ALASKA COMMUNICATIONS SYSTEMS GROUP INC
Form 10-K/A
October 03, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number 000-28167

Alaska Communications Systems Group, Inc.

(Exact name of registrant as specified in its charter)

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

(907) 297-3000

(Registrant s telephone number, including area code)

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

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

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

Title of each class
Common Stock, Par Value $.01 per Share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on March 3, 2003, was approximately $19,906,035 computed upon the basis of the closing sales price of the Common Stock on that date. For purposes of this computation, shares held by directors (and shares held by any entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

Indicate by check mark if whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.)

Yes [ ] No [X]

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on June 28, 2002, was approximately $47,843,279 computed upon the basis of the closing sales price of the Common Stock on that date. For purposes of this computation, shares held by directors (and shares held by any entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of March 3, 2003, there were outstanding 30,629,566 shares of Common Stock, $.01 par value, of the registrant.

Documents Incorporated by Reference

Portions of the proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the registrant s 2003 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

The Company is filing this amendment to our Annual Report on Form 10-K for the year ended December 31, 2002, originally filed with the Securities and Exchange Commission on March 6, 2003 (the Original Form 10-K), in response to comments received from the Securities and Exchange Commission.

On May 8, 2003, the Company completed the sale of a majority interest in the newly formed ACS Media, LLC (the Directories Business) through an initial public offering in Canada. Prior to this transaction, the Company reported its Directories Business as a separate segment. As a result of this sale, the Company is no longer directly engaged in the day-to-day management of that business and therefore the Directories Business no longer constitutes a reportable segment. The remaining segments of the Company for financial reporting purposes are local telephone, wireless, Internet, Interexchange, and all other. The Company restated Note 16 Business Segments in the accompanying Notes to the Consolidated Financial Statements to enable investors to compare the previous years reporting of this financial data to the new segment reporting structure.

The Company and all of its subsidiaries are guarantors under ACS Holdings senior subordinated notes. All the Company s and ACS Holdings subsidiaries are 100% wholly-owned. The guarantees are full and unconditional. In addition, all guarantees are joint and several. Accordingly, the Company is required to disclose condensed consolidating financial statement information. The Company added Note 21, Condensed Consolidating Financial Statements, to this 10-K/A to reflect the required consolidating financial information and removed Note 22, Parent Company Financial Information, filed in the Original 10-K.

Except as specifically indicated herein, no other information included in our Annual Report on Form 10-K is amended by this Form 10-K/A. The filing of this Form 10-K/A shall not be deemed an admission that the Original Form 10-K, when filed, knowingly included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

Other than those items mentioned above, this Form 10-K/A does not reflect events occurring after the filing of the Original Form 10-K or modify or update disclosures on the Original Form 10-K in any way. For a more recent description of our business and the risk factors that may affect our business, results of operations and financial condition we urge you to carefully review and consider the various disclosures we have made in our recent reports filed with the Securities and Exchange Commission, including our Current Reports on Form 8-K, our Quarterly Reports on Form 10-Q for the first and second quarters of 2003 and our future filings with the SEC.

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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 and Schedule, which appears on page F-1 hereof.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. *Financial Statements*

The consolidated financial statements of ACS Group are submitted as a separate section of this Form 10-K. See Index to Consolidated Financial Statements and Schedule which appears on page F-1 hereof.

2. *Financial Statement Schedule*

Financial statement schedules for ACS Group and its subsidiaries are submitted as a separate section of this Form 10-K. See Index to Consolidated Financial Statements and Schedule which appears on page F-1 hereof.

(b) *Reports on Form 8-K*

The following item was reported on Form 8-K, filed October 2, 2002:

Item 5 Other Events Carl H. Marrs submitted his resignation as director of Alaska Communications Systems Group, Inc. effective as of October 2, 2002. Mr. Marrs cited concerns regarding the time and effort of his other commitments as his reasons for tendering his resignation.

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(c) *Exhibits*

Exhibit No.	Description
2.1	Purchase Agreement, dated as of August 14, 1998, as amended, by and among ALEC Acquisition Sub Corp., CenturyTel of the Northwest, Inc. and CenturyTel Wireless, Inc. (1)
2.2	Asset Purchase Agreement, dated as of October 20, 1998, by and between Alaska Communications Systems, Inc. and the Municipality of Anchorage (1)
3.1	Amended and Restated Certificate of Incorporation of the Registrant (4)
3.2	Amended and Restated By-Laws of the Registrant (4)
4.1	Indenture, dated as of May 14, 1999, by and between Alaska Communications Systems Holdings, Inc., the Guarantors (as defined therein) and IBJ Whitehall Bank & Trust Company (1)
4.2	Purchase Agreement, dated as of May 11, 1999, by and among Alaska Communications Systems Holdings, Inc., the Guarantors, Chase Securities Inc., CIBC World Markets Corp. and Credit Suisse First Boston Corporation (1)
4.3	Indenture, dated as of May 14, 1999, by and between the Registrant and The Bank of New York (1)
4.4	Purchase Agreement, dated as of May 11, 1999, by and among the Registrant, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc. and DLJ ESC II, L.P. (1)
4.5	Stockholders Agreement, dated as of May 14, 1999, by and among the Registrant and the Investors listed on the signature pages thereto (1)
4.6	First Amendment to Stockholders Agreement, dated as of July 6, 1999, by and among the Registrant and the Stockholders listed on the signature pages thereto (2)
4.7	First Amendment, dated as of October 29, 1999, to Indenture listed as Exhibit No. 4.3 (3)
4.8	Specimen of Common Stock Certificate (4)
4.9	Second Amendment to Stockholders Agreement, dated as of November 16, 1999 by and among the Registrant and the Stockholders listed on the signature pages thereto (4)
4.10	Form of Second Amendment dated as of November 17, 1999 to Indenture listed as Exhibit No. 4.3 (4)
10.1	Exchange and Registration Rights Agreement, dated as of May 14, 1999, by and among Alaska Communications Systems Holdings, Inc., the Guarantors, Chase Securities Inc., CIBC World Markets Corp. and Credit Suisse First Boston Corporation (1)
10.2	Exchange and Registration Rights Agreement, dated as of May 14, 1999, by and among the Registrant, DLJ Investment Partners, L.P., DLJ Investment Funding, Inc. and DLJ ESC II L.P. (1)
10.3	Credit Agreement, dated as of May 14, 1999, by and among the Registrant, Alaska Communications Systems Holdings, Inc., the financial institutions Lenders party thereto, The Chase Manhattan Bank, Credit Suisse First Boston and Canadian Imperial Bank of Commerce (1)
10.4	ALEC Holdings, Inc. 1999 Stock Incentive Plan (1)
10.5	Amendment No. 1, dated as of October 19, 1999 to Credit Agreement listed as Exhibit No. 10.3 (3)
10.6	Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan (4)

10.7	Alaska Communications Systems Group, Inc. 1999 Non-Employee Director Compensation Plan (4)
10.8	Alaska Communications Systems Group, Inc. 1999 Employee Stock Purchase Plan (4)
10.9	Comprehensive Telecommunications Service Agreement Number 99-123-A between the State of Alaska and Alaska Communications Systems Group, Inc., dated as of December 10, 2001 (5)
10.10	Employment Agreement, dated as of May 3, 2001 by and among Alaska Communications Systems Group, Inc., the Registrant and Charles E. Robinson (6)
10.11	Employment Agreement, dated as of May 3, 2001 by and among Alaska Communications Systems Group, Inc., the Registrant and Wesley E. Carson (6)
10.12	Amendment and waiver, dated as of June 27, 2002 to the Credit Agreement listed as Exhibit No. 10.3 (7)
21.1	Subsidiaries of the Registrant (8)
23.1	Consent of Deloitte & Touche LLP relating to the audited financial statements of Alaska Communications Systems Group, Inc.

31.1 Certification of Charles R. Robinson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Kevin P. Hemenway, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Charles R. Robinson, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of The Sarbanes-Oxley Act of 2002.

32.2 Certification of Kevin P. Hemenway, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of The Sarbanes-Oxley Act of 2002.

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(1) Filed as an exhibit to the Registrant s Registration Statement on Form S-4 file No. 333-82361 filed on July 7, 1999 and incorporated by reference thereto.

(2) Filed as an exhibit to the Registrant s Registration Statement on Form S-4/A file No. 333-82361 filed on October 8, 1999 and incorporated by reference thereto.

(3) Filed as an exhibit to the Registrant s Form 8-K filed on November 5, 1999 and incorporated by reference thereto.

(4) Previously filed as an exhibit to the Registrant s Registration Statement on Form S-1/A file No. 333-888753 filed on November 17, 1999 and incorporated by reference thereto.

(5) Filed as an exhibit to the Registrant s Form 10-K filed on March 29, 2002 and incorporated by reference thereto.

(6) Filed as an exhibit to the Registrant s Form 10-Q filed on April 30, 2002 and incorporated by reference thereto.

(7) Filed as an exhibit to the Registrant s Form 10-Q filed on July 31, 2002 and incorporated by reference thereto.

(8) Filed as an exhibit to the Registrant s Form 10-K filed on March 6, 2003 and incorporated by reference thereto.

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SIGNATURES

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

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

Signature	Title	Date
/s/ Charles E. Robinson Charles E. Robinson	Chief Executive Officer and Chairman of the Board	October 3, 2003
/s/ Kevin P. Hemenway Kevin P. Hemenway	Senior Vice President, Chief Financial Officer and Treasurer (Principal Accounting Officer)	October 3, 2003
/s/ Byron I. Mallott Byron I. Mallott	Director	October 3, 2003
/s/ Brian Rogers Brian Rogers	Director	October 3, 2003
/s/ W. Dexter Paine, III W. Dexter Paine, III	Director	October 3, 2003
/s/ Saul A. Fox Saul A. Fox	Director	October 3, 2003
/s/ Wray T. Thorn Wray T. Thorn	Director	October 3, 2003
/s/ Charles P. Sitkin Charles P. Sitkin	Director	October 3, 2003

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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INDEPENDENT AUDITORS REPORT

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

We have audited the consolidated balance sheets of Alaska Communications Systems Group, Inc. and Subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits included the financial statement schedule listed in Item 15(a)2 of Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alaska Communications Systems Group, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 5 to the consolidated financial statements, effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets.*

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
February 20, 2003
(August 5, 2003 as to Notes 16 and 21)

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Balance Sheets
December 31, 2002 and 2001
(In Thousands Except Per Share Amounts)

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$ 18,565	$ 41,012
Restricted cash	3,440	6,932
Accounts receivable-trade, net of allowance of $6,075 and $4,944	48,820	46,912
Materials and supplies	11,203	8,723
Prepayments and other current assets	6,172	6,032
Assets held for sale	261	
Total current assets	88,461	109,611
Property, plant and equipment	1,090,365	1,036,829
Less: Accumulated depreciation and amortization	625,276	557,849
Property, plant and equipment, net	465,089	478,980
Goodwill	77,225	250,495
Intangible assets, net	23,269	26,785
Debt issuance costs, net of amortization of $16,365 and $12,126	21,529	25,768
Deferred charges and other assets	26,047	9,875
Total assets	$ 701,620	$ 901,514
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term obligations	$ 5,649	$ 4,823
Accounts payable-affiliate	1,319	1,303
Accounts payable, accrued and other current liabilities	49,796	63,081
Advance billings and customer deposits	9,804	9,190
Total current liabilities	66,568	78,397
Long-term obligations, net of current portion	602,114	606,427
Other deferred credits and long-term liabilities	32,930	25,003
Commitments and contingencies		
Stockholders equity:		
Preferred stock, no par, 5,000 authorized, no shares issued and outstanding		
Common stock, $.01 par value; 145,000 shares authorized, 33,481 and 33,221 shares issued and 30,745 and 31,688 outstanding, respectively	334	332
Treasury stock, 2,737 and 1,532 shares, respectively, at cost	(12,082)	(9,735)
Paid in capital in excess of par value	277,810	276,840
Accumulated deficit	(247,168)	(61,921)
Accumulated other comprehensive loss	(18,886)	(13,829)
Total stockholders equity	8	191,687
Total liabilities and stockholders equity	$ 701,620	$ 901,514

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Operations
Years Ended December 31, 2002, 2001 and 2000
(In Thousands Except Per Share Amounts)

	2002	2001	2000
Operating revenues:			
Local telephone	$ 226,447	$ 221,411	$ 222,268
Wireless	43,180	41,894	41,155
Directory	33,604	33,870	29,156
Internet	20,847	13,724	9,170
Interexchange	19,424	21,316	11,778
Total operating revenues	343,502	332,215	313,527
Operating expenses:			
Local telephone (exclusive of depreciation and amortization)	117,277	120,465	131,542
Wireless (exclusive of depreciation and amortization)	27,912	25,649	26,306
Directory (exclusive of depreciation and amortization)	14,170	14,684	13,334
Internet (exclusive of depreciation and amortization)	29,502	15,677	11,785
Interexchange (exclusive of depreciation and amortization)	27,547	29,509	19,749
Unusual charges			5,288
Depreciation and amortization	82,940	79,108	71,755
Goodwill impairment loss	64,755		
Total operating expenses	364,103	285,092	279,759
Loss on disposal of assets, net	2,163		
Operating income (loss)	(22,764)	47,123	33,768
Other income and expense:			
Interest expense	(51,704)	(60,157)	(64,559)
Interest income and other	2,203	3,250	6,609
Equity in income (loss) of investments		69	(303)
Total other income (expense)	(49,501)	(56,838)	(58,253)
Loss before income taxes, discontinued operations and cumulative effect of change in accounting principle	(72,265)	(9,715)	(24,485)
Income tax benefit		195	197
Loss from continuing operations	(72,265)	(9,520)	(24,288)
Loss from discontinued operations	(7,632)	(1,718)	(917)
Loss before cumulative effect of change in accounting principle	(79,897)	(11,238)	(25,205)
Cumulative effect of change in accounting principle	(105,350)		
Net loss	$ (185,247)	$ (11,238)	$ (25,205)
Loss per share - basic and diluted:			
Loss from continuing operations	$ (2.30)	$ (0.30)	$ (0.74)
Loss from discontinued operations	(0.24)	(0.06)	(0.03)
Loss before cumulative effect of change in accounting principle	(2.54)	(0.36)	(0.77)
Cumulative effect of change in accounting principle	(3.35)		

Net loss	$ (5.89)	$ (0.36)	$ (0.77)
Weighted average shares outstanding:			
Basic	31,464	31,523	32,654
Diluted	31,474	31,523	32,654

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Stockholders Equity
Years Ended December 31, 2002, 2001 and 2000
(In Thousands, Except Per Share Amounts)

	Common Stock	Treasury Stock	Paid in Capital in Excess of Par	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders Equity
Balance, December 31, 1999	$ 327	$	$ 273,119	$ (25,478)	$	$ 247,968
Net loss				(25,205)		(25,205)
Issuance of 343 shares of common stock, $.01 par	3		2,349			2,352
Purchase of 1,532 shares of treasury stock		(9,735)				(9,735)
Balance, December 31, 2000	330	(9,735)	275,468	(50,683)		215,380
Components of Comprehensive loss:						
Net loss				(11,238)		(11,238)
Minimum pension liability adjustment					(2,392)	(2,392)
Interest rate swap marked to market					(11,437)	(11,437)
Total comprehensive loss						(25,067)
Issuance of 220 shares of common stock, $.01 par	2		1,372			1,374
Balance, December 31, 2001	332	(9,735)	276,840	(61,921)	(13,829)	191,687
Components of Comprehensive loss:						
Net loss				(185,247)		(185,247)
Minimum pension liability adjustment					(2,342)	(2,342)
Interest rate swap marked to market					(2,715)	(2,715)
Total comprehensive loss						(190,304)
Issuance of 260 shares of common stock, $.01 par	2		970			972
Purchase of 1,205 shares of treasury stock		(2,347)				(2,347)
Balance, December 31, 2002	$ 334	$ (12,082)	$ 277,810	$ (247,168)	$ (18,886)	$ 8

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2002, 2001 and 2000
(In Thousands)

	2002	2001	2000
Cash Flows from Operating Activities:			
Net loss	$(185,247)	$(11,238)	$ (25,205)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss on discontinued operations	7,632	1,718	917
Cumulative effect of change in accounting principle	105,350		
Depreciation and amortization	82,940	79,108	71,755
Loss on disposal of assets, net	2,163		
Goodwill impairment loss	64,755		
Amortization of debt issuance costs and original issue discount	4,524	4,644	4,872
Investment tax credits		(195)	(197)
Capitalized interest	(1,157)	(1,416)	(1,096)
Other deferred credits	3,073	418	(1,141)
Changes in components of working capital:			
Accounts receivable and other current assets	(4,722)	95	(5,649)
Accounts payable and other current liabilities	(12,460)	5,530	3,560
Other	(1,375)	(2,386)	1,084
Net cash used in discontinued operations	(649)	(1,015)	(407)
Net cash provided by operating activities	64,827	75,263	48,493
Cash Flows from Investing Activities:			
Construction and capital expenditures, net of capitalized interest	(66,977)	(87,582)	(69,101)
Acquisition of PCS licenses	(300)		
Release of funds from escrow	3,706		
Issuance of note receivable	(15,000)		
Proceeds from liquidation of minority interest investment		1,370	
Issuance of note receivable from officer		(339)	
Cost of acquisitions, net of cash received		(1,000)	(5,598)
Placement of funds in escrow		(6,932)	
Net cash used by investing activities	(78,571)	(94,483)	(74,699)
Cash Flows from Financing Activities:			
Payments on long-term debt	(7,328)	(3,038)	(6,509)
Issuance of common stock and warrants	972	1,374	2,352
Purchase of treasury stock	(2,347)		(9,735)
Net cash used by financing activities	(8,703)	(1,664)	(13,892)
Decrease in cash	(22,447)	(20,884)	(40,098)
Cash and cash equivalents at beginning of the year	41,012	61,896	101,994
Cash and cash equivalents at the end of the year	$ 18,565	$ 41,012	$ 61,896
Supplemental Cash Flow Data:			
Interest paid	$ 48,087	$ 51,716	$ 59,672
Income taxes paid			
Supplemental Noncash Transactions:			
Property acquired under capital leases	$ 4,187	$	$ 3,152
Note payable in connection with acquisition			2,250

Minimum pension liability adjustment	2,342	2,392
Interest rate swap marked to market	2,715	11,437

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2002, 2001 and 2000
(In Thousands Except Per Share Amounts)

1. DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying consolidated financial statements for the Company are as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 and represent the consolidated financial position, results of operations and cash flows principally of the following entities:

Alaska Communications Systems Group, Inc.

Alaska Communications Systems Holdings, Inc. (ACS Holdings)

ACS of Alaska, Inc. (ACSAK)

ACS of the Northland, Inc. (ACSN)

ACS of Fairbanks, Inc. (ACSF)

ACS of Anchorage, Inc. (ACSA)

ACS Wireless, Inc. (ACSW)

ACS Long Distance, Inc. (ACSLD)

ACS Television, L.L.C. (ACSTV)

ACS Internet, Inc. (ACSI)

ACS InfoSource, Inc. (ACSIS)

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

Basis Of Presentation

The consolidated financial statements include all majority-owned subsidiaries. All significant intercompany balances have been eliminated. Certain reclassifications have been made to the 2001 and 2000 financial statements to make them conform to the current presentation.

Use Of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

The Company placed in escrow restricted cash as a judicial requirement of an appeal of a claim. This claim is expected to be adjudicated or settled in 2003. In the event the Company prevails, the restriction will be lifted, otherwise, the cash will be paid to the claimants. Liabilities associated with this claim are recorded in the Company s accounts payable, accrued and other current liabilities.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements, Continued
Years Ended December 31, 2002, 2001 and 2000
(In Thousands Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Materials and Supplies

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

Property, Plant and Equipment

Telephone plant is stated substantially at original cost of construction. Telephone plant retired in the ordinary course of business, together with the cost of removal, less salvage, is charged to accumulated depreciation with no gain or loss recognized. Renewals and betterments of telephone plant are capitalized while repairs, as well as renewals of minor items, are charged to operating expense as incurred. The Company provides for depreciation of telephone plant on the straight-line method, using rates approved by the regulatory authorities. The composite annualized rate of depreciation for all classes of property, plant, and equipment was 7.4%, 7.0%, and 6.6% for 2002, 2001 and 2000, respectively.

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

The Company is the lessee of equipment and buildings under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation and amortization expense for 2002, 2001 and 2000.

Debt Issue Costs

Legal, accounting and financing fees, printing costs, and other expenses associated with the issuance of the Company s senior credit facility, senior subordinated notes, and discount debentures are being amortized using the straight-line method over the term of the debt, which approximates the effective interest method. Amortization expense included in interest expense for 2002, 2001 and 2000 was $4,239, $4,360, and $4,573, respectively.

Treasury Stock

During 2000, the Company was authorized by its Board of Directors to repurchase up to $10,000 of its common stock, to be completed by December 31, 2000. ACS Group acquired 1,532 shares of its common stock for $9,735 under this authorization which has expired.

During 2002, the Company was authorized by its Board of Directors to repurchase up to $15,000 of it common stock. As of December 31, 2002, ACS Group has acquired 1,205 shares of its common shares for $2,347 under this authorization which expires upon the earlier of expending $15,000 or May 15, 2008.

The treasury stock is being held for general corporate purposes.

Revenue Recognition

Substantially all recurring service revenues are billed one month in advance and are deferred until earned. Nonrecurring and usage sensitive revenues are billed in arrears and are recognized when earned. Additionally, the Company establishes estimated bad debt reserves against uncollectible revenues incurred during the period. During 2002 one customer accounted for 11% of consolidated revenues and no other customer accounted for more than 10% of consolidated revenue. During 2001 and 2000, no customer accounted for more than 10% of the consolidated revenues of the Company.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

In October and November 2001, under two separate regulatory orders, ACSA was authorized to implement interim and refundable rate increases for both loop rental rates on unbundled network elements and for local service revenue. The Company recognized $4,940 and $465 of revenue during 2002 and 2001, respectively, associated with these rate increase authorizations. Management believes that it is unlikely the Company will have a refund obligation associated with these interim rate increases upon final adjudication of rates.

Access revenue is recognized when earned. The Company participates in toll revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the Regulatory Commission of Alaska (RCA) within the intrastate jurisdiction and the Federal Communications Commission (FCC) within the interstate jurisdiction. Much of the interstate access revenue is initially recorded based on estimates. These estimates are derived from interim financial statements, available separations studies and the most recent information available about achieved rates of return. These estimates are subject to adjustment in future accounting periods as additional operational information becomes available. To the extent that disputes arise over revenue settlements, the Company s policy is to defer revenue collected until settlement methodologies are resolved and finalized. During the second quarter of 2002, the Company recognized as revenue $11,066 of previously deferred interstate access revenue and reversed $1,673 of interest expense previously accrued thereon as a result of a favorable ruling by the District of Columbia Court of Appeals related to a dispute on interstate access rates for the Anchorage market. At December 31, 2002 and 2001, the Company had liabilities of $20,548 and $31,748, respectively, related to its estimate of refundable access revenue.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes reflect the temporary differences between the financial and tax bases of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is more likely than not that such deferred tax assets will not be realized. One of the acquired companies had a remaining unamortized regulatory investment tax credit of $695 at May 14, 1999, of which $195 and $197 was amortized against income in 2001 and 2000, respectively.

Regulatory Accounting and Regulation

The local telephone exchange operations of the Company account for costs in accordance with the accounting principles for regulated enterprises prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation.* This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, under SFAS No. 71, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Historically, lives approved for regulatory purposes have approximated economically useful lives. On July 21, 2002, the Company received an order from the RCA which appears to extend lives approved for rate-making purposes beyond the economically useful lives of the underlying assets. Management petitioned for reconsideration, and the RCA has agreed to take additional testimony. A final order on the matter is not expected until the second quarter of 2003. As of December 31, 2002 the Company has deferred as a regulatory asset $894 of costs incurred in connection with regulatory rate making proceedings, which will be amortized in future periods. If the Company were not following SFAS No. 71, these costs would have been charged to expense as incurred. Non-regulated revenues and costs incurred by the local telephone exchange operations and non-regulated operations of the Company are not accounted for under SFAS No. 71 principles.

The local telephone exchange activities of the Company are subject to rate regulation by the FCC for interstate telecommunication service, and the RCA for intrastate and local exchange telecommunication service. The Company, as required by the FCC, accounts for such activity separately. Long distance services of the Company are subject to rate regulation as a non-dominant interexchange carrier by the FCC for interstate telecommunication services and the RCA for intrastate telecommunication services. Wireless, directory and Internet operations are not subject to rate regulation.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Estimate

During the third quarter of 2002, the Company changed its estimate of the useful lives of certain classes of assets, resulting in additional depreciation expense of $2,206, or $0.07 per share for the year ended December 31, 2002.

Comprehensive Income (Loss)

Comprehensive income (loss) represents net income (loss) plus the results of certain stockholders equity changes not reflected in the consolidated statements of operations. For 2002 and 2001, the Company has provided an income tax valuation allowance equal to the income tax benefit resulting from its other comprehensive loss. The Company s comprehensive loss is equal to its net loss for 2000.

Stock Incentive Plans

The Company applies Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* in accounting for its stock incentive plans. Accordingly, no compensation cost has been recognized for options with exercise prices equal to or greater than fair value on the date of grant. No compensation costs were charged to operations in 2002, 2001 or 2000. If compensation costs had been determined consistent with SFAS No. 123, *Accounting for Stock-Based Compensation,* the Company s net loss and net loss per share on a pro forma basis for 2002, 2001 and 2000 would have been as follows:

	2002	2001	2000
Net loss:			
As reported	$(185,247)	$(11,238)	$(25,205)
Pro forma	(186,702)	(12,706)	(26,867)
Net loss per share - basic and diluted:			
As reported	$ (5.89)	$ (0.36)	$ (0.77)
Pro forma	(5.93)	(0.40)	(0.82)

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

	2002	2001	2000
Risk free rate	2.88%	4.45%	5.50%
Dividend yield	0.0%	0.0%	0.0%
Expected volatility factor	60.8%	55.2%	52.5%
Expected option life (years)	6.1	5.9	6.1

Recent Accounting Pronouncements

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are effective on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 has no effect on our financial position, results of operations or cash flows.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

On August 15, 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations,* which is effective for the Company s fiscal year beginning January 1, 2003. This statement requires, among other things, the accounting and reporting of legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. Certain amounts included in accumulated depreciation will be redesignated as a regulatory liability. The Company is evaluating, but has not yet determined the impact of the adoption of this standard on its financial position, results of operations and cash flows.

Effective January 1, 2002, the Company adopted SFAS No. 144**,** *Accounting for the Impairment or Disposal of Long-Lived Assets.* This statement addresses accounting and reporting of all long-lived assets, except goodwill, that are either held and used or disposed of through sale or other means (see Note 12).

In April 2002, FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections*. SFAS No. 145 will generally require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS No. 4. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. Accordingly, gains or losses from extinguishments of debt for fiscal years beginning after May 15, 2002 will not be reported as extraordinary items unless the extinguishment qualifies as an extraordinary item under the provisions of APB Opinion No. 30. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented that does not meet the criteria of APB Opinion No. 30 for such classification will be reclassified to conform with the provisions of SFAS No. 145. Earlier application of the provisions of SFAS No. 145 related to the rescission of SFAS No. 4 is encouraged. SFAS No. 145 does not have any impact on the Company s results of operations for the current periods reported.

In June 2002, FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No. 146 requires companies recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not believe the adoption of this statement will have a material impact on its financial position, results of operations, or cash flows.

On December 31, 2002, FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure.* SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company does not currently have plans to change to the fair value method of accounting for our stock based compensation. The disclosure requirements are now effective.

2. ACQUISITIONS

On September 30, 1999, the Company acquired a majority interest in Alaskan Choice Television, L.L.C., (ACTV). The cash purchase price was approximately $1,900. On February 14, 2000, the Company purchased the remaining one-third interest of ACTV for $3,042, including a $2,250 note payable. This acquisition has been accounted for using the purchase method and its operating results have been included in the consolidated statements of operations from the date of acquisition. On March 30, 2002, the Company approved a plan to sell its wireless cable television service segment. As a result of this decision, the operating revenue and expense of this segment has been classified as discontinued operations for all periods presented (See Note 12).

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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2. ACQUISITIONS (Continued)

On June 16, 2000, the Company acquired a 100% interest in Internet Alaska, Inc. It previously held a minority interest of 28.5%. On July 6, 2001, The Company acquired the assets and business of Internet Plus, L.L.C., dba MosquitoNet, a Fairbanks based Internet service provider with approximately 5,000 customers. These acquisitions have been accounted for using the purchase method and the operating results from these acquisitions have been included in the consolidated statements of operations from the dates of acquisition. Pro forma information is not provided since the impact of these acquisitions does not have a material effect on the Company s financial position, results of operations and cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable - trade consists of the following at December 31, 2002 and 2001:

	2002	2001
Accounts receivable - trade:		
Customers	$37,638	$33,613
Connecting companies	12,032	13,822
Other	5,225	4,421
	54,895	51,856
Less allowance for doubtful accounts	6,075	4,944
Accounts receivable - trade, net	$48,820	$46,912

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment consists of the following at December 31, 2002 and 2001:

	2002	2001
Property, plant, and equipment:		
Land, buildings and support assets	$ 192,832	$ 178,736
Central office switching and transmission	314,316	309,291
Outside plant cable and wire facilities	499,720	486,352
Wireless switching and transmission systems	51,538	40,224
Other	4,393	2,359
Assets held for future use	3,492	
Construction work in progress	24,074	19,867
	1,090,365	1,036,829
Less accumulated depreciation and amortization	625,276	557,849
Property, plant and equipment, net	$ 465,089	$ 478,980

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

	2002	2001
Property held under capital leases:		
Land, buildings and support assets	$16,930	$13,318
Outside plant cable and wire facilities	2,710	2,710
	19,640	16,028
Less accumulated depreciation and amortization	6,612	4,810
Property held under capital leases, net	$13,028	$11,218

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Amortization of assets under capital leases included in depreciation expense in 2002, 2001 and 2000 is $2,333, $1,202, and $1,008, respectively.

The Company leases various land, buildings, right-of-ways, and personal property under operating lease agreements. Rental expenses under operating leases for 2002, 2001 and 2000 were $3,733, $3,971, and $4,055, respectively. Future minimum payments under these leases for the next five years and thereafter are as follows:

2003	$2,474
2004	1,971
2005	1,331
2006	1,014
2007	794
Thereafter	1,954
	$9,538

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. In accordance with the guidelines of this accounting principle, goodwill and indefinite-lived intangible assets are no longer amortized but will be assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

Goodwill amortization, which was $7,741 and $7,510 for the years ended December 31, 2001 and 2000, respectively, ceased effective January 1, 2002. In the first quarter of 2002, pursuant to SFAS No. 142, the Company completed its reassessment of previously recognized intangible assets, and ceased amortization of indefinite-lived intangible assets.

Wireless and PCS licenses have terms of 10 years, but are renewable indefinitely through a routine process involving a nominal fee. The Company has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its wireless and PCS licenses. Therefore, the Company is no longer amortizing its wireless and PCS licenses based on the determination that these assets have indefinite lives. In accordance with SFAS No. 142, the Company will evaluate its determination of an indefinite useful life of its wireless and PCS licenses each reporting period. SFAS No. 142 requires that indefinite lived intangible assets be tested for impairment at least annually by comparing the fair value of the assets to their carrying amount. Upon adoption of SFAS No. 142 on January 1, 2002, the Company completed an impairment test for its wireless and PCS licenses that determined recognition of an impairment loss was not necessary, as the carrying value of its wireless and PCS licenses did not exceed their fair value. The Company performs its annual impairment test as of the beginning of the fourth quarter or more frequently if events or changes in circumstance indicate possible impairment. The Company determined the fair value of its wireless and PCS licenses for purposes of these tests primarily by first performing a market value comparison of similar licenses against their carrying value and then performing a discounted cash flow valuation of the reporting unit against its total carrying value, including these licenses.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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5. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

SFAS No. 142 requires that goodwill be tested for impairment at the reporting unit level upon adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit and compare it to the carrying value, including goodwill, of such unit. If the fair value exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step. The second step of the goodwill impairment test compares the implied fair value goodwill of the reporting unit with the carrying amount of that goodwill. The implied fair value of a reporting unit s goodwill is the excess of the fair value of a reporting unit over the amounts assigned to assets and liabilities. If the carrying value amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company has determined that its business segments constitute reporting units, with the exception of the Internet segment, which includes two reporting units. Those reporting units are (1) Internet service and (2) IP based private network service. The Company completed the initial step of impairment testing during the second quarter which indicated that goodwill recorded in the local telephone, Internet, and interexchange segments was impaired as of January 1, 2002. Due to the potential impairment, the Company then completed the second step of the test to measure the amount of the impairment. The Company determined the fair value of each reporting unit for purposes of this test primarily by using a discounted cash flow valuation technique. Significant estimates used in the valuation include estimates of future cash flows, both future short-term and long-term growth rates, and estimated cost of capital for purposes of arriving at a discount factor. Based on that analysis, a transitional impairment loss of $105,350 was recognized as the cumulative effect of a change in accounting principle in the consolidated statement of operations. The income tax benefit of $39,540 was offset by a valuation allowance.

The Company performed its annual impairment test as of the beginning of the fourth quarter of 2002. The Company determined the fair value of each reporting unit for purposes of this test primarily by using a discounted cash flow valuation technique. Significant estimates used in the valuation include estimates of future cash flows, both future short-term and long-term growth rates, and estimated cost of capital for purposes of arriving at a discount factor. Based on comparing this discounted cash flow model to the carrying value of the reporting units, an impairment loss of $64,755 in the local telephone segment was recognized in the consolidated statement of operations for the year ended December 31, 2002. The Company attributes the impairment loss in the local telephone segment to competitively biased regulatory policy. On an ongoing basis, the Company expects to perform its annual impairment test during the fourth quarter absent any impairment indicators.

In connection with the Company s adoption of a plan to discontinue its wireless cable television service segment during the first quarter of 2002, the goodwill of that segment was considered impaired, and an impairment charge of $3,165 is included with the results of discontinued operations.

The changes in the carrying value of goodwill by segment for the year ended December 31, 2002 are as follows:

	Local Telephone	Wireless	Internet	Interexchange	All Other	Total
Balance, December 31, 2001	$191,351	$8,851	$ 8,146	$ 151	$41,996	$ 250,495
Impairment losses included in discontinued operations					(3,165)	(3,165)
Impairment losses - transitional	(97,053)		(8,146)	(151)		(105,350)
Impairment losses - annual test	(64,755)					(64,755)
Balance, December 31, 2002	$ 29,543	$8,851	$	$	$38,831	$ 77,225

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5. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Provided below is a reconciliation of previously reported financial statement information to adjusted amounts that reflect the elimination of goodwill and indefinite-lived intangible amortization for the comparable years ended December 31, 2001 and 2000 prior to adoption of SFAS No. 142:

	2001	2000
Reported net loss	$(11,238)	$(25,205)
Add back:		
Goodwill amortization	7,741	7,510
Indefinite-lived intangible amortization	528	524
Adjusted net loss	$ (2,969)	$(17,171)
Loss per share (basic and diluted):		
Reported net loss	$ (0.36)	$ (0.77)
Add back:		
Goodwill amortization	0.25	0.23
Indefinite-lived intangible amortization	0.02	0.01
Adjusted net loss per share	$ (0.09)	$ (0.53)

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset as of December 31, 2002 based on the Company s reassessment of previously recognized intangible assets and their remaining amortization lives in accordance with the adoption of SFAS No. 142:

	Gross Carrying Amount	Accumulated Amortization	Amortizable Life
Amortizable intangible assets:			
Customer list	$ 915	$ 275	5
Other intangible assets	2,625	1,593	5
Total amortizable intangible assets	$ 3,540	$ 1,868	
Indefinite-lived intangible assets:			
Cellular licenses	$ 18,194		
PCS licenses	3,323		
Domain names and trade names	80		
Total indefinite-lived intangible assets	$ 21,597		

For amortizable intangible assets the total intangible amortization expense for the years ended December 31, 2002, 2001 and 2000 was $708, $616 and $525, respectively. The estimated amortization expense for each of the next five years ending December 31 is as follows:

2003	$951
2004	$446
2005	$183
2006	$ 92
2007	$

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6. ACCOUNTS PAYABLE, ACCRUED AND OTHER CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at December 31, 2002 and 2001:

	2002	2001
Accounts payable - trade	$11,435	$10,138
Accrued payroll, benefits, and related liabilities	6,413	8,379
Accrued personal time off	5,200	5,207
Accrued interest	6,392	7,269
Refundable access revenue	9,147	22,688
Other	11,209	9,400
Accounts payable, accrued and other current liabilities	$49,796	$63,081

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31, 2002 and 2001:

	2002	2001
Senior credit facility term loan - tranche A	$148,500	$150,000
Senior credit facility term loan - tranche B	148,500	150,000
Senior credit facility term loan - tranche C	133,650	135,000
9 3/8% senior subordinated notes due 2009	150,000	150,000
13% senior discount debentures due 2011	17,313	17,313
Original issue discount - 13% senior discount debentures due 2011	(2,381)	(2,666)
Capital leases and other long-term obligations	12,181	11,603
	607,763	611,250
Less current portion	5,649	4,823
Long-term obligations, net of current portion	$602,114	$606,427

The aggregate maturities of long-term obligations for each of the five years and thereafter subsequent to December 31, 2002 are as follows:

2003	$ 5,649
2004	5,775
2005	4,976
2006	147,562
2007	144,624
Thereafter	299,177
	$607,763

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7. LONG-TERM OBLIGATIONS (Continued)

Senior Credit Facility

On May 14, 1999, the Company entered into a credit agreement with a syndicate of commercial banks which provide the Company s senior credit facility. The senior credit facility provides $435,000 of term loans and a revolving credit facility with a $75,000 line of credit, of which $430,650 is outstanding at December 31, 2002. The Company s obligations under the senior credit facility are unconditionally and irrevocably guaranteed, joint and severally, by the Company and its subsidiaries, and secured by collateral that includes substantially all of the Company and its subsidiaries assets. The senior credit facility contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and the payment of dividends, and requires the Company to achieve certain financial ratios. During the second quarter of 2002, the Company s lenders approved an amendment to its senior credit facility that, among other things, permits the Company to repurchase up to $15,000 of its outstanding common stock over the term of the Senior Credit Facility. As of December 31, 2002 and 2001 the Company was in compliance with all of the covenants of the senior credit facility.

The tranche A term loan of $148,500 is repayable in annual principal payments of $1,500 which commenced on May 14, 2002 with the balance due on November 14, 2006. The loan bears interest at an annual rate equal (at the Company s option) to: (1) an adjusted London inter-bank offered rate (LIBOR) plus 2.25% or (2) a rate equal to 1.75% plus the greater of the administrative agent s prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%, in each case subject to reduction based on the Company s financial performance. The rate of interest in effect at December 31, 2002 and 2001 was 4.125% and 4.69%, respectively, and is based on the LIBOR rate option.

The tranche B term loan of $148,500 is repayable in annual principal payments of $1,500 which commenced on May 14, 2002 with the balance due on November 14, 2007. The loan bears interest at an annual rate equal (at the Company s option) to: (1) LIBOR plus 3.00% or (2) a rate equal to 2.00% plus the greater of the administrative agent s prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%. The rate of interest in effect at December 31, 2002 and 2001 was 4.88% and 5.44%, respectively, and is based on the LIBOR rate option.

The tranche C term loan of $133,650 is repayable in annual principal payments of $1,350 which commenced on May 14, 2002 with the balance due on May 14, 2008. The loan bears interest at an annual rate equal (at the Company s option) to: (1) LIBOR plus 3.25% or (2) a rate equal to 2.25% plus the greater of the administrative agent s prime rate, a certificate of deposit rate plus 1.00% or the federal funds rate plus .50%. The rate of interest in effect at December 31, 2002 and 2001 was 5.06% and 7.06%, respectively, and is based on the LIBOR rate option.

The senior credit facility also provides a revolving credit facility in the amount of $75,000 which is available, in part, for up to $25,000 in letters of credit and up to $10,000 in the form of swingline loans. This revolving facility is available through May 15, 2006 and outstanding balances thereunder will bear interest at an annual interest rate option equivalent to that provided under tranche A. There were no amounts outstanding under this revolving credit facility as of December 31, 2002 and 2001.

On July 24, 1999 the Company entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its floating rate long-term debt. This agreement fixed at 5.99% the underlying variable rate on one-half of the borrowings under the senior credit facility, or $217,500, expiring in June 2004. The differential to be paid or received is recorded as interest expense in the consolidated statement of operations in the period in which it is recognized. The Company is exposed to credit losses from counterparty nonperformance, but does not anticipate any such nonperformance.

Senior Subordinated Notes

On May 14, 1999, the Company issued $150,000 in aggregate principal amount of 9 3/8 % senior subordinated notes due 2009. Interest on the notes is payable semi-annually on May 15 and November 15. The notes will mature on May 15, 2009, and are redeemable, in whole or in part, at the option of the Company, at any time on or after May 15, 2004 at 104.688% of the principal amount declining to 100% of the principal amount on or after May 15, 2007. The notes contain a number of restrictive covenants, including covenants limiting incurrence of debt and the payment of dividends. As of December 31, 2002 and 2001 the Company was in compliance with all the covenants of the notes.

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7. LONG-TERM OBLIGATIONS (Continued)

Senior Discount Debentures

On May 14, 1999 the Company issued senior discount debentures due May 15, 2011. Interest accrues at 13.00% and is payable at the Company s option semiannually on May 15 and November 15, commencing May 15, 2000 until May 15, 2004 when the Company will be required to semiannually pay interest. The outstanding debentures are redeemable, in whole or in part, at the option of the Company, at any time on or after May 15, 2004 at 106.5% of the principal amount declining to 100% of the principal amount on or after May 15, 2009. The debentures contain a number of restrictive covenants, including covenants limiting incurrence of debt and the payment of dividends. As of December 31, 2002 and 2001 the Company was in compliance with all the covenants of the debentures.

Capital leases and other long-term obligations

The Company has entered into various capital leases and other debt agreements totaling $12,181 and $11,603 with a weighted average interest rate of 8.05% and 8.74% at December 31, 2002 and 2001, respectively.

8. OTHER DEFERRED CREDITS AND LONG-TERM LIABILITIES:

Deferred credits and other long-term liabilities consist of the following at December 31, 2002 and 2001:

	2002	2001
Refundable access revenue	$11,401	$ 9,060
Interest rate swap, marked to market	14,152	11,437
Additional pension liability	6,285	4,147
Other deferred credits	1,092	359
Total deferred credits and other long-term liabilities	$32,930	$25,003

9. LOCAL TELEPHONE OPERATING REVENUE

Local telephone operating revenues consisted of the following for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Local network service	$ 99,512	$ 96,270	$ 94,098
Network access revenue	108,335	102,977	105,172
Deregulated revenue and other	18,600	22,164	22,998
Total local telephone operating revenues	$226,447	$221,411	$222,268

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10. UNUSUAL CHARGES

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

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

During 2000, the Company attempted to acquire the Matanuska Telephone Association, a cooperative telephone association located in Alaska. The acquisition was subject to approval by a vote of the membership of the cooperative association requiring a super majority, which was held in September of 2000. The membership of the association voted to approve the acquisition but failed to achieve the required super majority. The Company had incurred $1,451 of legal, consulting and other out of pocket costs associated with the attempted acquisition which were charged to expense during September 2000. The Company also recorded $3,019 related to severance and restructuring charges under several plans adopted during 2000. In December 2000, the Company settled out of court a claim by a vendor that arose from an undisclosed contractual obligation it incurred in the purchase of the Company s operations in May 1999, resulting in a charge to expense of $818.

11. INCOME TAXES

The Company s combined federal income and state effective income tax rate from continuing operations was a benefit of 0.0%, 1.7%, and 0.8% in 2002, 2001 and 2000, respectively. The difference between taxes calculated as if the statutory federal rate of 34% was applied to loss from continuing operations before income tax and the recorded tax benefit is reconciled as follows:

	2002	2001	2000
Computed federal income taxes at the 34% statutory rate	$(24,570)	$(3,303)	$(8,579)
Increase (reduction) in tax resulting from:			
State income taxes (net federal benefit)	(4,144)	(628)	(1,438)
Original issue discount interest	194	182	211
Amortization of investment tax credits		(195)	(197)
Prior year adjustment	313		
Other	495	277	(31)
Valuation allowance - book net operating loss	27,712	3,472	9,837
Total income tax benefit	$	$ (195)	$ (197)

The benefit for income taxes is summarized as follows:

	2002	2001	2000
Current:			
Federal income tax	$	$	$

State income tax			
Total current			
Deferred:			
Federal income tax			
State income tax			
Total deferred			
Amortization of investment tax credits		(195)	(197)
Total income tax benefit	$	$(195)	$(197)

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11. INCOME TAXES (Continued)

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

	2002	2001	2000
Deferred tax liabilities - long-term:			
Property, plant and equipment	$ (20,786)	$ (20,380)	$ (16,338)
Intangibles		(13,105)	(7,235)
Other	(88)		(169)
Total long-term deferred tax liabilities	(20,874)	(33,485)	(23,742)
Deferred tax assets:			
Current:			
Accrued compensation	4,249	4,081	5,329
Accrued bad debts	2,827	2,172	4,825
Interest rate swap mark to market	5,661	4,575	
Minimum pension liability adjustment	1,893	957	
Other	987	622	150
Total current deferred tax assets	15,617	12,407	10,304
Long-term:			
Net operating loss carryforwards from operations	58,728	50,284	32,598
Intangibles	46,734		
Debt issuance cost	1,335		
Original issue discount			503
Total long-term deferred tax assets	106,797	50,284	33,101
Total deferred tax assets	122,414	62,691	43,405
Valuation allowance	(101,540)	(29,206)	(19,513)
Net deferred tax asset	$	$	$ 150

The Company has available at December 31, 2002 unused operating loss carryforwards of $146,819 that may be applied against future taxable income and that expire as shown below. Per the schedule below the total Net Operating Loss (NOL) is made up of NOLs generated by the consolidated group and NOLs obtained with the 2000 acquisition of Internet Alaska. The Internet Alaska NOLs are limited by special rules known as Separate Return Limitation Year (SRLY) rules. SRLY NOLs can only be used in years that both the Consolidated Group and the entity that created the SRLY NOLs have taxable income. The tax benefits derived from the utilization of the SRLY NOLs will increase retained earnings.

Year of Expiration	Internet Alaska s SRLY	Unused Operating Loss Carryforwards	Total Unused Operating Loss Carryforwards

2017	$ 27	$	$ 27
2018	328	42	370
2019	852	18,413	19,265
2020	2,631	54,144	56,775
2021		48,354	48,354
2022		22,028	22,028
	$3,838	$142,981	$146,819

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12. DISCONTINUED OPERATIONS

On March 30, 2002, the Company approved a plan to sell its wireless cable television service segment. As a result of this decision, the operating revenue and expense of this segment has been classified as discontinued operations under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* for all periods presented and the assets and liabilities of the disposal group have been written down to their fair value, net of expected selling expense. The income tax benefit in all years was offset by a valuation allowance. The following discloses the results of the discontinued operations for years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Operating revenue	$ 716	$ 960	$ 1,131
Operating expense	1,255	2,555	1,968
Operating loss	(539)	(1,595)	(837)
Interest expense	(33)	(126)	(151)
Other		3	71
Loss from operations of discontinued segment	(572)	(1,718)	(917)
Write down of net assets to fair value	(7,060)		
Loss from discontinued operations	$ (7,632)	$ (1,718)	$ (917)

Assets held for sale December 31, 2002 consist of the following:

Accounts receivable, net of allowance of $42	$ 50
Other current assets	7
Property, plant and equipment	201
Intangible assets	85
Current liabilities	(82)
Assets held for sale	$ 261

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13. EARNINGS PER SHARE

Earnings per share is based on weighted average number of shares of common stock and dilutive common stock equivalents outstanding. Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders 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 an entity. The Company includes dilutive stock options based on the treasury stock method. Due to the Company s reported net losses, common equivalent shares, which consisted of 3,606 and 3,998 options granted to employees, were anti-dilutive for the years ended December 31, 2001 and 2000, respectively. The following table sets forth the computation of basic and diluted earnings per share for the years ending December 31, 2002, 2001 and 2000.

	2002	2001	2000
Numerator:			
Loss from continuing operations	$ (72,265)	$ (9,520)	$(24,288)
Loss from discontinued operations	(7,632)	(1,718)	(917)
Loss before cumulative effect of change in accounting principle	(79,897)	(11,238)	(25,205)
Cumulative effect of change in accounting principle	(105,350)		
Net loss	$(185,247)	$(11,238)	$(25,205)
Denominator:			
Weighted average shares outstanding - basic	31,464	31,523	32,654
Dilutive potential common shares - stock options	10		
Weighted average shares outstanding - diluted	31,474	31,523	32,654
Basic earnings per share:			
Loss from continuing operations	$ (2.30)	$ (0.30)	$ (0.74)
Loss from discontinued operations	(0.24)	(0.06)	(0.03)
Loss before cumulative effect of change in accounting principle	(2.54)	(0.36)	(0.77)
Cumulative effect of change in accounting principle	(3.35)		
Net loss	$ (5.89)	$ (0.36)	$ (0.77)
Diluted earnings per share:			
Loss from continuing operations	$ (2.30)	$ (0.30)	$ (0.74)
Loss from discontinued operations	(0.24)	(0.06)	(0.03)
Loss before cumulative effect of change in accounting principle	(2.54)	(0.36)	(0.77)
Cumulative effect of change in accounting principle	(3.35)		
Net loss	$ (5.89)	$ (0.36)	$ (0.77)

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14. STOCK INCENTIVE PLANS

Under various plans, ACS Group, through the Compensation Committee of the Board of Directors, may grant stock options, stock appreciation rights and other awards to officers, employees and non-employee directors. At December 31, 2002, ACS Group has reserved a total of 6,060 shares of authorized common stock for issuance under the plans. In general, options under the plans vest ratably over three, four or five years and the plans terminate in approximately 10 years. On April 3, 2002, ACS Group merged the ALEC Holdings, Inc. 1999 Stock Incentive Plan into the Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan.

Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan

ACS Group has reserved 4,910 shares under this plan, which was adopted by the Company in November 1999. At December 31, 2002, 5,712 options have been granted, 1,897 have been forfeited, 441 have been exercised, and 1,095 shares are available for grant under the plan.

Information on outstanding options for the years ended December 31, 2002, 2001 and 2000 is summarized as follows:

	2002		2001		2000	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, January 1	3,606	$ 7.47	3,998	$ 7.55	3,154	$ 6.15
Granted	278	7.82	260	6.81	1,752	10.03
Exercised	(76)	6.08	(128)	6.03	(198)	6.96
Canceled or expired	(434)	8.13	(524)	8.43	(710)	7.92
Outstanding, December 31	3,374	7.52	3,606	7.47	3,998	7.55
Options exercisable at December 31	2,632	7.33	2,208	7.11	1,728	6.72
Weighted average fair value of options granted		4.57		3.93		5.66

The outstanding options at December 31, 2002 have the following characteristics:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$5.50 - $8.00	2,812	6.39	$ 6.19	2,224	$ 6.08
$8.58 - $12.63	18	7.47	12.63	12	12.63
$14.20	544	7.12	14.20	396	14.20

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14. STOCK INCENTIVE PLANS (Continued)

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

The non-employee director stock compensation plan was adopted by ACS Group in November 1999. ACS Group has reserved 150 shares under this plan. At December 31, 2002, 110 shares have been awarded and 40 shares are available for grant under the plan. For the years ended December 31, 2002, 2001, and 2000, directors were required to receive not less than 25% of their annual retainer and meeting fees in the form of ACS Group s stock, and may have elected to receive up to 100% of director s compensation in the form of stock. Starting in 2003, directors no longer have the option of receiving stock and will receive all of their annual retainer and meeting fees in cash.

During the year ended December 31, 2002, 58 shares under the plan were awarded to directors, of which 34 were elected to be deferred until termination of service by the directors. During the year ended December 31, 2001, 26 shares under the plan were awarded to directors, of which 19 were elected to be deferred until termination of service by the directors. During the year ended December 31, 2000, 26 shares under the plan were awarded to directors, of which 13 were elected to be deferred until termination of service by the directors.

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

This plan was also adopted by ACS Group in November 1999. ACS Group has reserved 1,000 shares under this plan. At December 31, 2002, 632 shares are available for issuance and sale. The plan will terminate on December 31, 2009. All ACS Group employees and all of the employees of designated subsidiaries generally will be eligible to participate in the purchase plan, other than employees whose customary employment is 20 hours or less per week or is for not more than five months in a calendar year, or who are ineligible to participate due to restrictions under the Internal Revenue Code.

On December 31, 2002, 97 shares were issued under the plan. On June 30, 2002, 53 shares were issued under the plan. On December 31, 2001, 38 shares were issued under the plan. On June 29, 2001, 48 shares were issued under the plan. On December 29, 2000, 67 shares were issued under the plan. On June 30, 2000, 65 shares were issued under the plan.

A participant in the purchase plan may authorize regular salary deductions of a maximum of 15% and a minimum of 1% of base compensation. The fair market value of shares which may be purchased by any employee during any calendar year may not exceed $25. The amounts so deducted and contributed are applied to the purchase of full shares of common stock at 85% of the lesser of the fair market value of such shares on the date of purchase or on the offering date for such offering period. The offering dates are January 1 and July 1 of each purchase plan year, and each offering period will consist of one six-month purchase period. The first offering period under the plan commenced on January 1, 2000. Shares are purchased on the open market or issued from authorized but unissued shares on behalf of participating employees on the last business days of June and December for each purchase plan year and each such participant has the rights of a stockholder with respect to such shares. During the year ended December 31, 2002 approximately 15% of eligible employees elected to participate in the plan.

15. RETIREMENT PLANS

Pension benefits for substantially all of the Company s employees are provided through the Alaska Electrical Pension Plan (AEPP). The Company pays a contractual hourly amount based on employee classification or base compensation. As a multi-employer defined contribution plan, the accumulated benefits and plan assets are not determined for or allocated separately to the individual employer. The Company s portion of the plan s pension cost for 2002, 2001 and 2000 was $13,390, $11,830, and $10,978, respectively.

The Company also provides a 401(k) retirement savings plan covering substantially all of its employees. The plan allows for discretionary matching contributions as determined by the Board of Directors, subject to Internal Revenue Code limitations. There was no matching contribution for 2002, 2001 or 2000.

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15. RETIREMENT PLANS (Continued)

The Company also has a separate defined benefit plan that covers certain employees previously employed by Century Telephone Enterprise, Inc. (CenturyTel Plan). This plan was transferred to the Company in connection with the acquisition of CenturyTel s Alaska Properties. Existing plan assets and liabilities of the CenturyTel Plan were transferred to the ACS Retirement Plan on September 1, 1999. Accrued benefits under the ACS Retirement Plan were determined in accordance with the provisions of the CenturyTel Plan. Upon completion of the transfer to the Company, covered employees ceased to accrue benefits under the plan. On November 1, 2000 the ACS Retirement Plan was amended to conform early retirement reduction factors and various other terms to those provided by the AEPP. As a result of this amendment, prior service cost of $1,992 was recorded and will be amortized over the expected service life of the plan participants at the date of the amendment. The Company uses the traditional unit credit method for the determination of pension cost for financial reporting and funding purposes and complies with the funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA). Since the plan is adequately funded under ERISA, no contribution was made in 2002, 2001 or 2000.

The following table represents the net periodic pension expense (benefit) for the ACS Retirement Plan for 2002, 2001 and 2000:

	2002	2001	2000
Interest cost	$ 680	$ 627	$ 447
Expected return on plan assets	(723)	(773)	(813)
Amortization of gain/loss	260	30	
Amortization of prior year service costs	203	203	34
Net periodic pension expense (benefit)	$ 420	$ 87	$ (332)

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

	2002	2001
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 9,108	$ 8,600
Amortization of prior service cost	(203)	(203)
Interest cost	680	627
Actuarial loss	1,279	215
Benefits paid	(249)	(131)
Projected benefit obligation at end of year	$ 10,615	$ 9,108
Change in plan assets		
Fair value of plan assets at beginning of year	$ 8,736	$ 9,257
Return on plan assets	(803)	(390)
Benefits paid	(249)	(131)
Fair value of plan assets at end of year	$ 7,684	$ 8,736

The following table represents the funded status of the ACS Retirement Plan at December 31, 2001 and 2000:

	2002	2001
Projected benefit obligation	$ (10,615)	$ (9,108)
Plan assets at fair value	7,684	8,736
Funded Status	(2,931)	(372)
Unrecognized prior service cost	1,551	1,755
Unrecognized net loss	4,734	2,392
Net amount recognized	$ 3,354	$ 3,775

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15. RETIREMENT PLANS (Continued)

The net amounts recognized in the balance sheet were classified as follows at December 31, 2002 and 2001:

	2002	2001
Accrued benefit liability	$(2,931)	$ (372)
Intangible asset	1,551	1,755
Accumulated other comprehensive loss	4,734	2,392
Net amount recognized	$ 3,354	$3,775

The actuarial assumptions used to account for the plan as of December 31, 2002 and 2001 are as follows:

	2002	2001
Discount rate	6.75%	7.25%
Expected return on assets	8.50%	8.50%
Rate of compensation increase	0.00%	0.00%

The Company also has a separate executive post retirement health benefit plan. The Alaska Communications Systems Executive Retiree Health Benefit Plan (The ACS Health Plan) was adopted by the Company in November 2001 and amended in October 2002. The ACS Health Plan covers a select group of management or highly compensated employees. The group of eligible employees is selected by a committee appointed by the Compensation Committee of ACS Group s Board of Directors. Each eligible employee must complete 10 years of service and be employed by the Company in the capacity of an executive officer for a minimum of 36 consecutive months immediately preceding retirement. The ACS Health Plan provides a graded subsidy for medical, dental, and vision coverage. The amendment revised the premium subsidy, added a premium subsidy cap and suspends retirees benefits from the ACS Health Plan during any period the retiree has access to employer health benefits. The Company uses the projected unit credit method for the determination of post retirement health cost for financial reporting and funding purposes and complies with the funding requirements under ERISA. The Company made a contribution of $128 to the ACS Health Plan during 2001.

The following represents the net periodic postretirement benefit expense for the ACS Health Plan for 2002 and 2001:

	2002	2001
Service cost	$ 69	$11
Interest cost	40	6
Expected return on plan assets	(11)	
Amortization of prior service cost	24	4
Net periodic postretirement benefit expense	$122	$21

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15. RETIREMENT PLANS (Continued)

The following is a reconciliation of the beginning and ending balanced for 2002 and 2001 for the projected benefit obligation and the plan assets for the ACS Health Plan:

	2002	2001
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of the year:	$ 588	$
Plan adoption		586
Plan amendment	(440)	
Service cost	69	11
Interest cost	40	6
Actuarial (gain)/loss	11	(15)
Accumulated postretirement benefit obligation at end of the year:	$ 268	$ 588
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 128	$
Employer contributions		128
Return on plan assets	(1)	
Fair value of plan assets at end of year	$ 127	$ 128

The following table represents the funded status of the ACS Health Plan at December 31, 2002 and 2001:

	2002	2001
Accumulated postretirement benefit obligation	$ (268)	$ (588)
Plan assets at fair value	127	128
Funded status	(141)	(460)
Unrecognized prior service cost	118	582
Unrecognized net (gain) or loss	7	(15)
Prepaid (accrued) benefit costs	$ (16)	$ 107

The actuarial assumptions used to account for the ACS Health Plan as of December 31, 2002 and 2001 is an assumed discount rate of 6.75% and 7.25%, respectively, and an expected long term rate of return on plan assets of 8.50%. For measurement purposes, the assumed annual rates of increases in health care costs is as follows:

Year	Pre 65 premiums	Post 65 premiums

1	7.00%	10.00%
2	7.00%	9.00%
3	7.00%	8.00%
4	7.00%	7.00%
5 and thereafter	7.00%	7.00%

Assumed health care cost trend rates have a significant effect on the amounts reported for the ACS Health Plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2002:

	+1%	**-1%**
Effect on total of service and interest cost components	13	(12)
Effect on accumulated postretirement benefit obligation	71	(64)

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16. BUSINESS SEGMENTS

The Company has four reportable segments: local telephone, wireless, Internet and interexchange. Local telephone provides landline telecommunications services, and consists of local telephone service, network access and deregulated and other revenue; wireless provides wireless telecommunications service; Internet provides Internet service and advanced IP based private networks; and interexchange provides switched and dedicated long distance services. Each reportable segment is a strategic business under separate management and offering different services than those offered by the other segments. The Company evaluates the performance of its segments based on operating income (loss).

Previously, the Company reported its Directories Business as a separate segment. The Company sold an 87.42% interest in its Directories Business during the second quarter of 2003 and is no longer directly engaged in day-to-day management of that business. Therefore, the Directories Business no longer constitutes a reportable segment. Accordingly, the historical operating results for the Directories Business are included in All Other in the accompanying tables. The Company also has a wireless cable television service segment that did not meet the criteria for a reportable segment and was previously included in All Other that is now reported as discontinued operations.

The Company also incurs interest expense, interest income, equity in earnings of investments, goodwill amortization in 2001 and 2000 on the original May 14, 1999 purchases, goodwill impairment losses and other operating and non operating income and expense at the corporate level which are not allocated to the business segments, nor are they evaluated by the chief operating decision maker in analyzing the performance of the business segments. These non operating income and expense items are provided in the accompanying table under the caption All Other in order to assist the users of these financial statements in reconciling the operating results and total assets of the business segments to the consolidated financial statements. Common use assets are held at either the Company or ACS Holdings and are allocated to the business segments based on operating revenue. Included in the caption All Other are also the net assets held for sale of $261 and other net liabilities of the discontinued operation that would not be sold of $5,941. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2002:

	Local Telephone	Wireless	Internet	Interexchange	All Other	Eliminations	Total
Operating revenues	$226,447	$43,233	$ 20,848	$29,708	$ 58,411	$(35,145)	$343,502
Depreciation and amortization	55,498	5,541	6,744	2,256	12,901		82,940
Operating income (loss)	32,005	3,647	(21,468)	(1,250)	(35,622)	(76)	(22,764)
Interest expense	435	(5)	(146)	(330)	(51,658)		(51,704)
Interest income	3	3		2	2,416		2,424
Income tax provision (benefit)	13,214	1,527			(14,741)		
Income (loss) from continuing operations	19,199	2,113	(21,619)	(1,583)	(70,299)	(76)	(72,265)
Total assets	524,322	83,601	(27,156)	7,412	113,441		701,620
Capital expenditures	31,186	14,007	16,604	228	9,439		71,464

Operating revenues disclosed above include intersegment operating revenues of $22,634 for local telephone, $1,786 for wireless, $13,965 for interexchange and $1,400 for all other. In accordance with SFAS No. 71, intercompany revenues between local telephone and non-local telephone operations are not eliminated above.

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16. BUSINESS SEGMENTS (Continued)

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2001:

	Local Telephone	Wireless	Internet	Interexchange	All Other	Eliminations	Total
Operating revenues	$221,411	$ 41,923	$13,726	$30,795	$ 50,942	$(26,582)	$332,215
Depreciation and amortization	53,242	5,626	2,606	2,284	15,350		79,108
Operating income (loss)	34,794	5,084	(9,504)	(1,752)	18,501		47,123
Interest expense	(1,716)	(36)	(97)	(302)	(58,006)		(60,157)
Interest income	13	14			1,963		1,990
Income tax provision (benefit)	13,534	2,164			(15,893)		(195)
Income (loss) from continuing operations	19,560	2,966	(9,591)	(2,049)	(20,406)		(9,520)
Total assets	652,481	106,851	3,622	28,758	109,802		901,514
Capital expenditures	45,635	5,786	16,319	19,787	55		87,582

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

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2000:

	Local Telephone	Wireless	Internet	Interexchange	All Other	Eliminations	Total
Operating revenues	$222,268	$ 41,205	$ 9,172	$19,773	$ 45,765	$(24,656)	$313,527
Depreciation and amortization	56,912	5,029	1,495	1,345	6,974		71,755
Operating income (loss)	31,751	6,414	(8,760)	(1,325)	5,688		33,768
Interest expense	(1,046)	(11)	(109)	(312)	(63,081)		(64,559)
Interest income	105	215			6,498		6,818
Income tax provision (benefit)	7,913	2,703			(10,813)		(197)
Income (loss) from continuing operations	22,814	3,944	(8,863)	(1,631)	(40,552)		(24,288)
Total assets	633,799	106,878	25,070	43,568	98,970		908,285
Capital expenditures	53,974	11,505	3,252	3,030	492		72,253

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

17. RELATED PARTY TRANSACTIONS

Fox Paine & Company, ACS Group s majority stockholder, receives an annual management fee in the amount of 1% of the Company s net income before interest expense, interest income, income taxes, depreciation and amortization, and equity in loss of investments, calculated without regard to the fee. The management fee expense for 2002, 2001 and 2000 was $1,316, $1,285, and $1,169, respectively. The management fee payable at 2002 and 2001 was $1,319 and $1,303, respectively.

On April 17, 2001, the Company issued an interest bearing note receivable to an officer totaling $328. The note bears interest at the Mid-Term Applicable Federal Rate, which was 3.26% as of December 31, 2002, and is due on April 15, 2005. The note is secured by a pledge of 100 shares of ACS Group s stock held in the officer s name. In accordance with an addendum to the officer s employment agreement dated May 3, 2001, the loan will be forgiven ratably over a three year period on its anniversary date ending on April 16, 2004. Accordingly, $114 was forgiven on April 16, 2002 and recognized as compensation expense. The note balance, including accrued interest, was $235 and $339 as of December 31, 2002 and 2001, respectively.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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18. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Commencing January 1, 2001, The Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and its corresponding amendments under SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. The accounting for changes in fair value of a derivative depends on the intended use of the derivative, and its designation as a hedge. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in fair value of derivatives either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or are recognized in other comprehensive income until the hedged transaction is recognized in earnings. The change in a derivative s fair value related to the ineffective portion of a hedge, if any, is immediately recognized in earnings.

As a result of adopting SFAS No. 133, the Company recognized as an asset at January 1, 2001, a cumulative transition adjustment of $1,243 related to marking to fair value a designated cash flow hedge in the form of a interest rate swap. The cumulative unrealized gain from the transition adjustment was recorded as a credit to other comprehensive income within the Consolidated Statements of Stockholders Equity. As of December 31, 2002 and 2001, the fair value of the swap has declined to a liability of $14,152 and $11,437, respectively, which is recorded in other deferred credits and long-term liabilities on the Company s Consolidated Balance Sheets. The fair value of the Company s interest rate swap agreement represents the estimated amount the Company would receive or pay to terminate the agreement, calculated based on the present value of expected payments or receipts based on implied forward rates in the LIBOR yield curve at the end of the year. The realized gains and losses of the swap and its associated hedged long-term debt are recorded net in interest expense on the Company s Consolidated Statements of Operations. For the years ended December 31, 2002 and 2001, realized changes in the fair value of the cash flow hedge amounted to a charge of $9,046 and $3,653, of which the ineffective portion was $59 and $247, respectively. Both the realized effective and ineffective components of the cash flow hedge were recorded as an increase to interest expense. Assuming a weighted average variable rate based on implied forward rates in the LIBOR yield curve as of December 31, 2002, $10,040 would be charged to earnings as interest expense as a result of projected realized changes in fair value of the cash flow hedge expected to occur in 2003. The swap agreement currently in place expires on June 24, 2004.

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

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

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash and short-term investments, accounts receivable and payable, and other short-term assets and liabilities approximate carrying values due to their short-term nature. The Company s interest rate swap agreement is marked to fair value, therefore its carrying value is equal to its fair value.

The fair value for the Company s senior subordinated notes was estimated based on quoted market prices. The fair value of the Company s senior credit facility term debt approximates carrying values due to the variable interest rate nature of the debt and its senior position in the capital structure. The fair value of the Company s senior discount debentures is estimated based on market interest rates currently available to the Company.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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19. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table summarizes the Company s carrying values and fair values of the debt components of its financial instruments at December 31, 2002:

	Carrying Value	Fair Value
Senior credit facility term debt - tranche A	$148,500	$148,500
Senior credit facility term debt - tranche B	148,500	148,500
Senior credit facility term debt - tranche C	133,650	133,650
9 3/8% senior subordinated notes due 2009	150,000	107,250
13% senior discount debentures due 2011	14,932	21,316
Capital leases and other long-term obligations	12,181	12,181
	$607,763	$571,397

The following table summarizes the Company s carrying values and fair values of the debt components of its financial instruments at December 31, 2001:

	Carrying Value	Fair Value
Senior credit facility term debt - tranche A	$150,000	$150,000
Senior credit facility term debt - tranche B	150,000	150,000
Senior credit facility term debt - tranche C	135,000	135,000
9 3/8% senior subordinated notes due 2009	150,000	148,500
13% senior discount debentures due 2011	14,647	21,212
Capital leases and other long-term obligations	11,603	11,603
	$611,250	$616,315

20. SEVERANCE AND RESTRUCTURING CHARGES

In June 2002, the Company adopted a restructuring plan and recorded $862 of associated charges, including $523 of severance costs and $339 of lease termination costs for office space. Employee force reductions expected as a result of this plan total approximately 30 persons, and the plan is expected to be completed by June 2003. As of December 31, 2002, 11 employees have been terminated and are eligible for severance and the Company has paid out $172 accrued under this plan.

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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

ACS Group and ACS Holdings subsidiaries are guarantors under ACS Holdings 9 3/8 % senior subordinated notes. All ACS Group s and Holdings subsidiaries (the Combined Subsidiaries) are 100% owned. The guarantees are full and unconditional. In addition, all guarantees are joint and several. The Company s senior credit facility and the senior subordinated notes indenture restrict the subsidiaries ability to pay dividends (and make other distributions) to ACS Group. Accordingly, the interim condensed consolidating financial statements are presented below.

Condensed Consolidated Balance Sheet
December 31, 2002

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ (73)	$ 18,638	$	$	$ 18,565
Restricted cash		3,440			3,440
Accounts receivable-trade, net	28,713	20,107			48,820
Accounts receivable-affiliates	34,625	(30,864)	(3,761)		
Materials and supplies	11,176	27			11,203
Prepayments and other current assets	2,941	3,231			6,172
Assets held for sale	261				261
Total current assets	77,643	14,579	(3,761)		88,461
Investments		550,964	37,504	(588,468)	
Property, plant and equipment	987,132	103,233			1,090,365
Less: accumulated depreciation	588,536	36,740			625,276
Property, plant and equipment, net	398,596	66,493			465,089
Goodwill	38,821			38,404	77,225
Intangible assets	22,237	1,032			23,269
Debt issuance costs, net		21,130	399		21,529
Deferred charges and other assets	32,278	(6,231)			26,047
Total assets	$ 569,575	$ 647,967	$ 34,142	$ (550,064)	$ 701,620
Liabilities and Stockholders Equity					
Current liabilities:					
Current portion of long-term obligations	$ 1,312	$ 4,621	$ (284)	$	$ 5,649
Accounts payable-affiliates		1,319			1,319
Accounts payable, accrued and other current liabilities	18,834	30,646	316		49,796
Advance billings and customer deposits	9,804				9,804
Total current liabilities	29,950	36,586	32		66,568
Long-term obligations, net of current portion	6,899	579,999	15,216		602,114
Deferred income taxes	7,673	(7,673)			
Other deferred credits and long-term liabilities	12,493	20,437			32,930
Stockholders equity:					
Common stock	25		334	(25)	334

Treasury stock			(12,082)		(12,082)
Paid in capital in excess of par value	355,574	287,242	277,810	(642,816)	277,810
Retained earnings (accumulated deficit)	156,961	(249,738)	(247,168)	92,777	(247,168)
Accumulated other comprehensive loss		(18,886)			(18,886)
Total stockholders equity	512,560	18,618	18,894	(550,064)	8
Total liabilities and stockholders equity	$569,575	$ 647,967	$ 34,142	$(550,064)	$ 701,620

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Balance Sheet
December 31, 2001

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 1,239	$ 39,773	$	$	$ 41,012
Restricted cash		6,932			6,932
Accounts receivable-trade, net	26,707	20,205			46,912
Accounts receivable-affiliates	26,351	(23,876)	(2,475)		
Materials and supplies	8,698	25			8,723
Prepayments and other current assets	4,115	1,917			6,032
Total current assets	67,110	44,976	(2,475)		109,611
Investments		683,372	222,507	(905,879)	
Property, plant and equipment	938,367	98,462			1,036,829
Less: accumulated depreciation	530,728	27,121			557,849
Property, plant and equipment, net	407,639	71,341			478,980
Goodwill	11,311			239,184	250,495
Intangible assets	25,228	1,557			26,785
Debt issuance costs, net		25,321	447		25,768
Deferred charges and other assets	1,249	8,626			9,875
Total assets	$ 512,537	$ 835,193	$ 220,479	$ (666,695)	$ 901,514
Liabilities and Stockholders Equity					
Current liabilities:					
Current portion of long-term obligations	$ 514	$ 4,593	$ (284)	$	$ 4,823
Accounts payable-affiliates		1,303			1,303
Accounts payable, accrued and other current liabilities	32,273	30,492	316		63,081
Advance billings and customer deposits	9,190				9,190
Total current liabilities	41,977	36,388	32		78,397
Long-term obligations, net of current portion	6,876	584,620	14,931		606,427
Deferred income taxes	10,076	(10,076)			
Other deferred credits and long-term liabilities	9,420	15,583			25,003
Stockholders equity:					
Common stock	25		332	(25)	332
Treasury stock			(9,735)		(9,735)
Paid in capital in excess of par value	283,185	287,242	276,840	(570,427)	276,840
Retained earnings (accumulated deficit)	160,978	(64,735)	(61,921)	(96,243)	(61,921)
Accumulated other comprehensive loss		(13,829)			(13,829)
Total stockholders equity	444,188	208,678	205,516	(666,695)	191,687

Total liabilities and stockholders equity	$512,537	$835,193	$220,479	$(666,695)	$ 901,514

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Operations
Year Ended December 31, 2002

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Operating revenue:					
Local telephone	$226,447	$	$	$	$ 226,447
Wireless	43,233			(53)	43,180
Directory	33,604				33,604
Internet	20,848			(1)	20,847
Interexchange	29,708			(10,284)	19,424
Other	716	24,807		(25,523)	
Total operating revenue	354,556	24,807		(35,861)	343,502
Operating expense:					
Local telephone (exclusive of depreciation and amortization)	138,948	2,188		(23,859)	117,277
Wireless (exclusive of depreciation and amortization)	33,940			(6,028)	27,912
Directory (exclusive of depreciation and amortization)	14,189			(19)	14,170
Internet (exclusive of depreciation and amortization)	35,547			(6,045)	29,502
Interexchange (exclusive of depreciation and amortization)	28,666			(1,119)	27,547
Other (exclusive of depreciation and amortization)	1,158			(1,158)	
Depreciation and amortization	70,181	12,890		(131)	82,940
Goodwill impairment loss		64,755			64,755
Total operating expense	322,629	79,833		(38,359)	364,103
Loss on disposal of assets	204			1,959	2,163
Operating income (loss)	31,723	(55,026)		539	(22,764)
Other income (expense):					
Interest expense	(79)	(49,067)	(2,591)	33	(51,704)
Interest income and other	(37)	(3,978)	(182,656)	188,874	2,203
Total other expense	(116)	(53,045)	(185,247)	188,907	(49,501)
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	31,607	(108,071)	(185,247)	189,446	(72,265)
Income tax expense (benefit)	22,718	(22,718)			
Income (loss) from continuing operations	8,889	(85,353)	(185,247)	189,446	(72,265)
Loss from discontinued operations	(6,810)	(250)		(572)	(7,632)
	2,079	(85,603)	(185,247)	188,874	(79,897)

Income (loss) before cumulative effect of change in accounting principle					
Cumulative effect of change in accounting principle	(8,297)	(97,053)			(105,350)
Net income (loss)	$ (6,218)	$ (182,656)	$ (185,247)	$ 188,874	$ (185,247)

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Operations
Year Ended December 31, 2001

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Operating revenue:					
Local telephone	$221,411	$	$	$	$221,411
Wireless	41,923			(29)	41,894
Directory	33,870				33,870
Internet	13,726			(2)	13,724
Interexchange	30,795			(9,479)	21,316
Other	960	17,072		(18,032)	
Total operating revenue	342,685	17,072		(27,542)	332,215
Operating expense:					
Local telephone (exclusive of depreciation and amortization)	133,181	2,475		(15,191)	120,465
Wireless (exclusive of depreciation and amortization)	31,213			(5,564)	25,649
Directory (exclusive of depreciation and amortization)	14,713			(29)	14,684
Internet (exclusive of depreciation and amortization)	20,624			(4,947)	15,677
Interexchange (exclusive of depreciation and amortization)	30,263			(754)	29,509
Other (exclusive of depreciation and amortization)	1,949			(1,949)	
Depreciation and amortization	64,463	15,348		(703)	79,108
Total operating expense	296,406	17,823		(29,137)	285,092
Loss on disposal of assets					
Operating income (loss)	46,279	(751)		1,595	47,123
Other income (expense):					
Interest expense	(2,277)	(55,414)	(2,592)	126	(60,157)
Interest income and other	116	23,660	(8,646)	(11,811)	3,319
Total other expense	(2,161)	(31,754)	(11,238)	(11,685)	(56,838)
Income (loss) before income taxes and and discontinued operations	44,118	(32,505)	(11,238)	(10,090)	(9,715)
Income tax expense (benefit)	23,664	(23,859)			(195)
Income (loss) from continuing operations	20,454	(8,646)	(11,238)	(10,090)	(9,520)
Loss from discontinued operations				(1,718)	(1,718)
Net income (loss)	$ 20,454	$ (8,646)	$(11,238)	$(11,808)	$ (11,238)

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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Operations
Year Ended December 31, 2000

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Operating revenue:					
Local telephone	$222,268	$	$	$	$222,268
Wireless	41,205			(50)	41,155
Directory	29,156				29,156
Internet	9,172			(2)	9,170
Interexchange	19,773			(7,995)	11,778
Other	1,131	16,609		(17,740)	
Total operating revenue	322,705	16,609		(25,787)	313,527
Operating expense:					
Local telephone (exclusive of depreciation and amortization)	145,682	2,469		(16,609)	131,542
Wireless (exclusive of depreciation and amortization)	29,762			(3,456)	26,306
Directory (exclusive of depreciation and amortization)	13,334				13,334
Internet (exclusive of depreciation and amortization)	16,348			(4,563)	11,785
Interexchange (exclusive of depreciation and amortization)	19,753			(4)	19,749
Other (exclusive of depreciation and amortization)	1,482			(1,482)	
Unusual charges	5,288				5,288
Depreciation and amortization	57,429	14,836		(510)	71,755
Total operating expense	289,078	17,305		(26,624)	279,759
Loss on disposal of assets					
Operating income (loss)	33,627	(696)		837	33,768
Other income (expense):					
Interest expense	(1,629)	(60,480)	(2,601)	151	(64,559)
Interest income and other	349	18,496	(22,604)	10,065	6,306
Total other expense	(1,280)	(41,984)	(25,205)	10,216	(58,253)
Income (loss) before income taxes and discontinued operations	32,347	(42,680)	(25,205)	11,053	(24,485)
Income tax expense (benefit)	16,830	(17,027)			(197)
Income (loss) from continuing operations	15,517	(25,653)	(25,205)	11,053	(24,288)
Loss from discontinued operations				(917)	(917)
Net income (loss)	$ 15,517	$(25,653)	$(25,205)	$ 10,136	$ (25,205)

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Cash Flows
Year Ended December 31, 2002

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Net cash provided (used) by operating activities	$ 59,261	$ 6538	$ (972)	$	$ 64,827
Cash Flows from Investing Activities:					
Construction and capital expenditures	(57,538)	(9,439)			(66,977)
Acquisition of PCS license	(300)				(300)
Issuance of note receivable		(15,000)			(15,000)
Other investing activities		3,706			3,706
Net cash used by investing activities	(57,838)	(20,733)			(78,571)
Cash Flows from Financing Activities:					
Payments on long-term debt	(2,735)	(4,593)			(7,328)
Dividends		(2,347)	2,347		
Purchase of treasury stock			(2,347)		(2,347)
Issuance of common stock			972		972
Net cash provided (used) by financing activities	(2,735)	(6,940)	972		(8,703)
Decrease in cash and cash equivalents	(1,312)	(21,135)			(22,447)
Cash and cash equivalents, beginning of the period	1,239	39,773			41,012
Cash and cash equivalents, end of the period	$ (73)	$ 18,638	$	$	$ 18,565
Supplemental Cash Flow Data:					
Interest paid	$ 86	$ 45,774	$ 2,227	$	$ 48,087
Income taxes paid	$	$	$	$	$
Supplemental Noncash Transactions:					
Property acquired under capital leases and mortgages	$ 4,187	$	$	$	$ 4,187
Minimum pension liability adjustment	$	$ 2,342	$	$	$ 2,342
Interest rate swap marked to market	$	$ 2,715	$	$	$ 2,715

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Cash Flows
Year Ended December 31, 2001

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Net cash provided (used) by operating activities	$ 88,111	$ (11,474)	$ (1,374)	$	$ 75,263
Cash Flows from Investing Activities:					
Construction and capital expenditures	(87,548)	(34)			(87,582)
Other investing activities		(6,901)			(6,901)
Net cash used by investing activities	(87,548)	(6,935)			(94,483)
Cash Flows from Financing Activities:					
Payments on long-term debt	(1,337)	(1,701)			(3,038)
Dividends					
Purchase of treasury stock					
Issuance of common stock			1,374		1,374
Net cash provided (used) by financing activities	(1,337)	(1,701)	1,374		(1,664)
Decrease in cash and cash equivalents	(774)	(20,110)			(20,884)
Cash and cash equivalents, beginning of the period	2,013	59,883			61,896
Cash and cash equivalents, end of the period	$ 1,239	$ 39,773	$	$	$ 41,012
Supplemental Cash Flow Data:					
Interest paid	$ 2,285	$ 47,171	$ 2,260	$	$ 51,716
Income taxes paid	$	$	$	$	$
Supplemental Noncash Transactions:					
Minimum pension liability adjustment	$	$ 2,392	$	$	$ 2,392
Interest rate swap marked to market	$	$ 11,437	$	$	$ 11,437

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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21. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

Condensed Consolidated Statement of Cash Flows
Year Ended December 31, 2000

	Combined Subsidiaries	ACS Holdings Parent Only	ACS Group Parent Only	Eliminations	ACS Group Consolidated
Net cash provided (used) by operating activities	$ 69,421	$ 74,412	$ (95,340)	$	$ 48,493
Cash Flows from Investing Activities:					
Construction and capital expenditures	(68,609)	(492)			(69,101)
Other investing activities		(5,598)			(5,598)
Net cash used by investing activities	(68,609)	(6,090)			(74,699)
Cash Flows from Financing Activities:					
Payments on long-term debt	(3,058)	(3,451)			(6,509)
Dividends		(9,735)	9,735		
Purchase of treasury stock			(9,735)		(9,735)
Issuance of common stock			2,352		2,352
Net cash provided (used) by financing activities	(3,058)	(13,186)	2,352		(13,892)
Increase (decrease) in cash and cash equivalents	(2,246)	55,136	(92,988)		(40,098)
Cash and cash equivalents, beginning of the period	4,259	4,747	92,988		101,994
Cash and cash equivalents, end of the period	$ 2,013	$ 59,883	$	$	$ 61,896
Supplemental Cash Flow Data:					
Interest paid	$ 1,635	$ 55,783	$ 2,254	$	$ 59,672
Income taxes paid	$	$	$	$	$
Supplemental Noncash Transactions:					
Property acquired under capital leases and mortgages	$ 3,152	$	$	$	$ 3,152
Note payable in connection with acquisition	$	$ 2,250	$	$	$ 2,250

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

22. COMMITMENTS AND CONTINGENCIES

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

A class action lawsuit was filed against the Company on March 14, 2001. The litigation alleges various contract and tort claims concerning the Company s decision to terminate its Infinite Minutes long distance plan. Although the Company believes this suit is without merit and intends to vigorously defend its position, it is impossible to determine at this time the actual number of plaintiffs or the claims that will actually continue to be in dispute.

In December 2001, the Company entered into a material contract with the State of Alaska to provide it with comprehensive telecommunications services for a period of five years. This contract obligates the Company to, among other things, provide on the state s behalf customer premise equipment and other capital assets which the Company believes will range between $25,000 and $30,000 over the term of the agreement, of which approximately $12,400 has been expended through December 31, 2002. The Company intends to fund this commitment with cash on hand and cash flows from operations.

On July 15, 2002 the Company fulfilled a commitment to Neptune Communications, L.L.C. (Neptune) to provide a loan in the form of an unsecured note receivable totaling $15,000 in return for certain consideration. The note, which is included in deferred charges and other assets on the Company s Consolidated Balance Sheets, bears interest at the applicable federal rate, which was 5.61% at the date of issuance, and matures on July 15, 2022. Interest is payable semiannually, but Neptune may elect to add the interest to the principal in lieu of cash payments. The commitment was funded with cash on hand. In connection with this note, Neptune has granted the Company an option to purchase certain network assets of Neptune, no later than January 2, 2006 at a price equal to the then outstanding loan balance. The Company has also entered into a strategic agreement with Neptune for the life of the fiber optic cable system owned by Neptune. The significant provisions of this agreement are: i) purchase commitments by the Company for capacity in 2005 and 2007, the final price and quantity of which are subject to future events, ii) Neptune s restoration of the Company s traffic carried on another cable system, iii) and specific interconnection arrangements between the Company and Neptune, should the Company exercise its option to purchase certain network assets from Neptune. The Company is currently renegotiating the terms and conditions of this agreement and it is not possible to determine the ultimate outcome of these negotiations at this time.

The Company has been authorized by its Board of Directors to evaluate the possible disposition of its directory business, ACSIS. This transaction, if completed, would result in a de-leveraging of the Company s balance sheet and generate cash for other corporate objectives. The Company expects to file on or about March 6, 2003, a preliminary prospectus with Canadian securities regulators relating to a proposed public offering in Canada of ACSIS through a Canadian income fund. Any prospective sale of ACSIS is subject to the approval of the Company s Board of Directors, which is dependent upon terms and pricing. Any such sale is also contingent upon a number of conditions including approval by securities regulators, the approval of an amendment of certain terms and conditions of the Company s senior credit facility and market conditions. There can be no assurance that the Company will consummate any transaction to sell ACSIS.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements, Continued
Years Ended December 31, 2002, 2001 and 2000
(In Thousands Except Per Share Amounts)

23. CONSOLIDATED QUARTERLY OPERATING INFORMATION (UNAUDITED)

	Quarterly Financial Data			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Operating revenues	$ 82,010	$92,905	$ 84,330	$ 84,257
Operating income (loss)	12,542	15,173	5,909	(56,388)
Income (loss) from continuing operations	(344)	4,101	(6,909)	(69,113)
Loss on discontinued operations	(6,872)	(515)	(136)	(109)
Income (loss) before cumulative effect of change in accounting principle	(7,216)	3,586	(7,045)	(69,222)
Cumulative effect of change in accounting principle	(105,350)			
Net income (loss)	(112,566)	3,586	(7,045)	(69,222)
Income (loss) per share - basic and diluted:				
Income (loss) from continuing operations	(0.01)	0.13	(0.22)	(2.25)
Loss on discontinued operations	(0.22)	(0.02)		
Income (loss) before cumulative effect of change in accounting principle	(0.23)	0.11	(0.22)	(2.25)
Cumulative effect of change in accounting principle	(3.32)			
Net income (loss)	(3.55)	0.11	(0.22)	(2.25)
2001				
Operating revenues	$ 81,301	$81,850	$ 82,981	$ 86,083
Operating income	10,310	12,096	12,708	12,009
Loss from continuing operations	(4,559)	(2,313)	(873)	(1,775)
Loss on discontinued operations	(310)	(491)	(526)	(391)
Net loss	(4,869)	(2,804)	(1,399)	(2,166)
Loss per share - basic and diluted:				
Loss from continuing operations	(0.14)	(0.07)	(0.03)	(0.06)
Loss on discontinued operations	(0.01)	(0.02)	(0.02)	(0.01)
Net loss	(0.15)	(0.09)	(0.04)	(0.07)
2000				
Operating revenues	$ 78,235	$80,788	$ 75,008	$ 79,496
Operating income	11,453	12,084	3,524	6,707
Loss from continuing operations	(2,999)	(2,445)	(10,653)	(8,191)
Loss on discontinued operations	(139)	(251)	(223)	(304)
Net loss	(3,138)	(2,696)	(10,876)	(8,495)
Loss per share - basic and diluted:				
Loss from continuing operations	(0.09)	(0.07)	(0.32)	(0.25)
Loss on discontinued operations		(0.01)	(0.01)	(0.01)
Net loss	(0.10)	(0.08)	(0.33)	(0.26)

On March 30, 2002, the Company approved a plan to sell its wireless cable television service segment. As a result of this decision, the operating revenue and expense of this segment has been classified as discontinued operations for all periods presented. Effective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* and a transitional impairment loss of $105,350 was recognized as the cumulative effect of a change in accounting principle in the consolidated statement of operations. The Company performed its annual goodwill impairment test during the fourth quarter of 2002 and recorded a goodwill impairment loss of $64,755 in operating expenses of the consolidated statement of operations. less collection of amounts previously written off.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Schedule II Valuation and Qualifying Accounts
(In Thousands)

Description	Balance at Beginning of Period	Charged to costs and expenses	Charged to other accounts (1)	Deductions (2)	Balance at End of Period
2002 Allowance for doubtful accounts	$4,944	$4,884	$ 214	$ 3,967	$6,075
2001 Allowance for doubtful accounts	$9,831	$4,932	$1,576	$11,395	$4,944
2000 Allowance for doubtful accounts	$5,203	$7,839	$ 751	$ 3,962	$9,831

(1) Represents the reserve for accounts receivable collected on the behalf of others.

(2) Represents credit losses