agreement. The costs are reported as "Transaction and termination costs" in the Consolidated Statements of Comprehensive (Loss) Income.

See Note 24 "Subsequent Events."

3. REVENUE RECOGNITION

Revenue Recognition Policies

Revenue Accounted for in Accordance with ASC 606

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

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

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

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The Company enters into contracts with its rural health care customers and is subject to various regulatory requirements associated with the provision of these services. Revenues associated with rural health care customers are recognized based on the amount the Company expects to collect as evidenced in its contract with the customer and the Company's and customer's agreement with the FCC as the relevant service is provided. Payment for the services is made, in part, by the customer. The Company also receives funding support for these services through the FCC's rural health care universal service support mechanism. Funding through the FCC represents the predominant portion of the total funding. The amount expected to be collected from the FCC is based on program funding levels and actual or recent historical approval levels of customer applications. As of December 31, 2020, the Universal Service Administrative Company ("USAC") had issued funding commitment letters for all of the Company's rural health care customer applications for Funding Year 2018 (July 1, 2018 through June 30, 2019). For Funding Year 2019 (July 1, 2019 through June 30, 2020), the FCC had approved the Company's cost-based rural rates and USAC had issued funding commitment letters. The Company filed a request in January 2020 for approval of its rural rates for Funding Year 2020 (July 1, 2020 through June 30, 2021). In January 2021, the FCC approved the Company's rates for Funding Year 2020 and USAC began issuing funding commitment letters in March 2021.

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

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

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

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.

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.

Revenue Accounted for in Accordance with Other Guidance

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

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

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

High-cost support revenue consists of interstate and intrastate universal support funds and similar revenue streams structured by federal and state regulatory agencies that allow the Company to recover its cost of providing universal service in Alaska. Funding under the FCC Connect America Fund (“CAF”) Phase II order specific to Alaska Communications generally requires the Company to provide broadband service to unserved locations throughout the designated coverage area by the end of a specified build-out period, and meet interim milestone build-out obligations. In addition to federal high cost support, the Company has been designated by the State of Alaska as a Carrier of Last Resort and is required to provide services essential for retail and carrier-to-carrier telecommunication throughout applicable coverage areas. These services are funded through the Essential Network Support (“ENS”) funding mechanism.

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

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Disaggregation of Revenue

The following table provides the Company's revenue disaggregated on the basis of its primary markets, customers, products and services for the years ended December 31, 2020 and 2019:

	2020			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	\$ 62,864	\$ -	\$ 62,864	\$ 61,549	\$ -	\$ 61,549
Business voice and other	27,368	-	27,368	27,394	-	27,394
Managed IT services	5,052	-	5,052	6,494	-	6,494
Equipment sales and installations	9,508	-	9,508	4,698	-	4,698
Wholesale broadband	43,071	-	43,071	36,408	-	36,408
Wholesale voice and other	5,256	-	5,256	5,617	-	5,617
Operating leases and other deferred revenue	-	9,749	9,749	-	8,404	8,404
Total Business and Wholesale Revenue	153,119	9,749	162,868	142,160	8,404	150,564
Consumer Revenue						
Broadband	27,180	-	27,180	26,589	-	26,589
Voice and other	9,379	-	9,379	10,431	-	10,431
Total Consumer Revenue	36,559	-	36,559	37,020	-	37,020
Regulatory Revenue						
Access ⁽¹⁾	18,574	-	18,574	19,942	-	19,942
Access ⁽²⁾	-	2,874	2,874	-	4,474	4,474
High-cost support	-	19,694	19,694	-	19,694	19,694
Total Regulatory Revenue	18,574	22,568	41,142	19,942	24,168	44,110
Total Revenue	\$ 208,252	\$ 32,317	\$ 240,569	\$ 199,122	\$ 32,572	\$ 231,694

(1) Includes customer ordered service and special access.

(2) Includes carrier of last resort and carrier common line.

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

Timing of Revenue Recognition

Revenue accounted for in accordance with ASC 606 consisted of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Services transferred over time	\$ 180,170	\$ 174,482
Goods transferred at a point in time	9,508	4,698
Regulatory access revenue ⁽¹⁾	18,574	19,942
Total revenue	\$ 208,252	\$ 199,122

(1) Includes customer ordered service and special access.

Transaction Price Allocated to Remaining Performance Obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations for contracts with customers that are unsatisfied, or partially unsatisfied, accounted for in accordance with ASC 606 was approximately \$70,545 at December 31, 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 \$1,021 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 \$69,524 the total, the performance obligation will be satisfied as the service is provided over the terms of the contracts, which range from one to ten years. The Company's agreements with its consumer customers are typically on a month-to-month basis. Therefore, the Company's provision of future service to these customers is not reflected in the above discussion of future performance obligations.

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Contract Assets and Liabilities

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

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

The table below provides a reconciliation of the contract assets associated with contracts with customers accounted for in accordance with ASC 606 for the years ended December 31, 2020 and 2019. Contract modifications and cancellations did not have a material effect on contract assets in the years ended December 31, 2020 and 2019. Contract assets are classified as "Other assets" on the consolidated balance sheet.

	2020	2019
Balance at beginning of period	\$ 7,242	\$ 8,052
Contract additions	2,923	3,070
Amortization	(3,597)	(3,797)
Impairments	-	(83)
Balance at end of period	<u>\$ 6,568</u>	<u>\$ 7,242</u>

The Company recorded a credit of \$216 and a charge of \$257 for uncollectible accounts receivable in the years ended December 31, 2020 and 2019, respectively, associated with its contracts with customers. See Note 4 "Accounts Receivable."

The table below provides a reconciliation of the contract liabilities associated with contracts with customers accounted for in accordance with ASC 606 for the years ended December 31, 2020 and 2019. Contract liabilities consist of deferred revenue and are included in "Accounts payable, accrued and other current liabilities" and "Other long-term liabilities, net of current portion."

	2020	2019
Balance at beginning of period	\$ 3,903	\$ 2,766
Contract additions	1,749	2,575
Revenue recognized	(1,681)	(1,438)
Balance at end of period	<u>\$ 3,971</u>	<u>\$ 3,903</u>

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4. ACCOUNTS RECEIVABLE

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

	2020	2019
Retail customers	\$ 29,815	\$ 22,101
Wholesale carriers	8,402	13,157
Other	7,736	3,723
	<u>45,953</u>	<u>38,981</u>
Less: allowance for doubtful accounts	(4,060)	(4,627)
Accounts receivable, net	<u>\$ 41,893</u>	<u>\$ 34,354</u>

The following table presents the activity in the allowance for doubtful accounts for the years ended December 31, 2020 and 2019, which is associated entirely with the Company's contracts with customers.

	2020	2019
Balance at January 1	\$ 4,627	\$ 3,936
(Credit) provision for uncollectible accounts	(216)	257
Charged to other accounts	-	1,253
Deductions	(351)	(819)
Balance at December 31	<u>\$ 4,060</u>	<u>\$ 4,627</u>

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. The COVID-19 pandemic has not required a revision of this policy. 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.

As of December 31, 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. In January 2021, the FCC approved the Company's cost-based rural rates for Funding Year 2020 (July 1, 2020 through June 30, 2021) and USAC began issuing funding commitment letters in March 2021. Accounts receivable, net, associated with rural health care customers was \$7,829 and \$6,827 at December 31, 2020 and 2019, respectively. Rural health care accounts are a component of the Retail Customers category in the above table. See Note 3, "Revenue Recognition" for additional information.

5. OTHER CURRENT ASSETS

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

	2020	2019
Prepaid expense	\$ 2,619	\$ 3,528
Income tax receivable ⁽¹⁾	353	2,510
Other	3,432	3,579
Total prepayments and other current assets	<u>\$ 6,404</u>	<u>\$ 9,617</u>

⁽¹⁾ See Note 16 "Income Taxes."

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6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2020 and 2019:

	2020	2019	Useful Lives
Land, buildings and support assets*	\$ 214,326	\$ 204,834	5 - 42
Central office switching and transmission	402,182	396,565	5 - 12
Outside plant, cable and wire facilities	784,866	765,640	10 - 50
Other	32,391	25,423	5
Construction work in progress	19,178	32,442	
	<u>1,452,943</u>	<u>1,424,904</u>	
Less: accumulated depreciation and amortization	(1,062,027)	(1,042,546)	
Property, plant and equipment, net	<u>\$ 390,916</u>	<u>\$ 382,358</u>	

* Depreciation charges are not recorded for land.

Capitalized interest associated with construction in progress for the years ended December 31, 2020 and 2019 was \$1,364 and \$1,379, respectively. The capitalization rate used was based on a weighted average of the Company's long-term debt outstanding, and for the years ended December 31, 2020 and 2019 was 6.01% and 6.47%, respectively.

The above table includes property, plant and equipment held under finance leases. The Company also leases various land, buildings, right-of-ways and personal property under operating lease arrangements. See Note 10 "Leases" for additional information.

7. ASSET RETIREMENT OBLIGATIONS

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

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

	2020	2019
Balance at January 1	\$ 5,173	\$ 5,024
Asset retirement obligation	194	85
Accretion expense	257	243
Settlement of obligations	(66)	(179)
Balance at December 31	<u>\$ 5,558</u>	<u>\$ 5,173</u>

8. CURRENT LIABILITIES

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

	2020	2019
Accounts payable - trade	\$ 18,375	\$ 14,918
Accrued payroll, benefits, and related liabilities	14,587	12,193
Deferred capacity and other revenue	8,781	7,311
Advance billings	3,340	3,730
Other	4,617	4,717
Total accounts payable, accrued and other current liabilities	<u>\$ 49,700</u>	<u>\$ 42,869</u>

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9. LONG-TERM OBLIGATIONS

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

	<u>2020</u>	<u>2019</u>
2019 senior secured credit facility due 2024	\$ 168,896	\$ 177,750
Debt discount	(1,523)	(2,234)
Debt issuance costs	(1,341)	(1,863)
Finance leases and other long-term obligations	2,676	2,729
Total debt	<u>168,708</u>	<u>176,382</u>
Less current portion	(9,067)	(8,906)
Long-term obligations, net of current portion	<u>\$ 159,641</u>	<u>\$ 167,476</u>

As of December 31, 2020, the aggregate maturities of long-term obligations were as follows:

Maturities	
2021	\$ 9,067
2022	11,333
2023	15,851
2024	133,018
Thereafter	2,303
Total maturities	<u>\$171,572</u>

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 December 31, 2020.

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

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

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

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

2017 Senior Credit Facility

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

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

Finance Leases and Other Long-term Obligations

The Company is a lessee under various finance leases and other financing agreements totaling \$2,676 and \$2,729 at December 31, 2020 and 2019, respectively, and with maturities through 2033. See Note 10 "*Leases*" for additional information.

Debt Issuance Costs

Debt issuance costs totaling \$2,356 associated with the 2019 Senior Credit Facility were deferred and will be amortized to interest expense over the term of the agreement. Amortization of debt issuance costs were \$522 and \$1,338 in the years ended December 31, 2020 and 2019, respectively, including \$817 classified as loss on extinguishment of debt in 2019.

Debt Discounts

Accretion of debt discounts charged to interest expense or loss on extinguishment of debt in 2020 and 2019, totaled \$711 and \$1,455, respectively, including \$761 classified as loss on extinguishment of debt in 2019.

Merger Agreement

On December 31, 2020, the Company entered into a definitive agreement to be acquired by a newly formed entity owned by ATN International, Inc. and Freedom 3 Capital, LLC. See Note 2 "*Merger Agreement*" for a summary of the agreement.

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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. An agreement is determined to be a lease if it conveys to the Company the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined as the Company having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. This determination is made at contract inception. Operating leases are included in operating lease right of use assets and current and noncurrent operating lease liabilities on the consolidated balance sheet. Finance leases are included in property, plant and equipment and current portion of long-term obligations and long-term obligations on the consolidated balance sheet.

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

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

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

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. The terms of these provisions vary by contract. Upon the exercise of an early termination option, the ROU asset and associated liability are remeasured to reflect the present value of the revised cash flows. Early terminations recorded in the years ended December 31, 2020 and 2019 were not material.

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

The Company entered into additional operating lease commitments that had not yet commenced as of December 31, 2020 with a present value totaling approximately \$10,521. These leases consist primarily of an agreement with another carrier to lease dark fiber, a portion of which will be leased by the Company to another carrier. This lease is expected to commence in the first quarter of 2021 and has a term of 20 years. They also include agreements associated with the Company's Connect America Fund ("CAF") Phase II services which are expected to commence in 2021 and have terms of 7 to 25 years.

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

Short-term and variable lease cost recorded during the years ended December 31, 2020 and 2019 were not material.

The Company did not enter into any sale and leaseback transactions during the years ended December 31, 2020 and 2019.

The following tables provide certain quantitative information about the Company's lease agreements under which it is the lessee as of and for the years ended December 31, 2020 and 2019.

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	2020	2019
Lease Cost		
Finance lease cost:		
Amortization of right of use assets	\$ 188	\$ 188
Interest on lease liabilities	266	270
Operating lease costs	8,700	7,865
Total lease cost	\$ 9,154	\$ 8,323

Balance Sheet Information

Operating leases:		
Right of use assets	\$ 89,821	\$ 80,991
Liabilities - current	\$ 3,392	\$ 2,795
Liabilities - noncurrent	81,103	78,767
Total liabilities	\$ 84,495	\$ 81,562
Finance leases:		
Property, plant and equipment	\$ 5,800	\$ 5,800
Accumulated depreciation and amortization	(3,887)	(3,699)
Property, plant and equipment, net	\$ 1,913	\$ 2,101
Current portion of long-term obligations	\$ 67	\$ 53
Long-term obligations, net of current portion	2,609	2,676
Total finance lease liabilities	\$ 2,676	\$ 2,729

	At December 31, 2020	
	Operating Leases	Financing Leases
Maturities of Lease Liabilities		
2021	\$ 8,052	\$ 327
2022	7,960	336
2023	7,647	345
2024	7,458	355
2025	7,389	364
Thereafter	158,742	3,108
Total lease payments	197,248	4,835
Less imputed interest	(113,804)	(2,159)
Total present value of lease obligations	83,444	2,676
Present value of current obligations	(2,341)	(67)
Present value of long-term obligations	\$ 81,103	\$ 2,609

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Other Information	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 266	\$ 270
Operating cash flows from operating leases	14,561	7,293
Financing cash flows from finance leases	52	39
Right of use assets obtained in exchange for new operating lease liabilities	11,206	1,420
Weighted-average remaining lease term (in years):		
Finance leases	13	14
Operating leases	28	29
Weighted-average discount rate:		
Finance leases	9.8%	9.8%
Operating leases	6.9%	6.9%

Lease Agreements Under Which the Company is the Lessor

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

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

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

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

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

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. The terms of these provisions vary by contract. Upon the exercise of an early termination option, any deferred rent receivable, deferred income and unamortized initial direct costs are written off. The underlying asset is assessed for impairment giving consideration to the Company's ability to utilize the asset in its business. There were no early terminations recorded in the years ended December 31, 2020 and 2019.

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

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

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

The following tables provide certain quantitative information about the Company's operating lease agreements under which it is the lessor as of and for the years ended December 31, 2020 and 2019. Lease income is classified as revenue on the Statement of Comprehensive (Loss) Income. The carrying value of the underlying leased assets is not material.

Lease Income	2020	2019
Total lease income	\$ 5,956	\$ 3,646

	At December 31, 2020
Maturities of Future Undiscounted Lease Payments	
Year 1	\$ 1,526
Year 2	778
Year 3	752
Year 4	747
Year 5	704
Thereafter	4,336
Total future undiscounted lease payments	\$ 8,843

11. OTHER LONG-TERM LIABILITIES

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

	2020	2019
Deferred GCI capacity revenue, net of current portion	\$ 26,965	\$ 29,036
Other deferred IRU capacity revenue, net of current portion	49,739	34,440
Other deferred revenue, net of current portion	4,837	4,825
Other	13,223	10,219
Total other long-term liabilities	\$ 94,764	\$ 78,520

Amortization of deferred revenue included in the Consolidated Statements of Comprehensive (Loss) Income was \$10,693 and \$8,440 in the years ended December 31, 2020 and 2019, respectively.

12. EMPLOYEE TERMINATION BENEFITS

In 2020, the Company offered a one-time cash incentive to employees who volunteered to retire or otherwise terminate their employment, subject to management approval. A charge of \$210 was recorded in 2020, \$195 of which was paid in 2020 and the balance of which will be paid in 2021. This charge was accounted for as a special termination benefit in accordance with ASC 712, "Compensation - Nonretirement Postemployment Benefits" ("ASC 712").

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In 2019, the Company recorded a charge of \$1,715 associated with cash-based termination benefits paid or to be paid to its former Chief Executive Officer who separated from the Company effective June 30, 2019. These benefits consist of special termination benefits as defined in ASC 712, and included the continuation of salary and certain benefits through December 31, 2019, and the payment of annual cash incentive and long-term cash awards, subject to certain conditions. Payments totaling \$24 and \$1,390 were made in 2020 and 2019, respectively, and the balance of approximately \$301 will be paid in 2021. The effect of the former Chief Executive Officer's separation on the relevant equity awards were accounted for in accordance with ASC 718, "Compensation – Stock Compensation." See Note 14 "Stock Incentive Plans."

13. RETIREMENT PLANS

Multi-employer Defined Benefit Plan

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

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

Plan name	Alaska Electrical Pension Plan
Employer Identification Number	92-6005171
Pension plan number	001
Pension Protection Act zone status at the plan's year-end:	
December 31, 2020	Green
December 31, 2019	Green
Plan subject to funding improvement plan	No
Plan subject to rehabilitation plan	No
Employer subject to contribution surcharge	No

Company contributions to the plan for the year ended:		Greater than 5% of Total Contributions to the Plan
December 31, 2020	\$ 6,748	Yes
December 31, 2019	\$ 6,588	Yes

Name and expiration date of collective bargaining agreements requiring contributions to the plan:

Collective Bargaining Agreement Between Alaska Communications Systems and Local Union 1547 IBEW	December 31, 2023
Outside Agreement Alaska Electrical Construction between Local Union 1547 IBEW and Alaska Chapter National Electrical Contractors Association Inc.	June 30, 2022
Inside Agreement Alaska Electrical Construction between Local Union 1547 IBEW and Alaska Chapter National Electrical Contractors Association Inc.	October 31, 2022

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

Defined Contribution Plan

The Company provides a 401(k) retirement savings plan covering substantially all of its employees. The plan allows for discretionary contributions as determined by the Board of Directors, subject to Internal Revenue Code limitations. The Company made a \$317 and \$288 matching contribution in 2020 and 2019, respectively.

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Defined Benefit Plan

The Company has a separate defined benefit plan that covers certain employees previously employed by Century Telephone Enterprise, Inc. ("CenturyTel Plan"). This plan was transferred to the Company in connection with the acquisition of CenturyTel, Inc.'s Alaska properties, whereby assets and liabilities of the CenturyTel Plan were transferred to the ACS Retirement Plan ("Plan") on September 1, 1999. Accrued benefits under the Plan were determined in accordance with the provisions of the CenturyTel Plan and upon completion of the transfer, covered employees ceased to accrue benefits under the CenturyTel Plan. On November 1, 2000, the Plan was amended to conform early retirement reduction factors and various other terms to those provided by the AEPF. The Company uses the traditional unit credit method for the determination of pension cost for financial reporting and funding purposes and complies with the funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Company uses a December 31 measurement date for the Plan. The Plan is not adequately funded under ERISA at December 31, 2020. The Company contributed \$858 to the Plan in 2020 and \$81 in 2019. The Company plans to contribute approximately \$464 to the Plan in 2021 and management is also estimating what additional contributions the Company may be required to make in subsequent years in the event the value of the Plan's assets remain volatile or decline.

The following is a calculation of the funded status of the ACS Retirement Plan using beginning and ending balances for 2020 and 2019 for the projected benefit obligation and the plan assets:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 15,158	\$ 14,499
Interest cost	476	604
Actuarial loss	1,442	1,221
Benefits paid	(1,051)	(1,166)
Benefit obligation at end of year	<u>16,025</u>	<u>15,158</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	11,448	10,871
Actual return on plan assets	236	1,662
Employer contribution	858	81
Benefits paid	(1,051)	(1,166)
Fair value of plan assets at end of year	<u>11,491</u>	<u>11,448</u>
Funded status	<u>\$ (4,534)</u>	<u>\$ (3,710)</u>

The losses associated with the change in the benefit obligation in 2020 and 2019 were primarily due to the changes in the discount rates.

The Plan's projected benefit obligation equals its accumulated benefit obligation. The 2020 and 2019 liability balance of \$4,534 and \$3,710 respectively, is recorded on the Consolidated Balance Sheets in "Other long-term liabilities."

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

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Net periodic pension expense is reported as a component of “Other income (expense), net” in the Statement of Comprehensive (Loss) Income. The following table presents the net periodic pension expense for the Plan for 2020 and 2019:

	2020	2019
Interest cost	\$ 476	\$ 604
Expected return on plan assets	(736)	(678)
Amortization of loss	158	141
Net periodic pension (income) expense	<u>\$ (102)</u>	<u>\$ 67</u>

In 2021, the Company expects amortization of net losses of \$24.

	2020	2019
Loss recognized as a component of accumulated other comprehensive loss:	\$ 6,073	\$ 4,289

The assumptions used to account for the Plan as of December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate for benefit obligation	2.30%	3.20%
Discount rate for pension expense	3.20%	4.30%
Expected long-term rate of return on assets	6.53%	6.53%
Rate of compensation increase	0.00%	0.00%

The discount rate for December 31, 2020 and 2019 was calculated using a proprietary yield curve based on above median AA rated corporate bonds. The expected long-term rate-of-return on assets rate is the best estimate of future expected return for the asset pool, given the expected returns and allocation targets for the various classes of assets.

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

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

The Plan's asset allocations at December 31, 2020 and 2019 by asset category are as follows:

Asset Category	2020	2019
Equity securities*	64%	66%
Debt securities*	34%	33%
Other/Cash	1%	1%

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

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

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

The following table presents major categories of plan assets as of December 31, 2020, and inputs and valuation techniques used to measure the fair value of plan assets regarding the ACS Retirement Plan:

Asset Category	Fair Value Measurement at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market/cash	\$ 259	\$ -	\$ 259	\$ -
Equity securities (Investment Funds)*				
International growth	1,790	1,790	-	-
U.S. small cap	679	679	-	-
U.S. medium cap	824	824	-	-
U.S. large cap	3,743	3,743	-	-
Debt securities (Investment Funds)*				
Certificate of deposits	2,274	2,274	-	-
Fixed income	1,474	-	1,474	-
Total fair value	\$ 11,043	\$ 9,310	\$ 1,733	\$ -

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

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

2021	\$	1,083
2022	\$	1,091
2023	\$	1,075
2024	\$	1,064
2025	\$	1,047
2026-2030	\$	4,840

Post-retirement Health Benefit Plan

The Company has a separate executive post-retirement health benefit plan. On December 31, 2020, the plan was underfunded by \$407 and held no assets. The net periodic post-retirement cost for 2020 and 2019 was \$25 and \$26, respectively.

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14. STOCK INCENTIVE PLANS

Under the Company’s stock incentive plan, Alaska Communications, through the Compensation and Personnel Committee of its Board of Directors, may grant stock options, restricted stock, stock-settled stock appreciation rights, performance share units and other awards to officers, employees, consultants, and non-employee directors. Upon the effective date of the Alaska Communications Systems Group, Inc. 2011 Incentive Award Plan, as amended and restated on June 30, 2014 and June 25, 2018, (“2011 Incentive Award Plan”), the Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan and the ACS Group, Inc. 1999 Non-Employee Director Stock Compensation Plan, (together the “Prior Plans”) were retired. All future awards will be granted from the 2011 Incentive Award Plan. The Alaska Communications Systems Group, Inc. 2012 ESPP was approved by the Company’s shareholders in June 2012 and the ACS 1999 Employee Stock Purchase Plan (“1999 ESPP”) was retired on June 30, 2012. References to “stock incentive plans” include, as applicable, the 2011 Incentive Award Plan, the 2012 ESPP, the 1999 ESPP and the Prior Plans. An aggregate of 22,810 shares of the Company’s common stock have been authorized for issuance under its stock incentive plans. At December 31, 2020, a total of 2,404 shares remain available for future issuance under the Company’s equity compensation plans, including the 2011 Incentive Award Plan and 2012 Employee Stock Purchase Plan. Stock-based compensation expense reflects forfeitures of share-based awards when they occur.

2011 Incentive Award Plan

On June 10, 2011, Alaska Communications shareholders approved the 2011 Incentive Award Plan, which was amended and restated on June 30, 2014 and June 25, 2018, and terminates in 2021. Following termination, all shares granted under this plan, prior to termination, will continue to vest under the terms of the grant when awarded. All remaining unencumbered shares of common stock previously allocated to the Prior Plans were transferred to the 2011 Incentive Award Plan. In addition, to the extent that any outstanding awards under the Prior Plans are forfeited or expire or such awards are settled in cash, such shares will again be available for future grants under the 2011 Incentive Award Plan. The Company grants Restricted Stock Units and Performance Stock Units as the primary equity-based incentive for executive and certain non union-represented employees. The disclosures below are primarily associated with RSU and PSU grants awarded in 2017, 2018, 2019 and 2020.

Restricted Stock Units and Non-Employee Director Stock Compensation

The Company measures the fair value of RSUs based on the number of shares granted and the quoted closing market price of the Company’s common stock on the date of grant. RSU’s granted in 2017 vested ratably over three years, RSUs granted in 2018 vest ratably over three years or cliff vest in one year, RSUs granted in 2019 vest ratably over the three-year period ending March 1, 2022, and RSUs granted in 2020 vest ratably over the three-year period ending June 16, 2023. Expense associated with RSUs is recognized utilizing the graded vesting methodology. The Company maintains a policy which requires that non-employee directors receive a portion of their annual retainer in the form of Alaska Communications stock. This requirement may be suspended for specified periods and was suspended beginning in the second quarter of 2018 through 2019 due the limited availability of shares. Non-employee director stock compensation vests when granted. The directors make an annual election on whether to have the stock issued or to have it deferred.

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

The following table summarizes the RSU and non-employee director stock compensation activity for the year ended December 31, 2020:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2019	792	\$ 1.74
Granted	501	\$ 2.59
Vested	(411)	\$ 1.79
Canceled or expired	(6)	\$ 2.14
Nonvested at December 31, 2020	<u>876</u>	<u>\$ 2.20</u>

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Performance Based Units

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. In 2020, the stock price vesting target for Tranche 3 of the 2018 PSUs subject to achievement of a specified stock price threshold was met. The relevant shares will vest in 2021. 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 a cumulative Company performance target. As of December 31, 2020, achievement of the Company performance target was deemed to be probable.

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 three-year 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 cumulative performance target 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 the target being met and recorded over the three-year vesting period as required. At December 31, 2020, the cumulative performance target was deemed probable of achievement and the relevant stock compensation expense was recorded in the nine-month period ended December 31, 2020. In 2020, the stock price vesting target for Tranche 1 of the 2020 PSUs subject to achievement of a specified stock price threshold was met. The relevant shares will vest in 2021.

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.

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

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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	\$ 1.35
Vesting Tranche 2	\$ 1.39
Vesting Tranche 3	\$ 1.41

- *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:*

<i>Tranche 1</i>	\$ 3.25
<i>Tranche 2</i>	\$ 3.75
<i>Tranche 3</i>	\$ 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. Share-based compensation expense subject to a market condition is recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided.

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

The following table summarizes PSU activity for the year ended December 31, 2020:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2019	1,629	\$ 1.07
Granted	478	\$ 2.21
Vested	(297)	\$ 1.76
Canceled or expired	(636)	\$ 0.81
Nonvested at December 31, 2020	<u>1,174</u>	<u>\$ 1.50</u>

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Selected Information on Equity Instruments and Share-Based Compensation

Selected information on equity instruments and share-based compensation under the plan for the years ended December 31, 2020 and 2019 is as follows:

	Years Ended	
	December 31,	
	2020	2019
Total compensation cost for share-based payments	\$ 1,693	\$ 1,580
Weighted average grant-date fair value of equity instruments granted	\$ 2.41	\$ 1.16
Total fair value of shares vested during the period	\$ 1,629	\$ 1,432
Unamortized share-based payments	\$ 1,986	\$ 1,124
Weighted average period in years to be recognized as expense	1.71	1.69

Share-based compensation expense is classified as “Selling, general and administrative expense” in the Company’s Consolidated Statements of Comprehensive (Loss) Income.

The Company purchases, from shares authorized under the 2011 Incentive Award Plan, sufficient vested shares to cover minimum employee payroll tax withholding requirements upon the vesting of restricted stock. The Company expects to repurchase approximately 260 shares in 2021. This amount is based upon an estimation of the number of shares of restricted stock and performance share awards expected to vest during 2021.

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

The Alaska Communications Systems Group, Inc. 2012 Employee Stock Purchase Plan was approved by the Company’s shareholders in June 2012. On June 16, 2020, the Company’s shareholders approved the Amended 2012 Employee Stock Purchase Plan (the “Amended 2012 ESPP”). The Amended 2012 ESPP increased the maximum aggregate number of authorized shares of common stock for issuance under the plan to 2,100 shares and will terminate upon the earlier of (i) December 31, 2030, unless sooner terminated in accordance with the Amended 2012 ESPP; or (ii) a new exercise date established in connection with the dissolution, liquidation or merger of the Company. A participant in the 2012 ESPP will be granted a purchase right to acquire shares of common stock at six-month intervals on an ongoing basis, subject to the continuing availability of shares under the 2012 ESPP. Each participant may authorize periodic payroll deductions in any multiple of 1% (up to a maximum of 15%) of eligible compensation to be applied to the acquisition of common stock at semiannual intervals. The 2012 ESPP imposes certain limitations upon a participant’s rights to acquire common stock. No participant will have any shareholder rights with respect to the shares covered by their purchase rights until the shares are actually purchased on the participant’s behalf. No adjustments will be made for dividends, distributions or other rights for which the record date is prior to the date of the actual purchase.

The Company initially reserved 1,500 shares of its common stock for issuance under the 2012 ESPP. Under the Amended 2012 ESPP, an additional 600 shares of common stock were reserved for issuance. On July 24, 2020, the Company registered an additional 600 shares which may be offered or issued to eligible individuals under the Amended 2012 ESPP. The fair value of each purchase right under the 2012 ESPP is charged to compensation expense over the offering period to which the right pertains, and is reflected in total compensation cost for share-based payments in the above table. Shares purchased by employees and the associated compensation expense under the 2012 ESPP, which is reflected in the preceding table, were not material in the years ended December 31, 2020 and 2019.

At December 31, 2020, 647 shares remain available for future issuance under the Company’s 2012 ESPP.

Merger Agreement

On December 31, 2020, the Company entered into a definitive agreement to be acquired by a newly formed entity owned by ATN International, Inc. and Freedom 3 Capital, LLC. See Note 2 “*Merger Agreement*” for a summary of the agreement.

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15. FAIR VALUE MEASUREMENTS

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

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

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

The fair values of cash equivalents, restricted cash, other short-term monetary assets and liabilities and finance leases approximate carrying values due to their nature. The carrying values of the Company's senior credit facilities and other long-term obligations of \$170,049 and \$178,245 at December 31, 2020 and 2019, respectively, approximate fair value primarily as a result of the stated interest rate of the 2019 Senior Credit Facility approximating current market rates (Level 2).

Fair Value Measurements on a Recurring Basis

The following table presents the Company's financial liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019 at each hierarchical level. There were no transfers into or out of Levels 1 and 2 during 2020.

	December 31, 2020				December 31, 2019			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities:								
Other long-term liabilities:								
Interest rate swaps	\$ 2,784	\$ -	\$ 2,784	\$ -	\$ 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. In 2017, as required under the terms of its 2017 Senior Credit Facility, the Company entered into a pay-fixed, receive-floating interest rate swap in the notional amount of \$90,000, with an interest rate of 6.49425%, inclusive of a 5.0% LIBOR spread, and a maturity date of June 28, 2019. Upon repayment of the outstanding principal balance of the 2017 Senior Credit Facility on January 15, 2019, this swap was assigned to the 2019 Senior Credit Facility through its maturity date of June 28, 2019. On June 28, 2019, the Company entered into two pay-fixed, receive-floating, interest rate swaps. Each swap was in the initial notional amount of \$67,500, has an interest rate of 6.1735% inclusive of a 4.5% LIBOR spread, and a maturity date of June 30, 2022. The swaps are with different counter parties. Changes in fair value of interest rate swaps are recorded to accumulated other comprehensive loss and reclassified to interest expense when the hedged transaction is recognized in earnings. Cash payments and receipts associated with interest rate swaps are classified as cash flows from operating activities, consistent with the hedged interest payments. See Note 9 "Long-Term Obligations" and Note 18 "Accumulated Other Comprehensive Loss."

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

The following table presents the notional amount, fair value and balance sheet classification of the Company's derivative financial instruments designated as cash flow hedges as of December 31, 2020 and 2019.

	Balance Sheet Location	Notional Amount	Fair Value
At December 31, 2020			
Interest rate swaps	Other long-term liabilities	\$ 128,250	\$ 2,784
At December 31, 2019:			
Interest rate swaps	Other long-term liabilities	\$ 133,313	\$ 288

The following table presents gains and losses before income taxes on the Company's interest rate swaps designated as cash flow hedges for the years ending December 31, 2020 and 2019.

	2020	2019
Loss recognized in accumulated other comprehensive loss	\$ (3,901)	\$ (40)
(Loss) gain reclassified from accumulated other comprehensive loss to income	\$ (1,405)	\$ 706

The following table presents a reconciliation of the carrying value of the Company's interest rate swaps at December 31, 2020 and 2019:

	2020	2019
(Liability) asset at January 1	\$ (288)	\$ 458
Reclassified from other long-term liabilities and other assets to accumulated other comprehensive loss	(3,901)	(40)
Change in fair value charged (credited) to interest expense	1,405	(706)
Liability at December 31	<u>\$ (2,784)</u>	<u>\$ (288)</u>

The following table presents the effect of cash flow hedge accounting on the Company's Statements of Comprehensive (Loss) Income for the years ended December 31, 2020 and 2019:

	2020	2019
Recorded as Interest Expense:		
Hedged interest payments	\$ (6,868)	\$ (7,698)
(Loss) gain on interest rate swap	(1,405)	706

16. INCOME TAXES

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 resulted in the accelerated receipt by the Company of Federal AMT credits in the amount of \$4,311 in the fourth quarter of 2020. The CARES Act is not expected to have a material effect on the Company's income tax provision or payments.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

Consolidated income before income tax for the years ended December 31, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Income before income tax	\$ 1,509	\$ 7,600

The income tax provision for the years ended December 31, 2020 and 2019 was comprised of the following:

	<u>2020</u>	<u>2019</u>
Current:		
Federal income tax	\$ -	\$ -
State income tax	6	(60)
Total current benefit	<u>6</u>	<u>(60)</u>
Deferred:		
Federal, excluding operating loss carry forwards	38	(175)
State, excluding operating loss carry forwards	18	(86)
Change in valuation allowance	(65)	(20)
Tax benefit of operating loss carry forwards:		
Federal	1,952	2,329
State	716	777
Total deferred expense	<u>2,659</u>	<u>2,825</u>
Total income tax expense	<u>\$ 2,665</u>	<u>\$ 2,765</u>

The following table provides a reconciliation of income tax expense at the Federal statutory rate of 21% to the recorded income tax expense for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Computed federal income taxes at the statutory rate	\$ 334	\$ 1,616
Expense (benefit) in tax resulting from:		
State income taxes (net of Federal benefit)	118	731
Non-deductible transaction and termination costs	2,157	-
Other	171	415
Stock-based compensation	(50)	23
Change in valuation allowance	(65)	(20)
Total income tax expense	<u>\$ 2,665</u>	<u>\$ 2,765</u>

Income tax expense was charged to the statement of comprehensive income and statement of stockholders' equity for the years ended December 31, 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Statement of comprehensive income:		
Income tax expense	\$ 2,665	\$ 2,765
Other comprehensive income loss, tax effect	\$ (1,218)	\$ (238)

The Company accounts for income taxes under the asset-liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided when it is "more likely than not" that the benefits of existing deferred tax assets will not be realized in a future period. As of December 31, 2020 and 2019, the Company had valuation allowances on certain state net operating loss carryforwards of \$77 and \$142, respectively. As of December 31, 2020 and 2019, the change in the valuation allowance was \$(65) and \$(20), respectively. At December 31, 2020, it is more likely than not that the results of future operations will generate sufficient taxable income to realize existing deferred tax assets, other than the state net operating loss carryforwards noted above. Therefore, no additional valuation allowance is necessary.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2020 and 2019, respectively, are as follows:

	2020	2019
Deferred tax assets:		
Net operating loss carry forwards	\$ 10,967	\$ 13,635
Operating lease liabilities	25,929	23,374
Deferred GCI capacity revenue	8,249	8,839
Reserves and accruals	8,979	8,700
Intangibles and goodwill	766	855
Fair value on interest rate swaps	791	82
Pension liability	1,288	1,054
Allowance for doubtful accounts	1,153	1,314
Other	897	222
Total deferred tax assets	59,019	58,075
Valuation allowance	(77)	(142)
Deferred tax assets after valuation allowance	58,942	57,933
Deferred tax liabilities:		
Property, plant and equipment	(37,235)	(37,152)
Operating lease right of use assets	(25,518)	(23,011)
Revenue contract assets	(2,035)	(2,173)
Total deferred tax liabilities	(64,788)	(62,336)
Net deferred tax liability	\$ (5,846)	\$ (4,403)

As of December 31, 2020, the Company has available Federal and state net operating loss carry forwards of \$44,432 and \$22,279, respectively, which have various expiration dates beginning in 2034 through 2037.

The Company files consolidated income tax returns for Federal and state purposes in addition to separate tax returns of certain subsidiaries in multiple state jurisdictions. As of December 31, 2020, the Company is not under examination by any income tax jurisdiction. The Company is no longer subject to examination in the United States for years prior to 2017.

The Company accounts for income tax uncertainties using a threshold of "more-likely-than-not" in accordance with the provisions of ASC 740, "Income Taxes." As of December 31, 2020, the Company has reviewed all of its tax filings and positions taken on its returns and has not identified any material current or future effect on its consolidated results of operations, cash flows or financial position. As such, the Company has not recorded any tax, penalties or interest on tax uncertainties. It is Company policy to record any interest on tax uncertainties as a component of income tax expense.

17. EARNINGS PER SHARE

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

The Company reported a net loss for the year ended December 31, 2020. Therefore, 2,227 potential common share equivalents were anti-dilutive and excluded from the calculation of diluted loss per share.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

The following table sets forth the computation of basic and diluted (loss) earnings per share for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net (loss) income attributable to Alaska Communications assuming dilution	\$ (1,073)	\$ 4,928
Weighted average common shares outstanding:		
Basic shares	54,013	53,379
Effect of stock-based compensation	-	898
Diluted shares	<u>54,013</u>	<u>54,277</u>
(Loss) income per share attributable to Alaska Communications:		
Basic	\$ (0.02)	\$ 0.09
Diluted	<u>\$ (0.02)</u>	<u>\$ 0.09</u>

18. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity in accumulated other comprehensive loss for the years ended December 31, 2020 and 2019:

	Defined Benefit Pension Plans	Interest Rate Swaps	Total
Balance at December 31, 2018	\$ (3,003)	\$ 328	\$ (2,675)
Other comprehensive loss before reclassifications	(115)	(29)	(144)
Reclassifications from accumulated comprehensive loss to net income	48	(506)	(458)
Net other comprehensive loss	<u>(67)</u>	<u>(535)</u>	<u>(602)</u>
Reclassifications from accumulated comprehensive loss to retained earnings	-	-	-
Balance at December 31, 2019	(3,070)	(207)	(3,277)
Other comprehensive loss before reclassifications	(1,203)	(2,792)	(3,995)
Reclassifications from accumulated comprehensive loss to net income	(74)	1,006	932
Net other comprehensive loss	<u>(1,277)</u>	<u>(1,786)</u>	<u>(3,063)</u>
Reclassifications from accumulated comprehensive loss to retained earnings	-	-	-
Balance at December 31, 2020	<u>\$ (4,347)</u>	<u>\$ (1,993)</u>	<u>\$ (6,340)</u>

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

The following table summarizes the reclassifications from accumulated other comprehensive loss to net income for the years ended December 31, 2020 and 2019, respectively:

	2020	2019
Amortization of defined benefit plan pension items: ⁽¹⁾		
Amortization of (income) loss ⁽²⁾	\$ (102)	\$ 67
Income tax effect	28	(19)
After tax	(74)	48
Amortization of gain on interest rate swap: ⁽³⁾		
Reclassification to interest expense	1,405	(706)
Income tax effect	(399)	200
After tax	1,006	(506)
Total reclassifications net of income tax	<u>\$ 932</u>	<u>\$ (458)</u>

(1) See Note 13 “*Retirement Plans*” for additional information regarding the Company’s pension plans.

(2) Included in “Other income (expense), net” on the Company’s Consolidated Statements of Comprehensive (Loss) Income.

(3) See Note 15 “*Fair Value Measurements*” for additional information regarding the Company’s interest rate swaps.

Amounts reclassified to net income from our defined benefit pension plan and interest rate swaps have been presented within “Other income (expense), net” and “Interest expense,” respectively, in the Statements of Comprehensive (Loss) Income. The estimated amount to be reclassified from accumulated other comprehensive loss as an increase in interest expense within the next twelve months is \$1,935.

19. STOCKHOLDERS’ EQUITY

Treasury Stock

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

In the first quarter of 2017, the Company’s Board of Directors authorized a share repurchase program pursuant to which the Company could repurchase up to \$10,000 of its common stock effective March 13, 2017 through December 31, 2019. Under the program, repurchases could be conducted through open market purchases or through privately-negotiated transactions in accordance with all applicable securities laws and regulations, including through Rule 10b5-1 trading plans. The timing and amount of repurchases was determined based on the Company’s evaluation of its financial position including liquidity, the trading price of its stock, debt covenant restrictions, general business and market conditions and other factors. In 2019, using cash on hand, the Company repurchased 1 million shares at a weighted average price of \$1.81 per share with an aggregate value of \$1,812 under this program.

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 \$4,836 was paid in 2020. The remaining \$16 is associated with deferred Board of Directors compensation and will be paid in future periods.

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

Merger Agreement

On December 31, 2020, the Company entered into a definitive agreement to be acquired by a newly formed entity owned by ATN International, Inc. and Freedom 3 Capital, LLC. See Note 2 “*Merger Agreement*” for a summary of the agreement.

20. JOINT VENTURE

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

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

The table below provides certain financial information about the joint venture included on the Company’s consolidated balance sheet at December 31, 2020 and 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 \$506 and \$408	\$ 1,635	\$ 1,733

The operating results and cash flows of the joint venture in the years 2020 and 2019 were not material to the Company’s consolidated financial results.

21. 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.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
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In the third quarter of 2020, the Company determined that it was reasonably possible it would be unable to collect certain accounts receivable from a specific e-Rate customer, funding of which was subject in part to completion of an FCC audit. The total outstanding balance at September 30, 2020 was \$3,047, net of amounts reserved. The amount, or range, of loss was not determinable and a charge was not recorded in the third quarter. In the fourth quarter of 2020, the Company was notified that the FCC had been completed the audit and has determined that collection of the outstanding balance is probable.

The Company is involved in various other claims, legal actions and regulatory proceedings arising in the ordinary course of business and establishes an accrual when a specific contingency is probable and estimable. The Company recorded litigation accruals totaling \$2,000 at December 31, 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.

22. SUPPLEMENTAL CASH FLOW INFORMATION

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statement of financial position at December 31, 2020 and 2019 that sum to the total of these items reported in the statements of cash flows:

	2020	2019
Cash and cash equivalents	\$ 19,644	\$ 26,662
Restricted cash	1,326	1,331
Total cash, cash equivalents and restricted cash	<u>\$ 20,970</u>	<u>\$ 27,993</u>

The following table presents supplemental non-cash transaction information for the years ended December 31, 2020 and 2019:

	2020	2019
Supplemental Non-cash Transactions:		
Capital expenditures incurred but not paid at December 31	\$ 5,487	\$ 5,950
Dividend declared, but not paid	\$ 16	\$ -
Additions to ARO asset	\$ 194	\$ 85
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 11,206	\$ 1,420

23. 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.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2020 and 2019
(In Thousands, Except Per Share Amounts)

The following table presents service and product revenues from external customers for the years ended December 31, 2020 and 2019:

	2020	2019
Business and Wholesale Revenue		
Business broadband	\$ 64,238	\$ 61,785
Business voice and other	28,936	28,660
Managed IT services	5,052	6,494
Equipment sales and installations	9,508	4,698
Wholesale broadband	49,878	43,310
Wholesale voice and other	5,256	5,617
Total Business and Wholesale Revenue	<u>162,868</u>	<u>150,564</u>
Consumer Revenue		
Broadband	27,180	26,589
Voice and other	9,379	10,431
Total Consumer Revenue	<u>36,559</u>	<u>37,020</u>
Total Business, Wholesale, and Consumer Revenue	<u>199,427</u>	<u>187,584</u>
Regulatory Revenue		
Access	21,448	24,416
High cost support	19,694	19,694
Total Regulatory Revenue	<u>41,142</u>	<u>44,110</u>
Total Operating Revenue	<u>\$ 240,569</u>	<u>\$ 231,694</u>

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

24. SUBSEQUENT EVENTS

Municipality of Anchorage Grant

In February 2021, the Company and the Municipality of Anchorage entered into an agreement under which utility relief will be made available to certain of the Company's residential and small business customers located in Anchorage. The program is supported by a grant from the Municipality of Anchorage. The funds will be applied by the Company to the accounts of customers who have experienced financial hardship related to the COVID-19 pandemic and meet other requirements, subject to certain terms and conditions. Maximum funding under the grant is \$725 and is currently expected to be received in 2021.

Merger Agreement

At a special meeting of stockholders held on March 12, 2021, the Company's stockholders approved the merger under which the Company will be acquired by ATN International, Inc. and Freedom 3 Capital LLC.

The status of certain closing conditions to consummation of the Merger is summarized as follows. The waiting period under the HSR Act expired on February 16, 2021 at 11:59 p.m. Eastern Time. Filings with each of the FCC and the RCA were made on January 20, 2021. The RCA gave public notice of the application and requested any public comments by February 12, 2021. On February 8, 2021, the RCA issued an order stating that it had determined that Parent's application to acquire the Company was complete as filed on January 20, 2021. The order states that the RCA will issue a final order no later than July 19, 2021.

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 March 31, 2021

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
(State or other jurisdiction
of incorporation or organization)

52-2126573
(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 April 30, 2021, there were outstanding 54,273,804 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)

Assets	March 31, 2021	December 31, 2020
Current assets:		
Cash and cash equivalents	\$ 22,114	\$ 19,644
Restricted cash	1,326	1,326
Short-term investments	434	434
Accounts receivable, net of allowance of \$4,290 and \$4,060	40,284	41,893
Materials and supplies	9,093	7,624
Prepayments and other current assets	7,217	6,404
Total current assets	80,468	77,325
Property, plant and equipment	1,457,458	1,452,943
Less: accumulated depreciation and amortization	(1,070,449)	(1,062,027)
Property, plant and equipment, net	387,009	390,916
Operating lease right of use assets	88,135	89,821
Other assets	11,873	11,370
Total assets	\$ 567,485	\$ 569,432
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term obligations	\$ 9,071	\$ 9,067
Accounts payable, accrued and other current liabilities	51,355	49,700
Operating lease liabilities - current	3,276	3,392
Total current liabilities	63,702	62,159
Long-term obligations, net of current portion	157,630	159,641
Deferred income taxes	6,109	5,846
Operating lease liabilities - noncurrent	79,631	81,103
Other long-term liabilities, net of current portion	93,821	94,764
Total liabilities	400,893	403,513
Commitments and contingencies		
Alaska Communications stockholders' equity:		
Common stock, \$.01 par value; 145,000 authorized; 55,274 issued and 54,274 outstanding at March 31, 2021; 54,875 issued and 53,875 outstanding at December 31, 2020	553	549
Treasury stock, 1,000 shares at cost	(1,812)	(1,812)
Additional paid in capital	163,038	163,317
Retained earnings	10,048	9,442
Accumulated other comprehensive loss	(5,976)	(6,340)
Total Alaska Communications stockholders' equity	165,851	165,156
Noncontrolling interest	741	763
Total stockholders' equity	166,592	165,919
Total liabilities and stockholders' equity	\$ 567,485	\$ 569,432

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended	
	March 31,	
	2021	2020
Operating revenues	\$ 60,668	\$ 58,266
Operating expenses:		
Cost of services and sales (excluding depreciation and amortization)	27,366	27,114
Selling, general and administrative	18,289	15,394
Transaction and termination costs	923	-
Depreciation and amortization	11,048	9,840
Loss on disposal of assets, net	84	86
Total operating expenses	<u>57,710</u>	<u>52,434</u>
Operating income	2,958	5,832
Other income and (expense):		
Interest expense	(2,652)	(2,959)
Interest income	3	75
Other income, net	393	381
Total other income and (expense)	<u>(2,256)</u>	<u>(2,503)</u>
Income before income tax expense	702	3,329
Income tax expense	<u>(118)</u>	<u>(960)</u>
Net income	584	2,369
Less net loss attributable to noncontrolling interest	<u>(22)</u>	<u>(18)</u>
Net income attributable to Alaska Communications	<u>606</u>	<u>2,387</u>
Other comprehensive income (loss):		
Minimum pension liability adjustment	65	68
Income tax effect	(18)	(19)
Amortization of defined benefit plan loss	(26)	(33)
Income tax effect	7	9
Interest rate swap marked to fair value	(27)	(2,878)
Income tax effect	8	818
Reclassification to interest expense	496	-
Income tax effect	(141)	-
Total other comprehensive income (loss)	<u>364</u>	<u>(2,035)</u>
Total comprehensive income attributable to Alaska Communications	<u>970</u>	<u>352</u>
Net loss attributable to noncontrolling interest	<u>(22)</u>	<u>(18)</u>
Total other comprehensive income attributable to noncontrolling interest	<u>-</u>	<u>-</u>
Total comprehensive loss attributable to noncontrolling interest	<u>(22)</u>	<u>(18)</u>
Total comprehensive income	<u>\$ 948</u>	<u>\$ 334</u>
Net income per share attributable to Alaska Communications:		
Basic	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.04</u>
Weighted average shares outstanding:		
Basic	<u>54,145</u>	<u>53,186</u>
Diluted	<u>54,872</u>	<u>54,237</u>

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended	
	March 31,	
	2021	2020
Number of Common Shares Issued and Outstanding		
Balance at beginning of period	53,875	53,085
Issuance of common stock pursuant to stock plans, \$.01 par	399	476
Balance at end of period	<u>54,274</u>	<u>53,561</u>
Total Stockholders' Equity - Beginning Balance	\$ 165,919	\$ 173,509
Common Stock		
Balance at beginning of period	549	541
Issuance of common stock pursuant to stock plans, \$.01 par	4	5
Balance at end of period	<u>553</u>	<u>546</u>
Treasury Stock		
Balance at beginning and end of period	<u>(1,812)</u>	<u>(1,812)</u>
Additional Paid In Capital		
Balance at beginning of period	163,317	161,844
Stock-based compensation	389	309
Surrender of shares to cover minimum withholding taxes on stock-based compensation	(664)	(439)
Issuance of common stock pursuant to stock plans, \$.01 par	(4)	(5)
Balance at end of period	<u>163,038</u>	<u>161,709</u>
Retained Earnings		
Balance at beginning of period	9,442	15,367
Net income attributable to Alaska Communications	606	2,387
Cash dividends declared, \$0.09 per common share	-	(4,852)
Balance at end of period	<u>10,048</u>	<u>12,902</u>
Accumulated Other Comprehensive Loss		
Balance at beginning of period	(6,340)	(3,277)
Other comprehensive income (loss)	364	(2,035)
Balance at end of period	<u>(5,976)</u>	<u>(5,312)</u>
Noncontrolling Interest		
Balance at beginning of period	763	846
Net loss attributable to noncontrolling interest	(22)	(18)
Balance at end of period	<u>741</u>	<u>828</u>
Total Stockholders' Equity - Ending Balance	\$ <u>166,592</u>	\$ <u>168,861</u>

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended	
	March 31,	
	2021	2020
Cash Flows from Operating Activities:		
Net income	\$ 584	\$ 2,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,048	9,840
Loss on disposal of assets, net	84	86
Amortization of debt issuance costs and debt discount	258	350
Amortization of deferred capacity revenue	(1,741)	(1,360)
Stock-based compensation	389	309
Deferred income tax expense	118	954
Charge (credit) for uncollectible accounts	396	(229)
Amortization of right-of-use assets	836	578
Other non-cash income, net	(27)	(33)
Changes in operating assets and liabilities	4,765	9,498
Net cash provided by operating activities	<u>16,710</u>	<u>22,362</u>
Cash Flows from Investing Activities:		
Capital expenditures	(6,902)	(7,463)
Capitalized interest	(161)	(316)
Change in unsettled capital expenditures	(4,248)	(3,759)
Net cash used by investing activities	<u>(11,311)</u>	<u>(11,538)</u>
Cash Flows from Financing Activities:		
Repayments of long-term debt	(2,265)	(3,240)
Payment of withholding taxes on stock-based compensation	(664)	(439)
Net cash used by financing activities	<u>(2,929)</u>	<u>(3,679)</u>
Change in cash, cash equivalents and restricted cash	2,470	7,145
Cash, cash equivalents and restricted cash, beginning of period	<u>20,970</u>	<u>27,993</u>
Cash, cash equivalents and restricted cash, end of period	<u>\$ 23,440</u>	<u>\$ 35,138</u>
Supplemental Cash Flow Data:		
Interest paid	\$ 2,544	\$ 2,919
Income taxes refunded	\$ (349)	\$ -

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”)
- ACS of Anchorage, LLC (“ACSA”)
- ACS Wireless, Inc. (“ACSW”)
- ACS Long Distance, LLC
- Alaska Communications Internet, LLC (“ACSI”)
- ACS Messaging, Inc.
- ACS Cable Systems, LLC (“ACSC”)
- Crest Communications Corporation
- WCI Cable, Inc.
- WCIC Hillsboro, LLC
- Alaska Northstar Communications, LLC
- WCI LightPoint, LLC
- WorldNet Communications, Inc.
- Alaska Fiber Star, LLC
- TekMate, LLC

In addition to the wholly-owned subsidiaries, the Company has a fifty percent controlling interest in ACS-Quintillion JV, LLC (“AQ-JV”), a joint venture formed by its wholly-owned subsidiary ACSC and Quintillion Holdings, LLC (“QHL”) in connection with the North Slope fiber optic network. See Note 17 “*Joint Venture*” for additional information.

Merger Agreement

On December 31, 2020, the Company entered into a definitive agreement to be acquired by a newly formed entity owned by ATN International, Inc. and Freedom 3 Investments IV, LP, a fund advised by Freedom 3 Capital, LLC. See Note 2 “*Merger Agreement*.”

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, 2020. 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.

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.

Other than as described in the notes to the consolidated financial statements, as of the date of the accompanying consolidated financial statements, the COVID-19 pandemic has not had a material effect on the Company’s accounting policies, financial statements and disclosures.

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

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-month period ended March 31, 2021, 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, 2020 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 in 2021, the Company adopted Accounting Standards Update ("ASU") No. 2019-12, "*Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*" ("ASU 2019-12") on a prospective basis. 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. Adoption of ASU 2019-12 did not have a material effect on the Company's financial statements and related disclosures.

Accounting Pronouncements Issued Not Yet Adopted

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

2. MERGER AGREEMENT

On December 31, 2020, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Project 8 Buyer, LLC ("Parent"), and Project 8 MergerSub, Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), pursuant to which the Company will be acquired by ATN International, Inc. and Freedom 3 Investments IV, LP, a fund advised by Freedom 3 Capital, LLC. On December 31, 2020, the Company also terminated the previously announced merger agreement pursuant to which the Company would be acquired by an affiliate of Macquarie Capital (USA) and GCM Grosvenor through its Labor Impact Fund (the "Terminated Agreement").

On the terms, and subject to the conditions, of the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger"), with the Company continuing as the surviving corporation (the "Surviving Corporation") and a wholly-owned subsidiary of Parent. As a result of the Merger, each share of the Company's common stock issued and outstanding immediately prior to the effective time of the Merger (the "Effective Time") (other than shares held by (i) the Company (or a wholly-owned subsidiary that is disregarded for tax purposes), Parent or Merger Sub and (ii) stockholders of the Company who have validly exercised and perfected their appraisal rights under Delaware law) will be converted at the Effective Time into the right to receive \$3.40 in cash, without interest, subject to any applicable withholding taxes (the "Merger Consideration").

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

Consummation of the Merger is subject to certain closing conditions, including, without limitation, (i) approval of the Merger by the Company's stockholders, (ii) absence of certain legal impediments, (iii) the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and (iv) receipt of regulatory approvals from the Federal Communications Commission (the "FCC") (and, if required as a precondition for FCC approval, the Committee for the Assessment of Foreign Participation in the U.S. Telecommunications Services Sector) and from the Regulatory Commission of Alaska (the "RCA").

The status of certain closing conditions to consummation of the Merger is summarized as follows. At a special meeting of stockholders held on March 12, 2021, the Company's stockholders approved the Merger. The waiting period under the HSR Act expired on February 16, 2021 at 11:59 p.m. Eastern Time. Filings with each of the FCC and the RCA were made on January 20, 2021. The RCA gave public notice of the application and requested any public comments by February 12, 2021. On February 8, 2021, the RCA issued an order stating that it had determined that Parent's application to acquire the Company was complete as filed on January 20, 2021. The order states that the RCA will issue a final order no later than July 19, 2021.

The Merger is currently expected to close in the third quarter of 2021, although there can be no assurance that it will occur by such time. The transaction will result in the Company becoming a consolidated, majority-owned subsidiary of ATN International, Inc.

In the first quarter of 2021, the Company incurred costs totaling \$923 associated with the Merger Agreement consisting of attorney, financial advisory and other fees. The Company incurred costs totaling \$9,550 in fiscal year 2020 associated with the Merger Agreement and the Terminated Agreement. These costs consisted of attorney, financial advisory and other fees of \$2,750, and a termination fee of \$6,800 paid upon termination of the Terminated Agreement. The costs are reported as "Transaction and termination costs" in the Consolidated Statements of Comprehensive Income.

3. REVENUE

Revenue Recognition Policies

Revenue Accounted for in Accordance with Accounting Standards Codification 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 capable of being distinct and is distinct within the context of the contract. The Company considers all performance obligations whether they are explicitly stated in the contract or are implied by customary business practices.

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.

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.

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.

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

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 tables provide the Company’s revenue disaggregated on the basis of its primary markets, customers, products and services for the three-month periods ended March 31, 2021 and 2020.

	Three Months Ended March 31, 2021			Three Months Ended March 31, 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	\$ 15,681	\$ -	\$ 15,681	\$ 15,353	\$ -	\$ 15,353
Business voice and other	6,697	-	6,697	6,857	-	6,857
Managed IT services	1,217	-	1,217	1,227	-	1,227
Equipment sales and installations	2,618	-	2,618	1,414	-	1,414
Wholesale broadband	10,818	-	10,818	10,253	-	10,253
Wholesale voice and other	1,121	-	1,121	1,288	-	1,288
Operating leases and other deferred revenue	-	2,819	2,819	-	2,391	2,391
Total Business and Wholesale Revenue	38,152	2,819	40,971	36,392	2,391	38,783
Consumer Revenue						
Broadband	6,945	-	6,945	6,692	-	6,692
Voice and other	2,230	-	2,230	2,449	-	2,449
Total Consumer Revenue	9,175	-	9,175	9,141	-	9,141
Regulatory Revenue						
Access ⁽¹⁾	4,926	-	4,926	4,691	-	4,691
Access ⁽²⁾	-	673	673	-	727	727
High-cost support	-	4,923	4,923	-	4,924	4,924
Total Regulatory Revenue	4,926	5,596	10,522	4,691	5,651	10,342
Total Revenue	\$ 52,253	\$ 8,415	\$ 60,668	\$ 50,224	\$ 8,042	\$ 58,266

(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.

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

Timing of Revenue Recognition

Revenue accounted for in accordance with ASC 606 consisted of the following for the three-month periods ended March 31, 2021 and 2020.

	Three Months Ended March 31,	
	2021	2020
Services transferred over time	\$ 44,709	\$ 44,119
Goods transferred at a point in time	2,618	1,414
Regulatory access revenue ⁽¹⁾	4,926	4,691
Total revenue	\$ 52,253	\$ 50,224

(1) Includes customer ordered service and special access.

Transaction Price Allocated to Remaining Performance Obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations for contracts with customers that are unsatisfied, or partially unsatisfied, accounted for in accordance with ASC 606 was approximately \$71,358 at March 31, 2021. Revenue will be recognized as the Company satisfies the associated performance obligations. For equipment delivery, installation and configuration, and certain managed IT services, which comprise approximately \$1,928 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 \$69,430 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 three-month period ended March 31, 2021. Contract modifications did not have a material effect on contract assets in the three-month period ended March 31, 2021. Contract assets are classified as "Other assets" on the consolidated balance sheet.

	2021
Balance at January 1	\$ 6,568
Contract additions	732
Amortization	(862)
Balance at March 31	\$ 6,438

The Company recorded a charge for uncollectible accounts receivable of \$396 in the three-month period ended March 31, 2021 associated with its contracts with customers. See Note 4 "Accounts Receivable."

The table below provides a reconciliation of the contract liabilities associated with contracts with customers accounted for in accordance with ASC 606 for the three-month period ended March 31, 2021. 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" on the consolidated balance sheet.

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

	2021
Balance at January 1	\$ 3,971
Contract additions	1,082
Revenue recognized	(505)
Balance at March 31	<u>\$ 4,548</u>

4. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at March 31, 2021 and December 31, 2020.

	2021	2020
Retail customers	\$ 27,834	\$ 29,815
Wholesale carriers	8,441	8,402
Other	8,299	7,736
	<u>44,574</u>	<u>45,953</u>
Less: allowance for doubtful accounts	(4,290)	(4,060)
Accounts receivable, net	<u>\$ 40,284</u>	<u>\$ 41,893</u>

The following table presents the activity in the allowance for doubtful accounts for the three-month period ended March 31, 2021, which is associated entirely with the Company's contracts with customers.

	2021
Balance at January 1	\$ 4,060
Provision for uncollectible accounts	396
Charged to other accounts	-
Deductions	(166)
Asset at March 31	<u>\$ 4,290</u>

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. The COVID-19 pandemic has not required a revision of this policy. 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.

In January 2021, the FCC approved the Company's cost-based rural rates for Funding Year 2020 (July 1, 2020 through June 30, 2021) and USAC began issuing funding commitment letters in March 2021. Accounts receivable, net, associated with rural health care customers was \$8,625 and \$7,829 at March 31, 2021 and December 31, 2020, respectively. Rural health care accounts are a component of the Retail Customers category in the above table. See Note 3, "Revenue Recognition" for additional information.

In the first quarter of 2021, the Company and the Municipality of Anchorage entered into an agreement under which utility relief will be made available to certain of the Company's residential and small business customers located in Anchorage. The program is supported by a grant from the Municipality of Anchorage. Funding totaling \$725 was received by the Company in the first quarter and will be applied to the accounts of customers who have experienced financial hardship related to the COVID-19 pandemic and meet other requirements, subject to certain terms and conditions. In the first quarter of 2021, a credit of \$128 was recorded to the provision for doubtful accounts to reverse charges recorded in 2020 associated with customer accounts which are expected to qualify for relief under this program. The Company is accounting for this grant in accordance with International Accounting Standards 20, "Accounting for Government Grants and Disclosure of Government Assistance."

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Condensed Consolidated Financial Statements
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5. OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following at March 31, 2021 and December 31, 2020.

	<u>2021</u>	<u>2020</u>
Prepaid expense	\$ 3,890	\$ 2,619
Income tax receivable	3	353
Other	3,324	3,432
Total prepayments and other current assets	<u>\$ 7,217</u>	<u>\$ 6,404</u>

6. CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at March 31, 2021 and December 31, 2020.

	<u>2021</u>	<u>2020</u>
Accounts payable - trade	\$ 13,758	\$ 18,375
Accrued payroll, benefits, and related liabilities	17,312	14,587
Deferred capacity and other revenue	9,773	8,781
Advance billings	3,622	3,340
Other	6,890	4,617
Total accounts payable, accrued and other current liabilities	<u>\$ 51,355</u>	<u>\$ 49,700</u>

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at March 31, 2021 and December 31, 2020.

	<u>2021</u>	<u>2020</u>
2019 senior secured credit facility due 2024	\$ 166,646	\$ 168,896
Debt discount	(1,384)	(1,523)
Debt issuance costs	(1,222)	(1,341)
Finance leases and other long-term obligations	2,661	2,676
Total long-term obligations	166,701	168,708
Less current portion	(9,071)	(9,067)
Long-term obligations, net of current portion	<u>\$ 157,630</u>	<u>\$ 159,641</u>

As of March 31, 2021, the aggregate maturities of long-term obligations were as follows.

2021 (April 1 - December 31)	\$ 6,802
2022 (January 1 - December 31)	11,333
2023 (January 1 - December 31)	15,851
2024 (January 1 - December 31)	133,018
2025 (January 1 - December 31)	145
Thereafter	2,158
Total maturities of long-term obligations	<u>\$ 169,307</u>

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.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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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. The weighted average interest rate on the 2019 Senior Credit Facility was 5.80% at March 31, 2021.

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 March 31, 2021.

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.

8. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following at March 31, 2021 and December 31, 2020.

	2021	2020
Other deferred IRU capacity revenue, net of current portion	\$ 49,463	\$ 49,739
Deferred GCI capacity revenue, net of current portion	26,454	26,965
Other deferred revenue, net of current portion	5,472	4,837
Other	12,432	13,223
Total other long-term liabilities	\$ 93,821	\$ 94,764

Amortization of deferred revenue included in the Consolidated Statements of Comprehensive Income was \$2,783 and \$2,357 in the three-month periods ended March 31, 2021 and 2020, respectively.

9. 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.

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Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. Early terminations recorded in the three-month period ended March 31, 2021 were not material.

The Company entered into additional operating lease commitments that had not yet commenced as of March 31, 2021 with a present value totaling approximately \$10,246 and terms of 7 to 30 years. These leases consist primarily of an agreement with another carrier to lease dark fiber, a portion of which will be leased by the Company to another carrier. This lease is expected to commence in the second quarter of 2021 and has a term of 20 years. They also include agreements associated with the Company's Connect America Fund ("CAF") Phase II services.

Short-term and variable lease cost recorded during the three-month periods ended March 31, 2021 and 2020 were not material.

The Company did not enter into any sale and leaseback transactions during the three-month period ended March 31, 2021.

The following table presents lease costs for agreements under which the Company is the lessee for the three-month periods ended March 31, 2021 and 2020.

	2021	2020
Finance lease cost:		
Amortization of right-of-use assets	\$ 47	\$ 47
Interest on lease liabilities	66	67
Operating lease costs	2,264	1,968
Total lease cost	\$ 2,377	\$ 2,082

The following table provides information included on the consolidated balance sheet for agreements under which the Company is the lessee as of March 31, 2021 and December 31, 2020.

	2021	2020
Operating leases:		
Right of use assets	\$ 88,135	\$ 89,821
Liabilities - current	\$ 3,276	\$ 3,392
Liabilities - noncurrent	79,631	81,103
Total liabilities	\$ 82,907	\$ 84,495
Finance leases:		
Property, plant and equipment	\$ 5,800	\$ 5,800
Accumulated depreciation and amortization	(3,934)	(3,887)
Property, plant and equipment, net	\$ 1,866	\$ 1,913
Current portion of long-term obligations	\$ 71	\$ 67
Long-term obligations, net of current portion	2,590	2,609
Total finance lease liabilities	\$ 2,661	\$ 2,676

The following table provides the maturities of the Company's lease liabilities as of March 31, 2021.

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	Operating Leases	Financing Leases
2021 (excluding the three months ended March 31, 2021)	\$ 5,926	\$ 246
2022	7,911	336
2023	7,589	345
2024	7,397	355
2025	7,323	364
Thereafter	157,529	3,108
Total lease payments	193,675	4,754
Less imputed interest	(111,747)	(2,093)
Total present value of lease obligations	81,928	2,661
Present value of current obligations	(2,297)	(71)
Present value of long-term obligations	<u>\$ 79,631</u>	<u>\$ 2,590</u>

The following table presents other information about agreements under which the Company is the lessee as of and for the three-month periods ended March 31, 2021 and 2020.

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 66	\$ 67
Operating cash flows from operating leases	2,106	1,826
Financing cash flows from finance leases	15	12
Right-of-use assets obtained in exchange for operating lease liabilities	627	-
Weighted-average remaining lease term (in years):		
Finance leases	12	13
Operating leases	28	29
Weighted-average discount rate:		
Finance leases	9.8%	9.8%
Operating leases	6.9%	6.9%

Lease Agreements Under Which the Company is the Lessor

The Company's agreements under which it is the lessor are primarily associated with the use of its network assets, including IRUs for fiber optic cable, colocation and buildings.

Certain leases include a provision for early termination, typically in return for an agreed amount of consideration. Early terminations recorded in the three-month period ended March 31, 2021 were not material.

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 March 31, 2021.

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.

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The following table presents lease income for agreements under which the Company is the lessor for the three-month periods ended March 31, 2021 and 2020. Lease income is classified as revenue on the Statement of Comprehensive Income. The carrying value of the underlying leased assets is not material.

	<u>2021</u>	<u>2020</u>
Total lease income	\$ 1,620	\$ 1,171

The following table presents the maturities of future undiscounted lease payments at March 31, 2021 for the periods indicated.

2021 (excluding the three months ended March 31, 2021)	\$ 1,224
2022	917
2023	877
2024	873
2025	836
Thereafter	4,350
Total future undiscounted lease payments	<u>\$ 9,077</u>

10. EMPLOYEE TERMINATION BENEFITS

In 2020, the Company offered a one-time cash incentive to employees who volunteered to retire or otherwise terminate their employment, subject to management approval. A charge of \$210 was recorded in the third quarter of 2020, and payments totaling \$210 were made in the third and fourth quarters of 2020. This charge was accounted for as a special termination benefit in accordance with ASC 712, “*Compensation - Nonretirement Postemployment Benefits*” (“ASC 712”).

In 2019, the Company recorded a charge of \$1,715 associated with cash-based termination benefits paid or to be paid to its former Chief Executive Officer who separated from the Company effective June 30, 2019. These benefits consist of special termination benefits as defined in ASC 712, and included the continuation of salary and certain benefits through December 31, 2019, and the payment of annual cash incentive and long-term cash awards, subject to certain conditions. Payments totaling \$46, \$24 and \$1,390 were made in the first quarter of 2021 and in 2020 and 2019, respectively. The balance of approximately \$255 will be paid in the second quarter of 2021.

11. 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 March 31, 2021, the Plan is not fully funded under the Employee Retirement Income Security Act of 1974, as amended.

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The following table presents the net periodic pension expense for the ACS Retirement Plan for the three-month periods ended March 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Interest cost	\$ 119	\$ 117
Expected return on plan assets	(184)	(185)
Amortization of loss	39	35
Net periodic pension expense	<u>\$ (26)</u>	<u>\$ (33)</u>

Net periodic pension expense is included in the line item “Other income, net” in the Statements of Comprehensive Income.

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. The following disclosures do not consider the effect of the potential consummation of the Merger on the Company’s stock incentive plan.

In the first quarter of 2021, long-term cash awards were issued to the Company’s officers and certain other employees in lieu of equity awards. These awards consist of (i) time-based fixed cash awards, vesting of which is subject to the continued service of the recipient over consecutive three one-year periods, and (ii) long-term performance cash awards, vesting of which is subject to the achievement of a cumulative Company financial performance metric over a three-year period and the continued service of the recipient.

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 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 any prior plans were transferred to the 2011 Incentive Award Plan. In addition, to the extent that any outstanding awards under 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.

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. Expense associated with RSUs is recognized utilizing the graded vesting methodology.

The following table summarizes the RSU, long-term incentive plan and non-employee director stock compensation activity for the three-month period ended March 31, 2021.

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	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2020	876	\$ 2.20
Granted	-	-
Vested	(244)	1.68
Canceled or expired	(3)	2.61
Nonvested at March 31, 2021	<u>629</u>	<u>\$ 2.40</u>

Performance Stock Units

Vesting of a portion of the PSUs issued in the second quarter of 2020 is subject to the Company's achievement of a three-year cumulative performance target for the years 2020, 2021 and 2022, subject to approval by the Compensation and Personnel Committee of the Board of Directors. As of March 31, 2021, achievement of the Company performance target was deemed to be probable.

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 a cumulative Company performance target. As of March 31, 2021, achievement of the Company performance target was deemed to be probable. Achievement above a specified level will be settled in cash in lieu of shares of Company stock. This portion of the PSUs granted in 2019 is accounted for as a variable cash award based on the market price of the Company's common stock. A charge of \$151 was recorded in the first quarter of 2021 to adjust the associated liability to the award's market value at March 31, 2021, \$133 of which was attributable to changes in the market price in 2019 and 2020.

The following table summarizes the PSU activity for the three-month period ended March 31, 2021.

	Number of Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2020	1,174	\$ 1.50
Granted	-	-
Vested	(356)	0.35
Canceled or expired	-	-
Nonvested at March 31, 2021	<u>818</u>	<u>\$ 2.00</u>

The following table provides selected information about the Company's share-based compensation as of and for the three-month periods ended March 31, 2021 and 2020.

	2021	2020
Total compensation cost for share-based payments	\$ 389	\$ 309
Weighted average grant-date fair value of equity instruments granted (per share)	\$ -	\$ -
Total fair value of shares vested during the period	\$ 605	\$ 1,248
At March 31:		
Unamortized share-based payments	\$ 1,589	\$ 799
Weighted average period (in years) to be recognized as expense	1.5	1.8

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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 under the Amended 2012 ESPP.

Effective December 31, 2020, the Amended 2012 ESPP was frozen in connection with the Merger Agreement.

13. 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 \$167,923 and \$170,049 at March 31, 2021 and December 31, 2020, 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 March 31, 2021 and December 31, 2020, at each hierarchical level.

	March 31, 2021				December 31, 2020			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Other long-term liabilities:								
Interest rate swaps	\$ 2,314	\$ -	\$ 2,314	\$ -	\$ 2,784	\$ -	\$ 2,784	\$ -

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 7 “Long-Term Obligations” and Note 15 “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 March 31, 2021 and December 31, 2020.

	<u>Balance Sheet Location</u>	<u>Notional Amount</u>	<u>Fair Value</u>
At March 31 2021:			
Interest rate swaps	Other long-term liabilities	\$ 126,563	\$ 2,314
At December 31, 2020:			
Interest rate swaps	Other long-term liabilities	\$ 128,250	\$ 2,784

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-month periods ending March 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Loss recognized in accumulated other comprehensive loss	\$ (27)	\$ (2,878)
Loss reclassified from accumulated other comprehensive loss to income	(496)	-

The following table presents the effect of cash flow hedge accounting on the Company's Statements of Comprehensive Income for the three-month periods ending March 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Recorded as Interest Expense:		
Hedged interest payments	\$ (1,483)	\$ (2,081)
Loss on interest rate swap	(496)	-

14. 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 include the potential dilution of securities that could share in the earnings of the Company.

The calculation of basic and diluted earnings per share for the three-month periods ended March 31, 2021 and 2020 are as follows.

	<u>2021</u>	<u>2020</u>
Net income attributable to Alaska Communications	\$ 606	\$ 2,387
Weighted average common shares outstanding:		
Basic shares	54,145	53,186
Effect of stock-based compensation	727	1,051
Diluted shares	54,872	54,237
Net income per share attributable to Alaska Communications:		
Basic	\$ 0.01	\$ 0.04
Diluted	\$ 0.01	\$ 0.04

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15. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity in accumulated other comprehensive loss for the three-month period ended March 31, 2021.

	Defined Benefit Pension Plan	Interest Rate Swaps	Total
Balance at December 31, 2020	\$ (4,347)	\$ (1,993)	\$ (6,340)
Other comprehensive income (loss) before reclassifications	47	(19)	28
Reclassifications from accumulated comprehensive loss to net income	(19)	355	336
Net other comprehensive income	28	336	364
Balance at March 31, 2021	<u>\$ (4,319)</u>	<u>\$ (1,657)</u>	<u>\$ (5,976)</u>

The following table summarizes the reclassifications from accumulated other comprehensive loss to net income for the three-month periods ended March 31, 2021 and 2020.

	2021	2020
Amortization of defined benefit plan pension items:		
Amortization of loss	\$ (26)	\$ (33)
Income tax effect	7	9
After tax	<u>(19)</u>	<u>(24)</u>
Amortization of gain on interest rate swap:		
Reclassification to interest expense	496	-
Income tax effect	(141)	-
After tax	<u>355</u>	<u>-</u>
Total reclassifications, net of income tax	<u>\$ 336</u>	<u>\$ (24)</u>

Amounts reclassified to net income from our defined benefit pension plan and interest rate swaps have been presented within "Other income, 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 during the next twelve months is \$1,899. See Note 13 "Fair Value Measurements and Derivative Financial Instruments."

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16. 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 \$4,836 was paid in the second and third quarters of 2020. The remaining \$16 is associated with deferred Board of Directors compensation and will be paid in future periods.

17. JOINT VENTURE

The table below provides certain financial information about the AQ-JV included on the Company's consolidated balance sheet at March 31, 2021 and December 31, 2020. 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.

	<u>2021</u>	<u>2020</u>
Cash	\$ 270	\$ 270
Property, plant and equipment, net of accumulated depreciation of \$531 and \$506	\$ 1,610	\$ 1,635

The operating results and cash flows of the joint venture in the three-month periods of 2021 and 2020 were not material to the Company's consolidated financial results.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Restricted cash of \$1,326 at March 31, 2021 consisted of certificates of deposit of \$1,300 required under the terms of certain contracts to which the Company is a party and other restricted cash of \$26. Restricted cash of \$1,326 at December 31, 2020 consisted of certificates of deposit of \$1,300 required under the terms of certain contracts to which the Company is a party and other restricted cash of \$26.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statement of financial position at March 31, 2021 and 2020 that sum to the total of these items reported in the statement of cash flows.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 22,114	\$ 33,818
Restricted cash	1,326	1,320
Total cash, cash equivalents and restricted cash	<u>\$ 23,440</u>	<u>\$ 35,138</u>

The following table presents supplemental non-cash transaction information for the three-month periods ended March 31, 2021 and 2020.

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	2021	2020
Supplemental Non-cash Transactions:		
Capital expenditures incurred but not paid at March 31	\$ 1,389	\$ 2,215
Dividends payable at March 31	\$ 16	\$ 4,852
Additions to ARO asset	\$ 10	\$ 70
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 627	\$ -

19. BUSINESS SEGMENTS

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

20. COMMITMENTS AND CONTINGENCIES

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

In 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 other claims, legal actions and regulatory proceedings arising in the ordinary course of business and establishes an accrual when a specific contingency is probable and estimable. The Company recorded litigation accruals totaling \$2,123 at March 31, 2021 against certain current claims and legal actions. The Company also faces contingencies that are reasonably possible to occur that cannot currently be estimated. The Company believes that the disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, comprehensive income or cash flows. It is the Company's policy to expense costs associated with loss contingencies, including any related legal fees, as they are incurred.

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

FORWARD-LOOKING STATEMENTS AND ANALYSTS' REPORTS

This Form 10-Q and our future filings on Forms 10-K, 10-Q and 8-K and the documents incorporated therein by reference include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"), as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, pricing plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "projects", "seeks", "should" and variations of these words and similar expressions are intended to identify these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Forward-looking statements by us are based on estimates, projections, beliefs and assumptions of management and are not guarantees of future performance. Such forward-looking statements may be contained in this Form 10-Q under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere. Actual future performance, outcomes, and results may differ materially from those expressed in forward-looking statements made by us as a result of a number of important factors. Examples of these factors include (without limitation):

- Our ability to successfully consummate the Merger Agreement with affiliates of ATN International, Inc. and Freedom 3 Investments IV, LP, a fund advised by Freedom 3 Capital, LLC, and the potential disruption the merger could cause to our operations
- our ability to obtain and appropriately allocate capital and other resources to support our growth objectives
- 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 invest sufficiently in our underlying physical infrastructure, including buildings, fleet and related equipment
- 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 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
- our size, because we are a smaller sized competitor in the markets we serve, and we compete against large competitors with substantially greater resources
- 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
- 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 maintain successful arrangements with our represented employees

- 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
- a maintenance or other failure of our network or data centers
- a failure of information technology systems
- our ability to attract, recruit, retain and develop our workforce, and implement succession planning necessary for achieving our business plan
- the successful completion of our project for the development and installation of certain critical new IT systems associated with sales and opportunities, customer service delivery, operational support, customer billing and collection, analytics, and other applications; and our ability to adequately invest in the maintenance and upgrade of our networks and other information technology systems in the future
- 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
- the success of the Company's expansion into managed IT services, including the execution of those services for customers
- structural declines for voice and other legacy services within the telecommunications industry
- a major public health issue, such as an epidemic or pandemic, and including the current COVID-19 pandemic, could adversely affect global, national, state and local economies, the operations and financial stability of our customers and vendors, and our operations, financial performance and liquidity
- geologic or other natural disturbances relevant to the location of our operations
- unanticipated damage to one or more of our undersea fiber optic cables resulting from construction or digging mishaps, fishing boats or other reasons
- 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
- the success or failure of any future acquisitions or other major transactions
- 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
- delays in the receipt of equipment and other materials due to disruptions in the supply chain
- our success in providing broadband solutions to the North Slope and western Alaska
- 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 Forms 10-K and 10-K/A for the year ended December 31, 2020.

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

On December 31, 2020, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Project 8 Buyer, LLC (“Parent”) and Project 8 MergerSub, Inc. (“Merger Sub”), two newly-formed entities owned by ATN International, Inc. and Freedom 3 Investments IV, LP, a fund advised by Freedom 3 Capital, LLC. On December 31, 2020, the Company terminated the previously announced merger agreement under which the Company would be acquired by an affiliate of Macquarie Capital (USA) and GCM Grosvenor through its Labor Impact Fund.

On the terms, and subject to the conditions, of the Merger Agreement, Merger Sub will merge with and into the Company (the “Merger”), with the Company continuing as the surviving corporation and a wholly-owned subsidiary of Parent. As a result of the Merger, each share of the Company’s common stock issued and outstanding immediately prior to the effective time of the Merger (the “Effective Time”) (other than shares held by (i) the Company (or a wholly-owned subsidiary that is disregarded for tax purposes), Parent or Merger Sub and (ii) stockholders of the Company who have validly exercised and perfected their appraisal rights under Delaware law) will be converted at the Effective Time into the right to receive \$3.40 in cash, without interest, subject to any applicable withholding taxes (the “Merger Consideration”).

Consummation of the Merger is subject to certain closing conditions, including, without limitation, (i) approval of the Merger by the Company’s stockholders, (ii) absence of certain legal impediments, (iii) the expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”); and (iv) receipt of regulatory approvals from the Federal Communications Commissions (the “FCC”) (and, if required as a precondition for FCC approval, the Committee for the Assessment of Foreign Participation in the U.S. Telecommunications Services Sector (“Team Telecom Committee”)) and from the Regulatory Commission of Alaska (the “RCA”). The waiting period under the HSR Act expired on February 16, 2021 at 11:59 p.m. Eastern Time. Filings with each of the FCC and the RCA were made on January 20, 2021. The RCA gave public notice of the application and requested any public comments by February 12, 2021. On February 8, 2021, the RCA issued an order stating that it had determined that Parent’s application to acquire the Company was complete as filed on January 20, 2021. The order states that the RCA will issue a final order no later than July 19, 2021. The Company’s stockholders approved the Merger at a special meeting of stockholders held on March 12, 2021.

Refer to the Merger Agreement filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K dated December 31, 2020 and filed with the SEC on January 4, 2021, which is incorporated in its entirety herein by reference to this Quarterly Report on Form 10-Q.

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. A third-party market study conducted in the fourth quarter of 2018 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 broadband 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 while minimizing 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 focus on 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 in general. In doing so, we compare Alaska economic activity with broader economic conditions. In general, we believe that the Alaska telecommunications market, as well as general economic activity in Alaska, is affected by certain economic factors, which include:

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

We have observed variances in the factors affecting the Alaska economy as compared to the U.S. as a whole. Some factors, particularly the price of oil and gas, have a greater direct impact on the Alaska economy compared to other macro-economic trends impacting the U.S. economy as a whole. 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. By December 2020, the state's unemployment rate had improved to 6.0% which is more in line with historic levels. However, in March 2021, the state's unemployment rate increased to 6.6%.

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 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 various actions in 2020 and 2021 including the following:

- 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 spring semester 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.

Certain of the above actions have been relaxed or reduced beginning in the first quarter of 2021 as disruptions caused by the pandemic have been eliminated or mitigated.

The COVID-19 pandemic did not have a direct material effect on the Company's revenue, operating expenses and cash flow in the first quarter of 2021. Additional current and potential financial impacts include the following:

- The estimated fair value of service or upgraded service provided to customers without charge was \$0.3 million in the first quarter of 2021. 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.
- Certain customers have delayed orders for the provision of service.
- As a result of the customer accommodations noted above, collection of accounts 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.

In February 2021, the Company and the Municipality of Anchorage entered into an agreement under which utility relief will be made available to certain of the Company's residential and small business customers located in Anchorage. The program is supported by a grant from the Municipality of Anchorage. Funding totaling \$0.7 million was received by the Company in the first quarter and will be applied to the accounts of customers who have experienced financial hardship related to the COVID-19 pandemic and meet other requirements, subject to certain terms and conditions. In the first quarter of 2021, a credit of \$0.1 million was recorded to the provision for doubtful accounts to reverse charges recorded in 2020 associated with customer accounts which are expected to qualify for relief under this program.

We are continuing to assess the potential future impact of the COVID-19 pandemic. The situation continues to evolve, and while the impact on the local and national economy has been mitigated in recent months, 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.

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, 2020, 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 local exchange carriers ("LECs"). Generally, a LEC must: interconnect with other telecommunications carriers; 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.

All of our LEC subsidiaries are considered incumbent LECs ("ILECs") and have additional obligations under the Communications Act, including obligations to unbundle certain elements of their networks for purchase by competitive LECs.

In general, in recent years, the FCC has granted forbearance providing incremental relief from some of the obligations the Communications Act imposes uniquely on ILECs. Most recently, on October 28, 2020, the FCC released an Order relieving ILECs from most obligations to unbundle local loops (DS-3, DS-1, DS-0, and narrowband voice-grade), as well as Operations Support Systems and dark fiber transport, in markets the FCC deems competitive subject to transition periods ranging between two and eight years. Previously, on August 2, 2019, the FCC relieved ILECs from the requirement to unbundle two-wire and four-wire analog voice-grade copper loops, as well as from the obligation to offer a wholesale discount on its telecommunications services sold to competitive entrants for resale. 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 of those 2019 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, in order to permit customers sufficient time to undertake a transition to alternative arrangements.

USF Contributions

Under the Communications Act of 1934, as amended (the “Communications Act”) and FCC rules, telecommunications carriers and certain providers of telecommunications must contribute to the federal Universal Service Fund, which is the source of funding for the four support mechanisms described above. These contributions are based on end-user revenues from assessable interstate and international services. For the first calendar quarter of 2021, we were required to pay an amount equal to 31.8 percent of our interstate and international end-user telecommunications revenue towards the federal Universal Service Fund, and amount that increased to 33.4 percent for the second calendar quarter of 2021. The contribution rate changes every calendar quarter, and has increased sharply in recent years, both because of increases in demand for universal service support payments, and because the assessable revenue base has shrunk considerably over the past two decades. In the long term, the current contribution mechanism is likely to be unsustainable, and collapse of the Universal Service Fund would have a significant impact throughout our industry.

Rural Health Care (“RHC”) Universal Service Support Program

We received FCC approval for our Funding Year 2020 rates in January 2021, more than halfway through the funding year to which those rates relate (July 1, 2020 – June 30, 2021). USAC began issuing funding commitment letters in March 2021 and we are working with our healthcare provider customers to prepare and submit additional forms and documentation required to receive payment.

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 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. The Consolidated Appropriations Act, 2021, signed into law on December 27, 2020, appropriated a further \$250 million for the COVID-19 Telehealth Program, and directed that, to the extent feasible, at least one applicant in every state should receive an award of funding under the program.

At the same time, the FCC created the “Connected Care Pilot Program,” which makes 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. The Connected Care Pilot Program will provide healthcare providers support for 85 percent of the cost of eligible services and network equipment, which include: (1) patient broadband internet access services, (2) health care provider broadband data connections, (3) other connected care information services, and (4) certain network equipment (*e.g.*, equipment necessary to make a supported broadband service function such as routers). The FCC accepted applications for Connected Care Pilot Program support between November 6 and December 7, 2020. On January 15, 2021, the FCC announced its initial set of awards to healthcare providers in 12 states, but none in Alaska. While it is too soon to assess the ultimate 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.

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 take effect for Funding Year 2021, which will begin July 1, 2021, and rural healthcare providers were permitted to solicit bids for services to be supported in Funding Year 2021 beginning on July 1, 2020. Among other things, the FCC’s Order directed USAC to develop and publish a database by July 1, 2020, 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. The FCC’s Order divided Alaska into four geographic zones, with the rural rate in each zone capped at the median of the rural rates for similar services offered in that zone, as identified by USAC. USAC published that rate database on July 1, 2020, following receipt of a June 30, 2020 letter providing significant guidance and directives from the FCC’s Wireline Competition Bureau (the “Bureau”). Among those directions, the Bureau directed USAC to provide an additional two months, until August 31, 2020, for interested parties to supplement the database with additional relevant rates. USAC announced on October 1, 2020 that it had incorporated those additional rates into the database.

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 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 action in the D.C. Circuit Court of Appeals and the Petitions for Reconsideration filed with the FCC remain pending.

We believe that USAC's rural rate database, as currently constituted, is likely to have an adverse impact on our economic ability to continue to serve some of our rural healthcare customers. In particular, the rates established by the database would negatively impact our ability to continue to offer our full range of telecommunications services to rural healthcare providers supported by the Telecommunications Program in the more remote, higher-cost areas of the state. 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. In two orders issued on January 19, 2021 and April 8, 2021, the FCC suspended the use of the urban and rural rate databases for Funding Years 2021 and 2022. In lieu of the database, while the waiver remains in effect, the Order authorizes support based on the most recent rural rate that the FCC has approved for the same service at the same healthcare facility within the past three funding years. In addition, we have flexibility to charge (1) a rate lower than the previously approved rate for the same or similar service to the same facility or one with the same or similar geographic characteristics or (2) the same or lower rate as previously approved but for a higher bandwidth service than in previous funding years at the same facility or one with the same or similar geographic characteristics. As an alternative, Telecommunications Program rural rates may be established under the previously applicable rate rules that were in effect through Funding Year 2020. As with the action in the D.C. Circuit Court of Appeals and the Petitions for Reconsideration, the other issues raised in our Application for Review remain pending.

We are unable to predict the outcome or eventual impact of the D.C. Circuit's review of the FCC's Order, or the FCC's decision on our Petition for Reconsideration or our Application for Review, but these recent FCC orders offer a measure of short-term stability and predictability for our Telecommunications Program for the upcoming two funding years while those reviews continue.

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 further communication from the auditors, on February 24, 2020, the Company received a draft audit report from USAC that is described more fully in Note 20 "*Commitments and Contingencies*" in the Notes to Consolidated Financial Statements. The draft audit report alleges violations of the FCC's rules for establishing rural rates and urban rates, the provisioning and billing of ineligible services and products, and violations of the FCC's competitive bidding rules. The Company was invited to comment on this draft audit report and, as of September 1, 2020, we have provided USAC with extensive comments in response. Our comments seek 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

The Company also 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. On January 22, 2020, the Company received an additional letter from the Enforcement Bureau seeking further information. In response, we produced additional records through February 1, 2021. 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.

Connect America Fund

The Transformation Order also replaced the FCC's previous set of explicit high-cost universal service support mechanisms for price cap carriers, like Alaska Communications, with the Connect America Fund ("CAF"). While the previous mechanisms were focused on supporting a portion of the cost of providing voice telephone service, the CAF shifted that focus to expanding the availability of affordable broadband services. On October 31, 2016, the FCC released its order establishing the requirements of CAF Phase II ("CAF II") for price cap carriers in Alaska, and specifically Alaska Communications, the only price cap carrier in Alaska. Under the CAF II order, we receive approximately \$19.7 million annually through December 31, 2025, subject to explicit broadband deployment conditions.

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 halfway to the total number required by December 31, 2025 under CAF Phase II.

On March 12, 2021, the FCC granted our long-form application for 37 Priority Access Licenses to use mid-band spectrum in the 3.5-3.65 GHz band in ten Alaska boroughs. We were the high bidder for those licenses in FCC Auction 105, which closed in September 2020. We expect to use these new licenses to augment our fixed wireless broadband and other services in the Alaska markets they cover, including in pursuit of our CAF Phase II commitments.

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 a potential extension of time for small providers that serve 100,000 or fewer voice service subscriber lines, which would include us. On October 1, 2020, the FCC released an Order granting small providers, as proposed, an extension of time to implement STIR/SHAKEN until June 30, 2023. In connection with that extension, we must put a "Robocall Mitigation Program" in place by June 30, 2021, establishing "reasonable" steps we are taking to avoid originating illegal robocalls and cooperate with the Industry Traceback Consortium to stop illegal robocallers, backed up by a certification filed with the FCC.

The FCC's March 31, 2020 Notice of Proposed Rulemaking also sought comment on proposals for implementing the law with respect to "intermediate" providers of voice service, which, with respect to a call, is a provider that carries that call at any point, but neither originates nor terminates it. The FCC's October 1, 2020 Order requires us, by June 30, 2021, in our role as an intermediate provider, to implement the STIR/SHAKEN authentication framework in the IP portions of our network, in general so that IP calls retain caller ID authentication information throughout the entire call path. Specifically, with certain exceptions, we must (a) pass any authenticated caller identification information received with a SIP call that originates from a different service provider, through to the subsequent provider; and (b) cooperate with the industry traceback consortium and respond promptly to traceback requests. We are currently in the process of implementing these requirements.

On July 17, 2020, the FCC released 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 from liability that use reasonable analytics, including caller ID authentication information, to identify and block illegal or unwanted calls. 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. The FCC has announced that these rules took effect on October 14, 2020.

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. The FCC has designated Huawei, ZTE and certain other manufacturers as companies that pose such risks. Currently, Alaska Communications believes that little or no equipment from those manufacturers is present in our network.

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. As of April 24, 2021, Alaskans may start using ten-digit dialing as of April 24, 2021, and it will be required as of October 24, 2021. 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.

Lifeline

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

The Consolidated Appropriations Act, 2021 appropriated \$3.2 billion to create the "Emergency Broadband Connectivity Fund," supplemented by a further \$6 billion appropriated by the American Rescue Plan Act of 2021. As directed by the legislation, the FCC is using those funds to establish a new "Emergency Broadband Benefit Program" ("EBBP"). The EBBP will provide eligible low-income consumers and students with a monthly subsidy for the purchase of broadband Internet access service from service providers that elect to participate in the program, in addition to the existing benefit provided by the FCC's Lifeline program. While the monthly subsidy is \$50 in most of the nation, the EBBP will provide \$75 monthly throughout the state of Alaska, which is encompassed within the statute's definition of "Tribal lands." On April 4, 2021, our election to participate in the EBBP was accepted by USAC, and we intend to offer our customers a wide array of EBBP-supported broadband services and rate plans. While we cannot predict the effect of the EBBP with certainty, we expect that it will help many of our customers afford broadband service, and may allow customers to sign up for new or upgraded broadband service. At the same time, there is currently no sustainable funding source for the EBBP, and we cannot predict what will happen to the EBBP once the existing appropriations are depleted.

E-Rate

The Company has provided telecommunications services, broadband Internet access services, and internal connections supported by the FCC's Schools and Libraries Universal Service Support Mechanism ("E-rate") for many years. E-rate support provides an invaluable means by which elementary and secondary schools in Alaska can afford those services, particularly in rural and remote, high-cost areas. Historically, E-rate has primarily supported services that connect eligible school buildings. The American Rescue Plan Act of 2021 provided additional support for remote learning, appropriating \$7.171 billion to create the Emergency Connectivity Fund ("ECF"), which will support broadband services and eligible equipment used by students, school staff, and library patrons at locations other than a school or library. The FCC is in the process of implementing this statute, which appears to have superseded a similar petition filed in January 2021 by the Schools, Health & Libraries Broadband ("SHLB") Coalition. ECF support could increase demand for our home broadband services, but also could increase the administrative burden and compliance risks associated with those services. We are unable to predict the impact of this legislation, if any, at this time.

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 over 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 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 allows 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.

Acquisition by a newly formed entity owned by ATN International, Inc. and Freedom 3 Investments IV, LP

On January 20, 2021, we filed a series of applications seeking FCC approval for the transfer of control of our licenses and authorizations to ATN International, Inc. We have discussed those applications with the FCC staff, and, on February 16, 2021, the FCC issued a Public Notice seeking public comment on the proposed transaction. No comments or reply comments were filed, and we are continuing to work toward obtaining FCC approval to close this transaction.

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. The RCA has announced its intent to open a new docket to consider further AUSF reforms in June 2021.

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. The RCA continues to consider this matter.

AC Systems Group and ATN International, Inc. Joint Application

The RCA opened Docket U-21-003 to consider the joint application filed by ATN International, Inc. and Alaska Communications Systems Group, Inc. for ATN International, Inc. to acquire an indirect controlling interest in ACS of Alaska, LLC, ACS of Anchorage, LLC, ACS of Fairbanks, LLC, ACS of the Northland, LLC, ACS Long Distance, LLC, and Alaska Fiber Star, LLC. The RCA issued a public notice seeking comments on the application on January 22, 2021, and on February 8, 2021, issued an order establishing a schedule for completing its review of the application by July 19, 2021.

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.
- **Deliver an Exceptional Customer Experience** 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.
- **Augment and Expand Our Network Capabilities and Services 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 to Drive Operational Excellence** 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.
- **Accelerate the Growth of 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 generates 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 also continue to expand 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 is expected to provide a basis for continued growth in this market in 2021.

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 2020 (dollars in thousands).

Source	Description	2020 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 charges have declined an average of approximately 11% annually over the past three years.	\$ 3,418	8.3%	1.4%
Total Access Charges		\$ 3,418	8.3%	1.4%
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.	\$ 5,275	12.8%	2.2%
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.	\$ 9,882	24.0%	4.1%
Total Surcharges		\$ 15,157	36.8%	6.3%
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	47.9%	8.2%
ENS	We are required by the State of Alaska to provide and maintain local services for retail and carrier-to-carrier telecommunication throughout certain local exchange facilities. Funds received from the State under the Essential Network Support ("ENS") program is to be used to fund capital expenditures or pay ongoing operation and maintenance expenses.	\$ 2,873	7.0%	1.2%
Total Federal and State Support		\$ 22,567	54.9%	9.4%
Total Regulatory Revenue		\$ 41,142		17.1%
Total Revenue		\$ 240,569		

Executive Summary

The COVID-19 pandemic did not have a material impact on the Company's revenue, operating income and cash flows in the first quarters of 2021 and 2020. Free or upgraded service with a total value of approximately \$0.3 million was provided to certain customers in the first quarter of 2021.

Operating Revenues

Total revenue of \$60.7 million increased \$2.4 million, or 4.1%, in the first quarter of 2021 compared with the first quarter of 2020. Business and wholesale revenue increased \$2.2 million reflecting a \$1.3 million increase in total broadband revenue and a \$1.2 million increase in equipment sales and installations. Rural health care revenue was \$3.0 million and \$3.3 million in the first quarters of 2021 and 2020, respectively. Consumer revenue of \$9.2 million was up marginally year over year. Regulatory access revenue has stabilized subsequent to the reduction in AUSF support and increased \$0.2 million, or 3.3%, from the first quarter of 2020.

Operating Income

Operating income of \$3.0 million in the first quarter of 2021 declined \$2.9 million compared with the first quarter of 2020. The growth in revenue was offset by higher operating expenses, including employee compensation, systems implementation and transaction and termination costs of \$0.9 million. These items are discussed in more detail below.

Liquidity

We generated cash from operating activities of \$16.7 million in the first quarter of 2021 compared with \$22.4 million in the first quarter of 2020. This decline reflects higher cash receipts associated with accounts receivable and deferred revenue arrangements in 2020.

In the first quarter of 2021 and 2020, we invested a total of \$11.3 million and \$11.5 million, respectively, in capital, including capitalized interest and net of the settlement of items accrued in previous periods. Success based capital spending was \$5.0 million in 2021 compared with \$4.8 million in 2020.

Net debt (defined as total debt excluding debt issuance costs, less cash and cash equivalents) at March 31, 2021 was \$147.2 million compared with \$151.9 million at December 31, 2020. The decrease reflects cash generated from operating activities, partially offset by capital spending.

Other Initiatives

We have expanded our network to over 198,000 terrestrial and submarine fiber miles.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

The following table summarizes our results of operations for the three-month periods ended March 31, 2021 and 2020. Revenue and the associated analysis are presented by customer and product category, combining revenue accounted for under ASC 606 and other guidance.

(in thousands)	Three Months ended March 31,			
	2021	2020	Change	% Change
Revenue				
Business and wholesale revenue				
Business broadband	\$ 16,242	\$ 15,639	\$ 603	3.9%
Business voice and other	7,137	7,236	(99)	-1.4%
Managed IT services	1,217	1,227	(10)	-0.8%
Equipment sales and installations	2,618	1,414	1,204	85.1%
Wholesale broadband	12,636	11,979	657	5.5%
Wholesale voice and other	1,121	1,288	(167)	-13.0%
Total business and wholesale revenue	40,971	38,783	2,188	5.6%
Consumer revenue				
Broadband	6,945	6,692	253	3.8%
Voice and other	2,230	2,449	(219)	-8.9%
Total consumer revenue	9,175	9,141	34	0.4%
Total business, wholesale and consumer revenue	50,146	47,924	2,222	4.6%
<i>Growth in broadband revenue</i>	4.4%			
Regulatory revenue				
Access	5,599	5,418	181	3.3%
High cost support	4,923	4,924	(1)	0.0%
Total regulatory revenue	10,522	10,342	180	1.7%
Total operating revenues	\$ 60,668	\$ 58,266	\$ 2,402	4.1%
Operating expenses:				
Cost of services and sales (excluding depreciation and amortization)	27,366	27,114	252	0.9%
Selling, general and administrative	18,289	15,394	2,895	18.8%
Transaction and termination costs	923	-	923	NM
Depreciation and amortization	11,048	9,840	1,208	12.3%
Loss on disposal of assets, net	84	86	(2)	-2.3%
Total operating expenses	57,710	52,434	5,276	10.1%
Operating income	2,958	5,832	(2,874)	-49.3%
Other income and (expense):				
Interest expense	(2,652)	(2,959)	307	-10.4%
Interest income	3	75	(72)	-96.0%
Other income, net	393	381	12	3.1%
Total other income and (expense)	(2,256)	(2,503)	247	-9.9%
Income before income tax expense	702	3,329	(2,627)	-78.9%
Income tax expense	(118)	(960)	842	-87.7%
Net income	584	2,369	(1,785)	-75.3%
Less net loss attributable to noncontrolling interest	(22)	(18)	(4)	22.2%
Net income attributable to Alaska Communications	\$ 606	\$ 2,387	\$ (1,781)	-74.6%

Operating Revenue

The COVID-19 pandemic did not have a material effect on the Company's revenue in the first quarters of 2021 and 2020.

Business and Wholesale

Business and wholesale revenue of \$41.0 million increased \$2.2 million, or 5.6%, in the first quarter of 2021 from \$38.8 million in the first quarter of 2020. Equipment sales and installations increased \$1.2 million and wholesale broadband and business broadband revenue increased \$0.7 million and \$0.6 million, respectively. These increases were partially offset by marginal declines in business voice, wholesale voice and managed IT services. The increase in business broadband revenue was due primarily to an increase in average monthly revenue per user ("ARPU") in the first quarter of 2021, partially offset by a decline in connections. Rural health care revenue was \$3.0 million and \$3.3 million and represented 4.9% and 5.6% of consolidated revenue in 2021 and 2020, 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 include the amortization of deferred revenue for the three-month periods ended March 31, 2021 and 2020 as follows.

	Three Months Ended	
	March 31,	
	2021	2020
GCI capacity revenue	\$ 511	\$ 516
Other deferred capacity revenue	1,230	844
Total deferred capacity revenue	1,741	1,360
Other deferred revenue	1,042	997
Total	\$ 2,783	\$ 2,357

Consumer

Consumer revenue of \$9.2 million in the first quarter of 2021 was up marginally from \$9.1 million in the first quarter of 2020. Broadband revenue increased \$0.3 million year over year primarily due to an increase in ARPU. Voice and other revenue decreased \$0.2 million due to fewer connections, partially offset by an increase in ARPU.

Regulatory

Regulatory revenue of \$10.5 million increased \$0.2 million year over year due to higher access revenue.

Operating Expenses

Cost of Services and Sales (excluding depreciation and amortization)

Cost of services and sales (excluding depreciation and amortization) of \$27.4 million increased \$0.3 million, or 0.9%, in the first quarter of 2021 from \$27.1 million in the first quarter of 2020 due primarily to higher network support costs and access charges, partially offset by lower circuit installation costs.

Selling, General and Administrative

Selling, general and administrative expenses of \$18.3 million increased \$2.9 million, or 18.8%, in the first quarter of 2021 from \$15.4 million in the first quarter of 2020 due to higher employee compensation costs, systems implementation costs and a net increase in the provision for doubtful accounts receivable, in part due to the COVID-19 pandemic.

Transaction and Termination Costs

Transaction costs associated with the Merger Agreement of \$0.9 million in the first quarter of 2021 consisted of attorney, financial advisory and other fees.

Depreciation and Amortization

Depreciation and amortization expense of \$11.0 million increased \$1.2 million, or 12.3%, in the first quarter of 2021 from \$9.8 million in the first quarter of 2020. This increase was due primarily to the completion of various capital projects.

Other Income and Expense

Interest expense of \$2.7 million in the first quarter of 2021 declined from \$3.0 million in the first quarter of 2020 due to a lower average interest rate and reduced borrowing levels.

Income Taxes

Income tax expense and the effective tax rate in the first quarter of 2021 of \$0.1 million and 16.8%, respectively, primarily reflects the effect of deductible stock exercises during the quarter. Excluding this item, the Company's effective tax rate was 33.5% in the first quarter. Income tax expense and the effective tax rate in the first quarter of 2020 were \$1.0 million and 28.8%, respectively.

Net Loss Attributable to Noncontrolling Interest

The net loss attributable to the noncontrolling interest of the AQ-JV was \$22 thousand and \$18 thousand in the first quarter of 2021 and 2020, respectively.

Net Income Attributable to Alaska Communications

Net income attributable to Alaska Communications of \$0.6 million in the first quarter of 2021 compares with \$2.4 million in the same period of 2020. 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 quarter of 2021 through internally generated funds and cash on hand. At March 31, 2021, we had \$22.1 million of cash and cash equivalents, \$1.3 million of restricted cash and \$20.0 million available under our revolving credit facility.

Our major sources and uses of funds in the three months ended March 31, 2021 and 2020 were as follows.

(in thousands)	Three Months Ended	
	March 31,	
	2021	2020
Net cash provided by operating activities	\$ 16,710	\$ 22,362
Capital expenditures	\$ (6,902)	\$ (7,463)
Change in unsettled capital expenditures	\$ (4,248)	\$ (3,759)
Repayments of long-term debt	\$ (2,265)	\$ (3,240)
Interest paid ⁽¹⁾	\$ (2,544)	\$ (2,919)

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

Cash Flows from Operating Activities

Cash provided by operating activities of \$16.7 million in the first quarter of 2021 reflects net income excluding non-cash items (defined as cash provided by operating activities excluding changes in operating assets and liabilities) of \$11.9 million, receipts associated with deferred revenue arrangements of \$2.5 million, a \$1.2 million reduction in accounts receivable and receipt of a \$0.7 million grant from the Municipality of Anchorage which will be applied to certain customer accounts.

Cash provided by operating activities of \$22.4 million in the first quarter of 2020 reflects net income excluding non-cash items of \$12.9 million and a \$6.8 million decrease in accounts receivable primarily associated with deferred revenue arrangements and rural health care customers

Cash Flows from Investing Activities

Cash used by investing activities of \$11.3 million in the first quarter of 2021 consisted of expenditures on capital. Of \$6.9 million incurred in 2021, \$5.0 million was success based.

Cash used by investing activities of \$11.5 million in the first quarter of 2020 consisted of expenditures on capital. Of \$7.5 million incurred in 2020, \$4.8 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 \$2.9 million in the first quarter of 2021 consisted primarily of principal payments on the 2019 Senior Credit Facility totaling \$2.3 million.

Cash used by financing activities of \$3.7 million in the first quarter of 2020 consisted primarily of principal payments totaling \$3.2 million on the 2019 Senior Credit Facility, including a prepayment of \$2.1 required due to the generation of excess cash flow in 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; (vii) funding of costs associated with the Merger Agreement; and (viii) our ability to obtain adequate financing to support our business and pursue growth opportunities.

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

The COVID-19 pandemic did not materially impact the Company's cash flows in the first quarter of 2021. It has also not impacted the Company's access to capital and financial resources, debt service and compliance with its debt covenants and overall liquidity through March 31, 2021. 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.

In the first quarter of 2021, the Company and the Municipality of Anchorage entered into an agreement under which utility relief will be made available to certain of the Company's residential and small business customers located in Anchorage. The program is supported by a grant from the Municipality of Anchorage. Funding totaling \$0.7 million was received by the Company in the first quarter and will be applied to the accounts of customers who have experienced financial hardship related to the COVID-19 pandemic and meet other requirements, subject to certain terms and conditions.

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 March 31, 2021, total long-term obligations outstanding, including current portion, were \$169.3 million, consisting of \$166.6 million in term loans under our 2019 Senior Credit Facility and \$2.7 million in capital lease and other obligations. As of March 31, 2021, we had \$22.1 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
June 30, 2022 and thereafter	2.50 to 1.00

The actual net total leverage ratio was 2.50 at March 31, 2021.

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 1.37 at March 31, 2021.

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 of 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 attributable to Alaska Communications) 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 average interest rate on the 2019 Senior Credit Facility was 5.80% at March 31, 2021.

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. Reference rate reform and the eventual transition from LIBOR-based interest rate expense is not expected to have a material effect on the Company's interest expense, interest payments or liquidity.

As of March 31, 2021, the FCC had approved the Company's cost-based rural rates for Funding Year 2020 (July 1, 2020 through June 30, 2021) and USAC had begun issuing funding commitment letters. Accounts receivable, net, associated with rural health care customers was \$8.6 million and \$7.8 million at March 31, 2021 and December 31, 2020, respectively.

OUTLOOK

We expect to see continued strength in business and wholesale revenues, led by broadband revenue and managed IT services, focused on the larger enterprise and carrier customer segments. These revenue increases are driven by continued demand for broadband as businesses migrate their IT infrastructure to the cloud, deployment of small cell networks, growth in 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 and impacts from the COVID-19 pandemic 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, CBRS spectrum and fixed wireless, we expect to strengthen our competitive position serving small business and residential customers, including through the expansion of MDUs. 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 2021.

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 our Annual Report on Forms 10-K and 10-K/A for the year ended December 31, 2020 for further information regarding these risks.

LEGAL

We are involved in various claims, legal actions, personnel matters and regulatory proceedings arising in the ordinary course of business and as of March 31, 2021, we have recorded litigation accruals of \$2.1 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.

HUMAN CAPITAL

Everything we do is only possible through our people. Our employees enable any and all initiatives to serve our customers and earn their business. We focus on and make investments in employee engagement to maximize the realization of an exceptional customer experience and maximize the effectiveness of our investments.

We depend on the availability of personnel with the requisite level of technical expertise in the telecommunications industry. Our ability to develop and maintain our networks and execute our business plan is dependent on the availability of technical engineering, IT, service delivery and monitoring, product development, sales, management, finance and other key personnel. Because our operations and customers are primarily based in Alaska, the recruiting and retention of employees can be challenging.

In response to the COVID-19 pandemic, the Company has established remote working arrangements, including work-from-home, for most of our administrative employees. Management has also implemented processes for frequent virtual interaction between individual employees and employee groups.

Our 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. The CBA has significant economic impacts on the Company as it relates to wage and benefit costs and work rules. We believe our labor costs are higher than our competitors who employ a non-unionized workforce. Work rules under the CBA limit our ability to efficiently manage our workforce and make the incremental cost of work performed outside normal work hours high.

As of March 31, 2021, we employed 555 regular full-time employees, 6 regular part-time employees and 3 temporary employees, compared with 564, 5 and 5, respectively at December 31, 2020. Approximately 54% of our employees are represented by the IBEW. 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, 2020. 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.

See Note 1 “*Summary of Significant Accounting Policies*” 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 first quarter of 2021 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 March 31, 2021, we have recorded litigation accruals of \$2.1 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, 2020, we believe that the disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes to the Company’s risk factors as previously disclosed in Item 1A. Risk Factors in our Annual Report on Forms 10-K and 10-K/A for the year ended December 31, 2019.

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

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Location</u>
2.1	Agreement and Plan of Merger, by and among the Company, Parent and Merger Sub., dated December 31, 2020	Exhibit 2.1 to Form 8-K (filed January 4, 2021)
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: May 7, 2021

/s/ William Bishop

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

Date: May 7, 2021

/s/ Laurie Butcher

Laurie Butcher
Chief Financial Officer
(Principal Financial Officer)

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: May 7, 2021

/s/ William Bishop

William Bishop

President and Chief Executive Officer

Alaska Communications Systems Group, Inc.

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: May 7, 2021

/s/ Laurie Butcher

Laurie Butcher

Chief Financial Officer

Alaska Communications Systems Group, Inc.

**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 March 31, 2021 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: May 7, 2021

/s/ William Bishop

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

**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 March 31, 2021 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: May 7, 2021

/s/ Laurie Butcher

Laurie Butcher

Chief Financial Officer

Alaska Communications Systems Group, Inc.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On July 22, 2021 (“Closing Date”) ATN International, Inc. (“ATN” or the “Company”) completed the acquisition of Alaska Communications Systems Group, Inc. (“Alaska Communications”) contemplated by the Agreement and Plan of Merger (the “Merger Agreement”), by and among Alaska Communications, a Delaware corporation, Alaska Management, Inc., a Delaware corporation and successor in interest to Project 8 Buyer, LLC, a Delaware limited liability company (“Parent”), and Project 8 MergerSub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent (“Merger Sub”). Parent is a wholly-owned subsidiary of ALSK Holdings, LLC (“ALSK Holdings”), a Delaware limited liability company formed (together with Parent and Merger Sub) for the purpose of acquiring Alaska Communications by ATN International, Inc. and Freedom 3 Investments IV, LP, a Delaware limited partnership advised by Freedom 3 Capital, LLC. On the terms, and subject to the conditions of the Merger Agreement, on the Closing Date, Merger Sub merged with and into Alaska Communications (the “Merger”), with Alaska Communications continuing as the surviving corporation (“Surviving Corporation”). As a result of the Merger, Alaska Communications became a consolidated subsidiary of the Company.

On the Closing Date, MergerSub, as initial borrower, and upon, from and after the consummation of the Merger, the Surviving Corporation, as borrower (the “Borrower”), entered into a Credit Agreement to provide debt financing in the form of a revolving facility in an aggregate amount at any one time outstanding not to exceed \$35,000,000 (the “Alaska Revolving Facility”) and an initial term loan facility in the aggregate amount not to exceed \$210,000,000 (the “Alaska Initial Term Facility” and, together with the Alaska Revolving Facility, collectively, the “Alaska Credit Facility”). On the Closing Date, the lenders advanced to Merger Sub (a) the full aggregate amount of the Initial Term Facility in a single borrowing and (b) \$10,000,000 of the Revolving Facility. The Alaska Credit Facility also provides for incremental term loans (“Incremental Term Loans”) up to an aggregate principal amount of the greater of \$70,000,000 and trailing twelve month Consolidated EBITDA (as defined in the Credit Facility), subject to the Borrower meeting certain conditions. The final maturity date for the Alaska Credit Facility is July 22, 2026. Amounts outstanding under the Revolving Facility and Initial Term Facility bear an interest rate of LIBOR plus a margin ranging from 3.00% to 4.00% based on the Borrower’s Consolidated Total Net Leverage Ratio (as defined in the Credit Agreement). At the Borrower’s discretion, an alternate base rate may be selected at a margin that is 1% lower than the counterpart LIBOR margin. Principal payments on the Alaska Initial Term Facility are due quarterly commencing in the fourth quarter of 2023 in quarterly amounts as follows: from the fourth quarter of 2023 through the third quarter of 2024, \$1,312,500; and from the fourth quarter of 2024 through the third quarter of 2026, \$2,625,000. The remaining unpaid balance is due on July 22, 2026.

Also, to fund the Merger in part, the Company drew a net \$63 million under its revolving credit facility under its Fourth Amended and Restated Credit Agreement among the Company, as Borrower, certain of the Company’s subsidiaries, as Guarantors, CoBank, ACB as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, Fifth Third Bank, as a Joint Lead Arranger, MUFG Union Bank, N.A., as a Joint Lead Arranger and an Issuing Lender, and the other Lenders named therein (the “CoBank Revolver”).

Lastly, the Company funded the Merger, in part, with contribution from affiliates and investment funds managed by Freedom 3 Capital, LLC as well as other institutional investors (collectively the “Freedom 3 Investors”). The Freedom 3 Investors contributed \$72 million in conjunction with the Merger (the “Freedom 3 Investment” and collectively with the CoBank Revolver and the Alaska Credit Facility the “Transaction Financing”). The Freedom 3 Investment consists of common and preferred equity instruments of ALSK Holdings, a subsidiary of the Company which holds the ownership of Alaska Communications. The preferred equity carries a 9% annual dividend, and both the common and preferred equity instruments are redeemable at the option of the Freedom 3 Investors.

The following unaudited pro forma condensed combined financial information is provided for informational purposes only to estimate the effects of the Merger and the Transaction Financing (collectively, the “Alaska Transaction”) based on the historical financial statements of the Company and Alaska Communications after giving effect to the Merger related pro forma adjustments described herein. The unaudited pro forma condensed combined financial information is not necessarily indicative of what the financial position or results of operations of the Company would have been if the acquisition of Alaska Communications by the Company had been completed as of and for the periods indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the Company after consummation of the Alaska Transaction.

The unaudited pro forma condensed combined statements of operations combine the historical consolidated statements of operations of the Company and Alaska Communications, giving effect to the Merger as if it had occurred on January 1, 2020. The unaudited pro forma condensed combined balance sheet combines the historical condensed consolidated balance sheets of the Company and Alaska Communications, giving effect to the Merger as if it occurred on the date of the balance sheet presented. You should read this unaudited pro forma condensed combined financial information in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial information, the historical consolidated financial statements of the Company as of and for the periods ended December 31, 2020 and March 31, 2021 filed with the Securities and Exchange Commission, and historical consolidated financial statements of Alaska Communications filed herein.

Pro forma adjustments related to the unaudited pro forma condensed combined statements of operations and unaudited pro forma condensed combined balance sheet give effect to transaction accounting adjustments. The pro forma adjustments depict adjustments required by U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) to account for the Alaska Transaction.

The unaudited pro forma condensed combined financial information is based on a number of other assumptions and estimates and is subject to a number of uncertainties relating to the Alaska Transaction and related matters, including, among other things, estimates, assumptions and uncertainties regarding (1) the estimated fair values of certain assets and liabilities acquired, which are sensitive to assumptions and market conditions, and (2) the amount of the intangible assets that will arise from the acquisition.

The Merger is treated herein as a business combination, in accordance with ASC 805, *Business Combinations*. Accordingly, the Company calculated the fair value of the net assets acquired and consideration transferred. In the unaudited pro forma condensed combined balance sheet, the consideration transferred by the Company to acquire Alaska Communications has been allocated to the assets acquired and liabilities assumed based upon the Company’s preliminary estimate of their respective fair values as of the Closing Date.

Final allocations have not been completed and continue to be refined based upon certain valuations and other studies after the Closing Date of the Merger. Accordingly, the pro forma adjustments relating to the purchase price allocation are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value. Thus, the final purchase price allocation may differ in material respects from that presented in the unaudited pro forma condensed combined financial information. The unaudited pro forma condensed combined statements of operations also include certain transaction accounting adjustments, such as increased depreciation and amortization expense on the assets acquired, decreased deferred revenue, changes to interest expense, and the related tax impacts of those adjustments as a result of the Alaska Transaction.

The unaudited pro forma condensed combined statements of operations do not include the impacts of any revenue, cost or other operating synergies that may have resulted or may result in the future from the Alaska Transaction. Therefore, certain revenue and expense amounts will likely be different, both in total and as a percent of overall revenue and expense, in future periods even if the Company were to continue the exact same pricing, service scope, and subscriber levels as in the past.

Unaudited Pro Forma Condensed Combined Balance Sheet
March 31, 2021
(Amounts in Thousands)

	ATN	Alaska Communications	Transaction Accounting Adjustments				Pro Forma Combined
			Financing Adjustments	Note 5	Acquisition Adjustments	Note 5	
Assets							
Cash and cash equivalents	\$ 91,259	\$ 22,114	\$ 347,965	(a)	\$ (351,373)	(b)	\$ 109,965
Restricted cash	1,072	1,326	-	-	-	-	2,398
Accounts receivable, net	41,600	40,284	-	-	(1,940)	(c)	79,944
Customer receivable	2,365	-	-	-	-	-	2,365
Inventory, materials and supplies	6,185	1,128	-	-	-	-	7,313
Prepayments and other current assets	52,796	7,651	-	-	-	-	60,447
Total current assets	195,277	72,503	347,965	-	(353,313)	-	262,432
Fixed assets, net	528,071	394,974	-	-	(22,256)	(e)	900,789
Telecommunications licenses, net	114,083	683	-	-	-	-	114,766
Goodwill	60,690	-	-	-	-	-	60,690
Other intangible assets, net	5,560	-	-	-	52,288	(d)	57,848
Operating lease right-of-use assets	61,762	88,135	-	-	(42,372)	(c)	107,525
Customer receivable - long term	21,056	-	-	-	-	-	21,056
Other assets	71,223	11,190	-	-	-	-	82,413
Total assets	\$ 1,057,722	\$ 567,485	\$ 347,965		\$ (365,653)		\$ 1,607,519
Liabilities, mezzanine equity and stockholders' equity							
Current portion of long-term debt	\$ 3,750	\$ 9,000	\$ -	-	\$ (9,000)	(b)	\$ 3,750
Current portion of customer receivable credit facility	1,101	-	-	-	-	-	1,101
Accounts payable and accrued liabilities	74,529	32,318	-	-	17,954	(b), (f)	124,801
Dividends payable	2,708	-	-	-	-	-	2,708
Accrued taxes	8,495	3,889	-	-	-	-	12,384
Current portion of lease liabilities	12,446	3,347	-	-	(1,020)	(c)	14,773
Advanced payments and deposits	24,727	15,148	-	-	(1,145)	(g)	38,730
Total current liabilities	127,756	63,702	-	-	6,789	-	198,247
Deferred income taxes	8,171	6,109	-	-	9,035	(c)	23,315
Other liabilities	50,738	93,821	-	-	(7,952)	(g)	136,607
Lease liabilities, excluding current portion	50,902	82,221	-	-	(41,574)	(c)	91,549
Customer receivable credit facility, net of current portion	9,713	-	-	-	-	-	9,713
Long term debt, excluding current portion	68,173	155,040	276,432	(a)	(155,040)	(b)	344,605
Total liabilities	315,453	400,893	276,432		(188,742)		804,036
Mezzanine Equity							
Common units	-	-	23,199	(a)	-	-	23,199
Preferred units	-	-	48,334	(a)	-	-	48,334
Total mezzanine equity	-	-	71,533		-		71,533
Common stock	172	553	-	-	(553)	(h)	172
Treasury stock	(61,677)	(1,812)	-	-	1,812	(h)	(61,677)
Additional paid-in capital	186,930	163,038	-	-	(163,038)	(h)	186,930
Retained earnings	516,897	10,048	-	-	(20,678)	(f), (h)	506,267
Accumulated other comprehensive income (loss)	269	(5,976)	-	-	5,976	(h)	269
Total stockholders' equity	642,591	165,851	-	-	(176,481)	-	631,961
Non-controlling interests	99,678	741	-	-	(430)	(c)	99,989
Total equity	742,269	166,592	-		(176,911)		731,950
Total liabilities, mezzanine equity and stockholders' equity	\$ 1,057,722	\$ 567,485	\$ 347,965		\$ (365,653)		\$ 1,607,519

Unaudited Pro Forma Condensed Combined Statement of Operations
Three months ended March 31, 2021
(Amounts in Thousands)

	ATN	Alaska Communications	Transaction Accounting Adjustments				Pro Forma Combined
			Financing Adjustments	Note 6	Acquisition Adjustments	Note 6	
Revenue:							
Communication Services	\$ 110,636	\$ 57,041	\$ -		\$ (235)	(a)	\$ 167,442
Other	13,874	3,627	-		-		17,501
Total revenues	124,510	60,668	-		(235)		184,943
Operating expenses (excluding depreciation and amortization unless otherwise indicated):							
Cost of services	49,507	27,366	-		-		76,873
Cost of construction revenue	12,606	-	-		-		12,606
Selling, general and administrative	37,693	18,289	-		-		55,982
Transaction-related charges	730	923	-		(1,070)	(b)	583
Depreciation and amortization	20,508	11,048	-		5,884	(c)	37,440
Loss on disposition of long-lived assets	117	84	-		-		201
Operating expenses	121,161	57,710	-		4,814		183,685
Income (loss) from operations	3,349	2,958	-		(5,049)		1,258
Other income (expense)							
Interest income	(6)	3	-		-		(3)
Interest expense	(1,147)	(2,652)	(2,746)	(d)	2,652	(d)	(3,893)
Other income, net	2,375	393	-		-		2,768
Other income (expense)	1,222	(2,256)	(2,746)		2,652		(1,128)
Income (loss) before income taxes	4,571	702	(2,746)		(2,397)		130
Income tax expense (benefit)	295	118	(770)	(e)	(681)	(e)	(1,038)
Net income (loss)	4,276	584	(1,976)		(1,716)		1,168
Net (income) loss attributable to non-controlling interests, net of tax	(1,570)	22	858	(f)	533	(f)	(157)
Net income (loss) after non-controlling interest	\$ 2,706	\$ 606	\$ (1,118)		\$ (1,183)		\$ 1,011
Net income per weighted average share attributable to ATN International, Inc. stockholders: (Note7)							
Basic	\$ 0.17						\$ -
Diluted	\$ 0.17						\$ -
Weighted average common shares outstanding:							
Basic	15,902						15,902
Diluted	15,952						15,952

Unaudited Pro Forma Condensed Combined Statement of Operations
Twelve months ended December 31, 2020
(Amounts in Thousands)

	ATN	Alaska Communications	Transaction Accounting Adjustments				Pro Forma Combined
			Financing Adjustments	Note 6	Acquisition Adjustments	Note 6	
Revenue:							
Communication Services	\$ 433,509	\$ 226,251	\$ -		\$ (904)	(a)	\$ 658,856
Other	21,935	14,318	-		-		36,253
Total revenues	455,444	240,569	-		(904)		695,109
Operating expenses (excluding depreciation and amortization unless otherwise indicated):							
Cost of services	185,113	112,443	-		-		297,556
Cost of construction revenue	10,616	-	-		-		10,616
Selling, general and administrative	139,011	65,773	-		-		204,784
Transaction-related charges	1,641	9,550	-		11,701	(b)	22,892
Depreciation and amortization	88,311	40,667	-		28,881	(c)	157,859
Loss on disposition of long-lived assets	21,572	240	-		-		21,812
Operating expenses	446,264	228,673	-		40,582		715,519
Income (loss) from operations	9,180	11,896	-		(41,486)		(20,410)
Other income (expense)							
Interest Income	421	174	-		-		595
Interest Expense	(5,347)	(11,000)	(10,985)	(d)	11,000	(d)	(16,332)
Other income (expense), net	(4,161)	439	-		-		(3,722)
Other income (expense)	(9,087)	(10,387)	(10,985)		11,000		(19,459)
Income (loss) before income taxes	93	1,509	(10,985)		(30,486)		(39,869)
Income tax expense (benefit)	801	2,665	(3,079)	(e)	(8,661)	(e)	(8,274)
Net loss	(708)	(1,156)	(7,906)		(21,825)		(31,595)
Net (income) loss attributable to non-controlling interests, net of tax	(13,414)	83	3,431	(f)	10,991	(f)	1,091
Net loss after non-controlling interest	\$ (14,122)	\$ (1,073)	\$ (4,475)		\$ (10,834)		\$ (30,504)
Net loss per weighted average share attributable to ATN International, Inc. stockholders: (Note 7)							
Basic	\$ (0.89)						\$ (2.19)
Diluted	\$ (0.89)						\$ (2.19)
Weighted average common shares outstanding:							
Basic	15,923						15,923
Diluted	15,923						15,923

Notes to Unaudited Pro Forma Condensed Combined Financial Information
(Amounts In Thousands, Except Per Share Data)

1. Description of the Transaction

On July 22, 2021, the Company completed the acquisition of Alaska Communications pursuant to the terms of the Merger Agreement whereby Alaska Communications became a consolidated subsidiary of the Company. At completion of the Merger, each Alaska Communications common share was converted into the right to receive \$3.40 per share in cash representing a total value of \$353 million of cash and consideration payable, (“Merger Consideration”). The consideration transferred consists of \$351 million of cash and \$2 million of accrued consideration. The cash consideration was used to purchase \$187 million of Alaska Communications equity and repay \$164 million of existing Alaska Communications debt.

The Company funded the acquisition with cash on hand, debt, and a contribution from the Freedom 3 Investors. The Company borrowed, through multiple financing transactions a net of \$283 million. On the Closing Date, the lenders advanced to Merger Sub (a) the full \$210 million aggregate amount of the Alaska Initial Term Facility in a single borrowing and (b) \$10 million of the Alaska Revolving Facility. The Company incurred \$7 million of debt issuance and debt discount costs. Also, to fund the Merger Consideration in part, the Company drew a net \$63 million under its revolving credit facility under its CoBank Revolver. Lastly, the Freedom 3 Investors contributed \$72 million in conjunction with the Merger. The Company will account for the Freedom 3 Investment as mezzanine equity in its consolidated financial statements.

As a result of the Merger, the Company owns 52% of the common equity of Alaska Communications and controls its operations and management.

2. Basis of Presentation

The unaudited pro forma condensed consolidated combined financial information was prepared in accordance with Article 11 of Regulation S-X.

The unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2020 and three months ended March 31, 2021 assumes that the Merger was consummated on January 1, 2020 and reflects pro forma adjustments to reflect the accounting for the transaction in accordance with U.S. GAAP. The historical financial information included in the Pro Forma Condensed Combined Statements of Operations was derived from the Company’s and Alaska Communications’ consolidated financial statements for the year ended December 31, 2020 and three months ended March 31, 2021.

The unaudited Pro Forma Condensed Combined Balance Sheet at March 31, 2021 was prepared using the unaudited historical condensed consolidated financial statements of the Company and Alaska Communications at March 31, 2021 and presents the combined financial position of the Company and Alaska Communications as if the Merger occurred on March 31, 2021. The Pro Forma Condensed Combined Balance Sheet reflects pro forma adjustments to reflect the accounting for the transaction in accordance with U.S. GAAP.

The Company completed a preliminary review of Alaska Communication’s accounting policies and determined there were no material changes required to conform to the Company’s accounting policies. The unaudited pro forma condensed combined financial information adjusts Alaska Communication’s results to conform to the Company’s presentation. Refer to Note 3.

The Company incurred certain direct, incremental, and non-recurring acquisition expenses totaling \$5.8 million in connection with the Merger. In addition, Alaska Communications incurred \$16.3 million of additional direct, incremental, and non-recurring acquisition expenses. All of the \$22.1 million of acquisition expenses are included in the Pro Forma Condensed Combined Statement of Operations for the year ended December 31, 2020.

3. Reclassification adjustments

As part of preparing the unaudited pro forma condensed combined financial information, management performed a preliminary analysis of Alaska Communication's financial information to identify differences in accounting policies as compared to those of the Company and differences in financial statement presentation as compared to the presentation of the Company.

Refer to the table below for a summary of the identified reclassification adjustments made to present Alaska Communication's condensed consolidated balance sheet as of March 31, 2021 to conform presentation to that of the Company (amounts in thousands).

Alaska Communications Consolidated Balance Sheet Line Items	ATN Consolidated Balance Sheet Line Items	Alaska Communications Consolidated Balance Sheet	Reclassification	Alaska Communications Historical - After Reclassification
Cash and cash equivalents	Cash and cash equivalents	\$ 22,114	\$ -	\$ 22,114
Restricted cash	Restricted cash	1,326	-	1,326
Short-term investments		434	(434) (a)	-
Accounts receivable, net	Accounts receivable, net	40,284	-	40,284
Materials and supplies	Inventory, materials and supplies	9,093	(7,965) (b)	1,128
Prepayments and other current assets	Prepayments and other current assets	7,217	434 (a)	7,651
Property, Plant and equipment, net	Net fixed assets	387,009	7,965 (b)	394,974
Operating lease right-of-use assets	Operating lease right-of-use assets	88,135	-	88,135
Other assets	Other assets	11,873	(683) (c)	11,190
	Telecommunications license, net	-	683 (c)	683
Current portion of long-term obligations	Current portion of long-term debt	9,071	(71) (d)	9,000
Accounts payable, accrued and other current liabilities	Accounts payable and accrued liabilities	51,355	(19,037) (e)	32,318
	Accrued taxes	-	3,889 (e)	3,889
	Advanced payments and deposits	-	15,148 (e)	15,148
Operating lease liabilities - current	Current portion of lease liabilities	3,276	71 (d)	3,347
Long term obligations, net of current portion	Long term debt, excluding current portion	157,630	(2,590) (d)	155,040
Deferred income taxes	Deferred income taxes	6,109	-	6,109
Operating lease liabilities - noncurrent	Lease liabilities, excluding current portion	79,631	2,590 (d)	82,221
Other long-term liabilities, net of current portion	Other liabilities	93,821	-	93,821
Common stock	Common stock	553	-	553
Treasury stock	Treasury stock	(1,812)	-	(1,812)
Additional paid-in capital	Additional paid-in capital	163,038	-	163,038
Retained earnings	Retained earnings	10,048	-	10,048
Accumulated other comprehensive loss	Accumulated other comprehensive income (loss)	(5,976)	-	(5,976)
Noncontrolling interests	Non-controlling interests	741	-	741

- (a) Represents a reclassification of short-term investments to prepayments and other current assets to conform to the Company's presentation.
- (b) Represents a reclassification of materials and supplies to net fixed assets to conform to the Company's presentation.
- (c) Represents a reclassification of other assets to telecommunication licenses to conform to the Company's presentation.
- (d) Represents a reclassification of lease liabilities to conform to the Company's presentation.
- (e) Represents a reclassification of accounts payable, accrued and other current liabilities to accrued taxes and advanced payments and deposits to conform to the Company's presentation.

Refer to the table below for a summary of the reclassification adjustments made to Alaska Communication's consolidated statement of comprehensive income for the three months ended March 31, 2021 to conform presentation to that of the Company (amounts in thousands).

Alaska Communications Consolidated Statement of Comprehensive Income Line Items	ATN Consolidated Statement of Operations Line Items	Alaska Communications Consolidated Statement of Comprehensive Income			Alaska Communications Historical - After Reclassification	
		Income	Reclassification		Reclassification	
Operating Revenue	Communication services	\$ 60,668	\$ (3,627)	(g)	\$ 57,041	
	Other	-	3,627	(g)	3,627	
Cost of services and sales (excluding depreciation and amortization)	Cost of services	27,366	-		27,366	
Selling, general and administrative	Selling, general and administrative	18,289	-		18,289	
Transaction and termination costs	Transaction-related charges	923	-		923	
Depreciation and amortization	Depreciation and amortization	11,048	-		11,048	
Loss on disposal of assets, net	Loss on disposition of long-lived assets	84	-		84	
Interest expense	Interest expense	(2,652)	-		(2,652)	
Interest income	Interest income	3	-		3	
Other income, net	Other income (expense)	393	-		393	
Income tax expense	Income tax expense (benefit)	118	-		118	
Net loss attributable to noncontrolling interest	Net (income) loss attributable to non-controlling interests, net of tax	22	-		22	

(f) Represents a reclassification of revenue to communications services revenue and other revenue to conform to the Company's presentation.

Refer to the table below for a summary of the reclassification adjustments made to Alaska Communication's consolidated statement of comprehensive income for the year ended December 31, 2020 to conform presentation (amounts in thousands).

Alaska Communications Consolidated Statement of Comprehensive Income Line Items	ATN Consolidated Statement of Operations Line Items	Alaska Communications Consolidated Statement of Comprehensive Income			Alaska Communications Historical - After Reclassification	
		Income	Reclassification		Reclassification	
Operating Revenue	Communication services	\$ 240,569	\$ (14,318)	(h)	\$ 226,251	
	Other	-	14,318	(h)	14,318	
Cost of services and sales (excluding depreciation and amortization)	Cost of services	112,443	-		112,443	
Selling, general and administrative	Selling, general and administrative	65,773	-		65,773	
Transaction and termination costs	Transaction-related charges	9,550	-		9,550	
Depreciation and amortization	Depreciation and amortization	40,667	-		40,667	
Loss on disposal of assets, net	Loss on disposition of long-lived assets	240	-		240	
Interest expense	Interest expense	(11,000)	-		(11,000)	
Interest income	Interest income	174	-		174	
Other income, net	Other income (expense)	439	-		439	
Income tax expense	Income tax expense (benefit)	2,665	-		2,665	
Net loss attributable to noncontrolling interest	Net (income) loss attributable to non-controlling interests, net of tax	83	-		83	

(g) Represents a reclassification of revenue to communications services revenue and other revenue to conform to the Company's presentation.

Additionally, the Company presented the \$5.6 million Customer relationships asset included in its March 31, 2021 balance sheet as Other intangible assets in the pro forma condensed combined balance sheet. Also, for the year ended December 31, 2021, the Company combined the previously disclosed operating expenses of Termination and access fees with Engineering and operations as the newly represented Cost of services. In addition, the previously disclosed Sales, marketing and Customer service expenses are now combined with the previously disclosed General and administrative expenses within the newly represented Selling, general and administrative expenses.

4. Preliminary purchase price allocation

The Company has completed its preliminary assessment of the fair value of assets acquired and liabilities assumed of Alaska Communications. The consideration transferred consists of \$351 million of cash and \$2 million of accrued consideration. The cash consideration was used to purchase \$187 million of Alaska Communications equity and repay \$164 million of existing Alaska Communications debt. The accrued consideration represents amounts payable related to stock compensation allocated to purchase consideration and payable within one year of the Closing Date. The Company funded the cash portion of the transaction price with the proceeds from the Alaska Credit Facility, the CoBank Revolver, and the Freedom 3 Investment. The consideration transferred is allocated to the acquired net assets of Alaska Communications.

The table below represents a preliminary allocation of the total consideration transferred to the acquired assets and assumed liabilities based on management's preliminary estimate of their acquisition date fair values (amounts in thousands):

Consideration Transferred	\$ 353,280
Non-controlling interests	311
Total purchase price	<u>353,591</u>
Preliminary purchase price allocation:	
Cash and cash equivalents	22,114
Restricted cash	1,326
Accounts receivable	38,344
Inventory, materials and supplies	1,128
Prepayments and other current assets	7,651
Fixed assets	372,718
Telecommunication licenses	683
Intangible assets	52,288
Operating lease right-of-use assets	45,763
Other assets	11,190
Accounts payable and accrued liabilities	(37,735)
Accrued taxes	(3,889)
Advance payments and deposits	(14,003)
Current portion of lease liabilities	(2,327)
Deferred income taxes	(15,144)
Other liabilities	(85,869)
Lease liabilities, excluding current portion	<u>(40,647)</u>
Net assets acquired	<u><u>353,591</u></u>

5. Adjustments to unaudited pro forma condensed combined balance sheet

Refer to the items below for a reconciliation of the pro forma adjustments reflected in the unaudited pro forma condensed combined balance sheet:

- a) Represents cash received from the Alaska Credit Facility, the CoBank Revolver and issuance of common and preferred units of ALSK Holdings (amounts in thousands).

Description	Amount
Proceeds from Alaska Revolving Credit Facility	\$ 10,000
Proceeds from Alaska Initial Term Facility	210,000
Proceeds from CoBank Revolver	63,000
Debt issuance costs	(6,568)
Total long-term debt	276,432
Mezzanine equity - preferred units	48,334
Mezzanine equity - common units	23,199
Total mezzanine equity	71,533
Cash (pro forma financing adjustment)	\$ 347,965

- b) Represents cash and accrued consideration transferred to acquire Alaska Communications. A portion of the cash consideration was used to repay Alaska Communications' existing outstanding debt (amounts in thousands).

Description	Amount
Cash paid to shareholders	\$ 186,801
Repayment Alaska Communications of existing debt and accrued interest	164,572
Total cash consideration	351,373
Accrued consideration	1,907
Total consideration	\$ 353,280

- c) Represents preliminary fair value adjustments in accordance with preliminary purchase allocation discussed in Note 4.
- d) Represents the pro forma adjustment to intangible assets based on a preliminary fair value assessment. The Company allocated \$42.8 million to customer relationships and \$9.5 million to trade names acquired. The fair values of the intangibles were determined using an income approach based on data specific to Alaska Communications as well as market participant assumptions where appropriate. More specifically, the customer relationships were valued using the excess earnings method and the trade names were valued using the relief from-from royalty method.
- e) Reflects the adjustment to fixed assets of Alaska Communications' arising from their estimated fair values and useful lives. The fair value of the fixed assets acquired is presented below (amounts in thousands):

Description	Estimated useful life (in years)	Fair Value
Telecommunication equipment	2-16	\$ 310,402
Office and computer equipment	2-3	10,441
Buildings	10-18	24,507
Transportation vehicles	2-3	1,483
Leasehold improvements	3	1,162
Land	-	16,340
Furniture and fixtures	2-3	280
Construction in progress	-	8,103
Fixed assets		\$ 372,718

f) Reflects pro forma adjustments to accounts payable and accrued liabilities (amounts in thousands).

Description	Amount
Fair value adjustments to accounts payable and accrued liabilities	\$ 5,948
Accrued interest	(532)
Accrued purchase consideration	1,907
Accrued transaction costs	10,631
Pro forma adjustment	\$ 17,954

The \$1.9 million of accrued purchase consideration represents amounts payable related to stock compensation allocated to purchase consideration and payable within one year of the Closing Date. The accrued transaction costs represent the accrual of an additional \$10.6 million of transaction costs incurred by the Company and Alaska Communications after March 31, 2021. The Company and Alaska Communications incurred certain direct, incremental and non-recurring acquisition expenses totaling \$22.1 million, including the \$10.6 million accrual noted above, in connection with the Merger during the periods presented in the condensed combined statements of operations. This amount was included in the pro forma condensed combined statement of operation for the year ended December 31, 2020. The costs will not affect the statement of operations beyond twelve months after the Closing Date.

g) Reflects pro forma adjustments to advance payments and deposits and other liabilities.

Description	Amount
Current portion of deferred revenue	\$ (1,145)
Pro forma adjustment	\$ (1,145)
Fair value adjustments to other liabilities	\$ (1,019)
Deferred revenue, net of current portion	(6,933)
Pro forma adjustment	\$ (7,952)

Deferred revenue was adjusted to decrease the assumed performance obligations to a fair value of approximately \$84.8 million, a reduction of \$7.9 million from the carrying value. The fair value was determined based on the estimated costs to fulfill the remaining obligations plus a normal profit margin. After the acquisition, this adjustment will reduce revenue related to the assumed performance obligations as the services are provided over the respective remaining periods of the agreements.

h) Represents the elimination of Alaska Communications' historical equity in conjunction with the Merger.

6. Adjustments to unaudited pro forma condensed combined statements of operations

Refer to the items below for a reconciliation of the pro forma adjustments reflected in the unaudited pro forma condensed combined statement of operations:

- (a) As discussed in Note 5(g) the fair value of the acquired deferred revenue was less than its carrying value. This adjustment decreases revenue by \$0.2 million for the three months ended March 31, 2021, and \$0.9 million for the year ended December 31, 2020 reflect the difference between prepayments related to deferred revenue arrangements and the fair value of the assumed performance obligations as they are satisfied.
- (b) Adjustment for year ended December 31, 2020 includes pro forma adjustment to accrue \$10.6 million of transaction costs incurred by the Company and Alaska Communications and record \$1.1 million of transaction costs incurred during the three months ended March 31, 2021. Adjustment for three months ended March 31, 2021 removes \$1.1 million of transaction costs included in the pro forma adjustment for the year ended December 31, 2020. In total, the Company and Alaska Communications incurred transaction costs totaling \$22.1 million in connection with the Merger. This amount was included in the pro forma condensed combined statement of operation for the year ended December 31, 2020. The costs will not affect the statement of operations beyond twelve months after the Closing Date.
- (c) Represents pro form acquisition adjustment to record the depreciation and amortization expense as if the Merger occurred on January 1, 2020 based on the fair value of acquired fixed and identified intangible assets. In addition, represents removal of depreciation expense associated with Alaska Communications' historical fixed assets (amounts in thousands).

Description	Estimated useful life (in years)	Fair Value	Depreciation and amortization expense	
			(twelve months ended 12/31/2020)	(three months ended 3/31/2021)
Telecommunication equipment	2-16	\$ 310,402	\$ 47,876	\$ 11,969
Office and computer equipment	2-3	10,441	3,481	870
Buildings	10-18	24,507	1,594	399
Transportation vehicles	2-3	1,483	634	159
Leasehold improvements	3	1,162	387	97
Land	-	16,340	-	-
Furniture and fixtures	2-3	280	101	25
Construction in progress	-	8,103	-	-
Fixed assets		\$ 372,718	\$ 54,073	\$ 13,519
Telecommunication licenses	Indefinite	\$ 683	\$ -	\$ -
Customers	6	42,824	14,447	3,167
Tradename	15	9,464	1,028	246
Total intangibles		\$ 52,971	\$ 15,475	\$ 3,413
Pro forma depreciation and amortization expense			\$ 69,548	\$ 16,932
Less: Historical depreciation and amortization expense			40,667	11,048
Pro forma adjustment to depreciation and amortization expense			<u>\$ 28,881</u>	<u>\$ 5,884</u>

The tradename is amortized on a straight-line method over 15 years. The customer relationships are amortized on an accelerated method over a useful life of 6 years.

- (d) The adjustment represents the elimination of interest expense associated with Alaska Communications' existing debt and records interest expense on the Alaska Credit Facility and the CoBank Revolver. As described in Notes 5(a) and 5(b), as a result of the Merger Alaska Communications' existing debt of \$165 million was repaid, and \$220 million was drawn on the Alaska Credit Facility and \$63 million was drawn on the CoBank Revolver. Debt discount and issuance costs of \$7 million were incurred for the Alaska Credit Facility. Interest on amounts drawn on the Alaska Credit Facility is equal to LIBOR plus a margin of 3.5%. Alaska Communications holds an interest rate swap which has a notional amount of \$125 million and a fixed interest rate of 1.6735%. Interest on amount drawn on the CoBank Revolver is equal to LIBOR plus a margin of 1.5%. For purposes of calculating pro forma interest expense, interest rates of 5.17% and 3.59% were used for the fixed and variable portions of the Alaska Credit Facility, respectively, and an interest rate of 1.59% was used for the CoBank Revolver. The pro forma interest expense is below (amounts in thousands):

Description	Three months ended March 31, 2021		Year ended December 31, 2020	
Interest expense on Alaska Credit Facility	\$	(2,496)	\$	(9,984)
Interest expense on CoBank Revolver		(250)		(1,001)
Financing interest (pro forma financing adjustment)		(2,746)		(10,985)
Less: interest expense on Alaska Communications existing debt		2,652		11,000
Interest expense (total transaction accounting adjustment)	\$	(94)	\$	15

The table below sets forth the impact that a 0.125% increase or decrease in the hypothetical assumed interest rate would have on interest expense for the relevant periods for only the variable rate debt (amounts in thousands).

Description	Three months ended March 31, 2021	Year ended December 31, 2020
1/8% increase	\$ (49)	\$ (198)
1/8% decrease	\$ 49	\$ 198

- (e) To record income tax expense at an estimated statutory tax rate of 24% on pro forma adjustments related to the Company and 28% on pro forma adjustments related to Alaska Communications.
- (f) Reflect adjustments to the Company's net (income) loss attributable to non-controlling interest to reflect the Alaska Transaction.

7. Pro forma earnings per share

The pro forma combined basic and diluted earnings per share calculation is below (amounts in thousands, except per share data).

	Three months ended March 31, 2021	Year ended December 31, 2020
Net income (loss)	\$ 1,299	\$ (31,117)
Net (income) loss attributable to non-controlling interests, net of tax	(220)	862
Preferred dividends	(1,088)	(4,350)
Net income (loss) share attributable to ATN International, Inc. stockholders	\$ (9)	\$ (34,605)
Net loss per weighted average share attributable to ATN International, Inc. stockholders:		
Basic	\$ -	\$ (2.17)
Diluted	\$ -	\$ (2.17)
Weighted average common shares outstanding:		
Basic	15,902	15,923
Diluted	15,952	15,923

ALSK Holdings issued \$48.3 million of preferred units with a 9% dividend. The preferred dividends for the three months ended March 31, 2021 and year ended December 31, 2020 were \$1.1 million and \$4.4 million, respectively.