

ALASKA COMMUNICATIONS SYSTEMS GROUP INC

Form 424B5

January 19, 2005

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The information in this prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission and has been declared effective. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)  
Registration Number 333-121433

Subject to completion, dated January 18, 2005

Preliminary prospectus supplement  
(To prospectus dated January 7, 2005)

*shares*

## *Common stock*

We intend to sell such number of shares of our common stock that will result in gross proceeds to us of approximately \$75 million.

Our common stock is quoted on the Nasdaq National Market under the symbol "ALSK." On January 14, 2005, the last reported sale price of our common stock was \$8.92 per share.

	Per share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to us, before expenses	\$	\$

We have granted the underwriters an option for a period of 30 days to purchase up to additional shares.

Investing in our common stock involves a high degree of risk. See "Risk factors" beginning on page S-14 of this prospectus supplement and page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

**JPMorgan**

**CIBC World Markets**

**Banc of America Securities LLC**

**Legg Mason Wood Walker**

**Raymond James**

**Wells Fargo Securities**

**Incorporated**

**, 2005**

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**Prospectus**

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**About this prospectus supplement**

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this common stock offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the prospectus. The second part is the accompanying prospectus, dated January 7, 2005, which gives more general information, some of which does not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement. We have not, and the underwriters have not, authorized any other person to provide you with any information or to make any representations not contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer of any securities other than the shares. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted.

The Securities and Exchange Commission, or the SEC, allows us to incorporate into this prospectus information that we have filed, or subsequently file, with the SEC, which means we can disclose important information to you by referring to that information. The information incorporated by reference is considered to be part of the accompanying prospectus and this prospectus supplement, and information that we file with the SEC after the date of the prospectus will automatically update the accompanying prospectus and this prospectus supplement. See "Incorporation of certain documents by reference" and "Where you can find more information" in the accompanying prospectus for more information regarding the information we are incorporating by reference and for the address and contact information necessary to make a request for copies of this and other information.

You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as the information contained in any document incorporated by reference, is accurate as of the date of each such document only.

"Alaska Communications Systems Group" and our logo are our trademarks. Other trademarks, service marks and trade names appearing in this prospectus supplement are the property of their respective owners.

Unless the context otherwise requires, the terms "we," "our," "us," "the company," and "ACS Group" refer to Alaska Communications Systems Group, Inc. and its consolidated subsidiaries. Any reference to "ACSH" refers to our wholly owned subsidiary, Alaska Communications Systems Holdings, Inc., and its consolidated subsidiaries, unless otherwise indicated.

**Prospectus supplement summary**

*You should read the following summary in conjunction with the more detailed information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus, including the information contained in the "Risk factors" section beginning on page S-14 of this prospectus supplement and on page 2 of the accompanying prospectus.*

**Alaska Communications Systems Group**

We are the leading facilities-based telecommunications services provider and the largest local exchange carrier (LEC) in Alaska and the 13<sup>th</sup> largest LEC in the United States. We are focused on providing leading telecommunications services to our customers under a single brand name, Alaska Communications Systems. On a retail basis, we provide our consumer and business customers with a complete range of telecommunications services, including local telephone, wireless, Internet, and long distance, using our own network, as well as video entertainment through our partnership arrangement with DISH Network, a leading satellite service provider. In addition, we also provide selected local telephone and wireless services on a wholesale basis.

We have successfully grown our retail relationships, and as of September 30, 2004 we served 388,913 retail relationships. A "retail relationship" refers to one service provided to one customer and, therefore, each customer may represent more than one retail relationship. As of September 30, 2004, including both retail and wholesale customers, we served 95,529 wireless subscribers, 301,684 local telephone access lines, 44,334 long distance customers and 46,291 Internet subscribers (including 22,592 high-speed digital subscriber line, or DSL, subscribers).

We began operations in May 1999 when we completed the acquisition and integration of four local telephone companies in Alaska. Each of the businesses we purchased had been operating in its local markets for over 50 years. Since 1999, we have invested in upgrading our network and service capabilities, improved our cost management in our operations, and focused on improving customer service. As a result, our business, which has been characterized by a stable customer base and predictable capital expenditure requirements, has generated stable revenues and cash flows since 2000, with consolidated cash flow from operations of \$50.4 million for the year ended December 31, 2003 and \$38.7 million for the nine months ended September 30, 2004. We have generated a net loss from operations during each year since 1999 and we expect to generate a net loss from operations in 2004. We currently have substantial indebtedness and an accumulated deficit of \$286.0 million as of September 30, 2004.

Our principal offices are located at 600 Telephone Avenue, Anchorage, Alaska 99503. Our telephone number is (907) 297-3000.

**Competitive strengths**

We enjoy stable cash flows and attractive growth prospects due to the following competitive strengths:

*Leading competitive position.* We are the leading facilities-based telecommunications services provider in Alaska. As the largest LEC, the largest provider of DSL and the second-largest provider of wireless services in the state, we have strong brand recognition within Alaska and a solid local market position. We believe our brand recognition and leading market positions result in improved customer loyalty and contribute to the stability of our cash flows.

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*Integrated portfolio of service offerings.* We offer a variety of bundled service packages to our consumer and business customers, which include local telephone, wireless, Internet, long distance, messaging, video entertainment and other services. We believe that bundled offerings are popular because they allow for a single customer service interface and fewer billing statements, while providing greater value and pricing benefits across a number of services. By actively marketing and selling our bundled service packages, we believe we can increase our customer base, improve customer loyalty and increase our share of our customers' telecommunications purchases.

*Advanced networks and facilities.* We have made significant investments in our telecommunications networks and facilities over the past five years. As a result of these investments, we are able to offer a full range of telecommunications services but have maintained predictable capital expenditure requirements. We are currently the only provider of broadband wireless services in the state of Alaska. Our wireless network has a covered population of approximately 480,000, representing over 70% of Alaska's population according to data from the U.S. Census Bureau. Over the next few years, we expect to augment our existing networks and facilities, including the completion of the build-out of our statewide CDMA 1xRTT and EV-DO wireless networks, which will allow us to increase the population covered by our wireless network and to offer a wider range of wireless voice and broadband data services to our customers.

*Favorable Alaskan market conditions.* We believe the Alaskan market provides an attractive and growing potential customer base. Alaska is characterized by higher-than-average median incomes, higher expenditures per household on communications services, a population growth rate of almost three times the national average, increasing federal government expenditures and lower-than-average wireless penetration. We believe that Alaska's combination of large geographic size and isolated markets featuring both major metropolitan areas and widely distributed small, dense population clusters reduces the likelihood of entry by new facilities-based service providers.

*Strong management team.* Our highly experienced senior management team has an average of approximately 16 years of experience in the telecommunications industry and has a proven track record of operating and managing integrated telecommunications companies. During the last fifteen months, we have added a number of key individuals to our executive management team who have broad experience in the telecommunications industry and understand the dynamics of the Alaskan market and our customers.

### **Business strategy**

Our goal is to be the premier telecommunications services provider in Alaska and to maintain and grow our cash flow. We consider the following strategies to be integral to achieving our goal:

maintaining and increasing the number of loyal consumer, business and wholesale customers that we serve and having our existing consumer and business customers buy more of our services and regularly refer new customers to us;

offering our consumer and business customers an integrated bundle of telecommunications services including local telephone, wireless, Internet, long distance, messaging and video entertainment;

capitalizing on our significant existing investment in our technologically advanced networks to provide feature-rich, high-quality and highly reliable telecommunications services such as DSL and broadband wireless service to our consumer and business customers;

increasing our margins through ongoing process improvements, strategic sourcing initiatives, reduced costs and improved operating efficiencies;

leveraging our advanced CDMA 1xRTT and EV-DO wireless networks and our strong competitive position as the leading facilities-based telecommunications provider in Alaska to increase our market share in the Alaskan wireless market; and

exploring acquisitions of other telecommunications assets and businesses that we would expect to increase our cash flows and our ability to pay dividends to the holders of our common stock.

### **Recent developments**

*Announcement of dividend and withdrawal of income deposit securities registration statements.* On October 28, 2004, we announced the initiation of a quarterly cash dividend and the withdrawal of our previously filed registration statements relating to an initial public offering of income deposit securities. Our board of directors has established an initial dividend policy at an annual rate of \$0.74 per share, payable quarterly. Our first quarterly cash dividend of \$0.185 per share is payable on January 19, 2005 to our stockholders of record at the close of business on December 31, 2004. Shares of our common stock purchased in this offering will not receive this first quarterly cash dividend. See "Dividend policy and restrictions."

*Preliminary settlement of class action.* In October 2004, we entered into a settlement agreement in a class action lawsuit regarding our termination of our Infinite Minutes long distance plan. Pursuant to the terms of the settlement agreement, class members will receive coupons for our consumer wireline, wireless or data services, and coupons for interstate long distance minutes. On October 27, 2004, the court granted preliminary approval of the settlement and final approval by the court is expected in February or March 2005. See "Business Legal proceedings."

*Launch of new service offering.* Building on our "Mobile to Mobile" offering launched in May 2004, in August 2004 we launched our wireless "Mobile to Home" calling feature which allows wireless customers to enjoy unlimited calling between their wireless phones and their home telephone numbers, and vice versa.

*CETC status granted to our wireless subsidiary.* In the second half of 2004, the Regulatory Commission of Alaska (RCA) granted competitive eligible telecommunications carrier (CETC) status to our wireless subsidiary for the majority of its service areas, which serve over 85% of our wireless subscribers. This will enable us to receive Universal Service Funds for serving wireless customers in these areas.

*Launch of CDMA 1xRTT and EV-DO wireless networks.* We launched our CDMA 1xRTT and EV-DO networks in May and June 2004, respectively, providing our customers with access to an advanced wireless network featuring both voice and broadband data services. We are currently the only provider of broadband wireless services in the state of Alaska and believe that our advanced network and related offerings such as mobile data will enable us to continue to grow our customer base and increase our average revenue per wireless customer.

### **Refinancing transactions**

In connection with this offering, we intend to enter into a new senior credit facility consisting of a \$50.0 million revolving credit facility and a \$335.0 million term loan, which we refer to as the new senior credit facility. In connection with the new senior credit facility, we anticipate entering into a floating-to-fixed interest rate swap, which we refer to as the interest rate swap,

in which we expect to swap the floating interest rate of a portion of the term loan borrowings under the new senior credit facility for a fixed interest rate. See "Description of the new senior credit facility" for a description of the expected material terms of the new senior credit facility.

We intend to use the proceeds of this offering, along with \$335.0 million of term loan borrowings under the new senior credit facility and available cash to:

repay all amounts outstanding under our existing senior secured credit facility;

repurchase in full \$147.5 million aggregate outstanding principal amount of 9<sup>3</sup>/<sub>8</sub>% senior subordinated notes due 2009 issued by ACSH, which we refer to as the ACSH senior subordinated notes;

repurchase approximately \$59.4 million aggregate principal amount of 9<sup>7</sup>/<sub>8</sub>% senior notes due 2011 issued by ACSH (out of a total outstanding principal amount of \$177.7 million), which we refer to as the ACSH senior notes (the ACSH senior subordinated notes and ACSH senior notes are collectively referred to as the ACSH notes); and

pay the fees and expenses related to this offering and the related refinancing transactions.

On January 12, 2005, we commenced a tender offer to purchase for cash all of the outstanding ACSH senior subordinated notes and we are soliciting consents from the holders of the ACSH senior subordinated notes to amend the indenture governing the ACSH senior subordinated notes to remove substantially all of the restrictive covenants thereunder. To the extent less than all of the outstanding ACSH senior subordinated notes are purchased in the tender offer, we currently intend to call for redemption any remaining ACSH senior subordinated notes pursuant to the terms of the indenture governing the ACSH senior subordinated notes. The tender offer and consent solicitation for the ACSH senior subordinated notes are conditioned on the completion of this offering, our entering into the new senior credit facility and the completion of the tender offer and consent solicitation for the ACSH senior notes described below.

In addition, on January 12, 2005, we commenced a tender offer to purchase up to \$59.4 million aggregate principal amount of ACSH senior notes and we are soliciting consents from the holders of the ACSH senior notes to amend the indenture governing the senior notes to allow us to incur the additional senior debt contemplated by the new senior credit facility and to amend the restrictions on our ability to make certain restricted payments. ACSH has entered into agreements with holders of \$50.2 million aggregate principal amount of the ACSH senior notes, which represents 28.3% of the aggregate principal amount of the outstanding ACSH senior notes, pursuant to which the holders have agreed, subject to certain conditions, to tender their ACSH senior notes in the tender offer and deliver their consents pursuant to the consent solicitation. The tender offer and consent solicitation for the ACSH senior notes are conditioned on the completion of this offering, our entering into the new senior credit facility and the completion of the tender offer and consent solicitation for the ACSH senior subordinated notes described above.

Upon consummation of the tender offers for the ACSH senior subordinated notes and the ACSH senior notes, we intend to cancel \$4.4 million aggregate principal amount of ACSH senior notes and \$2.5 million aggregate principal amount of ACSH senior subordinated notes that we purchased on the open market during the quarter ended December 31, 2004.

We expect that we will enter into the new senior credit facility at the time we close this offering. We currently expect that this offering will close prior to the closing of the tender offers for the ACSH senior notes and the ACSH senior subordinated notes. If we close this



offering and enter into the new senior credit facility prior to closing the tender offers, we will agree to become unconditionally obligated to close the tender offer and consent solicitation for the ACSH senior notes at the expiration time then in effect, without modifying, terminating or extending the tender offer and consent solicitation for the ACSH senior notes. If we close this offering and enter into the new senior credit facility prior to closing the tender offers and consent solicitations for the ACSH senior notes and the ACSH senior subordinated notes, we will repay all outstanding amounts under the existing senior secured credit facility with the proceeds of the term loan borrowings under the new senior credit facility, with the remaining portion of the term loan borrowings being held in escrow to be released upon completion of the tender offer and consent solicitation for the ACSH senior notes. The term loan borrowings released from escrow will be used to fund the repurchase of the ACSH senior notes. At the time we close the tender offer and consent solicitation for the ACSH senior notes, we will use the proceeds from this offering and a portion of our available cash to close the tender offer and the consent solicitations for the ACSH senior subordinated notes.

We refer to this offering, entering into the new senior credit facility, including the interest rate swap, and the application of the net proceeds of this offering, the term loan borrowings under the new senior credit facility and available cash to repay our existing senior secured credit facility, to repurchase the ACSH senior subordinated notes and to repurchase a portion of the ACSH senior notes and the related tender offers and consent solicitations, and the prior repurchase on the open market and cancellation of some of the ACSH senior notes and ACSH senior subordinated notes during 2004, collectively, as the Refinancing Transactions. See "Refinancing transactions."

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The following table illustrates the estimated sources of and uses of the funds from this offering and the Refinancing Transactions, assuming they had occurred as of September 30, 2004 and that the underwriters have not exercised their over-allotment option. Actual amounts may differ.

Sources of Funds	Amount (in millions)	Uses of Funds	Amount (in millions)
Proceeds of this offering	\$ 75.0	Repayment of existing senior	
New senior credit facility term		secured credit facility	\$ 198.5
loan borrowings	335.0	Tender offer for ACSH senior	
Cash and cash equivalents	79.7	notes	59.4
		Tender premium on ACSH senior notes(1)	5.9
		Accrued interest on ACSH senior notes(2)	0.8
		Repurchase and cancellation of ACSH	
		senior notes(3)	4.5
		Tender offer for ACSH senior	
		subordinated notes	147.5
		Tender premium on ACSH senior	
		subordinated notes(4)	6.9
		Accrued interest on ACSH senior	
		subordinated notes(5)	5.3
		Repurchase and cancellation of ACSH	
		senior subordinated notes(6)	2.5
		Other fees and expenses(7)	13.2
		Remaining cash and cash equivalents(8)	45.2
Total Sources	\$ 489.7	Total Uses	\$ 489.7

- (1) Represents tender premium and consent fees on \$59.4 million aggregate principal amount that we expect to purchase in the ACSH senior notes tender offer.
- (2) Does not include accrued interest to the expected repurchase date. As of December 31, 2004, accrued interest on the amount of ACSH senior notes assumed to be repurchased was \$2.7 million.
- (3) Represents \$4.4 million principal amount of ACSH senior notes repurchased on the open market during the fourth quarter of 2004 for an aggregate purchase price of \$4.5 million, which will be cancelled concurrently with the consummation of the ACSH senior notes tender offer.
- (4) Assumes all ACSH senior subordinated notes (other than the ACSH senior subordinated notes repurchased by us in the quarter ended December 31, 2004) have been tendered on or before the ACSH senior subordinated notes tender offer consent date.
- (5) Does not include accrued interest to the expected repurchase date. As of December 31, 2004, accrued interest on such ACSH senior subordinated notes was \$2.1 million.
- (6) Represents \$2.5 million principal amount of ACSH senior subordinated notes repurchased on the open market during the fourth quarter of 2004 for an aggregate purchase price of \$2.5 million, which will be cancelled concurrently with the consummation of the ACSH senior subordinated notes tender offer.
- (7) Includes an estimated \$5.1 million of debt issuance cost associated with the new senior credit facility (including \$1.2 million assumed to be paid as consent fees on the remaining \$118.3 million aggregate principal amount of ACSH senior notes not owned by us, assuming that all of the ACSH senior notes (other than the ACSH senior notes repurchased by us in the quarter ended December 31, 2004) have been tendered on or before the tender offer consent date) and \$6.1 million of professional fees and printing and other out-of-pocket expenses associated with this offering and the Refinancing Transactions, \$3.8 million of underwriting discounts and commissions associated with this offering, net of \$1.8 million of prepaid offering expenses accrued as of September 30, 2004. Does not include any fees we may pay Fox Paine & Company, LLC. See "Certain relationships and related transactions."

(8)

Reflects cash remaining from the term loan borrowings under the new senior credit facility following the repayment of the existing senior secured credit facility and the repurchase of \$59.4 million aggregate principal amount of ACSH senior notes.

This offering is conditioned on us entering into the new senior credit facility and this offering and entering into the new senior credit facility are both conditioned on receiving the requisite consents necessary to amend the indenture governing the ACSH senior notes under the ACSH senior notes tender offer and consent solicitation as described above.

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**The offering**

<b>Common stock offered by Alaska Communications Systems Group, Inc.</b>	shares
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<b>Common stock outstanding after this offering</b>	shares
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<b>Use of proceeds</b>	We intend to use the net proceeds of this offering, along with term loan borrowings under our new senior credit facility and available cash, to:
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	repay our existing senior secured credit facility;
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	repurchase all outstanding ACSH senior subordinated notes;
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	repurchase a portion of the outstanding ACSH senior notes; and
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	pay related fees and expenses.
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See "Refinancing transactions" and "Use of proceeds."

<b>Nasdaq National Market symbol</b>	"ALSK"
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The number of shares of our common stock outstanding after the offering is based on our shares outstanding on January 11, 2005 and excludes 4,612,091 of unissued shares reserved for outstanding options as of January 11, 2005 and assumes the underwriters have not exercised their over-allotment option. If the over-allotment option is exercised, we will issue and sell up to an additional                      shares and we will have approximately                      shares of our common stock outstanding after this offering.

**Summary historical and pro forma consolidated  
financial data**

The summary historical financial data as of December 31, 2001, 2002 and 2003, and for the years ended December 31, 2001, 2002 and 2003, have been derived from our audited consolidated financial statements for those years. The summary historical financial data as of and for the year ended December 31, 2000 are derived from our audited consolidated financial statements for the year ended December 31, 2000 which have not been incorporated by reference in the accompanying prospectus. The audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 have been incorporated by reference in the accompanying prospectus. The summary historical financial data for the nine months ended September 30, 2003 and 2004 have been derived from our unaudited interim condensed consolidated financial statements, which have been incorporated by reference in the accompanying prospectus from our quarterly report on Form 10-Q for the quarterly period ended September 30, 2004, and have been prepared on a basis consistent with our annual consolidated financial statements. In our opinion, the financial data for the nine months ended September 30, 2003 and 2004 reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows as of and for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

The unaudited pro forma statement of operations data for the year ended December 31, 2003 assume that the sale of substantially all of our published yellow page directory advertising business in Alaska (referred to as our Directories Business), this offering of shares of our common stock (assuming the underwriters do not exercise their over-allotment option), and the Refinancing Transactions had occurred on January 1, 2003. See "Management's discussion and analysis of financial condition and results of operations" for more information on our Directories Business.

The unaudited pro forma financial data as of and for the nine months ended September 30, 2004 assume that this offering of shares of our common stock (assuming the underwriters do not exercise their over-allotment option) and the Refinancing Transactions had occurred on September 30, 2004, in the case of summary unaudited pro forma balance sheet data and other data, and on January 1, 2003, in the case of summary unaudited pro forma statement of operations data. The unaudited pro forma data are for informational purposes only and should not be considered indicative of actual results that would have been achieved had the transaction described above actually been completed on the date indicated and does not purport to indicate balance sheet data, results of operations, cash flows, or other data as of any future date or for any future period.

The following data should be read in conjunction with "Management's discussion and analysis of financial condition and results of operations," "Unaudited pro forma condensed consolidated financial information," and our consolidated financial statements and related notes thereto included in our annual report on Form 10-K for the year ended December 31, 2003 and our quarterly report on Form 10-Q for the quarterly period ended September 30, 2004, each of which is incorporated by reference in the accompanying prospectus.

(in thousands except per share amounts and non-financial information)	Year ended December 31,				Nine months ended September 30,		Pro forma year ended December 31,	Pro forma nine months ended September 30,
	2000	2001	2002	2003	2003	2004	2003	2004
<b>Statements of operations data:</b>								
Operating revenues(1)	\$311,366	\$328,525	\$340,144	\$323,548	\$246,010	\$227,332	\$311,917	\$227,332
Operating expenses(2)	277,598	281,402	360,745	360,775	286,301	218,436	355,524	218,436
Loss (gain) on disposal of assets(3)			2,163	(112,622)	(112,507)	2,825	896	2,825
Operating income (loss)	33,768	47,123	(22,764)	75,395	72,216	6,071	(44,503)	6,071
Interest expense(4)	(64,559)	(60,157)	(51,704)	(71,470)	(51,390)	(38,914)	(31,517)	(23,174)
Interest income and other(5)	6,609	3,250	2,203	(10,191)	(10,837)	614	(14,440)	614
Equity in income (loss) of investments	(303)	69		783	628			
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	(24,485)	(9,715)	(72,265)	(5,483)	10,617	(32,229)	(90,460)	(16,489)
Income tax expense (benefit)	(197)	(195)		1,095				
Income (loss) from continuing operations	(24,288)	(9,520)	(72,265)	(6,578)	10,617	(32,229)	(90,460)	(16,489)
Loss from discontinued operations(6)	(917)	(1,718)	(7,632)	(52)	(52)		(52)	
Income (loss) before cumulative effect of change in accounting principle	(25,205)	(11,238)	(79,897)	(6,630)	10,565	(32,229)	(90,512)	(16,489)
Cumulative effect of change in accounting principle(7)			(105,350)					
Net income (loss)	\$(25,205)	\$(11,238)	\$(185,247)	\$(6,630)	\$10,565	\$(32,229)	\$(90,512)	\$(16,489)
Income (loss) per share basic and diluted								
Income (loss) from continuing operations	\$(0.74)	\$(0.30)	\$(2.30)	\$(0.22)	\$0.35	\$(1.10)	\$(2.36)	\$(0.44)
Loss from discontinued operations	(0.03)	(0.06)	(0.24)	(0.00)	(0.00)		(0.00)	
Cumulative effect of change in accounting principle			(3.35)					
Net income (loss)	\$(0.77)	\$(0.36)	\$(5.89)	\$(0.22)	\$0.35	\$(1.10)	\$(2.36)	\$(0.44)
Weighted average shares outstanding (in thousands):(8)								
Basic	32,654	31,523	31,464	29,980	30,165	29,418	38,388	37,826
Diluted	32,654	31,523	31,474	29,980	30,165	29,418	38,388	37,826
<b>Balance sheet data (at end of periods):</b>								
Cash and cash equivalents	\$61,896	\$41,012	\$18,565	\$97,798	\$121,160	\$79,689		\$45,217
Working capital(9)	53,105	31,214	21,893	94,872	115,460	73,182		46,849
Total assets	953,660	949,095	752,509	685,391	701,069	641,672		598,238
Total long-term obligations, including current portion	614,004	611,250	607,763	550,220	551,059	533,264		457,975
Total stockholders' equity (deficit)	215,380	191,687	8	1,860	11,577	(28,625)		9,369



(in thousands except per share amounts and non-financial information)	Year Ended December 31,				Nine months ended September 30,		Pro forma year ended December 31,	Pro forma nine months ended September 30,
	2000	2001	2002	2003	2003	2004	2003	2004
<b>Statements of cash flows data:</b>								
Net cash provided by operating activities	\$49,589	\$76,679	\$65,984	\$50,411	\$50,470	\$38,734		
Net cash provided (used) by investing activities	(75,795)	(95,899)	(79,728)	106,517	128,287	(39,139)		
Net cash provided (used) by financing activities	(13,892)	(1,664)	(8,703)	(77,695)	(76,162)	(17,704)		
<b>Other financial data:</b>								
Indenture EBITDA(12)	\$101,295	\$110,364	\$100,997	\$105,410	\$77,963	\$79,803	\$105,410	\$79,803
Depreciation and amortization	71,755	79,108	82,940	82,185	66,735	57,686	82,183	57,686
Goodwill impairment loss			64,755					
Capital expenditures	73,349	88,998	72,621	50,906	29,875	38,084	50,820	38,084
Asset impairment losses:								
Operating				54,858	54,539	5,402	54,858	5,403
Non-operating				15,924	15,924		15,924	
<b>Other non-financial data (at end of periods):</b>								
<b>Local telephone</b>								
Retail access lines	272,936	261,002	236,148	220,818	221,956	209,414		
Wholesale access lines	17,303	22,859	22,148	19,157	18,803	17,498		
Unbundled network elements	39,221	49,062	64,711	74,246	72,441	74,772		
Total local telephone access lines	329,460	332,923	323,007	314,221	313,200	301,684		
<b>Wireless(10)</b>								
Estimated covered population	462,057	468,622	478,413	480,422	478,413	480,422		
Subscribers	75,933	80,120	82,220	87,017	83,993	95,529		
Penetration	16.4%	17.1%	17.2%	18.1%	17.6%	19.9%		
Average monthly churn	1.6%	1.5%	1.7%	1.5%	1.9%	1.7%		
Average revenue per unit	\$46.03	\$44.74	\$44.33	\$45.84	\$43.47	\$47.43		
<b>Internet(11)</b>								
DSL subscribers	3,269	7,041	12,590	17,780	16,294	22,592		
Total subscribers	45,865	46,476	46,381	46,057	45,351	46,291		

- (1) For the year ended December 31, 2002, operating revenues include \$11,066 of previously deferred interstate access revenue related to a dispute that was recognized during 2002 as a result of a favorable court ruling.
- (2) For the year ended December 31, 2000, operating expenses include \$5,288 of unusual charges, which consisted of \$3,019 of severance and restructuring charges, \$1,451 of costs incurred in connection with an attempted acquisition, and \$818 related to a legal settlement. Operating expenses for the year ended December 31, 2002 include a \$64,755 charge related to the impairment of goodwill incurred as a result of our annual goodwill impairment analysis, the write-off of \$875 related to a previously deferred regulatory asset, \$1,000 of severance and restructuring related costs, and \$325 of other costs. For the year ended December 31, 2003, we recorded \$54,858 in contract termination and asset impairment charges, \$4,445 in recruiting, severance and restructuring costs, and \$1,029 in acquisition and other costs, all of which are included in operating expenses. For the nine months ended September 30, 2004, operating expenses include \$3,416 of recruiting, severance and organizational restructuring costs and \$2,497 of consulting costs incurred in connection with the restructuring.
- (3) For the year ended December 31, 2003, we recognized a gain on disposition of our Directories Business of \$113,518.
- (4) As a result of the refinancing of a portion of our debt in August 2003, we wrote off \$13,052 of deferred financing costs that are included in interest expense for the year ended December 31, 2003. As a result of redeeming our 13% senior discount debentures due 2011 in June 2004, we paid a premium of \$1,125 and wrote off \$330 of deferred financing cost and \$1,968 of original issue discount that are included in interest expense for the nine



months ended September 30, 2004.

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- (5) Included in interest income and other for the year ended December 31, 2003 is an impairment charge of \$15,924 on non-operating assets and a gain on foreign exchange of \$4,261.
- (6) In March, 2002, we approved a plan to discontinue and sell our wireless television operations. As a result, the operating income and expense of this segment have been classified as a discontinued operation for all periods presented.
- (7) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. As a result, we recorded a goodwill impairment charge of \$105,350 on January 1, 2002 as a cumulative effect of a change in accounting principle.
- (8) Pro forma basic and diluted weighted average shares outstanding as of September 30, 2004 assumes the issuance of 8.4 million shares of common stock in this offering at \$8.92 per share, the closing price of our common stock on January 14 2005, assuming the underwriters do not exercise their over-allotment option. The actual issue price for our common stock and number of shares issued in this offering may vary.
- (9) "Working capital" represents total current assets less total current liabilities.
- (10) "Estimated covered population" is based on information compiled from population data published by the State of Alaska on an annual basis. "Subscribers" represents unique activated phone numbers on our wireless system. "Penetration" represents the percentage of the estimated covered population that are subscribers. "Churn" represents the percentage of total subscribers who leave or switch to another service provider. "Average Revenue Per Unit" represents the average monthly revenue per wireless subscriber.
- (11) "DSL subscribers" represents unique activated digital subscriber lines. "Total subscribers" represents unique activated dial-up Internet accounts plus DSL subscribers.
- (12) The indentures governing the ACSH notes contain various restrictive covenants, including several that are based on a ratio of debt to a defined measure of our cash flow, which is net income (loss) adjusted to exclude interest, taxes, depreciation and amortization, certain non-cash charges, any extraordinary or otherwise nonrecurring gain or loss, and certain other items. We refer to this formulation, as adjusted in accordance with calculating this ratio, as "Indenture EBITDA." The indentures governing the ACSH notes provide that we must satisfy this ratio in order to enter into certain types of transactions, including the incurrence of additional indebtedness, the payment of dividends by ACSH to us and other "restricted payments" and the completion of mergers and consolidations. Indenture EBITDA is included in this prospectus supplement to provide additional information with respect to our ability to make dividends and to incur debt.

While Indenture EBITDA and similar variations thereof are frequently used as a financial measure of operations and of ability to meet debt service or distribution requirements, these terms are not necessarily comparable to other similarly titled financial measures of other companies due to the potential inconsistencies in the method of calculation. Indenture EBITDA is a financial measure that is not prescribed by accounting principles generally accepted in the United States, or GAAP. As such, we encourage investors not to use this financial measure as a substitute for the determination of net income, operating cash flow or other similar GAAP financial measures of operating performance, and to use it primarily for the purpose of determining covenant compliance described above.

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For

historical periods only, we have reconciled net cash provided by operating activities, a comparable GAAP financial measure, to Indenture EBITDA in the following table:

	Year ended December 31,				Nine months ended September 30,		Pro forma year ended December 31,	Pro forma nine months ended September 30,
(in thousands)	2000	2001	2002	2003	2003	2004	2003	2004
Net cash provided by operating activities	\$49,589	\$76,679	\$65,984	\$50,411	\$50,470	\$38,734		
Net cash used in discontinued operation	407	1,015	649	41	40			
Adjustments to reconcile net cash provided by operating activities to net income (loss):								
Loss on discontinued operations	(917)	(1,718)	(7,632)	(52)	(52)			
Cumulative effect of change in accounting principle			(105,350)					
Depreciation and amortization	(71,755)	(79,108)	(82,940)	(82,185)	(66,735)	(57,686)		
Gain (loss) on disposal of assets and asset impairment charges, net			(2,163)	48,863	48,748	(2,825)		
Goodwill impairment loss			(64,755)					
Amortization of debt issuance costs, original issue discounts and warrants	(4,872)	(4,644)	(4,524)	(17,048)	(16,113)	(5,003)		
Non-cash stock based compensation expense				(900)				
Investment tax credits	197	195						
Other non-cash expenses				(4,118)				
Other deferred credits	1,141	(418)	(3,073)	(1,643)	(1,743)	(1,570)		
Changes in components of working capital:								
Accounts receivable and other current assets	5,649	(95)	4,722	(7,451)	(9,055)	(5,096)		
Accounts payable and other current liabilities	(3,560)	(5,530)	12,460	6,380	4,448	772		
Other	(1,084)	2,386	1,375	1,072	557	445		
Net income (loss)	(25,205)	(11,238)	(185,247)	(6,630)	10,565	(32,229)	\$(90,512)	\$(16,489)
Add (subtract):								
Interest expense	64,559	60,157	51,704	71,470	51,390	38,914	31,517	23,174
Income tax expense (benefit)	(197)	(195)		1,095				
Depreciation and amortization	71,755	79,108	82,940	82,185	66,735	57,686	82,183	57,686
Cumulative effect of change in accounting principle(7)			105,350					
Goodwill impairment loss			64,755					
Asset impairment losses:								
Operating				54,858	54,539	5,402	54,858	5,402
Non-operating				15,924	15,924		15,924	
Gain on foreign exchange				(4,261)	(4,261)			
Pension expense, net of pension funding				238		549	238	549
Stock based compensation				900			900	

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Recruiting, severance and restructuring costs	3,019		1,000	4,445	2,536	3,416	4,445	3,416
Litigation reserves				3,880		743	3,880	743
Acquisition costs and other	2,269		1,200	1,029		2,497	1,029	2,497
Previously deferred access revenue			(11,066)					
Loss from discontinued operations	917	1,718	7,632	52	52		52	
Income from disposed of Directories Business	(15,822)	(19,186)	(19,434)	(7,153)	(7,010)			
Loss (gain) on disposal of assets			2,163	(112,622)	(112,507)	2,825	896	2,825
Indenture EBITDA(i)	\$101,295	\$110,364	\$100,997	\$105,410	\$77,963	\$79,803	\$105,410	\$79,803

(i)

On September 15, 2003, we received notification from the State of Alaska that the state was terminating the Telecommunications Partnering Agreement with us and was initiating disentanglement procedures under the contract. We subsequently negotiated and agreed to a settlement agreement effective October 14, 2003. As of March 31, 2004, we completed all of our settlement agreement disentanglement obligations. All services provided by us to the State of Alaska after December 31, 2003 either have been transitioned to other service providers, at the State of Alaska's direction, or transitioned to our current commercial rates for such services. We incurred a net loss, exclusive of depreciation and amortization, on the services provided to the State of Alaska under the contract of \$5,783, \$5,726 and \$5,389, respectively, for the years ended December 31, 2002 and 2003, and for the nine months ended September 30, 2003, which are not added back in the calculation of Indenture EBITDA. See "Management's discussion and analysis of financial condition and results of operations" for more information.

## **Risk factors**

*You should carefully consider the risks and uncertainties described below and other information included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus in evaluating us and our business. If any of the events described below occur, our business and financial results could be adversely affected in a material way. This could cause the trading price of our common stock to decline, perhaps significantly.*

### **Risks related to our common stock**

***ACS Group, the issuer of the shares in this offering, is a holding company and relies on dividends, interest and other payments, advances and transfer of funds from its subsidiaries to meet its debt service and pay dividends.***

ACS Group has no direct operations and no significant assets other than ownership of 100% of the stock of ACSH. Because we conduct our operations through our direct and indirect subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations, including to pay dividends with respect to our common stock. Legal restrictions applicable to our subsidiaries and contractual restrictions expected in our new senior credit facility and the indenture governing the ACSH senior notes, and other agreements governing current and future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. The earnings from, or other available assets of, our subsidiaries may not be sufficient to pay dividends on the common stock.

***Our dividend policy may limit our ability to pursue growth opportunities.***

Our board of directors has adopted a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders. As a result, we may not retain a sufficient amount of cash to finance a material expansion of our business, or to fund our operations consistent with past levels of funding in the event of a significant business downturn. In addition, because a significant portion of cash available to pay dividends will be distributed to holders of our common stock under our dividend policy, our ability to pursue any material expansion of our business, including through acquisitions or increased capital spending, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost. In addition, as we have only recently adopted this dividend policy, the effect of the dividend policy on our operations is not known to us. See "Dividend policy and restrictions."

***You may not receive the level of dividends provided for in our dividend policy or any dividends at all.***

We are not obligated to pay dividends. Our board of directors may, in its absolute discretion, amend or repeal the dividend policy which may result in the decrease or discontinuation of dividends. Future dividends with respect to shares of our capital stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant. Additionally, Delaware law and the expected terms of our new senior credit facility and the indenture governing the ACSH senior notes may limit or completely restrict our ability to pay dividends.

We might not generate sufficient cash from operations in the future to pay dividends on our common stock in the intended amounts or at all. Our board of directors may decide not to pay dividends at any time and for any reason. Our dividend policy is based upon our directors' current assessment of our business and the environment in which we operate, and that assessment could change based on competitive or technological developments (which could, for example, increase our need for capital expenditures), new growth opportunities or other factors. If our cash flows from operations for future periods were to fall below our minimum expectations, we would need either to reduce or eliminate dividends or, to the extent permitted under the expected terms of our new senior credit facility and the indenture governing the ACSH senior notes or any future agreement governing our indebtedness, fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively affect our financial condition, results of operations, liquidity, ability to maintain or expand our business and ability to fund dividends. Our board is free to depart from or change our dividend policy at any time and could do so, for example, if it were to determine that we had insufficient cash to take advantage of growth opportunities. In addition, our new senior credit facility and the indenture governing the ACSH senior notes contain limitations on our ability to pay dividends. The reduction or elimination of dividends may negatively affect the market price of our common stock. See "Dividend policy and restrictions."

***Our substantial indebtedness could adversely affect our financial health and restrict our ability to pay dividends on our common stock and adversely affect our financing options and liquidity position.***

We have now and, after giving effect to the Refinancing Transactions, will continue to have a substantial amount of indebtedness. After giving effect to the Refinancing Transactions, as of September 30, 2004 we would have had total long-term obligations, including current portion, of \$458.0 million and a pro forma net loss for the nine months ended September 30, 2004 of \$16.5 million.

Our substantial level of indebtedness could have important consequences for you as a holder of our common stock. For example, our substantial indebtedness could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, future business opportunities and other general corporate purposes;

- limit our flexibility to plan, adjust or react to changing economic, market or industry conditions, reduce our ability to withstand competitive pressures, and increase our vulnerability to general adverse economic and industry conditions;

- place us at a competitive disadvantage to many of our competitors who are less leveraged than we are;

- limit our ability to borrow additional amounts for working capital, capital expenditures, future business opportunities, including strategic acquisitions and other general corporate requirements or hinder us from obtaining such financing on terms favorable to us or at all;

- limit our ability to refinance our indebtedness.

The expected terms of our new senior credit facility and the terms of our other indebtedness, including the indenture governing the ACSH senior notes, allow us and our subsidiaries to incur additional indebtedness upon the satisfaction of certain conditions. If new indebtedness is added to current levels of indebtedness, the related risks described above could intensify.

***Our debt instruments include restrictive and financial covenants that limit our operating flexibility.***

We expect our new senior credit facility will require us to maintain certain financial ratios and we expect our new senior credit facility will contain and the indenture governing the ACSH senior notes contains covenants that, among other things, restrict our ability to take specific actions, even if we believe such actions are in our best interest. These include restrictions on our ability to:

pay dividends or distributions on, redeem or repurchase our capital stock;

issue certain preferred or redeemable capital stock;

incur additional debt;

create liens;

make certain types of investments, loans, advances or other forms of payments;

issue, sell or allow distributions on capital stock of specified subsidiaries;

prepay or defease specified indebtedness, including the notes;

enter into transactions with affiliates; or

merge, consolidate or sell our assets.

These restrictions could limit our ability to obtain financing, make acquisitions or fund capital expenditures, withstand downturns in our business or take advantage of business opportunities. A breach of any of these covenants, ratios or tests could result in a default under our new senior credit facility and/or the indenture governing the ACSH senior notes. Upon the occurrence of an event of default under our new senior credit facility, the lenders could elect to declare all amounts outstanding under our new senior credit facility to be immediately due and payable. Such a default or acceleration may allow our other creditors to accelerate our other debt. If the lenders accelerate the payment of the indebtedness under our new senior credit facility, our assets may not be sufficient to repay in full this indebtedness and our other indebtedness.

***We will require a significant amount of cash to service our indebtedness, pay dividends and fund our other liquidity needs. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and to refinance our indebtedness, including amounts borrowed under our new senior credit facility, to pay dividends and to fund planned capital expenditures and any strategic acquisitions we may make, if any, will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations in the future, that our currently anticipated growth in revenues and cash flow will be realized on schedule or that future borrowings will be available to us in an amount sufficient to enable the repayment of our indebtedness, pay dividends or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the new senior credit facility and the ACSH senior notes, on or before maturity. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all. If we are unable to refinance our debt or obtain new financing under these circumstances, we would have to consider other options, including:

sales of certain assets to meet our debt service requirements;

sales of equity; and

negotiations with our lenders to restructure the applicable debt.

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If we are forced to pursue any of the above options our business and /or the value of our common stock could be adversely affected.

***Future sales, or the possibility of future sales, of a substantial amount of our common stock may depress the price of the shares of our common stock.***

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock, and could impair our ability to raise capital through future sales of equity securities.

If we or our existing stockholders, including affiliates of Fox Paine & Company, LLC (together, "Fox Paine"), our largest stockholders, sell substantial amounts of our common stock in the public market or if there is a perception that these sales may occur, the market price of our common stock could decline. As of January 11, 2005, we would have had 45,695,389 shares of common stock outstanding assuming all shares offered under the registration statement of which this prospectus supplement forms a part have been issued and assuming no exercise of outstanding options to purchase common stock. Substantially all of these shares will be freely tradable in the public market without restriction or further registration under the Securities Act. In addition, Fox Paine has registered the sales of all of its shares of our common stock. See " Our largest stockholders have registered the sale of all their shares of our common stock and their interests in selling those shares may conflict with your interests."

We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may be significant. We may also grant registration rights covering those shares or other securities in connection with any such acquisitions and investments.

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

The trading price of our common stock may be volatile in response to a number of factors, many of which are beyond our control, including actual or anticipated variations in quarterly financial results, changes in financial estimates by securities analysts and announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments. For example, following our announcement in October 2004 of our dividend policy, the trading price of our common stock increased significantly. In addition, our financial results may be below the expectations of securities analysts and investors. If this were to occur, the market price of our common stock could decrease, perhaps significantly. Additionally, prior to this offering, there has been a limited public market for our common stock. The limited liquidity for holders of our common stock may add to the volatility of the trading price of our common stock. These effects could materially adversely affect the trading market and prices for our common stock, as well as our ability to issue additional securities or to secure additional financing in the future.

In addition, the U.S. securities markets have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Broad market and industry factors may negatively affect the price of our common stock, regardless of our operating performance.

***Your interests may conflict with those of our current stockholders.***

Fox Paine beneficially owns 64% of our outstanding common stock. As a result, Fox Paine currently has the ability to exert significant influence over the outcome of matters requiring stockholder approval, including:

the election of our directors and the directors of our subsidiaries;

the amendment of our charter or by-laws; and

the adoption or prevention of mergers, consolidations or the sale of all or substantially all of our assets or our subsidiaries' assets.

Our certificate of incorporation does not expressly prohibit action by written consent of stockholders. As a result, to the extent Fox Paine owns more than 50% of our total voting power, Fox Paine would be able to take any action to be taken by stockholders without the necessity of holding a stockholders' meeting. Finally, Fox Paine may make significant investments in other telecommunications companies. Some of these companies may compete with us. Fox Paine and its affiliates are not obligated to advise us of any investment or business opportunities of which they are aware, and they are not restricted or prohibited from competing with us.

***Our largest stockholders have registered the sale of all of their shares of our common stock and their interests in selling those shares may conflict with your interests.***

Pursuant to the shelf registration statement of which this prospectus supplement and the accompanying prospectus form a part, Fox Paine has registered the sale of 19,598,879 shares of common stock, representing all of the shares of our common stock that it holds. If Fox Paine sells substantial amounts of our common stock, the market price of our common stock may fall. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Additionally, the interests of Fox Paine in selling its shares may conflict with your interests. Assuming Fox Paine sells all of its shares of our common stock that are being registered, this will effectively cause a change in the ability to control matters requiring stockholder approval and Fox Paine would no longer have the ability to exert as much influence over matters affecting us.

***The limited liquidity of the trading market for our common stock may affect the trading price of our common stock.***

As of January 11, 2005, we had 30,695,389 shares of our common stock issued and outstanding and eligible to be traded on the Nasdaq National Market. Currently, only approximately 10.8 million of these shares are freely tradable without restriction. As a result, the trading market for our common stock is limited. There can be no assurance that this offering will, or that in the future we will sell enough of our common stock to, create a liquid trading market for our common stock. It is more likely for common stock issued in larger aggregate numbers of shares to trade more favorably than similar common stock issued in smaller aggregate numbers because of the increased liquidity created by higher trading volumes resulting from larger numbers of traded shares. There can be no assurance as to the liquidity of any market for our common stock, the ability of the holders of our common stock to sell any of their common stock and the price at which the holders of our common stock would be able to sell any of our common stock.

***If you purchase shares of our common stock, you will experience immediate and substantial dilution.***

Investors purchasing common stock in the offering will experience immediate and substantial dilution in the net tangible book value of their shares. Additional dilution will occur upon

exercise of outstanding stock options. If we seek additional capital in the future, the issuance of shares of common stock or securities convertible into shares of common stock in order to obtain such capital may lead to further dilution of your equity investment. See "Dilution."

***Ownership change will limit our ability to use certain losses for U.S. federal income tax purposes and may increase our tax liability.***

As of September 30, 2004, we had net operating loss carryforwards, or NOLs, of approximately \$135 million, which are due to expire in the years 2020 through 2024. These NOLs may be used to offset future taxable income through 2024 and thereby reduce our U.S. federal income taxes otherwise payable. Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its NOLs to reduce its tax liability. It is possible that the transactions described in this offering, either on a stand alone basis or when combined with future transactions (including issuances of new shares of our common stock and sales of shares of our common stock), will cause us to undergo an ownership change. In that event, we would not be able to use our pre-ownership-change NOLs in excess of the limitation imposed by Section 382. Such limitation is generally determined by multiplying the company's equity value and the long term tax exempt rate at the time of the ownership change.

**Risks related to our business**

***Our business is subject to extensive governmental legislation and regulation. Applicable federal and state legislation and regulations and changes to them could adversely affect our business.***

We operate in a heavily regulated industry, and most of our revenues come from the provision of services regulated by the Federal Communications Commission, or the FCC, and the Regulatory Commission of Alaska, or the RCA. Laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by legislation or regulatory orders at any time. We cannot predict the impact of future developments or changes to the regulatory environment or the impact such developments or changes would have on us.

There are a number of FCC and RCA rules under review that could have a significant impact on us. For example, many of the FCC's rules with regard to the provisioning of unbundled network elements, or UNEs, and other LEC interconnection rules were revised by the FCC in 2003, on August 20, 2004, again on December 15, 2004, and are subject to further proceedings at the FCC. An appellate court recently vacated, remanded and upheld different portions of the FCC's 2003 order and several parties are expected to challenge the 2004 decisions in court. Court rulings, further FCC actions or new legislation in this area could affect our obligation to provide UNEs and the prices we receive for the UNEs. Changes to intercarrier compensation that could affect our access revenues are also likely over the next few years. The FCC and Congress are also looking at universal service fund contribution and disbursement rules that are likely to affect the amount and timing of our contributions to and receipt of universal service funds; our obligations may increase and/or our revenue may decline, and our competitors may receive greater payments. Further, most FCC and RCA telecommunications decisions are subject to substantial delay and judicial review. For example, the RCA's 2004 orders arbitrating certain elements of, and approving, the interconnection agreement between General Communications Inc., or GCI, and ACS of Anchorage, or ACSA, are being challenged by GCI in federal court. These delays and related litigation create risk associated with uncertainty over the final direction of federal and state policies and our regulated rates.

***As the incumbent local exchange carrier, or ILEC, in our service areas, we are subject to legislation and regulation that are not applicable to our competitors.***

Existing federal and state rules impose obligations and limitations on us, as the incumbent local telephone company, or ILEC, that are not imposed on our competitors. Federal obligations to share facilities, file and justify tariffs, maintain certain types of accounts, and file certain types of reports are all examples of disparate regulation. Similarly, state regulators impose accounting and reporting requirements and service obligations on us that do not exist for our competitors. In addition, state regulators have imposed greater tariffing standards and obligations on us than on our competitors. Proposed tariffs are subject to suspension for six to 12 months before they go into effect which has enabled our competitors to plan competitive responses before we are able to implement new rates, diminishing our ability to compete in the marketplace. As our business becomes increasingly competitive, the continued regulatory disparity could impede our ability to compete in the marketplace, which could have a material adverse effect on our business.

***A reduction by the RCA or the FCC of the rates we charge our customers would reduce our revenues and earnings.***

The rates we charge our local telephone customers are based, in part, on a rate of return authorized by the RCA on capital invested in our LECs' networks. These authorized rates, as well as allowable investment and expenses, are subject to review and change by the RCA at any time. If the RCA orders us to reduce our rates, both our revenues and our earnings will be reduced. Additionally, in this competitive market, we are not sure we would be able to implement higher rates even if approved by the RCA.

State regulators may rebalance our planned rates or set new rates closer to our costs, and refuse to keep our sensitive business information confidential, continuing our competitive disadvantage in the marketplace. Our local exchange service competitors may also gain a competitive advantage as a result of the state regulators permitting our competitors to intervene in rate-setting proceedings.

FCC regulations also affect rates that are charged to customers. The FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of our network service revenue. The FCC currently is considering proposals to reduce interstate access charges for carriers like us. If the FCC lowers interstate access charges without adopting an adequate revenue replacement mechanism, we may be required to recover more revenue through subscriber line charges and universal service funds or forego this revenue altogether. This could reduce our revenue or impair our competitive position.

***The rates, terms and conditions for the leasing of facilities and resale of services in Anchorage are subject to regulatory review and may be adjusted in a manner adverse to us.***

The rates, terms and conditions for the leasing of facilities in Anchorage by our competitors, including GCI, has only recently been resolved by the RCA on December 7, 2004 after years of debate. There is risk associated with the implementation of this new agreement. On January 7, 2005, GCI filed suit in federal district court challenging the RCA's orders and the resulting interconnection agreement between GCI and ACSA. GCI claims that the pricing methodology the RCA used to determine the rates we charge GCI under the interconnection agreement did not comply with the FCC's pricing methodology regulations. The court may decide to retroactively or prospectively reduce the rates we charge GCI under this agreement, which would reduce our revenue. We cannot predict the duration or outcome of this matter. Continued litigation will likely result in an extended period of uncertainty and additional cost associated with the proceedings. See "Regulation State regulation Interconnection."

***Loss of the exemption from certain forms of competition granted to our rural LECs under the Federal Telecommunications Act of 1996 exposes us to increased competition.***

Historically, our rural LECs (which do not include our wholly owned subsidiary, ACSA) operated under a federal statutory exemption under which they were not required to offer UNEs and wholesale discounted resale services to competitors. On June 30, 1999, the Alaska Public Utilities Commission (or APUC) issued an order revoking these rural exemptions. On April 18, 2004, after years of litigation concerning this order, ACS of Fairbanks, Inc., or ACSF, and ACS of Alaska, Inc., or ACSAK settled with GCI over the revocation of these rural exemptions. ACSF and ACSAK waived their claim to the rural exemption with regards to GCI's requests to lease UNEs in exchange for GCI's agreement to pay higher rates for leased facilities. ACSF and ACSAK will, therefore, continue to face local exchange service competition, which may reduce revenues and returns. On December 12, 2003, the Alaska Supreme Court reinstated ACSN's rural exemption for its Glacier State study area. Thus, ACS of the Northland, Inc., or ACSN, currently retains its rural exemption, but it is subject to petitions for termination at any time.

Interconnection duties are governed by telecommunications rules and regulations related to the UNEs that must be provided. These rules and regulations remain subject to ongoing modifications. In addition, to the extent that rural exemptions are terminated, other carriers are entitled to obtain interconnection agreements with us on the same basis as GCI. Finally, to the extent the new rates are higher than the previous rates, that may encourage GCI or other competitors to provide service over their own facilities, further depriving us of revenue.

***Our results of operations could be materially harmed if GCI develops its own network facilities and stops leasing capacity on our network elements.***

GCI commenced offering cable telephony in Anchorage during 2004 and initiated migration of its customers served using our UNEs off of our network and onto its own cable system. GCI has announced plans to substantially increase the number of customers it migrates to cable telephony in 2005 with the aim of migrating virtually all of its Anchorage customers to its own network by the end of 2006. Significant migration of customers could result in a significant reduction of revenue for us, as GCI would no longer be leasing our facilities to serve those customers, which could materially harm our results of operations.

***The telecommunications industry is extremely competitive, and we may have difficulty competing effectively.***

The telecommunications industry is extremely competitive and we face competition in local voice, local high-speed data, wireless, Internet and long distance services. Competition in the markets in which we operate could:

reduce our customer base;

require us to lower rates and other prices in order to compete;

require us to invest in new facilities and capabilities;

increase marketing expenditures and the use of discounting and promotional campaigns that would adversely affect our margins; or

otherwise lead to reduced revenues, margins, and returns.

New competitors in local services may be encouraged by FCC and RCA rules regarding interconnection agreements and universal service supports. We face competition from wireless service providers for local, long distance and wireless customers. Existing and emerging wireless technologies are increasingly competitive with local exchange services in some or all of our service areas. We and a competitor of ours are deploying a new generation of wireless

technologies which will provide wireless data in addition to wireless voice services, and the FCC has ordered wireline-to-wireless and wireless-to-wireless number portability. As a consequence, we anticipate increased risk of wireless substitution for traditional local telephone services and increased competition among wireless carriers. In addition, new carriers offering voice over Internet Protocol, or VoIP, services may also lead to a reduction in traditional local and long distance telephone service customers and revenues as well as our network access revenues. Some of our competitors may have financial and technical resources greater than ours, and may be exempt from or subject to lesser regulatory burdens.

***Revenues from our retail local telephone access lines may be reduced or lost.***

As the ILEC, we face stiff competition mainly from resellers, local providers who lease UNEs from us, and, to a lesser degree, facilities-based providers of local telephone services. In 1997, the two largest long distance carriers in Alaska began providing competitive local telephone services in Anchorage through UNE interconnection with our facilities and resale of our services. Interconnection agreements have since been executed with several other competitors. As a result, since the industry was opened to competition through September 30, 2004, we have lost approximately 30% of our retail local telephone lines. In Anchorage, our largest market, since opening to competition, we have lost approximately 50% of our retail local telephone access lines. Similarly, in Fairbanks and Juneau, where competition began only a few years ago, we have since lost more than 30% of our retail local telephone access lines. While we generally continue to enjoy revenues for these lines from our competitors, albeit at a somewhat reduced level compared to rates charged to our retail customers, our competitors may, in the future, bypass or remove these customers from our network completely, which would eliminate our revenue from those lines altogether. Additionally, although we plan to try to win back customers previously lost to competitors, there can be no assurance that we will be successful in this regard.

***Revenues from access charges may be reduced or lost.***

We received 27.9% of our operating revenues for the nine months ended September 30, 2004 from access charges paid by interstate and intrastate interexchange carriers and subscriber line charges paid by end users for the use of our network to connect the customer premises to the interexchange network. The amount of revenue that we receive from access charges and subscriber line charges is calculated in accordance with requirements set by the FCC and the RCA. Any change in these requirements may reduce our revenues and earnings. Generally, access charges have decreased since our inception in 1999.

Under the regulatory rules that exist today, we receive access revenue related to the calls made by all of our retail customers as well as our competitors' customers who are served via resale of our services at a wholesale discount. Access revenue related to our competitors' retail customers that are served by UNEs or by the competitors' own facilities flows to our competitors. To the extent that competitors shift the form in which they provide service away from wholesale resale to UNEs or their own facilities, our access revenue will be reduced.

The FCC is reviewing mechanisms for intercarrier compensation, and some parties have suggested terminating all interstate access charge payments by interexchange carriers. If such a proposal is adopted, it could have a material impact on our revenue and earnings. In any event, the FCC has stated its intent to adopt some form of access charge reform soon, which more likely than not will reduce this source of revenue. Similarly, the RCA has adopted regulations, modifying intra-state access charges which are not intended to, but may reduce our revenue.

In addition, both GCI and AT&T have previously alleged that we collected excess interstate access revenue. While those claims have been resolved, we cannot assure you that claims alleging excess charges in subsequent years will not be made, nor that we will be able to defeat all such claims.

***A reduction in the universal service support currently received by some of our subsidiaries would reduce our revenues and earnings.***

We received 5.3% of our operating revenues for the nine months ended September 30, 2004 from the Universal Service Fund, or USF, which was established under the direction of the FCC to compensate carriers for the high cost of providing universal telecommunications services in rural, insular, and high-cost areas. If the support received from the USF is materially reduced or discontinued, some of our rural LECs might not be able to operate profitably. Also, because we provide interstate and international services, we are required to contribute to the USF a percentage of our revenue earned from such services. Although our rural LECs receive support from the USF, we cannot be certain of how, in the future, our contributions to the USF will compare to the support we receive from the USF. Congress recently adopted legislation exempting the USF from the Anti-Deficiency Act until December 31, 2005, but this issue may adversely affect USF distributions or contributions in the future.

Various reform proceedings are under way at the FCC to change the method of calculating the amount of contributions paid into the USF by all carriers and the amount of contributions or support rural carriers like ACSF, ACSAK and ACSN receive from the USF, as well as the amount of support received by our competitors. Already the FCC has imposed caps or limits on the amount of USF distributed and has explored opportunities to obtain contributions from providers of services not currently contributing to USF. We cannot predict at this time whether or when any change in the method of calculating contributions and support may affect our business.

The RCA has granted Eligible Telecommunications Carrier, or ETC, status to GCI in Fairbanks and Juneau. Under current FCC rules, ETC status entitles GCI to the same amount of per-line USF support that we are entitled to receive regardless of GCI's costs, which may reduce the amount of USF payments we receive. To the extent that any competitive ETC, such as GCI, has lower costs than us, but receives the same amount of financial support, the competitor gains a competitive cost advantage over us. We cannot say when or how these rules may change.

There has been a trend toward granting ETC status to wireless carriers. Alaska DigiTel LLC, or DigiTel, ACS Wireless, Inc., or ACSW, and MTA Wireless have been granted ETC status for certain service areas. Further, Dobson Communications Corporation has petitioned for ETC status and asked the RCA to redefine our rural service areas to permit Dobson to receive support on a wire-center basis, but without having to serve the entire area that we are currently required to serve. Redefining our rural service areas requires the approval of both the RCA and the FCC. Creating additional service areas may impose a costly regulatory burden on us for which we may not be compensated. The granting of Dobson's request to redefine service areas could reduce our revenues from USF, in addition to increasing competition.

***Revenues from wireless services may be reduced.***

Market prices for wireless voice and data services have declined over the last several years and may continue to decline in the future due to increased competition. We cannot assure you that we will be able to maintain or improve our average revenue per user, or ARPU. We expect significant competition among wireless providers, which has been intensified by wireless number portability, to continue to drive service and equipment prices lower, which may lead to increased turnover of customers. If market prices continue to decline it could adversely affect

our ability to grow revenue, which would have an adverse effect on our financial condition and results of operation.

***We may not be able to offer long distance and Internet services on a profitable basis.***

Our long distance operations have historically been modest in relation to the long distance businesses of our competitors and have generated operating losses of \$2.0 million in 2001, \$1.6 million in 2002 and \$21.2 million in 2003, and \$3.4 million for the nine months ended September 30, 2004. Our Internet operations generated operating losses of \$9.6 million in 2001, \$21.6 million in 2002, \$60.5 million in 2003, and \$9.8 million for the nine months ended September 30, 2004. We have, over the last several years, failed to achieve various plans to increase sales and revenue for these businesses. There is, therefore, no assurance that our operating losses from long distance and Internet services will not increase in the future, even after taking into account additional revenue from complementary or advanced services.

***If we substantially underestimate or overestimate the demand for our long distance services, our cost of providing these services could increase.***

We expect to continue to enter into resale agreements for a portion of our long distance services. In connection with these agreements, we must estimate future demand for our long distance service. If we overestimate this demand, we may be forced to pay for services we do not need, and if we underestimate this demand, we may need to lease additional capacity on a short-term basis at unfavorable prices, assuming additional capacity is available. If additional capacity is not available, we will not be able to meet this demand.

***We may not be able to profitably take advantage of future fiber-optic capacity that we may purchase.***

In anticipation of our obligations under the Telecommunications Services Partnering Agreement, or TPA, we entered with the State of Alaska, we entered into an agreement that enables us to purchase additional fiber-optic capacity in future years from Crest Communications, L.L.C., or Crest, the expenditures for which are expected to be significant and may exceed \$20 million over the next two years. The subsequent termination of our contract with the State of Alaska has reduced our utilization of the additional fiber-optic capacity purchased from Crest and may reduce the profitability of the agreement with Crest.

As part of this agreement, we made a \$15 million loan to Crest. In connection with this loan, Crest has granted us an option to purchase certain of its network assets no later than January 2, 2006 at a price equal to the then-outstanding loan balance. Certain material terms of the agreement with Crest remain subject to continued negotiation, and it is impossible to determine the ultimate outcome of these negotiations at this time. We cannot assure you that we will successfully resolve any open issues nor can we assure you of the consequences of our inability to resolve any open issues. In addition, even if we are able to resolve the issues, we cannot assure you that we will generate sufficient revenue from these future acquisitions of fiber-optic capacity to provide satisfactory returns on our investment. The \$15 million loan to Crest was written down to zero, its estimated fair value, in September 2003.

***If we do not adapt to technological changes in the telecommunications industry, we could lose customers or market share.***

Our success may depend on our ability to adapt to rapid technological changes in the telecommunications industry. Our failure to adopt a new technology, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete or meet the demands of our customers. Technological change could, among other things, reduce the capital required by a competitor to provide local service in our service areas. As we



cannot predict with precision the pace of technology change, our ability to deploy new technologies may be constrained by insufficient capital and/or the need to generate sufficient cash to make interest payments on our indebtedness and to maintain our dividend policy.

New products and services may arise out of technological developments and our inability to keep pace with these developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological changes or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers. The successful delivery of new products and services is uncertain and dependent on many factors, and we may not generate anticipated revenues from such services.

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

We cannot predict the extent to which the government will impose new unfunded mandates such as those related to emergency location, providing access to hearing-impaired customers, law enforcement assistance and local number portability. Each of these government obligations has imposed new requirements for capital that could not have been predicted with any precision. Along with these obligations the FCC has imposed deadlines for compliance with these mandates. We may not be able to provide services that comply with these mandates in time to meet the imposed deadlines or our petitions for extensions of the deadlines may be denied. We cannot predict whether other mandates, from the FCC or other regulatory authorities, will occur in the future or the demands they will place on capital expenditures.

***Our network capacity and customer service system may not be adequate and may not expand quickly enough to support our anticipated customer growth.***

Our financial and operational success depends on ensuring that we have adequate network capacity, sufficient infrastructure equipment and a sufficient customer support system to accommodate anticipated new customers and the related increase in usage of our network. Our failure to expand and upgrade our networks, including through obtaining and constructing additional cell sites, obtaining wireless telephones of the appropriate model and type to meet the demands and preferences of our customers and obtaining additional spectrum, if required, to meet the increased usage could have a material adverse effect on our business. As a result of our dividend policy, our available cash to expand and upgrade our network may be limited.

***The successful operation and growth of our businesses are dependent on economic conditions in Alaska.***

Substantially all of our customers and operations are located in Alaska. Due to our geographical concentration, the successful operation and growth of our businesses is dependent on economic conditions in Alaska. The Alaskan economy, in turn, is dependent upon many factors, including:

the strength of the natural resources industries, particularly oil production;

the strength of the Alaskan tourism industry;

the level of government and military spending; and

the continued growth in services industries.

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The customer base for telecommunications services in Alaska is small and geographically concentrated. According to U.S. Census Bureau estimates, the population of Alaska is approximately 655,000 as of July 1, 2004, over 60% of whom live in Anchorage, Fairbanks and Juneau. There can be no assurance that Alaska's economy will grow or even be stable.

***We depend on key members of our senior management team.***

Our success depends largely on the skills, experience and performance of key members of our senior management team, as well as our ability to attract and retain other highly qualified management and technical personnel. There is intense competition for qualified personnel in our industry, and we cannot assure you that we will be able to attract and retain the personnel necessary for the development of our business. If we lose one or more of our key employees, or the transition in leadership is not successful, our ability to successfully implement our business plan could be materially adversely affected. We do not maintain any "key person" insurance on any of our personnel.

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

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. If these suppliers experience interruptions or other problems delivering these network components on a timely basis, subscriber growth and our operating results could suffer significantly. Our initial choice of a network infrastructure supplier can, where proprietary technology of the supplier is an integral component of the network, cause us to be effectively locked into one of a few suppliers for key network components. As a result we have become reliant upon a limited number of network equipment manufacturers. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement suppliers or vendors on economically attractive terms, on a timely basis, or at all, which could increase costs and may cause disruption in service.

***Wireless devices may pose health and safety risk, and driving while using a wireless phone may be prohibited; as a result, we may be subject to new regulations, and demand for our services may decrease.***

Media reports have suggested that, and studies have been undertaken to determine whether, certain radio frequency emissions from wireless handsets and cell sites may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. In addition, lawsuits have been filed against other participants in the wireless industry alleging various adverse health consequences as a result of wireless phone usage.

If consumers' health concerns over radio frequency emission increase, they may be discouraged from using wireless handsets, regulators may impose or increase restrictions on the location and operation of cell sites or increase regulation on handsets and wireless providers may be exposed to litigation, which, even if not successful, may be costly to defend. The actual or perceived risk of radio frequency emissions could also adversely affect us through a reduced subscriber growth rate, a reduction in our subscribers, reduced network usage per subscriber or reduced financing available to the wireless communications industry.

In addition, new government regulations on the use of a wireless device while driving may also adversely affect our results of operations. Studies have indicated that using wireless devices while driving may impair a driver's attention. Many state and local legislative bodies have

passed or proposed legislation to restrict the use of wireless telephones while driving motor vehicles. Concerns over safety risks and the effect of future legislation, if adopted and enforced in the areas we serve, could limit our ability to market and sell our wireless services and may discourage use of our wireless devices and decrease our revenue from customers who now use their wireless telephones while driving. Further, litigation relating to accidents, deaths or serious bodily injuries allegedly incurred as a result of wireless telephone use while driving could result in damage awards against telecommunications providers, adverse publicity and further governmental regulation. Any or all of these results, if they occur, could have a material adverse effect on our results of operations and financial condition.

***We are subject to environmental regulation and environmental compliance expenditures and liabilities.***

Our business is subject to many environmental laws and regulations, particularly with respect to owned or leased real property relating to our network equipment and tower sites. Some or all of the environmental laws and regulations to which we are subject could become more stringent or more stringently enforced in the future. For example, the FCC is considering whether to adopt rules to reduce the incidents of migratory bird collisions with cell towers. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

In addition to operational standards, environmental laws also impose obligations to clean up contaminated properties or to pay for the costs of such remediation. We could become liable, either contractually or by operation of law, for such remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. Moreover, future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to material remediation costs.

***A system failure could cause delays or interruptions of service, which could cause us to lose customers.***

To be successful, we will need to continue to provide our customers reliable service over our network. Some of the risks to our network and infrastructure include:

physical damage to access lines;

power surges or outages;

software defects; and

disruptions beyond our control.

We rely heavily on our networks, network equipment, data and software and the networks of other telecommunications providers to support all of our functions and for substantially all of our revenues. We are able to deliver services only to the extent that we can protect our network systems against damage from power or telecommunication failures, computer viruses, natural disasters, unauthorized access and other disruptions. While we endeavor to provide for failures in the network by providing back-up systems and procedures, we cannot guarantee that these back-up systems and procedures will operate satisfactorily in an emergency. Should we experience a prolonged system failure or a significant service interruption, our customers may choose a different provider and our reputation may be damaged.

*We cannot assure you that we will be able to successfully integrate any acquisitions we may make in the future.*

We continually explore acquisitions. However, any future acquisitions we make may involve some or all of the following risks:

diversion of management attention from operating matters;

unanticipated liabilities or contingencies of acquired businesses;

failure to achieve projected cost savings or cash flow from acquired businesses;

inability to retain key personnel of the acquired business or maintain relationships with its customers;

inability to successfully integrate acquired businesses with our existing businesses, including information-technology systems, personnel, products and financial, computer, payroll and other systems of the acquired businesses;

difficulties in enhancing our customer support resources to adequately service our existing customers and the customers of the acquired businesses; and

difficulty in maintaining uniform standards, controls, procedures, and policies.

As a result of our dividend policy and other factors, we may not have sufficient available cash or access to sufficient capital resources necessary to complete a transaction.

**Cautionary note regarding forward-looking statements**

This prospectus supplement, the accompanying prospectus and the documents incorporated therein by reference include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these provisions. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, pricing plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "aims," "anticipates," "believes," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "should" and variations of these words and similar expressions are intended to identify these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Forward-looking statements by us are based on estimates, projections, beliefs and assumptions of management and are not guarantees of future performance. Such forward-looking statements may be contained in this prospectus supplement under "Summary," "Risk factors," "Dividend policy and restrictions," "Management's discussion and analysis of financial condition and results of operations" and "Business" and elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by us as a result of a number of important factors. Examples of these factors include (without limitation):

rapid technological developments and changes in the telecommunications industries;

our competitive environment;

ongoing deregulation (and the resulting likelihood of significantly increased price and product/service competition) in the telecommunications industry as a result of the Telecommunications Act of 1996, or the Telecommunications Act, and other similar federal and state legislation and the federal and state rules and regulations enacted pursuant to that legislation;

changes in revenue from Universal Service Funds;

regulatory limitations on our ability to change our pricing for communications services;

the possible future unavailability of Statement of Financial Accounting Standards, or SFAS, No. 71, Accounting for the Effects of Certain Types of Regulation, to our wireline subsidiaries;

our ability to bundle our products and services;

changes in the demand for our products and services;

changes in general industry and market conditions and growth rates;

changes in interest rates or other general national, regional or local economic conditions;

governmental and public policy changes;

our ability to generate sufficient earnings and cash flows to continue to make dividend payments to our stockholders;

the continued availability of financing in the amounts, at the terms, and subject to the conditions necessary to support our future business;

the success of any future acquisitions;

changes in accounting policies or practices adopted voluntarily or as required by accounting principles generally accepted in the United States; and

the matters described under "Risk factors."

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

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

### **Industry, market share and other information**

Unless otherwise indicated, information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference concerning the telecommunications industry, our general expectations concerning this industry and our competitors' market position and market shares within this industry are based on assumptions and estimates prepared by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the telecommunications industry generally. We believe these estimates are accurate as of the date of this prospectus supplement; however, this information may prove to be inaccurate because, as a result of the method by which we obtained some of the data for our estimates or the nature of the information, it cannot always be verified with certainty. We have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. In addition, we believe that data regarding the telecommunications industry and our market positions and market shares within the telecommunications industry provide general guidance but are inherently imprecise. Further, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under "Risk factors," "Cautionary note regarding forward-looking statements" in this prospectus supplement and the documents incorporated by reference in the accompanying prospectus.

### **Refinancing transactions**

We intend to use the proceeds of this offering, along with \$335.0 million of term loan borrowings under the new senior credit facility and available cash to:

repay all amounts outstanding under our existing senior secured credit facility;

repurchase in full the \$147.5 million aggregate outstanding principal amount of ACSH senior subordinated notes, pursuant to a tender offer and consent solicitation;

repurchase approximately \$59.4 million aggregate principal amount of ACSH senior notes, pursuant to a tender offer and consent solicitation; and

pay the fees and expenses related to this offering and the other Refinancing Transactions.

*New senior credit facility.* In connection with this offering, we intend to enter into a new senior credit facility consisting of a \$50.0 million revolving credit facility and a \$335.0 million term loan and anticipate entering into the interest rate swap, in which we expect to swap the floating interest rate of a portion of the term loan borrowings under the new senior credit facility for a fixed interest rate. See "Description of the new senior credit facility," for a description of the expected material terms of the new senior credit facility. We expect the new senior credit facility to be completed simultaneously with the closing of this offering. The term loan borrowings under the new senior credit facility will be used to repay all outstanding amounts under the existing senior secured credit facility, with the remaining portion of the term loan borrowings being held in escrow to be released upon completion of the tender offer and consent solicitation for the ACSH senior notes to fund the repurchase of the senior notes thereunder and provide us with additional cash.

*ACSH senior subordinated notes tender offer and consent solicitation.* On January 12, 2005, we commenced a tender offer to purchase for cash all of the outstanding ACSH senior subordinated notes and we solicited consents to amend the indenture governing the ACSH senior subordinated notes to remove substantially all of the restrictive covenants thereunder. The total consideration to be paid to holders that tender their ACSH senior subordinated notes and deliver their related consents by January 25, 2005 is \$1,046.88 per \$1,000 principal amount of ACSH senior subordinated notes, including a consent payment of \$30.00 per \$1,000 principal amount, together with accrued interest through, but excluding, the date of purchase. Holders that tender their ACSH senior subordinated notes after January 25, 2005 and prior to the expiration of the tender offer will receive \$1,016.88 per \$1,000 principal amount, together with accrued interest through, but excluding, the date of purchase. To the extent less than all of the outstanding ACSH senior subordinated notes are purchased in the tender offer and consent solicitation for the ACSH senior subordinated notes, we intend to call for redemption any remaining ACSH senior subordinated notes at a price of 104.688% of the remaining principal amount thereof, immediately following the completion of the tender offer, as permitted by the terms of the indenture governing the ACSH senior subordinated notes. If required, we intend to use available cash to redeem the ACSH senior subordinated notes. The tender offer and consent solicitation for the ACSH senior subordinated notes are conditioned upon the completion of the other Refinancing Transactions.

*ACSH senior notes tender offer and consent solicitation.* On January 12, 2005, we commenced a tender offer to purchase up to \$59.4 million aggregate principal amount of ACSH senior notes and we solicited consents from the holders of the ACSH senior notes to amend the

indenture governing the senior notes to allow us to incur the additional senior secured debt contemplated by the new senior credit facility and to amend the restrictions on our ability to make certain restricted payments. ACSH has entered into agreements with holders of approximately \$50.2 million aggregate principal amount of the ACSH senior notes, which represents approximately 28.3% of the aggregate principal amount of the outstanding ACSH senior notes, pursuant to which the holders have agreed, subject to certain conditions, to tender their ACSH senior notes in the tender offer and deliver their consents pursuant to the consent solicitation. The total consideration to be paid to holders that tender their ACSH senior notes and deliver their related consents by January 25, 2005 is \$1,098.75 per \$1,000 principal amount of ACSH senior notes, including a consent payment of \$10.00 per \$1,000 principal amount, together with accrued interest through, but excluding, the date of purchase. Holders that tender their ACSH senior notes after January 25, 2005 and prior to expiration of the tender offer will receive \$1,088.75 per \$1,000 principal amount of ACSH senior notes, together with accrued interest through, but excluding, the date of purchase. The tender offer and consent solicitation for the ACSH senior notes are conditioned upon the completion of the other Refinancing Transactions.

*Repurchase and cancellation of ACSH senior notes and ACSH senior subordinated notes.* During the quarter ended December 31, 2004, we purchased on the open market \$4.4 million aggregate principal amount of the ACSH senior notes and \$2.5 million aggregate principal amount of the ACSH senior subordinated notes for aggregate purchase prices of \$4.5 million and \$2.5 million, respectively. We will cancel these notes upon consummation of the tender offers for the ACSH senior notes and the ACSH senior subordinated notes.

We expect that we will enter into the new senior credit facility at the time we close this offering. We currently expect that this offering will close prior to the closing of the tender offers and consent solicitations for the ACSH senior notes and the ACSH senior subordinated notes. If we close this offering and enter into the new senior credit facility prior to closing the tender offer and the consent solicitation for the ACSH senior notes, we will agree to become unconditionally obligated to close the tender offer and the consent solicitation for the ACSH senior notes at the expiration time then in effect, without modifying, terminating or extending the tender offer and the consent solicitation for the ACSH senior notes. If we close this offering and enter into the new senior credit facility prior to closing the tender offers and consent solicitations for the ACSH senior notes and the ACSH senior subordinated notes, we will repay all outstanding amounts under the existing senior secured credit facility with the proceeds of term loan borrowings under the new senior credit facility, with the remaining portion of the term loan borrowings being held in escrow. The term loan borrowings held in escrow will be released upon completion of the tender offer and consent solicitation for the ACSH senior notes and will be used to fund the repurchase of the senior notes thereunder and provide us with additional cash. At the time we close the tender offer and consent solicitation for the ACSH senior notes, we will use the proceeds from this offering and available cash on hand to close the tender offer and the consent solicitation for the ACSH senior subordinated notes.

This offering is conditioned on us entering into the new senior credit facility and this offering and our entering into of the new senior credit facility are both conditioned on receiving the requisite consents necessary to amend the indenture governing the ACSH senior notes under the ACSH senior notes tender offer and consent solicitation described above.

See "Use of proceeds" for more information on the Refinancing Transactions.



**Use of proceeds**

The estimated net proceeds of this offering are expected to be \$65.3 million (\$76.0 million, of net proceeds if the underwriters exercise the over-allotment option in full), assuming a public offering price of \$8.92 per share of common stock, which was the last reported sale price of our common stock on the Nasdaq National Market on January 14, 2005, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The proceeds of this offering, \$335.0 million of term loan borrowings under the new senior credit facility and available cash will be used to:

repay all amounts outstanding under our existing senior secured credit facility,

repurchase in full the outstanding principal amount of ACSH senior subordinated notes; and

repurchase approximately \$59.4 million aggregate principal amount of ACSH senior notes; and

pay the fees and expenses related to this offering and the related Refinancing Transactions.

As of September 30, 2004, the outstanding principal amount of borrowings under our existing senior secured credit facility was \$198.5 million, consisting entirely of term loan borrowings. Term loan borrowings under our existing senior secured credit facility bear interest at variable rates with a weighted average interest rate as of September 30, 2004 of 4.875% per year and are due 2010 unless the ACSH senior subordinated notes are refinanced prior to their maturity in May 2009. As of September 30, 2004, the outstanding principal amount of ACSH senior subordinated notes was \$150.0 million and the ACSH senior subordinated notes bear interest at a rate of 9<sup>3</sup>/<sub>8</sub>% per year and are due in 2009. As of September 30, 2004, the outstanding principal amount of ACSH senior notes was \$182.0 million and the ACSH senior notes bear interest at a rate of 9<sup>7</sup>/<sub>8</sub>% per year and are due in 2011.

The following table illustrates the estimated sources of and uses of the funds from this offering and the Refinancing Transactions assuming they had occurred as of September 30, 2004 and that the underwriters have not exercised their over-allotment option. Actual amounts may differ.

Sources of Funds	Amount (in millions)	Uses of Funds	Amount (in millions)
Proceeds of this offering	\$ 75.0	Repayment of existing senior secured credit facility	\$ 198.5
New senior credit facility term loan borrowings	335.0	Tender offer for ACSH senior notes	59.4
Cash and cash equivalents	79.7	Tender premium on ACSH senior notes(1)	5.9
		Accrued interest on ACSH senior notes(2)	0.8
		Repurchase and cancellation of ACSH senior notes(3)	4.5
		Tender offer for ACSH senior subordinated notes	147.5
		Tender premium on ACSH senior subordinated notes(4)	6.9
		Accrued interest on ACSH senior subordinated notes(5)	5.3
		Repurchase and cancellation of ACSH senior subordinated notes(6)	2.5
		Other fees and expenses(7)	13.2
		Remaining cash and cash equivalents(8)	45.2
<b>Total Sources</b>	<b>\$ 489.7</b>	<b>Total uses</b>	<b>\$ 489.7</b>

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- (1) Represents tender premium and consent fees on \$59.4 million aggregate principal amount that we expect to purchase in the ACSH senior notes tender offer.
- (2) Does not include accrued interest to the expected repurchase date. As of December 31, 2004, accrued interest on the amount of ACSH senior notes assumed to be repurchased was \$2.7 million.
- (3) Represents \$4.4 million principal amount of ACSH senior notes repurchased on the open market during the fourth quarter of 2004 for an aggregate purchase price of \$4.5 million, which will be cancelled concurrently with the consummation of the ACSH senior notes tender offer.
- (4) Assumes all ACSH senior subordinated notes (other than the ACSH senior subordinated notes repurchased by us in the quarter ended December 31, 2004) have been tendered on or before the ACSH senior subordinated notes tender offer consent date.
- (5) Does not include accrued interest to the expected repurchase date. As of December 31, 2004, accrued interest on such ACSH senior subordinated notes was \$2.1 million.
- (6) Represents \$2.5 million principal amount of ACSH senior subordinated notes repurchased on the open market during the fourth quarter of 2004 for an aggregate purchase price of \$2.5 million, which will be cancelled concurrently with the consummation of the ACSH senior subordinated notes tender offer.
- (7) Includes an estimated \$5.1 million of debt issuance cost associated with the new senior credit facility (including \$1.2 million assumed to be paid as consent fees on the remaining \$118.3 million aggregate principal amount of ACSH senior notes not owned by us, assuming that all of the ACSH senior notes (other than the ACSH senior notes repurchased by us in the quarter ended December 31, 2004) have been tendered on or before the tender offer consent date) and \$6.1 million of professional fees and printing and other out-of-pocket expenses associated with this offering and the Refinancing Transactions, \$3.8 million of underwriting discounts and commissions associated with this offering, net of \$1.8 million of prepaid offering expenses accrued as of September 30, 2004. Does not include any fees we may pay Fox Paine & Company, LLC. See "Certain relationships and related party transactions."
- (8) Reflects cash remaining from the term loan borrowings under the new senior credit facility following the repayment of the existing senior secured credit facility and the repurchase of \$59.4 million aggregate principal amount of ACSH senior notes.

If the underwriters elect to exercise all or a portion of the over-allotment option they have been granted, we will use the incremental net proceeds from the resulting sale of shares of our common stock (\$10.7 million of incremental net proceeds in the aggregate if the option is exercised in full) for capital expenditures and general business purposes.

For a further description of the Refinancing Transactions to be consummated at the time of and after the closing of this offering, see "Refinancing transactions."

**Price range of common stock**

Our common stock is traded on the Nasdaq National Market under the symbol "ALSK." On January 14, 2005, the last reported sale price of our common stock on the Nasdaq National Market was \$8.92 per share. The following table presents for the periods indicated the high and low sales prices of our common stock as reported by the Nasdaq National Market.

	High	Low
<b>Fiscal year ended December 31, 2005:</b>		
First quarter (through January 14, 2005)	\$ 8.92	\$ 7.81
<b>Fiscal year ended December 31, 2004:</b>		
First quarter	\$ 5.10	\$ 4.04
Second quarter	\$ 7.85	\$ 4.61
Third quarter	\$ 6.36	\$ 5.08
Fourth quarter	\$ 9.79	\$ 5.55
<b>Fiscal year ended December 31, 2003:</b>		
First quarter	\$ 2.68	\$ 1.78
Second quarter	\$ 3.77	\$ 1.60
Third quarter	\$ 4.63	\$ 3.13
Fourth quarter	\$ 5.47	\$ 3.85

As of January 11, 2005, there were approximately 30,695,389 shares of our common stock issued and outstanding and approximately 35 record holders of our common stock. Because many of our shares of existing common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

On October 28, 2004, we announced that our board of directors adopted a dividend policy and declared its first quarterly dividend of \$0.185 per share payable on January 19, 2005 to holders of record at the close of business on December 31, 2004. Shares of our common stock purchased in this offering will not receive this first quarterly dividend payment. See "Dividend policy and restrictions."

**Capitalization**

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2004:

on an actual basis; and

on a pro forma as adjusted basis, as if all of the shares of common stock offered hereby were sold and the Refinancing Transactions were completed on that date as described in "Refinancing transactions" and "Use of proceeds."

You should read this table in conjunction with "Refinancing transactions," "Use of proceeds," "Selected historical financial data," "Unaudited pro forma condensed consolidated financial information," "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and the related notes included in our quarterly report on Form 10-Q for the quarterly period ended September 30, 2004, which is incorporated by reference in the accompanying prospectus.

September 30, 2004 (in thousands)	(unaudited)	
	Actual	Pro forma as adjusted
Cash and cash equivalents	\$ 79,689	\$ 45,217
Long-term debt (including current portion):		
Existing senior secured credit facility(1)	\$ 198,500	\$
New senior credit facility Term loan(2)		335,000
Capital lease obligations and other senior debt	8,224	8,224
ACSH senior notes(3)	182,000	118,300
Original issue discount ACSH senior notes	(5,460)	(3,549)
ACSH senior subordinated notes(4)	150,000	
Total long-term debt	533,264	457,975
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value per share, 5,000 shares authorized, no shares issued or outstanding, actual and pro forma as adjusted		
Common stock, \$0.01 par value per share 145,000 shares authorized, 33,936 shares issued and 29,387 shares outstanding, actual; and 145,000 shares authorized, 42,344 issued and 37,795 outstanding, pro forma as adjusted	339	423
Treasury stock, 4,549 shares of common stock, at cost	(18,443)	(18,443)
Paid in capital in excess of par value	280,049	345,282
Accumulated deficit(5)	(286,027)	(313,350)
Accumulated other comprehensive loss	(4,543)	(4,543)
Total stockholders' equity (deficit)	(28,625)	9,369
Total capitalization	\$ 504,639	\$ 467,344

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- (1) As of December 31, 2004, we had an outstanding balance of \$198.0 million under the existing senior secured credit facility and no accrued interest.
- (2) Following completion of the Refinancing Transactions, we will be able to borrow up to an additional \$50.0 million under the revolving credit facility portion of the new senior credit facility. See "Description of the new senior credit facility."
- (3) The repurchase of ACSH senior notes representing \$59.4 million aggregate principal amount in the ACSH senior notes tender offer will include a payment of accrued interest (as of December 31, 2004, \$2.7 million) plus a premium and consent fees of approximately \$5.9 million. See "Refinancing transactions." Also reflects \$4.4 million principal amount of ACSH senior notes repurchased on the open market during the fourth quarter of 2004 for an aggregate purchase price of \$4.5 million.
- (4) The repurchase of the ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer, will include a payment of accrued interest (as of December 31, 2004, \$2.1 million) plus a premium and consent fees of approximately \$6.9 million. See "Refinancing transactions." Also reflects \$2.5 million principal amount of ACSH senior subordinated notes repurchased on the open market during the fourth quarter of 2004 for an aggregate purchase price of \$2.5 million.
- (5) Pro forma as adjusted accumulated deficit reflects the write-off of the unamortized discount of \$1.8 million related to our repurchase of the ACSH senior notes, and the write-off of deferred financing costs of \$6.6 million related to the repayment of the existing senior secured credit facility and the repurchase of the ACSH senior notes and the ACSH senior subordinated notes in connection with the Refinancing Transactions.

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**Pro forma dilution**

Dilution is the amount by which the portion of the offering price paid by purchasers of our common stock to be sold by us in the offering exceeds the net tangible book value or deficiency per share of our common stock after the offering. Net tangible book value or deficiency per share of our common stock is determined at any date by subtracting our total liabilities from our total assets less our intangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date.

Our net tangible book deficiency, defined as stockholders' deficit, less goodwill, less intangible assets, as of September 30, 2004, was approximately \$88.9 million, or \$3.03 per share of our common stock. After giving pro forma effect to the sale of 8,408,000 shares of our common stock at \$8.92 per share, which was the last reported sale price on January 14, 2005, and assuming the underwriters do not exercise their over-allotment option, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us, and giving effect to the Refinancing Transactions and deducting the associated expenses and charges, our as adjusted net tangible book deficiency as of September 30, 2004 would have been approximately \$51.0 million, or \$1.34 per share of common stock. This represents an immediate increase in net tangible book value of \$1.69 per share of our common stock to existing stockholders and an immediate dilution of \$10.26 per share of our common stock to new investors purchasing common stock in this offering.

The following table illustrates this substantial and immediate dilution to new investors:

Assumed public offering price per share of common stock	\$	8.92
Net tangible book deficiency per share as of September 30, 2004	\$	(3.03)
Increase in net tangible book deficiency per share attributable to this offering, after giving effect to the Refinancing Transactions		1.69
<hr/>		
Adjusted net tangible book deficiency after this offering and Refinancing Transactions		(1.34)
<hr/>		
Dilution per share to new investors	\$	10.26
<hr/>		

As of September 30, 2004 and January 11, 2005, respectively, there were 29,387,159 and 30,695,389 shares of common stock outstanding. The foregoing discussion and table assume no exercise of outstanding stock options. After this offering, there will be options outstanding to purchase a total of 4,612,091 shares of our common stock at a weighted average exercise price of \$5.99 per share based on options outstanding on January 11, 2005. To the extent that any of these stock options are exercised, there may be further dilution to new investors.

## Dividend policy and restrictions

### General

Our board of directors has adopted a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders, rather than retaining all of such cash for other purposes. This policy reflects our judgment that our stockholders would be better served if we distributed to them a substantial portion of the cash generated by our business. See "Risk factors Risk related to our common stock You may not receive the level of dividends provided for in our dividend policy or any dividends at all."

We believe that our dividend policy will limit, but not preclude, our ability to pursue growth. See "Risk factors Risks related to our common stock Our dividend policy may limit our ability to pursue growth opportunities." If we continue paying dividends at the level currently anticipated under our dividend policy, we expect that we would need additional financing to fund significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. However, we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investment. For further discussion of the relationship of our dividend policy to our ability to pursue potential growth opportunities, see " Assumptions and considerations" below.

In accordance with our dividend policy, we currently intend to pay an initial dividend of \$0.185 per share on January 19, 2005 and we intend to continue to pay quarterly dividends at an annual rate of \$0.74 per share for the first full year following the closing of this offering. The initial dividend of \$0.185 per share will be payable on January 19, 2005, to stockholders of record at the close of business on December 31, 2004. As a result, you will not receive this initial dividend with respect to any shares you purchase in this offering.

In determining our expected initial dividend level, our management and board of directors have reviewed and analyzed, among other things:

our operating and financial results in recent years, including in particular the fact that our Indenture EBITDA was \$110.4 million in 2001; \$101.0 million in 2002; \$105.4 million in 2003; \$79.8 million in the nine months ended September 30, 2004; and that certain losses associated with the termination of the State of Alaska contract are not added back in our calculation of Indenture EBITDA for 2002 and 2003;

our anticipated capital expenditure requirements;

our expected other cash needs, primarily related to working capital requirements;

the terms of our debt instruments following the Refinancing Transactions, including the expected terms of our new senior credit facility and the indenture governing the ACSH senior notes;

other potential sources of liquidity, including working capital and the possibility of asset sales; and

various other aspects of our business.



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However, as described more fully below, you may not receive any dividends, as a result of the following factors:

we are a holding company and rely on dividends, interest and other payments, advances and transfer of funds from our subsidiaries to meet our debt service and pay dividends;

we may not have enough cash to pay dividends due to changes in our operating earnings, working capital requirements and anticipated cash needs;

nothing requires us to declare or pay dividends;

while the dividend policy adopted by our board of directors reflects an intention to distribute a substantial portion of our cash generated by our business in excess of operating needs, interest and principal payments on indebtedness and capital expenditures, to pay dividends, our board could modify or revoke this policy at any time;

even if our dividend policy is not modified or revoked, the actual amount of dividends distributed under the policy and the decision to make any distribution will remain, at all times, entirely at the discretion of our board of directors;

the amount of dividends that we may distribute will be limited by restricted payment and leverage covenants in our new senior credit facility, the indenture governing the ACSH senior notes and, potentially, the terms of any future indebtedness that we may incur;

the amount of dividends that we may distribute is subject to restrictions under Delaware law; and

our stockholders have no contractual or other legal right to dividends.

We have declared our first dividend out of our cash flow, payable on January 19, 2005 to stockholders of record at the close of business on December 31, 2004. Prior to announcing this dividend we had no history of paying dividends out of our cash flow. Dividends on our common stock are not cumulative.

### **Minimum Required Indenture EBITDA**

Our management has prepared the estimated financial information set forth below to present the estimated cash available to pay dividends, after giving effect to the Refinancing Transactions, based on an estimate of minimum required Indenture EBITDA necessary to pay such dividends. The accompanying estimated financial information was not prepared with a view toward complying with the Public Company Accounting Oversight Board guidelines with respect to prospective financial information, but, in the view of our management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, our expected course of action and our expected future financial performance. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus supplement are cautioned not to place undue reliance on the estimated financial information.

Neither our independent registered public accounting firm nor any other independent registered public accounting firm has compiled, examined, or performed any procedures with

respect to the estimated financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the estimated financial information. We do not intend to update or otherwise revise the estimates described herein to reflect circumstances existing after the occurrence of future events even in the event that any of the assumptions underlying the estimates are shown to be in error.

The assumptions and estimates underlying the estimated financial information below are inherently uncertain and, though considered reasonable by our management as of the date of its preparation, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties, including those described under "Risk factors" and "Cautionary note regarding forward-looking statements." Accordingly, there can be no assurance that the estimated financial information is indicative of our future performance or that the actual results will not differ materially from the estimated financial information presented below.

We believe that, in order to fund dividends on our common stock for the year following this offering and the other Refinancing Transactions at the level described above solely from cash generated by our business, our required Indenture EBITDA for the year following the offering would need to be at least \$98.6 million. As described under " Assumptions and considerations" below, we believe that our Indenture EBITDA for the year following the closing of this offering and the other Refinancing Transactions will be at least equal to this minimum required amount of \$98.6 million and we have determined that our assumptions as to capital expenditures used to maintain the assets of the business, cash interest expense, income taxes, working capital and availability of funds under the expected terms of our new senior credit facility are reasonable. We have also determined that if our Indenture EBITDA for such period is at or above this level, we would be permitted to pay dividends at the level described above under the financial ratios and restricted payment covenants required to be maintained under the expected terms of our new senior credit facility and the terms of the indenture governing the ACSH senior notes following the Refinancing Transactions.

The following table sets forth our calculation illustrating that \$98.6 million of Indenture EBITDA would be sufficient to fund dividends at the above level for the first full year following the closing of the offering and would satisfy the expected interest coverage and leverage ratios in our new senior credit facility, we refer to this as minimum required Indenture EBITDA. We expect that Indenture EBITDA of at least \$98.6 million for the first full year following the closing of the offering would permit us to pay dividends at our anticipated level under all

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relevant financial and restricted payment covenants and restrictions that are expected to be contained in the new senior credit facility and indenture governing the ACSH senior notes.

(in thousands)

Amount

# **Estimated Cash Available to Pay Dividends Based On Minimum Required Indenture EBITDA**

Minimum Required Indenture EBITDA	\$	98,575
Less:		
Estimated cash interest expense(1)		33,739
Estimated capital expenditures used to maintain the assets of the business(2)		35,000
Estimated scheduled principal payments(1)		900
Estimated cash income taxes(3)		
Estimated cash available to pay dividends based on minimum required Indenture EBITDA(4)	\$	28,936
Estimated total leverage ratio derived from the above(5)		4.6
Estimated senior leverage ratio derived from the above(5)		4.6
Estimated senior secured leverage ratio derived from the above(5)		3.5
Estimated interest coverage ratio(5)		2.9

(1)

The estimated cash interest expense of \$33.7 million for the first full year following the closing of this offering and the Refinancing Transactions assumes interest at a weighted average rate of 5.67% per year (based on an average LIBOR forecast of 2.92% and a fixed interest component of 2.75%) on the \$335.0 million outstanding term loan borrowings and a commitment fee of 0.375% on the undrawn amounts on the revolving credit facility portion of our proposed new senior credit facility, an interest rate of 9.875% on the \$118.3 million of outstanding ACSH senior notes, and a weighted average interest rate of 9.5% on the average outstanding borrowings of \$7.8 million under various capital leases and other long-term obligations. We have also assumed in the calculation of estimated cash interest expense that we have entered into a floating-to-fixed interest rate swap swapping LIBOR for a fixed interest rate of 4.11% on a notional amount of \$135.0 million of our term loan borrowings, which fixed rate was estimated based on average market rates for a five-year swap as quoted by the Federal Reserve Board on January 6, 2005. Our estimate of cash interest expense also includes \$0.2 million of other cash interest expense and charges, including ratings agency and administration fees associated with our long-term debt and other interest and finance charges. See "Unaudited pro forma condensed consolidated financial information."

We estimated that our capital leases and other debt will have scheduled principal payments of approximately \$0.9 million in the first full year following the closing of this offering and the Refinancing Transactions.

(2)

Represents management's estimate of the amount of annual capital expenditures required to maintain the assets of the business. For the year ended December 31, 2003, capital expenditures were \$50.9 million, of which \$32.8 million was expended to maintain the assets of the business, \$11.5 million was expended on our CDMA build out, \$2.3 million was expended in acquiring a network operations center related to our Crest agreement, and \$4.3 million was expended on the State of Alaska contract and our Directories Business. For the nine months ended September 30, 2004, capital expenditures were \$38.1 million, of which \$25.3 million was expended to maintain the assets of the business and \$12.8 million was expended on CDMA and other growth initiatives. For the year ended December 31, 2004, we expect capital expenditures to maintain the assets of the business to be similar to levels for the year ended December 31, 2003. We anticipate available cash to fund planned growth capital expenditures of approximately \$55 million over the next two years.

(3)

We do not expect to pay any cash income taxes during the first full year following the closing of this offering and the Refinancing Transactions. Specifically, we do not believe we will have any taxable income for 2005 assuming \$98.6 million of minimum required Indenture EBITDA. Additionally, as of September 30, 2004, we had net operating loss carry forwards for income tax purposes of approximately \$108.7 million. We may be required to pay income taxes or alternative minimum income taxes in future taxable periods, which would reduce our after-tax cash flow available for payment of dividends and may require us to reduce dividend payments on our common stock in such future periods.

(4)

The table below sets forth the assumed number of outstanding shares of our common stock upon the closing of this offering and the estimated per share and aggregate dividend amounts payable on such shares during the first full year following the closing of this offering and the Refinancing Transactions. We intend to issue in this offering



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such number of shares that will result in aggregate gross proceeds to us of approximately \$75.0 million. The number of shares assumed to be issued in this offering is based on an issue price of \$8.92 per share. The actual number of shares we will issue in this offering could vary. Any change to the number of shares of our common stock we issue in this offering will change the aggregate dividend amount payable in the first full year following this offering.

	Number of shares (in thousands)	Dividends	
		Per share	Aggregate (in thousands)
Shares outstanding on January 11, 2005	30,695	\$ 0.74	\$ 22,714
Pro forma shares issued in this offering	8,408	0.74	6,222
<b>Total</b>	<b>39,103</b>	<b>\$ 0.74</b>	<b>\$ 28,936</b>

On January 11, 2005, we had 4,612,091 of shares reserved for issuance under outstanding option grants which are not reflected in the above table. Assuming all options outstanding were exercised following the closing of this offering, the aggregate dividend amounts payable during the year following the closing of this offering would be approximately \$32.3 million. If the underwriters exercise in full their over-allotment option, the aggregate dividend amount in the first full year following the closing of this offering and the Refinancing Transactions would increase by approximately \$0.9 million.

(5)

Total leverage ratio is calculated as total long-term obligations, including current portion, divided by Indenture EBITDA. Senior leverage ratio is calculated as total senior long-term obligations, including current portion, divided by Indenture EBITDA. Senior secured leverage ratio is calculated as total senior secured long-term obligations, including current portion, divided by Indenture EBITDA. Interest coverage ratio is calculated as Indenture EBITDA divided by consolidated cash interest expense. After this offering and the Refinancing Transactions, all of our outstanding long-term obligations will be senior obligations. Based on the calculated ratios for estimated minimum Indenture EBITDA, we expect to be permitted to make dividend payments for the first full year following this offering and the Refinancing Transactions. See " Restrictions on payments of dividends" for further discussion on how these ratios are used in determining whether we will be permitted to pay dividends.

The following table illustrates, for our fiscal year ended December 31, 2003 and for the nine months ended September 30, 2004, the amount of cash that would have been available for distribution to our common stockholders, assuming, in each case, that the offering and the other Refinancing Transactions had been consummated at the beginning of such period, subject to the assumptions described below:

Pro Forma Cash Available To Pay Dividends: (in thousands)	Year ended December 31, 2003		Nine months ended September 30, 2004	
Pro forma net income (loss)	\$	(90,512)	\$	(16,489)
Add (subtract):				
Interest expense(1)		31,517		23,174
Income tax expense (benefit)				
Depreciation and amortization		82,183		57,686
Asset impairment losses:				
Operating		54,858		5,402
Non-operating		15,924		
Pension expense, net of pension funding		238		549
Stock based compensation		900		
Recruiting, severance and restructuring costs		4,445		3,416
Litigation reserves		3,880		743
Acquisition costs and other		1,029		2,497
Loss on disposal of assets		896		2,825
Loss from discontinued operations		52		
<b>Pro forma Indenture EBITDA</b>		<b>105,410</b>		<b>79,803</b>

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Pro forma cash interest expense	28,854	21,886
Pro forma capital expenditures used to maintain the assets of the business	32,783	25,306
Pro forma cash income taxes		
Pro forma scheduled principal payments	1,079	638
<b>Cash Available To Pay Dividends</b>	<b>\$ 42,694</b>	<b>\$ 31,973</b>

(1)

Interest expense assumes the completion of the Refinancing Transactions. See "Unaudited pro forma condensed consolidated financial information."

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### Assumptions and considerations

Based on a review and analysis conducted by our management and our board of directors, we have determined that the assumptions in the above tables as to capital expenditures, cash interest expense, income taxes, working capital and availability of funds under the expected terms of our new senior credit facility are reasonable. Our management and board of directors have considered numerous factors in establishing our belief concerning the minimum required Indenture EBITDA required to support our dividend policy and our belief that our minimum required Indenture EBITDA for the first full year following the offering will be at least \$98.6 million, including the following factors:

Our Indenture EBITDA for the nine months ended September 30, 2004 was \$79.8 million.

For fiscal years 2001, 2002 and 2003, our Indenture EBITDA was \$110.4 million, \$101.0 million and \$105.4 million, respectively.

For fiscal year 2003 and for the nine months ended September 30, 2004, we incurred \$32.8 million and \$25.3 million, respectively, in capital expenditures required to maintain the assets of the business. We expect capital expenditures required to maintain the assets of the business for fiscal 2004 to have been approximately \$35.0 million. We do not expect that capital expenditures to maintain the assets of the business will vary significantly on an annual basis.

While our working capital balances varied over the past three years, there has not been a trend toward material working capital growth over that period.

We have analyzed the impact of our intention to pay dividends at the level described above on our operations and performance in prior years and have determined that the expected terms of our new senior credit facility will have sufficient capacity to finance any fluctuations in working capital and other cash needs.

We have also assumed:

that our general business climate, including such factors as consumer demand for our services, the level of competition we experience and our regulatory environment, will remain consistent with previous periods;

the absence of extraordinary business events, such as new industry-altering technological developments or adverse regulatory developments, that may adversely affect our business, results of operations or anticipated capital expenditures; and

the successful completion of the Refinancing Transactions, including entering into our new senior credit facility, the repayment of the existing senior secured credit facility, the repurchase or redemption of all of the outstanding ACSH senior subordinated notes, the receipt of the requisite consents to amend the indenture governing the ACSH senior notes and the repurchase of \$59.4 million aggregate principal amount of ACSH senior notes. See "Refinancing transactions" and "Unaudited pro forma condensed consolidated financial information."

If our Indenture EBITDA for the first year following the closing were to fall below \$98.6 million, the amount of minimum required Indenture EBITDA level (or if our assumptions as to capital expenditures or interest expense are too low, our assumptions as to the sufficiency of our new senior credit facility to finance our working capital needs prove incorrect, or if

other assumptions stated above were to prove incorrect), we may need to either reduce or eliminate dividends or, to the extent we were permitted to do so under our new senior credit facility and the indenture governing the ACSH senior notes, to fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our financial condition, our results of operations, our liquidity and our ability to maintain or expand our business. In addition, to the extent we finance capital expenditures with indebtedness, we will begin to incur incremental debt service obligations.

We cannot assure you that our Indenture EBITDA will in fact equal or exceed the minimum level set forth above, and our belief that it will equal or exceed such level is subject to all of the risks, considerations and factors identified in other sections of this prospectus supplement, including those identified in the section entitled "Risk factors" and "Cautionary note regarding forward-looking statements."

As noted above, we have estimated our initial dividend level and the minimum Indenture EBITDA necessary to pay dividends at that level only for the first full year following the closing of this offering. Moreover, we cannot assure you that we will pay dividends during or following such period at the level estimated above, or at all. Dividend payments are within the absolute discretion of our board of directors and will be dependent upon many factors and future developments that could differ materially from our current expectations. Over time, our capital and other cash needs will invariably be subject to uncertainties, which could affect the level of any dividends we pay in the future, see "Risk factors Risks related to our common stock Our substantial indebtedness could adversely affect our financial health and restrict our ability to pay dividends on our common stock and adversely affect our financing options and liquidity position."

In accordance with our dividend policy, we intend to distribute, as dividends to our stockholders, a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on indebtedness and capital expenditures. We believe that our dividend policy will limit, but not preclude, our ability to pursue growth. If we continue paying dividends at the level currently anticipated under our dividend policy, we expect that we would need additional financing to fund significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations. Such additional financing could include, among other transactions, the issuance of additional shares of common stock. However, we intend to retain sufficient cash after the distribution of dividends to permit the pursuit of growth opportunities that do not require material capital investments. In the recent past, such growth opportunities have included investments in the roll-out of new services such as DSL Internet access. Management currently has no specific plans to make a significant acquisition or to increase capital spending to expand our business materially. However, management will evaluate potential growth opportunities as they arise and, if our board of directors determines that it is in our best interest to use cash that would otherwise be available for distribution as dividends to pursue an acquisition opportunity, to materially increase capital spending or for some other purpose, the board would be free to depart from or change our dividend policy at any time. Management currently does not anticipate pursuing growth opportunities, including acquisitions, unless they are expected to be at least neutral or accretive to our ability to pay dividends to the holders of our common stock, see "Risk factors Risks related to our common stock Our dividend policy may limit our ability to pursue growth opportunities."



Our intended policy to distribute rather than retain a significant portion of the cash generated by our business as regular quarterly dividends is based upon our current assessment of our financial performance, our cash needs and our investment opportunities. If these factors were to change based on, for example, competitive or technological developments (which could increase our need for capital expenditures) or new investment opportunities, we would need to reassess that policy.

#### **Restrictions on payment of dividends**

##### ***Holding company limitations***

ACS Group has no direct operations and no significant assets other than ownership of 100% of the stock of ACSH. We depend on our subsidiaries for dividends and other payments to generate the funds necessary to meet our financial obligations, including to pay dividends with respect to our common stock. See "Risk factors Risks related to our common stock ACS Group, the issuer of the shares in this offering, is a holding company and relies on dividends, interest and other payments, advances and transfer of funds from its subsidiaries to meet its debt service and pay dividends."

##### ***Delaware law***

Under Delaware law, our board of directors, in their sole discretion, may declare dividends only to the extent of our "surplus" (which is defined as total assets at fair market value minus total liabilities and statutory capital), or if there is no surplus, out of our net profits for the then current and/or immediately preceding fiscal years. We have had net losses in each of the past five fiscal years.

Our board may base its determination to declare dividends on our financial statements, a fair valuation of our assets or another reasonable method. Although we believe we will be permitted to pay dividends at the anticipated levels during the first year following this offering in compliance with Delaware law, our board will periodically seek to assure itself that the statutory requirements will be met before actually declaring dividends. In future years, the board may seek opinions from outside valuation firms to the effect that our solvency or assets are sufficient to allow payment of dividends, and such opinions may not be forthcoming. If we sought and were not able to obtain such an opinion, we likely would not be able to pay dividends.

##### ***New senior credit facility***

We are in the process of negotiating the terms of our new senior credit facility. However, we expect that the new senior credit facility will generally restrict our ability to pay dividends. While final terms have not yet been agreed, we expect the new senior credit facility to provide that ACSH may:

(A) pay current dividends on ACSH common stock, redeem stock and make other restricted payments in an amount not to exceed Cumulative Distributable Cash (described below) on such date, in each case so long as (i) no Dividend Suspension Period (described below) has occurred and is continuing and (ii) no event of default under the new senior credit facility has occurred and is continuing, and

(B) pay any dividends, redeem stock and make other restricted payments from the portion of the proceeds of any incurrence, issuance or sale of equity of ACSH not used to fund a permitted acquisition or permitted investment, so long as no event of default under the new senior secured credit facilities has occurred and is continuing.

"Cumulative Distributable Cash" means, on any date of determination, an amount equal to (i) \$55,000,000 plus (ii) an amount equal to the amount sufficient to pay the expected dividend payment(s) prior to the delivery of the compliance certificate for the first full fiscal quarter following the effectiveness of the new senior credit facility pursuant to our announced dividend policy plus (iii) the sum of the following (as calculated, without duplication, on a consolidated basis) for the period commencing on the first day of the fiscal quarter beginning after the effectiveness of the new senior credit facility and ending on the last day of our fiscal quarter then most recently ended for which a compliance certificate has been delivered to the administrative agent: (a) Available Cash (described below) for such period, minus (b) the aggregate amount of restricted payments paid during such period, other than any such dividends paid from the proceeds of equity as contemplated by clause (B) in the foregoing paragraph.

"Available Cash" means on any date of determination an amount equal to the sum of the following (as calculated, without duplication, on a consolidated basis) for the period commencing on the first day of the fiscal quarter beginning after the effectiveness of the new senior credit facility and ending on the last day of our fiscal quarter then most recently ended for which a compliance certificate has been delivered to the administrative agent: (a) Adjusted EBITDA (as defined in the new senior credit facility) for such period minus (b) to the extent not deducted in the determination of Adjusted EBITDA, the sum of the following: (i) interest paid or accrued in such period (but not including amortization of deferred transaction costs or non-cash financing fees or other non-cash interest expense), (ii) capital expenditures during such period (other than any financed with the proceeds of permitted debt or equity, or from the proceeds of permitted asset sales or casualty events), (iii) permitted acquisitions (other than any thereof financed with the proceeds of permitted debt or equity, or from the proceeds of permitted asset sales or casualty events), (iv) certain other permitted investments to be agreed, (v) scheduled principal payments, if any, during such period, (vi) voluntary prepayments of debt made during such period, and mandatory prepayments made during such period made from excess cash flow and Cumulative Distributable Cash, (vii) cash taxes paid during such period, (viii) costs and expenses associated with senior secured credit facilities and the common stock offering and any permitted securities offering and related transactions, investment, acquisition or debt offering (in each case whether or not successful), (ix) the cash cost of any extraordinary, non-recurring or unusual losses during such period and (x) all cash payments made during such period on account of non-cash losses or non-cash charges expensed in a prior period, plus (c) to the extent not included in the determination of Adjusted EBITDA, the cash amount realized in respect of extraordinary, non-recurring or unusual gains during such period, plus (d) cash received in conjunction with gains on the disposal of assets other than in the ordinary course of business.

*Dividend suspension period.* The new senior credit facility will not permit dividend payments on ACSH common stock in the event that for the four-quarter period ended on the last day of any fiscal quarter, our total leverage ratio is greater than a certain threshold to be determined. The period of such suspension is referred to herein as a "Dividend Suspension Period". Within 45 days after the end of each fiscal quarter, ACSH will provide a certificate to the administrative agent under the new senior credit facility, detailing the calculation of the total leverage ratio and stating the amount of dividends that ACSH intends to make on the next succeeding dividend payment date. Dividend Suspension Periods will commence and terminate upon delivery of such certificates.

We are still in the process of negotiating the terms of the new senior secured credit facility. As a result, these provisions could change and the final terms of the new senior credit facility could be more or less restrictive.

***ACSH senior notes***

Assuming the completion of the consent solicitation relating to the ACSH senior notes, as described under "Refinancing transactions," the indenture governing the ACSH senior notes will restrict ACSH's ability to declare and pay dividends on its common stock:

if a default under the indenture governing the notes has occurred or is continuing (or would result therefrom);

if (X) ACSH could not incur at least \$1.00 of additional indebtedness because its debt to Indenture EBITDA ratio would be greater than 6 to 1 after giving effect to such incurrence, or (Y) (1) the senior debt to Indenture EBITDA ratio is greater than 5:1, if the date of a restricted payment is made prior to August 15, 2007, or (2) the senior debt to Indenture EBITDA ratio is greater than 4.75:1, if the date of a restricted payment is made on or after August 15, 2007; and

if the aggregate cumulative amount of such dividend and all other restricted payments under the indenture governing the ACSH senior notes would exceed an amount based on ACSH's cumulative Indenture EBITDA less 140% of consolidated interest expense.

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**Selected historical financial data**

The following table sets forth our historical consolidated financial data as of December 31, 1999, 2000, 2001, 2002 and 2003 and for the fiscal years ended December 31, 1999, 2000, 2001, 2002 and 2003, which are derived from our audited financial statements for those years. The audited historical consolidated financial statements for the years ended December 31, 1999 and 2000 have not been incorporated by reference in the accompanying prospectus. The audited historical consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 are included in our annual report on Form 10-K for the year ended December 31, 2003, which has been incorporated by reference in the accompanying prospectus.

The selected historical financial data as of and for the year ended December 31, 1999 represent our consolidated statement of operations and cash flow data from May 15, 1999, the date we completed the acquisition of four local telephone companies in Alaska, through December 31, 1999. Certain reclassifications have been made to the 1999 consolidated operations data to conform to the current presentation of our consolidated operations data.

The summary historical financial data for the nine months ended September 30, 2003 and 2004 have been derived from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the quarterly period ended September 30, 2004, which have been incorporated by reference in the accompanying prospectus, and have been prepared on a basis consistent with our annual consolidated financial statements. In our opinion, the financial data for the nine months ended September 30, 2003 and 2004 reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows as of and for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

The selected historical financial data set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with "Management's discussion and analysis of financial condition and results of operations," our consolidated financial statements and related notes thereto for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 and our unaudited condensed consolidated financial statements for the nine months ended September 30, 2003 and 2004.

(in thousands, except per share amounts)	Year ended December 31,					Nine months ended September 30,	
	1999	2000	2001	2002	2003	2003	2004
<b>Statements of operations data:</b>							
Operating revenues	\$ 192,663	\$ 311,366	\$ 328,525	\$ 340,144	\$ 323,548	\$ 246,010	\$ 227,332
Operating expenses	176,084	277,598	281,402	360,745	360,775	286,301	218,436
Loss (gain) on disposal of assets				2,163	(112,622)	(112,507)	2,825
Operating income (loss)	16,579	33,768	47,123	(22,764)	75,395	72,216	6,071
Other expense, net	(42,052)	(58,253)	(56,838)	(49,501)	(80,878)	(61,599)	(38,300)
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	(25,473)	(24,485)	(9,715)	(72,265)	(5,483)	10,617	(32,229)
Income tax expense (benefit)	(301)	(197)	(195)		1,095		
Income (loss) from continuing operations	(25,172)	(24,288)	(9,520)	(72,265)	(6,578)	10,617	(32,229)
Loss from discontinued operations	(306)	(917)	(1,718)	(7,632)	(52)	(52)	
Income (loss) before cumulative effect of change in accounting principle	(25,478)	(25,205)	(11,238)	(79,897)	(6,630)	10,565	(32,229)
Cumulative effect of change in accounting principle				(105,350)			
Net income (loss)	\$ (25,478)	\$ (25,205)	\$ (11,238)	\$ (185,247)	\$ (6,630)	\$ 10,565	\$ (32,229)
Income (loss) per share basic and diluted							
Income (loss) from continuing operations	\$ (1.08)	\$ (0.74)	\$ (0.30)	\$ (2.30)	\$ (0.22)	\$ 0.35	\$ (1.10)
Loss from discontinued operations	(0.01)	(0.03)	(0.06)	(0.24)	(0.00)	(0.00)	
Cumulative effect of change in accounting principle				(3.35)			
Net income (loss)	\$ (1.09)	\$ (0.77)	\$ (0.36)	\$ (5.89)	\$ (0.22)	\$ 0.35	\$ (1.10)
Weighted average shares outstanding (in thousands):							
Basic	23,396	32,654	31,523	31,464	29,980	30,165	29,418
Diluted	23,396	32,654	31,523	31,474	29,980	30,165	29,418
<b>Balance sheet data (at end of periods):</b>							
Cash and cash equivalents	\$ 101,994	\$ 61,896	\$ 41,012	\$ 18,565	\$ 97,798	\$ 121,160	\$ 79,689
Working capital	96,623	53,105	31,214	21,893	94,872	115,460	73,182
Total assets	973,909	953,660	949,095	752,509	685,391	701,069	641,672
Long-term obligations including current portion	612,756	614,004	611,250	607,763	550,220	551,059	533,264
Total stockholders' equity (deficit)	247,968	215,380	191,687	8	1,860	11,577	(28,625)
<b>Other financial data:</b>							
Net cash provided by operating activities	\$ 44,893	\$ 49,589	\$ 75,769	\$ 65,984	\$ 50,411	\$ 50,470	\$ 38,734
Net cash provided (used) by investing activities	(775,513)	(75,795)	(95,899)	(79,728)	106,517	128,287	(39,139)
Net cash provided (used) by financing activities	832,614	(13,892)	(1,664)	(8,703)	(77,695)	(76,162)	(17,704)
Capital expenditures	75,688	73,349	88,998	72,621	50,906	29,875	38,084



**Unaudited pro forma condensed  
consolidated financial information**

The following unaudited pro forma condensed consolidated financial statements have been derived by the application of pro forma adjustments to our historical consolidated financial statements which have been incorporated by reference in the accompanying prospectus. We are providing the following unaudited pro forma condensed consolidated financial information to give effect to the following transactions (the "Transactions") because the effect of these Transactions on our financial statements is significant: (i) this offering of shares of our common stock, (ii) the entering into of the new senior credit facility and the interest rate swap, and (iii) the use of net proceeds from this offering and term loan borrowings under the new senior credit facility, together with cash on hand, to (a) repay all amounts outstanding under our existing senior secured credit facility, (b) repurchase \$59.4 million aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer, (c) repurchase \$147.5 million aggregate outstanding principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer and (d) repurchase and cancel approximately \$4.4 million aggregate principal amount of ACSH senior notes and \$2.5 million aggregate principal amount of ACSH senior subordinated notes. We are also adjusting our historical consolidated financial information to give effect to the redemption in full of our 13% senior discount debentures, which was completed on June 14, 2004, the refinancing of our 1999 bank credit facilities with the proceeds of term loan borrowing under our existing senior secured credit facility and the issuance of the ACSH senior notes, which refinancing was completed on August 26, 2003, and the early termination of our 1999 interest rate swap which was completed on November 24, 2003, because those events were significant to our operations and capital structure (collectively, the "Prior Transactions"). We are also adjusting our historical consolidated financial information to give effect to the disposition of our Directories Business in 2003 because that event was significant to our operations and represents the disposition of a business segment.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2004 assumes that each of the following had occurred on September 30, 2004:

this offering of shares of our common stock (assuming the underwriters do not exercise their over-allotment option),

the entering into of the new senior credit facility,

the use of our net proceeds from this offering and term loan borrowings under the new senior credit facility, together with cash on hand, to:

repay all amounts outstanding under our existing senior secured credit facility,

repurchase \$59.4 million aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer, and

repurchase \$147.5 million aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer, and

the repurchase and cancellation of \$4.4 million aggregate principal amount of ACSH senior notes and \$2.5 million aggregate principal amount of ACSH senior subordinated notes that were purchased on the open market during the fourth quarter of 2004 and that will be cancelled upon completion of the tender offers and

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consent solicitations for the ACSH senior notes and the ACSH senior subordinated notes.

The unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2004 and for the year ended December 31, 2003 assume that each of the following had occurred on January 1, 2003:

this offering of shares of our common stock (assuming the underwriters do not exercise their over-allotment option),

the entering into of the new senior credit facility,

the entering into of the interest rate swap,

the use of our net proceeds from this offering and term loan borrowings under the new senior credit facility, together with cash on hand, to:

repay all amounts outstanding under our existing senior secured credit facility,

repurchase \$59.4 million aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer, and

repurchase \$147.5 million aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer,

the repurchase and cancellation of \$4.4 million aggregate principal amount of ACSH senior notes and \$2.5 million aggregate principal amount of ACSH senior subordinated notes that were purchased on the open market during the fourth quarter of 2004 and that will be cancelled upon completion of the tender offers and consent solicitations for the ACSH senior notes and the ACSH senior subordinated notes, and

the redemption in full of our 13% senior discount debentures.

Additionally, the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2003 assumes that each of the following also had occurred on January 1, 2003:

the sale of substantially all of our Directories Business during 2003,

the refinancing of our 1999 bank credit facilities with the proceeds of term loan borrowings under our existing senior secured credit facility and the issuance of the ACSH senior notes and cash on hand, and

the early extinguishment of the 1999 floating-to-fixed interest rate swap, which was paid off with proceeds of the August 26, 2003 refinancing.

We anticipate incurring certain charges and write-offs related to the Transactions which are expected to total approximately \$27.4 million and consist of the following:

\$13.2 million for tender premiums, consent fees and expenses associated with the tender offers and consent solicitations to repurchase \$59.4 million aggregate principal amount of ACSH senior notes and \$147.5 million aggregate principal amount of ACSH senior subordinated notes, and the repurchase and cancellation of \$4.4 million





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aggregate principal amount of ACSH senior notes and \$2.5 million aggregate principal amount of ACSH senior subordinated notes;

\$12.3 million of unamortized debt issuance costs associated with the early repayment of our existing senior secured credit facility, the repurchase of \$59.4 million aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer, the repurchase of \$147.5 million aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated tender offer, and the repurchase and cancellation of \$4.4 million aggregate principal amount of ACSH senior notes and \$2.5 million aggregate principal amount of ACSH senior subordinated notes; and

\$1.9 million of unamortized original issuance discount associated with the repurchase of \$59.4 million aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer and the repurchase and cancellation of \$4.4 million aggregate principal amount of ACSH senior notes.

These charges and write-offs of debt issuance costs and original issue discount are not reflected in the unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2004 and for the year ended December 31, 2003.

The unaudited pro forma condensed consolidated financial information has not been adjusted for the possible termination of our obligation to pay a management fee to Fox Paine under the management services agreement we have entered into with Fox Paine. See "Certain relationships and related party transactions."

We were engaged by contract to provide telecommunications services to the State of Alaska which was terminated in October 2003. The operations and contract termination costs associated with this customer are not adjusted for in the unaudited pro forma condensed consolidated financial information for the year ended December 31, 2003. Please see "Management's discussion and analysis of financial condition and results of operations" for more information.

The unaudited pro forma condensed consolidated financial information is for informational purposes only and is not necessarily indicative of either the financial position or the results of operations that would have been achieved had the transactions for which we are giving pro forma effect actually occurred on the dates or for the periods indicated as described in the accompanying notes, nor is such unaudited pro forma condensed consolidated financial information necessarily indicative of the results to be expected for the full year or any future period. A number of factors may affect our results. See "Cautionary note regarding forward-looking statements" and "Risk factors."

The pro forma adjustments are based on preliminary estimates and currently available information and assumptions that management believes are reasonable. The notes to the unaudited pro forma condensed consolidated statements of operations and balance sheet provide a detailed discussion of how such adjustments were derived and presented in the unaudited pro forma condensed consolidated financial information. The unaudited pro forma condensed consolidated financial information should be read in conjunction with "Capitalization," "Use of proceeds," "Selected historical financial data," "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and related notes thereto included in our annual report on Form 10-K for the year ended December 31, 2003 and our quarterly report on Form 10-Q for the quarterly period ended September 30, 2004, each of which is incorporated by reference in the accompanying prospectus.

## Alaska Communications Systems Group, Inc.

**Unaudited pro forma condensed consolidated balance sheet  
as of September 30, 2004**

(in thousands)	Historical consolidated	Pro forma adjustments for the Transactions	Pro forma consolidated
<b>Current assets:</b>			
Cash and cash equivalents	\$ 79,689	\$ (34,472) (a)(b)(c)(d)(e)(f)	\$ 45,217
Restricted cash	4,690		4,690
Accounts receivable trade	38,233		38,233
Materials and supplies	7,051		7,051
Prepayments and other current assets	7,287		7,287
<b>Total current assets</b>	<b>136,950</b>	<b>(34,472)</b>	<b>102,478</b>
Property, plant and equipment, net	418,779		418,779
Goodwill	38,403		38,403
Intangible assets	21,917		21,917
Debt issuance cost	16,428	(7,164) (b)(c)(d)(e)(f)	9,264
Deferred charges and other assets	9,195	(1,798) (a)	7,397
<b>Total assets</b>	<b>\$ 641,672</b>	<b>\$ (43,434)</b>	<b>\$ 598,238</b>
<b>Current liabilities:</b>			
Current portion of long-term obligations	\$ 2,294	\$ (2,000) (c)	\$ 294
Accounts payable affiliates	3,611		3,611
Accounts payable, accrued and other current liabilities	49,185	(6,139) (c)(d)(e)(f)	43,046
Advance billings and customer deposits	8,678		8,678
<b>Total current liabilities</b>	<b>63,768</b>	<b>(8,139)</b>	<b>55,629</b>
Long-term obligations, net of current portion	530,970	(73,289) (b)(c)(d)(e)(f)	457,681
Other deferred credits and long-term liabilities	75,559		75,559
<b>Stockholders' equity (deficit):</b>			
Preferred stock			
Common stock	339	84 (a)	423
Treasury stock at cost	(18,443)		(18,443)
Additional paid in capital	280,049	65,233 (a)	345,282
Accumulated deficit	(286,027)	(27,323) (b)(c)(d)(e)(f)	(313,350)
Accumulated other comprehensive loss	(4,543)		(4,543)
<b>Total stockholders' equity (deficit)</b>	<b>(28,625)</b>	<b>37,994</b>	<b>9,369</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 641,672</b>	<b>\$ (43,434)</b>	<b>\$ 598,238</b>

The notes to the unaudited pro forma condensed consolidated financial statements are an integral part of the pro forma financial information presented.



## Alaska Communications Systems Group, Inc.

**Unaudited pro forma condensed consolidated statement  
of operations for the nine months ended  
September 30, 2004**

(in thousands, except per share amounts)	Historical consolidated	Pro forma adjustments for the Transactions and the Prior Transactions	Pro forma consolidated
<b>Operating revenues:</b>			
Local telephone	\$ 159,976	\$	\$ 159,976
Wireless	41,266		41,266
Internet	15,013		15,013
Interexchange	11,077		11,077
	<u>227,332</u>		<u>227,332</u>
Total operating revenues	227,332		227,332
<b>Operating expenses:</b>			
Local telephone (exclusive of depreciation and amortization)	96,806		96,806
Wireless (exclusive of depreciation and amortization)	27,229		27,229
Internet	21,204		21,204
Long distance network service	15,511		15,511
Depreciation and amortization	57,686		57,686
Loss on disposal of assets	2,825		2,825
	<u>221,261</u>		<u>221,261</u>
Total operating expenses	221,261		221,261
Operating income	6,071		6,071
<b>Other income (expense):</b>			
Interest expense	(38,914)	15,740(h)(i)	(23,174)
Interest income and other	614		614
	<u>(38,300)</u>	<u>15,740</u>	<u>(22,560)</u>
Total other income (expense)	(38,300)	15,740	(22,560)
Loss before income taxes	(32,229)	15,740	(16,489)
Income taxes			
	<u>(32,229)</u>	<u>15,740</u>	<u>(16,489)</u>
Loss from continuing operations	\$ (32,229)	\$ 15,740	\$ (16,489)
	<u>(32,229)</u>	<u>15,740</u>	<u>(16,489)</u>
<b>Loss per share from continuing operations basic and diluted</b>	<b>\$ (1.10)</b>	<b>\$ 0.66(g)(h)(i)</b>	<b>\$ (0.44)</b>
	<u>(1.10)</u>	<u>0.66(g)(h)(i)</u>	<u>(0.44)</u>
<b>Weighted average shares outstanding basic and diluted</b>	<b>29,418</b>	<b>8,408(g)</b>	<b>37,826</b>
	<u>29,418</u>	<u>8,408(g)</u>	<u>37,826</u>

The notes to the unaudited pro forma condensed consolidated financial statements are an integral part of the pro forma financial information presented.



## Alaska Communications Systems Group, Inc.

**Unaudited pro forma condensed consolidated statement of operations  
for the year ended December 31, 2003**

(in thousands, except per share amounts)	Historical consolidated	Pro forma adjustments for the Directories disposition	Subtotal	Pro forma adjustments for the Transactions and the Prior Transactions	Pro forma consolidated
<b>Operating revenues:</b>					
Local telephone	\$ 215,387	\$	\$ 215,387	\$	\$ 215,387
Wireless	46,548		46,548		46,548
Directory	11,631	(11,631) (j)			
Internet	33,026		33,026		33,026
Interexchange	16,956		16,956		16,956
<b>Total operating revenues</b>	<b>323,548</b>	<b>(11,631)</b>	<b>311,917</b>		<b>311,917</b>
<b>Operating expenses:</b>					
Local telephone (exclusive of depreciation and amortization)	116,354		116,354		116,354
Wireless, exclusive of depreciation and amortization	31,064		31,064		31,064
Directory, exclusive of depreciation and amortization	5,249	(5,249) (j)			
Internet, exclusive of depreciation and amortization	45,523		45,523		45,523
Interexchange, exclusive of depreciation and amortization	25,542		25,542		25,542
Contract termination and asset impairment charges	54,858		54,858		54,858
Depreciation and amortization	82,185	(2) (j)	82,183		82,183
Loss (gain) on disposal of assets	(112,622)	113,518 (j)	896		896
<b>Total operating expenses</b>	<b>248,153</b>	<b>108,267</b>	<b>356,420</b>		<b>356,420</b>
<b>Operating income (loss)</b>	<b>75,395</b>	<b>(119,898)</b>	<b>(44,503)</b>		<b>(44,503)</b>
<b>Other income (expense):</b>					
Interest expense	(71,470)		(71,470)	39,953 (l)(m)	(31,517)
Interest income and other	(9,408)	(5,032) (j)	(14,440)		(14,440)
<b>Total other income (expense)</b>	<b>(80,878)</b>	<b>(5,032)</b>	<b>(85,910)</b>	<b>39,953</b>	<b>(45,957)</b>
<b>Loss before income taxes</b>	<b>(5,483)</b>	<b>(124,930)</b>	<b>(130,413)</b>	<b>39,953</b>	<b>(90,460)</b>
Income taxes	1,095	(1,095) (j)			
<b>Loss from continuing operations</b>	<b>\$ (6,578)</b>	<b>\$ (123,835)</b>	<b>\$ (130,413)</b>	<b>\$ 39,953</b>	<b>\$ (90,460)</b>
<b>Loss per share from continuing operations basic and diluted</b>					
	\$ (0.22)	\$ (4.13) (j)	\$ (4.35)	1.99 (k)(l)(m)	\$ (2.36)
	29,980		29,980	8,408 (k)	38,388

Weighted average shares  
outstanding basic and diluted

The notes to the unaudited pro forma condensed consolidated financial statements are an integral part of the pro forma financial information presented.

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**Alaska Communications Systems Group, Inc.**

**Notes to the unaudited pro forma condensed consolidated financial statements**

(in thousands, except per share amounts)

**1. Basis of presentation**

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2004 presents our consolidated financial position assuming that each of the following had occurred on September 30, 2004:

this offering of shares of our common stock (assuming the underwriters do not exercise their over-allotment option),

the entering into of the new senior credit facility, and

the use of our net proceeds from this offering and term loan borrowings under the new senior credit facility, together with cash on hand, to:

repay all amounts outstanding under our existing senior secured credit facility,

repurchase \$59,350 aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer, and

repurchase \$147,500 aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer, and

the repurchase and cancellation of \$4,350 aggregate principal amount of ACSH senior notes and \$2,500 aggregate principal amount of ACSH senior subordinated notes that were purchased on the open market during the fourth quarter of 2004 and that will be cancelled upon completion of the tender offers and consent solicitations for the ACSH senior notes and ACSH senior subordinated notes.

The unaudited pro forma condensed consolidated statements of operations for the nine months ended September 30, 2004 and for the year ended December 31, 2003 assume that each of the following had occurred on January 1, 2003:

this offering of shares of our common stock (assuming the underwriters do not exercise their over-allotment option),

the entering into of the new senior credit facility,

the entering into of the interest rate swap,

the use of our proceeds from this offering and term loan borrowings under the new senior credit facility, together with cash on hand, to:

repay all amounts outstanding under our existing senior secured credit facility,

repurchase \$59,350 aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer, and

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repurchase \$147,500 aggregate outstanding principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer,

the repurchase and cancellation of \$4,350 aggregate principal amount of ACSH senior notes and \$2,500 aggregate principal amount of ACSH notes that were purchased on the open market during the fourth quarter of 2004 and that will be cancelled upon completion of the tender offers and consent solicitations for the ACSH senior notes and ACSH senior subordinated notes, and

the redemption in full of our 13% senior discount debentures.

Additionally, the unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2003 assumes the each of the following had occurred on January 1, 2003:

the sale of substantially all of our Directories Business,

the refinancing of our 1999 bank credit facilities with the proceeds of term loan borrowings under our existing senior secured credit facility and the issuance of the ACSH senior notes and cash on hand, and

the early extinguishment of the 1999 floating-to-fixed interest rate swap, which was paid off with proceeds of the August 26, 2003 refinancing.

In our opinion, these statements include all material adjustments necessary to reflect, on a pro forma basis, the impact of the transactions described above on our historical financial information for the applicable periods described above.

The pro forma adjustments set forth in the unaudited pro forma condensed consolidated balance sheet and unaudited pro forma condensed consolidated statements of operations are described more fully in Note 2, "Pro forma assumptions and adjustments" below. This unaudited pro forma condensed consolidated financial information should be read in conjunction with, "Management's discussion and analysis of financial condition and results of operations," and our consolidated financial statements and the related notes thereto incorporated by reference in the accompanying prospectus.

Our unaudited pro forma condensed consolidated financial information has been presented for informational purposes only and does not necessarily reflect our results of operations or financial position that would have existed had we operated under the impact of the transactions described above for the applicable periods presented and should not be relied upon as being indicative of our future results after those transactions have been completed.

## 2. Pro forma assumptions and adjustments

### Unaudited pro forma condensed consolidated balance sheet as of September 30, 2004

The unaudited pro forma condensed consolidated balance sheet has been prepared to reflect the following transactions as if they had occurred on September 30, 2004. Actual amounts could vary from these pro forma adjustments.

(a)

This offering of shares of common stock

Net proceeds of this offering of \$65,317 are based on the issuance of 8,408 shares of our common stock at a price of \$8.92 per share (the last reported sale price of our common stock on the Nasdaq National Market on January 14, 2005), and assumes the underwriters do not exercise their over-allotment option. Net proceeds of the offering anticipate underwriting discounts of \$3,750 and management's estimate of other fees and expenses of this offering payable by us of \$5,933. As of September 30, 2004, we had prepaid \$1,798 of fees and expenses associated with this offering.

(b)

Entering into of the new senior credit facility

Net proceeds of \$329,892 from entering into of the new senior credit facility consisting of a drawn term loan of \$335,000, an undrawn \$50,000 revolving credit facility and debt issuance costs associated with the new senior credit facility of approximately \$5,108. The term loan is expected to have a term of seven years from the date of issuance or, if earlier, 90 days prior to the maturity date of the ACSH senior subordinated notes (which notes we expect to repurchase in full as described under (e)). The revolving credit facility is expected to have a term of six years from the date of issuance. The term loan is due upon maturity with no scheduled amortization. The outstanding term loan is expected to bear interest at the rate of LIBOR plus 2.75%. The undrawn revolving line of credit, if used, is expected to bear interest at the rate of LIBOR plus 2.75%. To the extent the revolving line of credit remains undrawn, we expect to incur an annual commitment fee of 0.375%. There is also an annual administrative fee associated with the new senior credit facility of \$25. We intend to enter into an interest rate swap agreement for a notional amount of \$135,000 to effectively fix a portion of the floating component of the interest rate on the term loan for a period of five years.

We will use the net proceeds of this offering and the new senior credit facility, together with cash on hand, to complete the transactions described in (c), (d) and (e), below.

(c)

Repayment of all amounts outstanding under our existing senior secured credit facility

We will repay and retire in full all amounts outstanding under our existing senior secured credit facility together with interest accrued thereon, which were \$198,500 and zero, respectively, as of September 30, 2004. We also expect to write-off the unamortized debt issuance costs associated with the early repayment of the existing senior secured credit

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facility, which costs were \$5,427 as of September 30, 2004 and which we have deducted from stockholders' equity to reflect the anticipated impact on earnings.

(d)

Repurchase of ACSH senior notes in the ACSH senior notes tender offer

We expect to repurchase \$59,350 aggregate principal amount of ACSH senior notes out of a total of \$182,000 outstanding aggregate principal amount as of September 30, 2004 together with accrued interest of \$752. In connection with this repurchase, we expect to pay a tender premium of \$5,860 and write-off \$2,115 of pro rata debt issuance costs and \$1,781 of pro rata original issuance discount based on the unamortized balances at September 30, 2004, which we have deducted from stockholders' equity to reflect the impact on earnings. We also expect to pay a consent fee of \$1,183 to holders of the ACSH senior notes in connection with a consent solicitation seeking the consent of such holders to certain amendments to the indenture governing the ACSH senior notes in order to, among other things, permit the entering into of the new senior credit facility as described in (b) and a facilitation fee of \$800 for dealer manager and solicitation agent services. These consent and facilitation fees have been included in the estimated debt issuance costs of \$5,108 associated with the new senior credit facility described in (b).

(e)

Repurchase of \$147,500 aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer

We expect to repurchase \$147,500 aggregate principal amount of ACSH senior subordinated notes, together with accrued interest, which was \$5,243 as of September 30, 2004. In connection with this repurchase, we expect to pay a tender premium of \$2,490 and a consent fee of \$4,425 in connection with a consent solicitation seeking consent of such holders to remove substantially all of the restrictive covenants under the indenture governing the notes, to write-off debt issuance costs of \$4,444 based on the unamortized balance at September 30, 2004, and to incur \$200 of fees and expenses associated with the tender, which we have deducted from stockholders' equity to reflect the impact on earnings.

(f)

Repurchase and cancellation of ACSH senior notes and ACSH senior subordinated notes

Upon consummation of the tender offers for the ACSH senior notes and ACSH senior subordinated notes, we intend to cancel \$4,350 aggregate principal amount of ACSH senior notes and \$2,500 aggregate principal amount of ACSH senior subordinated notes that we purchased on the open market during the quarter ended December 31, 2004, which had interest accrued thereon of \$144 as of September 30, 2004. In connection with these purchases, we wrote off unamortized debt issuance costs and original issue discount which were \$286 and \$130, respectively, as of September 30, 2004. We also incurred net premiums on these purchases of \$165. The unamortized debt issuance costs and original issue discount and the net premiums incurred have been deducted from stockholders' equity to reflect their impact on earnings.

**Unaudited pro forma condensed consolidated statement of operations for the nine months ended September 30, 2004**

The unaudited pro forma condensed consolidated statement of operations for the nine months ended September 30, 2004 has been prepared to reflect the following adjustments as if the transactions described in (g), (h), and (i) below had occurred on January 1, 2003. Only results from continuing operations are shown. Actual amounts could vary from these pro forma adjustments.

(g)

This offering of shares of common stock

Represents the effect of this offering of common stock as described in (a) on the pro forma weighted average basic and diluted shares outstanding of 8,408 shares and the related effect on basic and diluted loss per share from continuing operations.

(h)

Entering into of the new senior credit facility

Represents \$10,295 of term loan interest expense, \$559 of amortization of debt issuance costs, \$143 of commitment fees on the undrawn principal of the revolving credit facility, and \$19 of administrative fees, all associated with the new senior credit facility, and \$2,201 of interest expense associated with the floating-to-fixed interest rate swap. The new senior credit facility is expected to close simultaneously with this offering of common stock described in (a). Interest expense for the nine months ended September 30, 2004 assumes the term loan bears interest at a rate of LIBOR plus 2.75% and that the average LIBOR rate for the period was 1.2878%.

A 0.125% change in the assumed interest rate applicable to the term loan borrowing would increase (decrease) pro forma interest expense by approximately \$188 for the nine months ended September 30, 2004 after taking account of the new floating-to-fixed interest rate swap, which will have the effect of leaving only \$200,000 of the term loan borrowings subject to a floating interest rate. The floating-to-fixed interest rate swap with a notional amount of \$135,000 was assumed to swap LIBOR for a fixed rate of 3.43%, which was the approximate market rate for such a five-year swap agreement at January 1, 2003. Current market rates for similar five-year swaps were approximately 4.11% as of January 7, 2004, which would have increased interest attributable to the new interest rate swap by approximately \$544 for the nine months ended September 30, 2004.

(i)

Repayments of existing and historical debt

*Repayment of all amounts outstanding under our existing senior secured credit facility* Represents \$6,936 of interest expense, \$717 of amortization of debt issuance costs, \$236 of commitment fees and \$75 of administrative fees that would not have been incurred assuming the repayment of our existing senior secured credit facility.

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*Repurchase of \$59,350 aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer* Represents \$4,396 of interest expense, \$231 of amortization of debt issuance costs and \$134 of amortization of original issue discount that would not have been incurred assuming the completion of the repurchase of \$59,350 aggregate principal amount of ACSH senior notes.

*Repurchase of \$147,500 aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer* Represents \$10,372 of interest expense and \$721 of amortization of debt issuance costs that would not have been incurred assuming the repurchase of \$147,500 aggregate principal amount of ACSH senior subordinated notes.

*Repurchase and cancellation of ACSH senior notes and ACSH senior subordinated notes* Represents \$498 of interest expense, \$29 of amortization of debt issuance costs and \$10 of amortization of original issue discount which would not have been incurred as a result of the repurchase and cancellation of the \$4,350 aggregate principal of ACSH senior notes and \$2,500 aggregate principal amount of ACSH senior subordinated notes that we purchased on the open market during the quarter ended December 31, 2004 and that will be cancelled upon completion of the tender offers and consent solicitations for the ACSH senior notes and the ACSH senior subordinated notes.

*Redemption in full of 13% senior discount debentures due 2011* Represents \$1,028 of interest costs, \$22 of amortization of debt issuance costs, \$129 of amortization of original issue discount, \$330 for the write-off of unamortized debt issuance costs, \$1,968 for the write-off of unamortized original issue discount and a call premium of \$1,125 for the redemption of these notes on June 14, 2004.

### Unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2003

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2003 has been prepared to reflect the following adjustments as if the transactions described in (j), (k), (l), and (m) below had occurred on January 1, 2003. Only results from continuing operations are shown. Actual amounts could vary from these pro forma adjustments.

(j)

#### Sale of Directories Business

Represents the effect of eliminating the results of operations of the Directories Business and the \$113,518 gain on disposal, \$4,249 foreign exchange gains and other expense, net, and alternative minimum income taxes of \$1,095 associated with its disposition from the unaudited pro forma condensed consolidated statement of operations. We disposed of 99.9% of the Directories Business during 2003.

(k)

This offering of shares of common stock

Represents the effect of this offering of common stock as described in (a) on the pro forma weighted average basic and diluted shares outstanding of 8,408 shares and the related effect on basic and diluted loss per share from continuing operations.

(l)

Entering into of the new senior credit facility

Represents \$13,514 of term loan interest expense, \$744 of amortization of debt issuance costs, \$190 of commitment fees on the undrawn principal of the revolving credit facility, and \$25 of administrative fees all associated with the new senior credit facility, and \$3,013 of interest expense associated with the floating-to-fixed interest rate swap, both expected to close simultaneously with this offering of common stock described in (a). Interest expense for the year ended December 31, 2003 assumes the term loan bears interest at a rate of LIBOR plus 2.75% and that the average LIBOR rate for the period was 1.2284%.

A 0.125% change in the assumed interest rate applicable to the term loan borrowing would increase (decrease) pro forma interest expense by approximately \$253 for the year ended December 31, 2003 after taking account of the new floating-to-fixed interest rate swap, which will have the effect of leaving only \$200,000 of the term loan borrowings subject to a floating interest rate. The floating-to-fixed interest rate swap with a notional amount of \$135,000 was assumed to swap LIBOR for a fixed rate of 3.43%, which was the approximate market rate for such a five-year swap agreement at January 1, 2003. Current market rates for similar five-year swaps were approximately 4.11% as of January 7, 2004, which would have increased interest attributable to the new interest rate swap by approximately \$794 for the year ended December 31, 2003.

(m)

Issuances, repayments and repurchases of existing and historical debt

*Repayment of all amounts outstanding under our existing senior secured credit facility* Represents \$3,203 of interest expense, \$335 of amortization of debt issuance costs, \$133 of commitment fees and \$33 of administrative fees that would not have been incurred assuming the repayment of our existing senior secured credit facility.

*Repurchase of \$59,350 aggregate principal amount of ACSH senior notes in the ACSH senior notes tender offer* Represents \$5,485 of interest expense, \$198 of amortization of debt issuance costs and \$169 of amortization of original issue discount that would have been incurred if only \$118,300 aggregate principal amount of these notes had been outstanding on January 1, 2003. The ACSH senior notes were originally issued on August 26, 2003 as part of the refinancing of the 1999 bank credit facilities.

*Repurchase of \$147,500 aggregate principal amount of ACSH senior subordinated notes in the ACSH senior subordinated notes tender offer* Represents \$13,817 of interest expense and \$961 of amortization of debt issuance costs that would not have been incurred



assuming the repurchase of \$147,500 aggregate principal amount of ACSH senior subordinated notes.

*Repurchase and cancellation of ACSH senior notes and the ACSH senior subordinated notes* Represents \$288 of interest expense, \$26 of amortization of debt issuance costs and \$10 of amortization of original issue discount which would not have been incurred as a result of the repurchase and cancellation of the \$4,350 aggregate principal of ACSH senior notes and \$2,500 aggregate principal amount of ACSH senior subordinated notes that we purchased on the open market during the quarter ended December 31, 2004 and that will be cancelled upon completion of the tender offers and consent solicitations for the ACSH senior notes and ACSH senior subordinated notes.

*Redemption in full of 13% senior discount debentures due 2011* Represents \$2,249 of interest costs, \$48 of amortization of debt issuance costs, and \$284 of amortization of original issue discount for the redemption of these notes on June 14, 2004.

*Repayment of all amounts outstanding under our 1999 bank credit facilities* Represents \$11,029 of interest expense, \$1,847 of amortization of debt issuance costs, \$186 of commitment fees, \$99 of administrative fees, the write-off of \$13,053 of unamortized debt issuance costs and the payment of \$44 of LIBOR-breakage fees that would not have been incurred assuming the repayment and retirement during 2003 of our 1999 bank credit facilities with net proceeds of term loan borrowings under our existing senior secured credit facility and the issuance of the ACSH senior notes and cash on hand.

*Early extinguishment of our 1999 floating-to-fixed interest rate swap* Represents \$9,464 of interest expense and \$6,182 of costs from the early extinguishment of the 1999 floating-to-fixed interest rate swap, which was paid off with proceeds of the August 26, 2003 refinancing.

**Management's discussion and analysis of financial condition and results of operations**

**Introduction**

The following discussion should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in, or incorporated by reference in, this prospectus supplement or the accompanying prospectus. This prospectus supplement contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those indicated in forward-looking statements. See "Risk factors" and "Cautionary note regarding forward-looking statements."

**Alaska Communications Systems Group**

We generate revenue primarily through:

the provision of local telephone services, including:

basic local service to retail customers within our service areas,

wholesale service to CLECs,

network access services to interexchange carriers for origination and termination of interstate and intrastate long distance phone calls,

enhanced services,

ancillary services, such as billing and collection, and

universal service payments;

the provision of wireless services;

the provision of Internet services; and

the provision of interexchange network long-distance and data services.

In addition, we provide video entertainment services through our partnership with the satellite operator, DISH Network.

***Local telephone***

We are the largest local exchange carrier ("LEC") in Alaska and the 13th largest in the United States. Basic local service is generally provided at a flat monthly rate and allows the user to place unlimited calls within a defined local calling area. Access revenues are generated in part by billing interexchange carriers for access to the LEC's local network and its customers and in part by billing the local customers themselves. Universal service revenues are a subsidy paid to rural LECs to support the high cost of providing service in rural markets.

Changes in revenue are largely attributable to changes in the number of access lines, local service rates and minutes of use. Other factors can also impact revenue, including:

intrastate and interstate revenue settlement methodologies;



authorized rates of return for regulated services;

whether an access line is used by a business or consumer subscriber;

intrastate and interstate calling patterns;

customers' selection of various local rate plan options;

selection of enhanced calling services, such as voice mail; and

other subscriber usage characteristics.

LECs have three basic tiers of customers:

consumer and business customers located in their local service areas that pay for local phone service and a portion of network access;

interexchange carriers that pay for access to long distance calling customers located within its local service areas; and

CLECs that pay for wholesale access to the Company's network in order to provide competitive local service on either a wholesale or unbundled network element ("UNE") basis as prescribed under the 1996 Act.

LECs provide access service to numerous interexchange carriers and may also bill and collect long distance charges from interexchange carrier customers on behalf of the interexchange carriers. The amount of access charge revenue associated with a particular interexchange carrier varies depending upon long distance calling patterns and the relative market share of each long distance carrier.

Our local service rates for end users are authorized by the RCA. Authorized rates are set by the FCC and the RCA for interstate and intrastate access charges, respectively, and may change from time to time.

### ***Wireless***

We are the second largest statewide provider of wireless services in Alaska, currently serving approximately 96,000 subscribers. Our wireless network footprint covers over 480,000 residents, including all major population centers and highway and ferry corridors. We currently operate a TDMA digital network in substantially all of our service areas, and are rolling out a new generation of digital network known as CDMA 1xRTT, which provides customers with improved voice call quality, average mobile data speeds of 70-80kbps and provides a platform for the launch of enhanced services. We began offering CDMA 1xRTT services in several of our service areas in May 2004. In June 2004 we began offering wireless broadband service based on EV-DO which enables high speed data connectivity with speeds that burst up to 2mbps to our wireless markets in Anchorage, Fairbanks, and Juneau. We estimate that the new CDMA service currently covers 73% of our wireless footprint of 480,000 residents.

### ***Internet***

We are the second largest provider of Internet access services in Alaska with approximately 46,000 customers. We offer dial-up and dedicated DSL Internet access to our customers. We are a single source provider of advanced IP based private networks in Alaska.

***Interexchange***

We provide switched and dedicated long distance services to approximately 44,000 customers in Alaska. The traffic from these customers is carried over our owned or leased facilities.

***Satellite television***

We provide video entertainment services on a resale basis through our partnership with the satellite provider, DISH Network. The current agreement with the provider became effective August 2003 and will either be renegotiated or terminate December 2005.

***Telecommunications Services Partnering Agreement with the State of Alaska***

In December 2001, we entered into a Telecommunications Services Partnering Agreement, or TPA, with the State of Alaska that became effective on April 1, 2002, to provide comprehensive telecommunications services for a period of five years. This contract obligated us, among other things, to deploy and manage advanced and innovative technologies through new and previously untested business practices. The TPA contained a specific completion date of April 1, 2003 for certain implementation aspects, as well as specific ongoing service level agreements. Both parties to the TPA alleged breaches and failures to perform by the other party, and on September 15, 2003, we received notification from the State of Alaska that the State was terminating the TPA between the two parties and initiating the disentanglement procedures under the contract. On October 1, 2003, we announced that we had entered into a voluntary settlement with the State of Alaska regarding the TPA. Subsequently, we and the State negotiated and agreed to a definitive settlement agreement and Mutual Release, or the settlement agreement, effective October 14, 2003.

For the year ended December 31, 2003, the operations of the State of Alaska contract accounted for \$19.9 million of our consolidated operating revenues, of which \$15.5 million was recorded in our Internet revenue and \$4.4 million was recorded in our interexchange revenue. We also incurred consolidated operating expenses under the contract of \$27.2 million during 2003, of which \$20.4 million was recorded as an expense of our Internet operations, \$5.2 million was recorded as an expense of our interexchange operations and \$1.5 million was recorded in depreciation expense. As a result primarily of the State of Alaska contract termination, we also recognized \$54.9 million of operating losses from contract termination and asset impairment charges and \$15.9 million of non-operating asset impairment charges. Our remaining obligations under the settlement agreement were completed in the first quarter of 2004.

***Critical accounting policies and accounting estimates***

Management is responsible for the financial statements incorporated by reference herein and has evaluated the accounting policies used in their preparation. Management believes these policies to be reasonable and appropriate. Our significant accounting policies are described in note 1 in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003, incorporated by reference herein. The following discussion identifies those accounting policies that management believes are critical in the preparation of our financial statements, the judgments and uncertainties affecting the application of those policies, and the possibility that materially different amounts would be reported under different conditions or using different assumptions.

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, long-lived assets (in particular, those assets accounted for under SFAS No. 71, Accounting for the Effects of Certain Types of Regulation), income taxes, network access revenue reserves and litigation reserves. Actual results may differ from those estimates.

We use an allowance method to estimate the net realizable value of accounts receivable. As of September 30, 2004, the allowance for doubtful accounts receivable was \$4.0 million. Actual collection results could vary significantly from management's estimate.

Access revenue is recognized when earned. We participate in access revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the RCA within the intrastate jurisdiction and the 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, our policy is to defer revenue collected until settlement methodologies are resolved and finalized. At September 30, 2004, we had recorded liabilities of \$18.7 million related to our estimate of refundable access revenue. Actual results could vary from this estimate.

We utilize 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. The cumulative valuation allowance against deferred tax assets was \$108.7 million as of September 30, 2004, which represents 100% of all deferred tax assets.

Our local telephone exchange operations account for costs in accordance with the accounting principles for regulated enterprises prescribed by SFAS No. 71. 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.

We implemented, effective January 1, 2003, higher depreciation rates for our regulated telephone plant for the interstate jurisdiction which management believes approximate the economically useful lives of the underlying plant. As a result, we have recorded a regulatory asset under SFAS No. 71 of \$31.5 million as of September 30, 2004 related to depreciation of the regulated telephone plant allocable to its intrastate and local jurisdictions. We have also deferred as a regulatory asset \$0.9 million of costs incurred in connection with regulatory rate making proceedings, which is being amortized over three years starting in 2003. The balance of this regulatory asset was \$0.4 million at September 30, 2004. If we were not following SFAS No. 71, we would have recorded additional cumulative depreciation expense of \$31.5 million for the intrastate and local jurisdictions and the deferred costs incurred in connection with regulatory rate making proceedings would have been charged to expense as incurred. We also have a regulatory liability of \$53.5 million at September 30, 2004 related to accumulated

removal costs. If we were not following SFAS No. 71, we would have followed SFAS No. 143 for asset retirement obligations. Non-regulated revenues and costs incurred by the local telephone exchange operations and our non-regulated operations are not accounted for under SFAS No. 71 principles.

Effective January 1, 2002, we 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 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 us 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. We 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. At September 30, 2004, we had recorded goodwill of \$38.4 million applicable to our local telephone and wireless segments and intangible assets of \$21.9 million related primarily to our wireless segment.

We are involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business, and have recorded litigation reserves of \$4.6 million against certain claims and legal actions as of September 30, 2004. We believe that the disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows beyond the amounts already recorded. Estimates involved in developing these litigation reserves could change as these claims, legal actions and regulatory proceedings are resolved.

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## Results of operations

The following table summarizes our operations for the years ended December 31, 2001, 2002, and 2003 and for the nine months ended September 30, 2003 and 2004. Certain reclassifications have been made to 2001 and 2002 to conform to the current presentation of our consolidated operations.

(in thousands)	Year ended December 31,			Nine months ended September 30,	
	2001	2002	2003	2003	2004
<b>Operating revenues</b>					
Local telephone					
Local network service	\$ 96,270	\$ 99,512	\$ 96,357	\$ 73,370	\$ 68,972
Network access revenue	102,977	108,335	97,759	73,951	75,362
Deregulated revenue and other	22,164	18,600	21,271	15,151	15,642
Total local telephone	221,411	226,447	215,387	162,472	159,976
Wireless	41,894	43,180	46,548	34,868	41,266
Directory	33,870	33,604	11,631	11,631	
Internet	13,724	20,847	33,026	24,416	15,013
Interexchange	17,626	16,066	16,956	12,623	11,077
Total operating revenues	328,525	340,144	323,548	246,010	227,332
<b>Operating expenses:</b>					
Local telephone	117,820	114,582	116,354	84,267	96,806
Wireless	27,429	29,352	31,064	21,796	27,229
Directory	14,684	14,170	5,249	5,249	
Internet	16,577	31,299	45,523	35,829	21,204
Interexchange	25,784	23,647	25,542	17,886	15,511
Contract termination and asset impairment charges			54,858	54,539	
Depreciation and amortization	79,108	82,940	82,185	66,735	57,686
Loss (gain) on disposal of assets, net		2,163	(112,622)	(112,507)	2,825
Goodwill impairment loss		64,755			
Total operating expenses	281,402	362,908	248,153	173,794	221,261
Operating income (loss)	47,123	(22,764)	75,395	72,216	6,071
<b>Other income and expense:</b>					
Interest expense	(60,157)	(51,704)	(71,470)	(51,390)	(38,914)
Interest income and other	3,319	2,203	(9,408)	(10,209)	614
Total other expense, net	(56,838)	(49,501)	(80,878)	(61,599)	(38,300)
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principle	(9,715)	(72,265)	(5,483)	10,617	(32,229)
Income tax expense (benefit)	(195)		1,095		
Income (loss) from continuing operations	(9,520)	(72,265)	(6,578)	10,617	(32,229)
Loss from discontinued operations	(1,718)	(7,632)	(52)	(52)	
Income (loss) before cumulative effect of change in accounting principle	(11,238)	(79,897)	(6,630)	10,565	(32,229)



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Cumulative effect of change in accounting principle

(105,350)

Net income (loss)

\$ (11,238) \$ (185,247) \$ (6,630) \$ 10,565 \$ (32,229)

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**Nine months ended September 30, 2004 compared to nine months ended September 30, 2003****Operating revenues**

Operating revenue decreased \$18.7 million, or 7.6%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. Wireless revenue increased compared to the corresponding period of 2003, while local telephone, Internet and interexchange revenue decreased compared to the corresponding period of 2003. On May 8, 2003, we completed the sale of a majority interest (87.42%) in our Directories Business. We did not have any revenues from operations from the Directories Business after that date, but had recorded \$11.6 million of revenues from this business for the nine months ended September 30, 2003. On September 4, 2003 we sold the majority of our remaining interest and now own less than 0.1% of the Directories Business.

**Local telephone.** Local telephone revenue, which consists of local network service, network access and deregulated and other revenue, decreased \$2.5 million, or 1.5%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The following table summarizes our consolidated local telephone revenue by category:

(in thousands)	Nine months ended September 30,	
	2003	2004
Local telephone revenue:		
Local network service	\$ 73,370	\$ 68,972
Network access	73,951	75,362
Deregulated and other	15,151	15,642
Total local telephone revenue	\$ 162,472	\$ 159,976

The following table summarizes our local telephone access lines:

	As of September 30,	
	2003	2004
Local telephone access lines:		
Retail	221,956	209,414
Wholesale	18,803	17,498
Unbundled network elements platform (UNE P)	4,899	6,250
Unbundled network elements loop (UNE L)	67,542	68,522
Total local telephone access lines	313,200	301,684

Local network service revenue decreased \$4.4 million, or 6.0%, for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, while access lines in service decreased 3.7% to 301,684, adjusted for a reduction of 2,788 internal lines that ceased to be counted following a change in line count methodology. The decrease in revenue reflects the net effect of network access line losses, loss of retail lines to UNE lines and regulatory rate changes offset by increases in UNE rates. Also contributing to the decrease in local network service are decreases in feature and directory assistance revenue.

Consistent with the U.S. telecommunications industry trend, we experienced a loss of network access lines as customers migrated to broadband Internet services reducing demand for second lines, migrated to cable telephony, or replaced landline service with wireless service.

Network access revenue increased \$1.4 million, or 1.9%, for the nine months ended September 30, 2004 compared to the same period in 2003. The increase in network access revenue is due to ongoing true-ups to prior years' interstate access and universal service fund studies. Network access revenue is based on a regulated return on rate base and recovery of allowable expenses associated with the origination and termination of toll calls for our retail and resale customers. Management expects that network access revenue will decline as a component of local telephone revenue for the foreseeable future.

Deregulated and other revenue, which increased \$0.5 million, or 3.2%, for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, consists principally of billing and collection services, space and power rents, deregulated equipment sales, paystation revenue, regulated directory listing revenue, and other miscellaneous telephone revenue. The increase in deregulated and other revenue is due principally to an increase in billing and collection services, including revenue earned from the sold directories business, and messaging revenue, offset in part by the decrease in paystation dial around revenue discussed in the three month operating results.

**Wireless.** Wireless revenue increased \$6.4 million, or 18.4%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. This increase is due primarily to the following:

growth in weighted average subscribers of 9.5% for the nine months ended September 30, 2004 over the prior year period;

an increase in monthly average revenue per unit, or ARPU, of 4.9%, to \$43.87 for the nine months ended September 30, 2004, from \$41.81 for the nine months ended September 30, 2003, primarily as a result of increased plan revenue, roaming, and regulatory surcharges;

higher gross customer adds in the nine months ended September 30, 2004 resulting in \$3.0 million of handset revenue compared to \$1.6 million for the nine months ended September 30, 2003.

**Internet.** Internet revenue decreased \$9.4 million, or 38.5%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. This decrease is primarily due to the loss of \$12.3 million in revenue associated with the State of Alaska TPA, which was terminated in October 2003, offset by approximately \$1.3 million of revenue increases as a result of growth in DSL subscribers of 38.7% to 22,592 at September 30, 2004, from 16,294 at September 30, 2003.

**Interexchange.** Interexchange revenue decreased \$1.5 million, or 12.3%, for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, primarily due to the termination of services to the State of Alaska TPA. Both intrastate and interstate revenue declined from the previous year. While long distance subscribers increased to 44,334 at September 30, 2004 from 43,499 at September 30, 2003, total minutes of use decreased to 101.9 million for the nine months ended September 30, 2004, from 113.5 million for the nine months ended 2003.

#### **Operating expenses**

Operating expense increased \$47.5 million, or 27.3%, for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003. The increase is primarily attributable to the \$113.5 million gain on disposal of assets, net of \$54.5 million of

contract termination and asset impairment charges, recognized in the nine months ended September 30, 2003, offset by the following cost reductions:

cost avoidance following the termination of the State of Alaska TPA;

reduction in depreciation and amortization of \$9.0 million following an order by the RCA to reduce depreciation rates, which we adopted in the fourth quarter of 2003; and

cost avoidance following the sale of a majority interest in the Directories Business, which had recorded \$5.2 million of expense for the nine months ended September 30, 2003.

Depreciation and amortization associated with the operation of each of our segments has been included in total depreciation and amortization.

**Local telephone.** The components of local telephone expense are plant specific operations, plant non-specific operations, customer operations, corporate operations and property and other operating tax expense. Local telephone expense increased \$12.5 million, or 14.9%, for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003. The increase in local telephone expense was primarily attributable to a shift in our focus from the State of Alaska TPA, as reflected in our Internet and interexchange segments, to core business services resulting in a higher allocation of shared costs. Other contributing factors include:

allocation of \$2.0 million in one-time early termination charges of an aircraft operating lease;

write-off of \$1.6 million of obsolete inventory;

increase in legal reserves of \$0.6 million and nonrecurring charges of \$0.7 million for various open disputes and commitments;

write down of \$0.4 million of reimbursable expenses;

increased cellular access charges related to reciprocal compensation of \$0.8 million.

**Wireless.** Wireless expense increased \$5.4 million, or 24.9%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. This increase resulted primarily from an increase in minutes of use to 201.8 million minutes in the nine months ended September 30, 2004, from 171.6 million minutes in the nine months ended September 30, 2003. Additionally, the cost of goods sold for cell phones increased \$2.0 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003, primarily due to higher hand set sales. Operating expenses were also impacted by the allocation of \$0.8 million in costs for the early termination of our aircraft operating lease and the write down of vendor credits.

**Internet.** Internet expense decreased by \$14.6 million, or 40.8%, compared to the nine months ended September 30, 2003. The decrease in Internet expense was due principally to the elimination of the operating costs associated with the State of Alaska TPA. As discussed above, this contract with the State of Alaska was terminated effective October 2003. The decrease was offset by an increase in DSL cost of goods sold of \$1.4 million due to the 38.7% increase in DSL subscribers and \$1.2 million in allocated costs for the early termination of our aircraft operating lease and inventory write downs.

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**Interexchange.** Interexchange expenses decreased by \$2.4 million, or 13.3%, compared to the nine months ended September 30, 2003. The majority of this decrease was the result of the decline in long distance minutes of use, as discussed under interexchange service revenue above, and is primarily attributable to the loss of the State of Alaska TPA, offset by increased legal costs of \$1.0 million associated with the defense in the Infinite Minutes litigation.

**Depreciation and amortization.** Depreciation and amortization expense decreased \$9.0 million, or 13.6%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The decrease in depreciation is due principally to depreciation rate decreases ordered by the RCA for ACSA that we adopted for the intrastate and local jurisdictions during the fourth quarter of 2003, retroactive to January 1, 2003. In addition, on September 30, 2003, we recorded a significant asset reduction on the Internet business unit due to the termination of the State of Alaska contract.

**Gain/loss on disposal of assets.** For the nine months ended September 30, 2003, we recognized a gain of \$113.5 million on a pre-tax basis, on disposition of our Directories Business, offset by a non-cash loss on the disposal of certain fixed assets. In the nine months ended September 30, 2004, we incurred a loss of \$2.8 million following the disposal of certain wireless assets, driven by the network upgrade from TDMA to CDMA.

### **Interest expense**

Interest expense decreased \$12.5 million, or 24.3%, for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003. The decline is due to the early extinguishment of debt charges of \$9.7 million during the nine months ended September 30, 2003, combined with lower term loan balances and market interest rate effects on our variable interest rate debt.

### **Interest income and other**

Interest income and other increased by \$10.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003, primarily due to a \$15.9 million non-operating impairment loss on a Crest note receivable being recorded in the third quarter of 2003, offset in part by a \$4.3 million gain on foreign exchange on the sale of the Directories Business.

### **Income taxes**

We have fully reserved the income tax benefit resulting from the consolidated losses we have incurred since May 14, 1999, the date of the acquisition of substantially all of our operations.

### **Discontinued operations**

On March 30, 2002, our management approved a plan to offer for sale 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 the nine months ended September 30, 2003. We have fully reserved in the form of a valuation allowance the income tax benefit of this discontinuance. We completed our disposal of our wireless cable television segment as of March 31, 2003.

### **Net loss**

The change in net loss is primarily a result of the factors discussed above.

**Year ended December 31, 2003 compared to year ended December 31, 2002**

**Operating revenues**

Operating revenues decreased \$16.6 million, or 4.9%, for the year ended December 31, 2003 compared to the year ended December 31, 2002. Wireless, Internet, and interexchange revenues increased compared to the prior period, while local telephone decreased. On May 8, 2003, we completed the sale of a majority interest (87.42)% in our Directories Business. We did not have any revenues from operations from the Directories Business after that date.

**Local telephone.** Local telephone revenues, which consist of local network service, network access revenue, and deregulated revenues and other, decreased \$11.1 million, or 4.9%, for the year ended December 31, 2003 compared to the same period in 2002.

The local network service component of local telephone revenues was \$96.4 million during 2003 compared with \$99.5 million during 2002. Local network service revenue decreased \$3.2 million or 3.2% from the prior year, while average access lines in service decreased 2.7% to 318,614. Substantially all of the decrease reflects the net effect of retail market share losses offset by increases in unbundled network element revenue. Retail access lines decreased 15,330 or 6.5% to 220,818 at December 31, 2003.

We experienced a loss of direct retail customers during the year as customers cancelled second lines they were not using or switched to competing service providers. This reduction in direct retail customers was partially offset by an increase in wholesale lines. Generally, if a retail local network service customer of ours switches to a competitor, we continue to provide the line to the competitor on a wholesale basis at reduced revenue per line. Management believes that the continuing loss of market share we have experienced in certain of our markets is partially attributable to below cost interconnection rates mandated by the RCA for UNEs. On October 25, 2001, the RCA granted ACSA an interim UNE rate increase of \$1.07, bringing the UNE rate up from \$13.85 to \$14.92. The interim and refundable rate increase was implemented in November 2001 and generated approximately \$0.8 million in additional revenue during 2003. See "Regulation" for further discussion.

Network access revenues decreased by \$10.6 million, or 9.8%, from \$108.3 million in 2002 to \$97.8 million in 2003. During the second quarter of 2002, we recognized as revenue \$11.1 million of previously deferred interstate access revenue related to a dispute on interstate access rates for the Anchorage market based on a favorable ruling by the District of Columbia Court of Appeals. Network access revenue is based on a regulated return on rate base and recovery of allowable expense associated with the origination and termination of toll calls for our retail and resale customers. Excluding the impact of the revenue recognized as a result of the favorable ruling by the court, the increase in network access revenues of \$0.5 million compared to the corresponding period in 2002 is due primarily to updated access studies. Management expects that network access revenues will generally be on a declining trend for the foreseeable future.

Deregulated and other revenues, which increased \$2.7 million, or 14.4% from 2002, consists principally of billing and collection services, space and power rents, deregulated equipment sales, pay station revenues, regulated directory listing revenue, and other miscellaneous telephone revenues. The increase in deregulated and other revenue was due primarily to an increase in rents and billing and collection revenue.

**Wireless.** Wireless revenues increased \$3.4 million, or 7.8%, to \$46.5 million for the year ended December 31, 2003 compared to \$43.2 million for the year ended December 31, 2002. This increase is due primarily to growth in average subscribers of 4.2% from 81,170 in 2002 to 84,619 in 2003. Subscriber average monthly minutes of use increased from 202 minutes in 2002

to 227 minutes in 2003. Primarily as a result of increased minutes of use over plan allotments, the monthly average revenue per unit, or ARPU, increased from \$44.33 in 2002 to \$45.84 in 2003.

**Internet.** Internet revenues increased from \$20.8 million in 2002 to \$33.0 million in 2003 an increase of \$12.2 million, or 58.4%. This increase is primarily due to revenue associated with our contract with the State of Alaska and because approximately \$1.2 million of this increase was earned in the prior year but could not be estimated and therefore was not recorded until the current year. Internet also experienced growth in DSL subscribers of 41.2% from 12,590 at December 31, 2002 to 17,780 at December 31, 2003.

On September 15, 2003, we received notification from the State of Alaska that it intended to terminate a five year TPA with us and disentangle. Subsequently, we and the State negotiated and agreed to a definitive Settlement Agreement and Mutual Release effective October 14, 2003, outlining the terms of disentanglement between the parties. State of Alaska contract revenues included in Internet were \$15.5 million and \$8.0 million for the years ended December 31, 2003 and 2002, respectively.

**Interexchange.** Interexchange revenue increased from \$16.1 million in 2002 to \$17.0 million in 2003 an increase of \$0.9 million, or 5.5%. Long distance subscribers decreased from approximately 70,000 at December 31, 2002 to 43,166 at December 31, 2003. The decrease in subscribers was substantially due to database grooming to remove approximately 20,000 non-revenue generating inactive subscribers from the subscriber list in connection with the conversion of long distance billing from an outside service bureau to an in-house system during the first and second quarters of 2003. The average revenue per unit, or ARPU, increased to \$24.97 in 2003 compared to \$19.73 during 2002 and total minutes of use decreased from 153.4 million in 2002 to 149.3 million in 2003. The decline in minutes of use was due to increased competition in the marketplace, and the popularity of discount long distance calling cards. Currently, we have a low penetration on this product, but we expect our market share to grow as we increasingly offer attractive bundles to our customers, which may offset declines in interexchange revenue due to the termination of the State of Alaska contract.

#### Operating expenses

Operating expenses decreased \$114.8 million, or 31.6%, from \$362.9 million for the year ended December 31, 2002 to \$248.2 million for the year ended December 31, 2003. Included in operating expenses for 2003 is a net gain on disposal of assets of \$112.6 million and contract termination and asset impairment charges of \$54.9 million. Included in operating expenses for 2002 is a goodwill impairment charge of \$64.8 million and a net loss on disposal of assets of \$2.2 million. Excluding these charges, operating expenses increased \$9.9 million or 3.4%.

On May 8, 2003, we completed the sale of a majority interest (87.42)% in our Directories Business. We did not have any expenses from operations from the Directories Business after this date.

Depreciation and amortization associated with the operation of each of our segments has been included in total depreciation and amortization.

**Local telephone.** The components of local telephone expense are plant specific operations, plant non-specific operations, customer operations, corporate operations and property and other operating tax expense. Local telephone expense increased from \$114.6 million for the year ended December 31, 2002 to \$116.4 million for the year ended December 31, 2003 an increase of \$1.8 million or 1.5%. The increase in local telephone expense was substantially attributable to executive recruiting and retirement costs, litigation reserves and federal universal service charges recorded during the third and fourth quarters of 2003.

**Wireless.** Wireless expense increased \$1.7 million, or 5.8%, for the year ended December 31, 2003 compared to the year ended December 31, 2002. This increase is substantially due to an increase of minutes of use from 196.8 million in 2002 to 231.0 million in 2003.

**Internet.** Internet expenses increased by \$14.2 million, or 45.4%. The increase in Internet expense was due principally to transition expenses and operating costs associated with providing services under the State of Alaska telecommunications contract. State of Alaska contract related expense totaling \$1.5 million was incurred in the previous year but was recorded in the current year as it was the first point in which the expense could be matched to the associated revenue, as discussed above in Internet revenue. We and the State have negotiated and agreed to a definitive Settlement Agreement and Mutual Release effective October 14, 2003, terminating the contract and outlining the terms of disentanglement between the parties. We anticipate expense for this segment to decline as we complete the disentanglement under the contract.

**Interexchange.** Interexchange expenses increased by \$1.9 million, or 8.0%. The majority of this increase was caused by an increase in billing and collection fees, toll switching and litigation reserves in 2003.

**Contract termination and asset impairment charges.** During the year ended December 31, 2003, we recorded \$54.9 million in contract termination and asset impairment charges. These charges resulted from (1) the termination of the TPA with the State of Alaska and (2) an impairment of fiber optic indefeasible rights of use and IP network and service center assets resulting from the termination of the TPA as well as changes in the communications industry and the economy.

The following table itemizes the components of the contract termination and asset impairment charges (in thousands).

**Contract termination charges:**

Contract termination payment	\$	3,448
Loss on disposal of assets		5,648
Accounts receivable and working capital write-downs		3,575
Total contract termination charges		12,671
Asset impairment charges		42,187
Total contract termination and asset impairment charges	\$	54,858

See Note 9, "Contract Termination and Asset Impairment Charges" to the audited consolidated financial statements incorporated by reference in the accompanying prospectus for a description of each element of the contract termination and asset impairment charges.

**Depreciation and amortization.** Depreciation and amortization expense decreased \$0.8 million, or 0.9%.

**Loss (gain) on disposal of assets.** On April 28, 2003, we entered into an underwriting agreement to sell a majority interest in our Directories Business and on April 29, 2003 filed a final prospectus to offer this majority interest to investors through a Canadian income fund. The transaction was completed on May 8, 2003, with us selling an 87.42% interest and retaining a 12.58% interest in our Directories Business. We recognized a gain on disposition of this majority interest of our Directories Business of \$97.6 million on a pre-tax basis.

Subsequently on August 27, 2003, we disposed of substantially all of our remaining interest through the exercise of our right to convert 99.23% of our then remaining 12.58% interest to 2.5 million units of the ACS Media Income Fund, which were then sold in an underwritten



offering. The transaction settled on September 4, 2003, generating \$17.2 million in net proceeds and a gain on disposition of \$15.9 million. As a result of this transaction, we now own less than 0.1% of the Directories Business.

We recorded a non-cash loss on the disposal of certain fixed assets of \$0.9 million during 2003 and \$2.2 million during 2002.

**Goodwill impairment loss.** We recorded a non-cash goodwill impairment charge during the fourth quarter of 2002 of \$64.8 million as a result of our annual goodwill impairment test under SFAS No. 142, Goodwill and Intangible Assets. See Note 4, "Goodwill and Other Intangible Assets" to the consolidated financial statements incorporated by reference in the accompanying prospectus for additional information.

#### **Interest expense and interest income and other**

Interest expense increased \$19.8 million, or 38.2%, for the year ended December 31, 2003 compared to the year ended December 31, 2002. As a result of the early extinguishments of outstanding debt of \$106.7 million during the second quarter of 2003 and the refinancing of \$320.7 million during the third quarter of 2003, \$13.1 million of debt issuance cost was charged to interest expense. We also extinguished early our interest rate swap contract during the fourth quarter of 2003, resulting in a charge of \$8.0 million which resulted in \$5.1 million of interest expense in excess of what would have been recorded had the swap not been terminated. During the second quarter of 2002, we reversed \$1.7 million of previously accrued interest expense 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. In addition, we incurred additional interest expense in 2003 under our \$182 million 9<sup>7</sup>/<sub>8</sub>% senior notes due 2011, offset by lower term loan balances and the results of market interest rate effects on our variable interest rate debt. Interest income and other (including equity in income of investments) also declined by \$11.6 million, due to a \$15.9 million non-operating impairment loss on a note receivable offset by the \$4.3 million gain on foreign exchange on the sale of the Directories Business.

#### **Income taxes**

We have fully reserved the income tax benefit resulting from the consolidated losses we have incurred since May 14, 1999, the date of the acquisition of substantially all of our operations. During 2003, we incurred \$1.1 million in Alternative Minimum Tax as a result of the sale of our Directories Business.

#### **Discontinued operations**

On March 30, 2002, our management approved a plan to offer for sale our 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 write down and results of operations of this discontinued segment resulted in a charge to discontinued operations of \$52,000 and \$7.6 million for the years ended December 31, 2003 and 2002, respectively. We have fully reserved in the form of a valuation allowance the income tax benefit of this discontinuance. We completed our disposal of our wireless cable television segment as of March 31, 2003.

### **Cumulative effect of change in accounting principle**

During the second quarter of fiscal 2002, we also completed the transitional review for goodwill impairment required under SFAS No. 142, Goodwill and Intangible Assets. This review indicated that goodwill recorded in the local telephone, Internet and interexchange segments was impaired as of January 1, 2002. Accordingly, we measured and recognized a transitional impairment loss of \$105.4 million as a cumulative effect of a change in accounting principle. See Note 4, "Goodwill and Other Intangible Assets", to the audited consolidated financial statements incorporated by reference in the accompanying prospectus for additional discussion of the impact of this statement on our consolidated financial statements.

### **Net loss**

Net loss decreased \$178.6 million, or 96.4% for the year ended December 31, 2003, compared to the year ended December 31, 2002, as a result of the factors discussed above.

### **Year ended December 31, 2002 compared to year ended December 31, 2001**

#### **Operating revenues**

Operating revenues increased \$11.6 million, or 3.5%, for the year ended December 31, 2002 compared to the year ended December 31, 2001. Local telephone, wireless and Internet revenues increased compared to the prior period.

**Local telephone.** Local telephone revenues increased \$5.0 million, or 2.3%, for the year ended December 31, 2002 compared to the same period in 2001.

The local network service component of local telephone revenues was \$99.5 million during 2002 compared with \$96.3 million during 2001. Revenue increased \$3.2 million or 3.4% from the prior year, while average access lines in service decreased 1.0% to 327,965. The increase in revenue is due to an increase of approximately \$2.1 million in additional feature, service order, directory assistance and wireless access revenue and approximately \$1.1 million of additional local private line revenue. The revenue increase from approximately \$4.9 million of rate increases for both retail and UNE local service rates implemented during the fourth quarter of 2001 at ACSA, as discussed below, was offset in part by a promotion to enhance customer loyalty and loss of direct retail lines as customers cancelled second lines they were no longer using and some customers switched to competing service providers. While we receive revenue from competing service providers for providing access to our customers on a wholesale basis, below-cost UNE rates reduces our ability to profit from wholesale.

We continued to experience loss of retail market share for local network service in our Anchorage, Fairbanks and Juneau service areas during the year. Generally, when we lose a retail local network service customer of ours to a competitor, we continue to provide the line to the competitor on a wholesale basis at reduced revenue per line. Management believes that the continuing loss of market share we have experienced in certain of our markets is partially attributable to below cost interconnection rates mandated by the RCA for UNEs. On October 25, 2001, the RCA granted ACSA an interim and refundable UNE rate increase of \$1.07, increasing the UNE rates from \$13.85 to \$14.92. The interim and refundable rate increase was implemented in November 2001 and generated approximately \$0.7 million in additional revenue during 2002. See "Regulation" for further discussion.

Network access revenues increased by \$5.4 million, or 5.2%, from \$103.0 million in 2001 to \$108.3 million in 2002. During the second quarter of 2002, we recognized as revenue \$11.1 million of previously deferred interstate access revenue related to a dispute on interstate access rates for the Anchorage market based on a favorable ruling by the District of Columbia

Court of Appeals. Excluding the impact of the revenue recognized as a result of the favorable ruling by the court, the decrease in network access revenue compared to the corresponding period in 2001 is due primarily to a shift from retail and wholesale lines to UNEs. Management expects that network access revenue will decline as a component of local telephone revenue for the foreseeable future.

Deregulated and other revenues declined \$3.6 million, or 16.1% from 2001. The decline in deregulated and other revenue was due primarily to a decrease in deregulated equipment sales of approximately \$3.0 million. Customer premise equipment sales tend to fluctuate significantly from quarter to quarter and management believes they have also been impacted by recent economic concerns in the marketplace and technology alternatives.

**Wireless.** Wireless revenues increased \$1.3 million, or 3.1%, to \$43.2 million for the year ended December 31, 2002 compared to \$41.9 million for the year ended December 31, 2001. This increase is due primarily to growth in average subscribers of 4.0% from 78,027 in 2001 to 81,170 in 2002. Average revenue per unit, or ARPU, decreased slightly from \$44.74 in 2001 to \$44.33 in 2002.

**Directory.** Directories Business revenues decreased slightly to \$33.6 million in 2002 from \$33.9 million in 2001.

**Internet.** Internet revenues increased from \$13.7 million in 2001 to \$20.8 million in 2002 an increase of \$7.1 million, or 51.9%. This increase is primarily due to revenue associated with our contract with the State of Alaska and growth in DSL subscribers of 78.8% from 7,041 in 2001 to 12,590 in 2002. Also contributing to the increase was the additional revenues resulting from the acquisition of MosquitoNet in July of 2001.

On December 10, 2001, we entered into a five-year contract with the State of Alaska to provide a broad range of telecommunications services, many of which were to be provided over an IP network and supported by a service center owned and operated by ACSI. Services under this contract began to be implemented during the second quarter of 2002. We made substantial capital investments to support the telecommunications needs of this customer, totaling approximately \$12.4 million through December 31, 2002.

**Interexchange.** Interexchange revenue decreased from \$17.6 million in 2001 to \$16.1 million in 2002 a decrease of \$1.6 million, or 8.9%. The decrease was due to a decline in long distance minutes of use from 219.6 million in 2001 to 153.4 million in 2002. Long distance subscribers increased from approximately 65,700 at December 31, 2001 to approximately 70,000 at December 31, 2002. During the first and second quarters of 2003, approximately 20,000 non-revenue generating inactive subscribers were removed from the subscriber lists due to database grooming. The decline in minutes of use was due to our decision to modify and cap a previously an unlimited \$20 per month interstate calling plan in May of 2001, increased competition in the marketplace, and the popularity of discount long distance calling cards.

### Operating Expenses

Operating expenses increased \$81.5 million, or 29.0%, from \$281.4 million for the year ended December 31, 2001 to \$362.9 million for the year ended December 31, 2002.

**Local telephone.** Local telephone expense decreased from \$117.8 million for the year ended December 31, 2001 to \$114.6 million for the year ended December 31, 2002, a decrease of \$3.2 million or 2.7%. As a percentage of local telephone revenue, local telephone expense decreased from 53.2% for 2001 to 50.6% for 2002. These results reflect continued improvements in our cost structure, including workforce reductions and benefits derived from the deployment of information systems.

**Wireless.** Wireless expense increased \$1.9 million, or 7.0%, for the year ended December 31, 2002 compared to the year ended December 31, 2001. This increase is substantially due to an increase of minutes of use from 162.0 million in 2001 to 196.8 million in 2002.

**Directory.** Directory expense decreased \$0.5 million from \$14.7 million in 2001 to \$14.2 million in 2002. The decline in expenses is due to a decrease in cost of goods sold in 2002.

**Internet.** Internet expenses increased by \$14.7 million, or 88.8%. The increase in Internet expense was due principally to start-up expenses associated with commencing services under the State of Alaska telecommunications contract, which we entered into on December 10, 2001.

**Interexchange.** Interexchange expenses decreased by \$2.1 million, or 8.3%. The majority of this decrease was the result of the decline in long distance minutes of use as discussed under interexchange service revenue.

**Depreciation and amortization.** Depreciation and amortization expense increased \$3.8 million, or 4.8%, due principally to increases in plant in service in 2002 and the adoption of shorter depreciable lives for certain classes of assets over the corresponding period of 2001, offset by ceasing goodwill amortization with the adoption of SFAS No. 142, Goodwill and Intangible Assets, on January 1, 2002. Depreciation and amortization expense in 2001 included \$7.7 million of goodwill amortization. Under SFAS No. 142, goodwill is no longer amortized but is instead subjected to an annual impairment test.

**Loss on disposal of assets.** We recorded a non-cash loss on disposal of assets of \$2.2 million during 2002 as a result of retiring certain assets no longer in use which were not fully depreciated at their retirement date.

**Goodwill impairment loss.** We recorded a non-cash goodwill impairment charge during the fourth quarter of 2002 of \$64.8 million as a result of our annual goodwill impairment test under SFAS No. 142, Goodwill and Intangible Assets. See Note 4, "Goodwill and Other Intangible Assets", in the Notes to Consolidated Financial Statements incorporated by reference in the accompanying prospectus for additional information.

#### **Interest expense and interest income and other**

Interest expense decreased \$8.5 million, or 14.1%, for the year ended December 31, 2002 compared to the year ended December 31, 2001, principally as a result of market effects on our variable interest rate debt. In addition, during the second quarter of 2002, we reversed previously accrued interest expense of \$1.7 million 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. Interest income and other also declined by \$1.1 million, or 32.2%, as a result of a lower average invested cash balance and lower market interest rates during 2002 compared to 2001.

#### **Income taxes**

We have fully reserved the income tax benefit resulting from the consolidated losses we have incurred since May 14, 1999, the date of the acquisition of substantially all of our operations.

### **Discontinued operations**

On March 30, 2002, our management approved a plan to offer for sale 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 write down and results of operations of this discontinued segment resulted in a charge to discontinued operations of \$7.6 million and \$1.7 million for our periods ended December 31, 2002 and 2001, respectively. We have fully reserved in the form of a valuation allowance the income tax benefit of this discontinuance.

### **Cumulative effect of change in accounting principle**

During the second quarter of fiscal 2002, we also completed the transitional review for goodwill impairment required under SFAS No. 142, Goodwill and Intangible Assets. This review indicated that goodwill recorded in the local telephone, Internet and interexchange segments was impaired as of January 1, 2002. Accordingly, we measured and recognized a transitional impairment loss of \$105.4 million as a cumulative effect of a change in accounting principle. See Note 4, "Goodwill and Other Intangible Assets" to the audited consolidated financial statements incorporated by reference in the accompanying prospectus for additional discussion of the impact of this statement on our consolidated financial statements.

### **Net loss**

Net loss increased \$174.0 million for the year ended December 31, 2002 compared to the year ended December 31, 2001, as a result of the factors discussed above.

### **Liquidity and capital resources**

We have satisfied our cash requirements for operations, capital expenditures and debt service primarily through internally generated funds, the sale of stock and debt financing. For the year ended December 31, 2003, our cash flows from operating activities were \$50.2 million. For the nine months ended September 30, 2004, our cash flows from operating activities were \$38.7 million. At September 30, 2004, we had approximately \$73.2 million in net working capital, with \$79.7 million represented by cash and cash equivalents. As of September 30, 2004 we had \$50.0 million of remaining capacity under our revolving credit facility under our existing senior secured credit facility, representing 100% of available capacity.

As of September 30, 2004, we had outstanding \$198.5 million under a bank credit agreement, our existing senior secured credit facility, \$150.0 million in ACSH senior subordinated notes and \$182.0 million in ACSH senior notes, representing substantially all of our long-term debt of \$533.3 million. On May 14, 2004, we called \$17.3 million of our 13% senior discount debentures due 2011. The redemption was completed on June 14, 2004 at 106.5% of the outstanding principal and as a result a call premium of \$1.1 million was paid. The board of directors has authorized us to buy back up to \$10 million of our outstanding debt in the open market during the three months ended December 31, 2004. During the quarter ended December 31, 2004, we repurchased \$4.4 million aggregate principal amount of ACSH senior notes and \$2.5 million of ACSH senior subordinated notes in the open market. From time to time we consider making purchases of our outstanding debt securities on the open market or in negotiated transactions. The timing and amount of such purchases, if any, will depend upon cash needs and market conditions, among other things. Interest on the ACSH senior

subordinated notes and ACSH senior notes is payable semiannually. Interest on borrowings under the existing senior credit facility is payable monthly, bi-monthly, quarterly or semi-annually at our option. The existing senior secured credit facility requires \$0.5 million quarterly principal payments that commenced on March 31, 2004, with the balance due in 2010. The existing senior secured credit facility, the ACSH senior subordinated notes and the ACSH senior notes contain a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt, and the payment of dividends, and the existing senior secured credit facility requires us to achieve certain financial ratios. We are in compliance with all of our debt covenants as of the date of this prospectus supplement.

Adjusted for the effect of the Refinancing Transactions, our total long-term obligations would have been \$458.0 million as of September 30, 2004, consisting primarily of the \$385.0 million new senior credit facility with a drawn term loan of \$335.0 million and an undrawn revolving credit facility of \$50.0 million, and \$118.3 million remaining aggregate principal amount outstanding of ACSH senior notes. The \$335.0 million term loan under the new senior credit facility is expected to bear interest at an annual rate of LIBOR plus 2.75%, with a term of seven years from the date of closing and no scheduled principal payments before maturity. The \$50.0 million undrawn revolving credit facility, to the extent drawn in the future, is expected to bear interest at an annual rate of LIBOR plus 2.75% and have a term of six years from the date of closing. To the extent the \$50.0 million revolving credit facility under the new senior credit facility remains undrawn, we expect to pay an annual commitment fee of 0.375% of the undrawn principal amount over its term. We also anticipate entering into a floating-to-fixed interest rate swap with a notional amount of approximately \$135.0 million that will swap the floating interest rate on a portion of the term loan borrowings under the new senior credit facility for a fixed rate that we estimate at approximately 4.11% per year as of January 7, 2005 based on Federal Reserve Statistical Release H15. LIBOR was approximately 2.61% on January 7, 2005 according to the British Bankers Association. See "Refinancing transactions," "Use of proceeds," "Capitalization" and "Unaudited pro forma condensed consolidated financial information" for additional information about the Refinancing Transactions.

On July 15, 2002, we fulfilled a commitment to Crest to provide a loan for the aggregate principal amount of \$15 million in return for certain consideration. We have an agreement that enables us to purchase additional fiber optic capacity in future years from Crest, the expenditures for which are expected to be significant and may exceed \$20 million over the next two years. We purchased capacity additions under this agreement of \$5.6 million during the third quarter of 2004. While we have an agreement with Crest, certain material terms of the agreement remain subject to continued renegotiation. The significant provisions of this agreement are: (i) purchase commitments by us for capacity in 2005 and 2006, the final price and quantity of which are subject to future events, (ii) Crest's restoration of our traffic carried on another cable system and (iii) specific interconnection arrangements between us and Crest, should we exercise our option to purchase certain network assets from Crest. We are currently renegotiating open elements of our agreement with Crest. It is impossible to determine the ultimate outcome of these negotiations at this time. The loan was written down to zero, its estimated fair value, during September 2003.

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The following summarizes our contractual obligations and commitments with quantifiable payment terms as of December 31, 2003:

(in thousands)	Total	2004	2005-2006	2007-2008	Thereafter
Long-term debt	\$ 542,360	\$ 1,361	\$ 2,574	\$ 2,331	\$ 536,094
Capital leases	7,860	621	1,462	1,517	4,260
Operating leases	7,420	1,939	3,009	1,722	750
Unconditional purchase obligations	4,774	2,015	2,609	150	
Total contractual cash obligations	\$ 562,414	\$ 5,936	\$ 9,654	\$ 5,720	\$ 541,104

We also have obligations for material cash interest payments on our long-term debt that are not included in the table above. Approximately 36% of our debt at December 31, 2003 is variable. See "Quantitative and qualitative disclosure about market risk" for more information.

The local telephone network requires the timely maintenance of plant and infrastructure. Our historical capital expenditures have been significant. The construction and geographic expansion of our wireless network has required significant capital. The implementation of our interexchange network and data services strategy is also capital intensive. Capital expenditures for 2003 were \$50.7 million, of which \$11.5 million was expended on CDMA 1xRTT build out and \$3.5 million was expended on the State of Alaska TPA. We anticipate capital spending of between \$50 million and \$55 million for 2004, and have spent \$38.1 million in the first nine months of 2004, inclusive of \$12.8 million invested in CDMA 1xRTT and EV-DO infrastructure and interstate network access capacity. We intend to fund future capital expenditures with cash on hand, through internally generated cash flows, and if necessary, through borrowings under the revolving credit facility. At September 30, 2004 we had allocated \$55.0 million of our current unrestricted cash balance of \$79.7 million to fund the completion of our CDMA 1xRTT and EV-DO build out and to secure fiber capacity within Alaska and to the lower 48 states in the United States under the terms of our agreement with Crest.

Our capital requirements may change due to impacts of regulatory decisions that affect our ability to recover our investments, changes in technology, the effects of competition, changes in our business strategy, and our decision to pursue specific acquisition opportunities, among other things.

We announced on October 28, 2004 the adoption of a dividend policy by our board of directors and declared our first quarterly dividend of \$0.185 per share, payable on January 19, 2005 to holders of record on December 31, 2004. While we intend to continue to pay quarterly dividends, such payment is subject to our future operating and financial performance, capital expenditures, working capital requirements and other factors. Accordingly, our board of directors may modify or revoke this policy at any time. See "Dividend policy and restrictions." Simultaneous with the announcement of the dividend policy, we also announced the withdrawal of our registration statements for a proposed initial public offering of income deposit securities, a separate proposed offering of senior subordinated notes and the proposed reclassification of our existing common stock into cash and shares of new class B common stock which we had filed with the Securities and Exchange Commission. No securities were sold under the withdrawn registration statements.

Adjusted for the effect of issuing an additional 8.4 million shares of our common stock in this offering, we would have had outstanding 37.8 million and 39.1 million shares as of September 30 and December 31, 2004, respectively. The issuance of additional shares of our common stock will increase our aggregate annual dividend payments by approximately

\$6.2 million based on our current dividend policy of \$0.74 per share annum. The pro forma increase in shares assumes an offering price of \$8.92 per share, which was the last reported sale price on January 14, 2005, and that the underwriters do not exercise their over-allotment option. If the underwriters exercise their over-allotment option in full, the aggregate annual dividend payments will increase by an additional approximately \$0.9 million. We intend to issue in this offering such number of shares of common stock that will result in aggregate gross proceeds to us of approximately \$75.0 million. The actual number of shares we will issue in this offering could vary. Any change to the number of shares of our common stock we issue in this offering will change the pro forma amount of our aggregate annual dividend payments. See "Use of proceeds," "Capitalization," "Dividend policy and restrictions", and "Unaudited pro forma condensed consolidated financial information" for additional information about this offering.

We believe that we will have sufficient working capital provided by operations and available borrowing capacity under our revolving credit facility to service our debt, pay our quarterly dividends, fund our operations, capital expenditures and other obligations over the next 12 months. Our ability to meet such obligations will be dependent upon our future financial performance, which is, in turn, subject to future economic conditions and to financial, business, regulatory and other factors, many of which are beyond our control.

## Outlook

We expect that, overall, the demand for telecommunications services in Alaska will grow, particularly as a result of:

increasing demand for wireless voice and data services following the launch of our CDMA 1xRTT network;

growth in demand for DSL and Internet access services due to higher business and consumer bandwidth needs; and

increasing demand for private network services by government and business on a statewide basis on either a circuit switched or IP basis.

We believe that we will be able to capitalize on this demand through our diverse service offerings on our owned circuit switched and IP facilities, new sales and marketing initiatives directed toward basic voice, enhanced and data services, and offering customers an integrated bundle of telecommunication services including local telephone, wireless, Internet, long distance, messaging and video entertainment.

Consistent with the U.S. telecommunications industry, we experienced a loss in network access lines during the year as customers cancelled second lines, replaced wireline services with wireless, and lines migrated to cable telephony. Our primary UNE customer has announced plans to migrate most of its Anchorage area customers to its own cable telephony plant during the next three years. Consequently, we anticipate that these trends will continue.

There are currently a number of regulatory proceedings underway at the state and federal levels that could have a significant impact on our operations. We cannot predict with certainty the impact of current or future regulatory developments on any of our businesses.

The telecommunications industry is extremely competitive, and we expect competition to intensify in the future. As an incumbent local exchange carrier ("ILEC"), we face competition mainly from resellers, local providers who lease our UNEs and from providers of local telephone services over separate facilities. Moreover, while wireless telephone services have historically



complemented traditional LEC services, we anticipate that existing and emerging wireless technologies may increasingly compete with LEC services. Similarly, local and interexchange service competition may come from cable television providers and voice over IP providers. In wireless services, we currently compete with at least one other wireless provider in each of our wireless service areas. In the highly competitive business for Internet access services, we currently compete with a number of established online service companies, interexchange carriers and cable companies. In the interexchange market, we believe we currently have less than 5% of total revenue in Alaska and face competition from two major interexchange providers.

The telecommunications industry is subject to continuous technological change. We expect that new technological developments in the future will generally serve to enhance our ability to provide service to our customers. However, these developments may also increase competition or require us to make significant capital investments to maintain our leadership position in Alaska.

#### **Impact of inflation**

The effect of inflation on our financial results has not been significant in the periods presented.

#### **Quantitative and qualitative disclosures about market risk**

As of December 31, 2003, we had issued and outstanding ACSH senior subordinated notes, ACSH senior notes, senior discount debentures and have entered into our existing senior secured credit facility. These on-balance sheet financial instruments, to the extent they provide for variable rates of interest, expose us to interest rate risk, with the primary interest rate risk exposure resulting from changes in LIBOR or the prime rate, which are used to determine the interest rates that are applicable to borrowings under our existing senior secured credit facility.

We used derivative financial instruments, specifically an interest rate swap agreement, to partially hedge variable interest transactions. We ended an interest rate swap agreement in November 2003. Our derivative financial instrument transaction was entered into for hedging purposes only. The terms and characteristics of the derivative financial instruments were matched with the underlying on-balance sheet instrument and did not constitute speculative or leveraged positions independent of these exposures.

The table below provides information about our sensitivity to market risk associated with fluctuations in interest rates as of December 31, 2003. To the extent that our financial instruments expose us to interest rate risk, they are presented within each market risk category in the table below. The table presents principal cash flows and related expected interest rates by year of maturity for our existing senior secured credit facility, ACSH senior subordinated notes, ACSH senior notes, senior discount debentures, and capital leases and other long-term obligations outstanding at December 31, 2003. Weighted average variable rates for the existing senior secured credit facility are based on implied forward rates in the LIBOR yield curve as of December 31, 2003. Fair values included herein have been determined based on (i) the carrying value for the existing senior secured credit facility at December 31, 2003, as interest rates are reset periodically; (ii) quoted market prices for ACSH senior subordinated notes; (iii) quoted market prices for ACSH senior notes; and (iv) by discounting expected cash flows to their present value for the senior discount debentures using our estimated current borrowing cost for subordinated debt. Our consolidated financial statements contain descriptions of the existing senior secured credit facility, ACSH senior subordinated notes, ACSH senior notes,

senior discount debentures and capital leases and other long-term obligations and should be read in conjunction with the table below.

<b>Interest Bearing Liabilities(1): (in thousands)</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>	<b>Total</b>	<b>Value</b>
Existing senior secured credit facility	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 190,000	\$ 200,000	\$ 200,000
Weighted average interest rate (variable)	4.78%	6.22%	7.32%	7.99%	8.52%	8.82%	8.73%	
ACSH senior subordinated notes						\$ 150,000	\$ 150,000	\$ 150,000
Average interest rate (fixed)	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	
ACSH senior notes	\$	\$	\$	\$	\$	\$ 182,000	\$ 182,000	\$ 191,100
Average interest rate (fixed)	9.88%	9.88%	9.88%	9.88%	9.88%	9.88%	9.88%	
Senior discount debentures						\$ 17,313	\$ 17,313	\$ 20,870
Average interest rate (fixed)	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	
Capital leases and other long-term	\$ 802	\$ 884	\$ 967	\$ 1,024	\$ 923	\$ 4,260	\$ 8,860	\$ 8,860
Average interest rate (fixed)	9.73%	9.78%	9.84%	9.93%	10.09%	10.66%	10.25%	

(1)

Does not give effect to the Refinancing Transactions.

Other than our redemption of the senior discount debentures, which we completed on June 14, 2004, as of September 30, 2004 there had been no material changes to our outstanding debt instruments since December 31, 2003.

The table below provides information about our sensitivity to market risk associated with fluctuations in interest rates as of December 31, 2002. To the extent that our financial instruments expose us to interest rate risk, they are presented within each market risk category in the table below. The table presents principal cash flows and related expected interest rates by year of maturity for our 1999 bank credit facilities, ACSH senior subordinated notes, ACSH senior discount debentures, and capital leases and other long-term obligations outstanding at December 31, 2002. Weighted average variable rates for the existing senior secured credit facility are based on implied forward rates in the LIBOR yield curve as of December 31, 2002. For the interest rate swap agreement, the table presents the notional amount and the related reference interest rates by year of maturity. Fair values included herein have been determined based on (i) the carrying value for the 1999 bank credit facilities at December 31, 2002, as interest rates are reset periodically; (ii) quoted market prices for ACSH senior subordinated notes; (iii) by discounting expected cash flows to their present value for the senior discount debentures using our estimated current borrowing cost for subordinated debt; and (iv) quoted prices from a financial institution for our swap agreement. Our consolidated financial statements contain descriptions of the 1999 bank credit facilities, ACSH senior subordinated

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notes, senior discount debentures, and capital leases and other long-term obligations and the interest rate swap agreement and should be read in conjunction with the table below.

<b>Interest Bearing Liabilities(1):</b>									
<b>(in thousands)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Thereafter</b>	<b>Total</b>	<b>Fair Value</b>	
Bank credit facility tranche A	\$ 1,500	\$ 1,500	\$ 1,500	\$ 144,000			\$ 148,500	\$ 148,500	
Weighted average interest rate (variable)	3.62%	4.40%	5.53%	6.25%			4.95%		
Bank credit facility tranche B	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 142,500		\$ 148,500	\$ 148,500	
Weighted average interest rate (variable)	4.37%	5.15%	6.28%	7.03%	7.52%		6.07%		
Bank credit facility tranche C	\$ 1,350	\$ 1,350	\$ 1,350	\$ 1,350	\$ 1,350	\$ 126,900	\$ 133,650	\$ 133,650	
Weighted average interest rate (variable)	4.62%	5.40%	6.53%	7.28%	7.80%	8.11%	6.62%		
ACSH senior subordinated notes						\$ 150,000	\$ 150,000	\$ 107,250	
Average interest rate (fixed)	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%		
Senior discount debentures						\$ 17,313	\$ 17,313	\$ 21,316	
Average interest rate (fixed)	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%		
Capital leases and other long-term	\$ 1,583	\$ 1,710	\$ 910	\$ 996	\$ 1,058	\$ 5,924	\$ 12,181	\$ 12,181	
Average interest rate (fixed)	8.06%	8.09%	8.11%	8.13%	8.16%	9.46%	8.34%		
<b>Interest Rate Derivatives:</b>									
<b>Variable to Fixed Interest Rate Swap</b>									
Notional amount	\$ 217,500	\$ 217,500					\$ 217,500	\$ 14,152	
Fixed Rate Payable	5.99%	5.99%					5.99%		
Weighted average Variable									
Rate Receivable	1.37%	1.61%					1.49%		

(1) Does not give effect to the Refinancing Transactions.

On August 26, 2003, we refinanced our 1999 bank credit facilities and retired our bank tranches A, B and C in their entireties. Simultaneously with the bank refinancing, we issued \$182 million of ACSH senior notes. In the fourth quarter of 2003, we terminated our variable interest rate swap prior to its maturity. In June 2004 we redeemed all of our 13% senior discount debentures due 2011.

## Business

### Alaska Communications Systems Group

We are the leading facilities-based telecommunications services provider and the largest local exchange carrier (LEC) in Alaska and the 13th largest LEC in the United States. We are focused on providing leading telecommunications services to our customers under a single brand name, Alaska Communications Systems. On a retail basis, we provide our consumer and business customers with a complete range of telecommunications services, including local telephone, wireless, Internet, and long distance, using our own network, as well as video entertainment through our partnership arrangement with DISH Network, a leading satellite service provider. In addition, we also provide selected local telephone and wireless services on a wholesale basis.

We have successfully grown our retail relationships, and as of September 30, 2004 we served 388,913 retail relationships. A "retail relationship" refers to one service provided to one customer and, therefore, each customer may represent more than one retail relationship. As of September 30, 2004, including both retail and wholesale customers, we served 95,529 wireless subscribers, 301,684 local telephone access lines, 44,334 long distance customers and 46,291 Internet subscribers (including 22,592 high-speed digital subscriber line, or DSL, subscribers).

We began operations in May 1999 when we completed the acquisition and integration of four local telephone companies in Alaska. Each of the businesses we purchased had been operating in its local markets for over 50 years. Since 1999, we have invested in upgrading our network and service capabilities, improved our cost management in our operations, and focused on improving customer service. As a result, our business, which has been characterized by a stable customer base and predictable capital expenditure requirements, has generated stable revenues and cash flows since 2000, with consolidated cash flow from operations of \$50.4 million for the year ended December 31, 2003 and \$38.7 million for the nine months ended September 30, 2004. We have generated a net loss from operations during each year since 1999 and we expect to generate a net loss from operations in 2004. We currently have substantial indebtedness and an accumulated deficit of \$286.0 million as of September 30, 2004.

### Our service offerings

*Local telephone (70.4% of operating revenues for the nine months ended September 30, 2004).* We provide local telephone service to over 300,000 access lines, representing approximately two-thirds of the local access lines in Alaska. We generate local telephone revenue from providing local telephone service to consumer and business customers and by providing access to our network and back office functions to other telecommunications providers. At September 30, 2004, approximately 51% of our retail access lines served consumers and 49% served business customers.

*Wireless (18.1% of operating revenues for the nine months ended September 30, 2004).* We provide statewide mobile and fixed voice and data communications services to approximately 95,000 wireless subscribers throughout Alaska. Our wireless network has a covered population of approximately 480,000, representing over 70% of the state's population according to the most recent U.S. Census Bureau estimates. Our wireless customers represent approximately 19.9% penetration of our covered population. Currently, we provide our wireless services using both CDMA and TDMA digital networks. We will continue to improve and expand our CDMA 1xRTT and EV-DO networks, capable of offering advanced mobile and fixed data services to our customers, in 2005 and 2006.

*Internet (6.6% of operating revenues for the nine months ended September 30, 2004).* We provide Internet access services to approximately 46,000 subscribers, including high-speed DSL service to approximately 24,000 subscribers. We are currently able to offer DSL service to approximately 72% of our local access lines in our four major LEC service territories Anchorage, Fairbanks, Juneau and the Kenai Peninsula. We are also a single-source provider of advanced IP-based private networks to large enterprise and governmental customers in Alaska.

*Long distance (4.9% of operating revenues for the nine months ended September 30, 2004).* We offer long distance and interexchange private-line services primarily as a facilities-based carrier to approximately 44,000 long distance customers in our state.

*Video entertainment.* In the third quarter of 2003 we began offering customers in Alaska satellite video entertainment through a partnership arrangement with DISH Network.

### **Competitive strengths**

We enjoy stable cash flows and attractive growth prospects due to the following competitive strengths:

*Leading competitive position.* We are the leading facilities-based telecommunications services provider in Alaska. We believe our strong brand name recognition within Alaska provides us with a solid local market position.

We are the incumbent local telephone company in Anchorage, Fairbanks, Juneau, the Kenai Peninsula and more than 70 other communities.

We are the second-largest wireless communications services provider in Alaska and our statewide wireless network covers over 70% of the population.

We are the second-largest provider of Internet access services and the largest provider of DSL services in Alaska.

*Integrated portfolio of service offerings.* We offer a variety of bundled service packages to our consumer and business customers, which include local telephone services, wireless, Internet, long distance, messaging, video entertainment and other services. We believe that bundled offerings are popular because they allow for a single customer service interface and fewer billing statements, while providing greater value and pricing benefits across a number of services. By actively marketing and selling our bundled service packages, we believe we can increase our customer base, improve customer loyalty and increase our share of our customers' telecommunications purchases.

*Advanced networks and facilities.* Since 1999, we have invested over \$390 million in our telecommunications networks and facilities, increasing the total investment in these facilities to approximately \$1.1 billion. As a result of these investments, we believe we have substantially built out our networks and facilities, allowing us to offer a full range of reliable telecommunications services while maintaining predictable capital expenditure requirements. We are currently the only provider of broadband wireless services in the state of Alaska. Our wireless network has a covered population of approximately 480,000, representing over 70% of the state's population according to data from the U.S. Census Bureau. Over the next few years, we expect to augment our existing networks and facilities, including the completion of the build-out of our statewide CDMA 1xRTT and EV-DO wireless networks, which will allow us to expand our covered population and to offer a wider range of wireless voice and broadband data services to our customers.

*Favorable Alaskan market conditions.* We believe we have an attractive and growing potential customer base. For the three year period from 2000 to 2002, the median household income in Alaska was 28% higher than the average in the rest of the United States, and Alaskans spent 33% more on communications services than other Americans. According to the U.S. Census Bureau, over the past 20 years, the Alaskan population has increased by more than 2% per year nearly triple the national average. From 2000 to 2002, federal government expenditures in Alaska increased by a total of 38% while the national average increased by only 21%. Additionally, Alaska has lower-than-average wireless penetration. We believe these factors will continue to contribute to our stability and growth, and provide us with an advantage relative to other telecommunications markets. We believe that the Alaskan communications market's combination of large geographic size and isolated markets featuring both major metropolitan areas and small, dense population clusters reduces the likelihood of entry by new integrated facilities-based service providers.

*Strong management team.* Our highly experienced senior management team has an average of approximately 16 years of experience in the local telecommunications industry and a proven track record of operating and managing integrated telecommunications companies. During the last fifteen months, we have added a number of key individuals to our executive management team who have broad experience in the telecommunications industry and understand the dynamics of the Alaskan markets and our customers. Liane Pelletier joined us in October 2003 as CEO and President and also became Chairperson of our board of directors on January 1, 2004. Before joining us, Ms. Pelletier worked for 17 years at Sprint Corporation, most recently as a member of the Executive Management Committee and as Chief Integration Officer. David Wilson, who was previously chief financial officer of Triumph Communications and DIRECTV Broadband, has joined us as our Chief Financial Officer. In addition to Ms. Pelletier and Mr. Wilson, David C. Eisenberg and Sheldon Fisher recently joined us from Sprint as Senior Vice President, Corporate Strategy and Development and Senior Vice President, Sales and Product Marketing, respectively. Andrew Coon has also joined us as Director of Business Sales and Services from GCI, our principal competitor, where he was Director, Major Strategic Accounts and former Vice President of Sales, and Mark Enzenberger has joined us as Director, Product Management, also coming from GCI. Under the leadership of our senior management team, we have refocused our company to better serve the needs of consumer and business customers in Alaska.

#### **Business strategy**

Our goal is to be the premier telecommunications services provider in our markets and to maintain and grow our cash flow. We consider the following strategies to be integral to achieving our goal:

maintaining and increasing the number of loyal consumer, business and wholesale customers that we serve and having our customers buy more of our services and regularly refer new customers to us;

offering our customers an integrated bundle of telecommunications services including local telephone, wireless, Internet, long distance, messaging and video entertainment;

capitalizing on our significant existing investment in our technologically advanced networks to provide feature-rich, high-quality and highly reliable telecommunications services such as DSL and broadband wireless service to our customers;

increasing our margins through ongoing process improvements, strategic sourcing initiatives, reduced costs and improved operating efficiencies;

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leveraging our advanced CDMA 1xRTT and EV-DO wireless networks and our strong competitive position as the leading facilities-based telecommunications provider in Alaska to further gain share in the under-penetrated and fast growing Alaska wireless market; and

exploring acquisitions of other telecommunications assets and businesses that we would expect to increase our cash flows and our ability to pay dividends to the holders of our common stock.

### Products, services and revenue sources

We offer a broad portfolio of telecommunications services to consumer, business and wholesale customers in our markets. We believe that as the communications marketplace continues to converge and competition continues to enter the market the ability to offer an integrated package of communications products will provide a distinct competitive advantage, as well as increase customer loyalty, and thereby decrease customer turnover. We complement our local telephone services by actively marketing our wireless, Internet, long distance and other service offerings to our customers who subscribe to only some of our services.

The following table sets forth the components of our consolidated revenues for the years ended December 31, 2001, 2002 and 2003, and for the nine months ended September 30, 2003 and 2004:

	Year ended December 31,						Nine months ended September 30,			
	2001		2002		2003		2003		2004	
Revenues: (in millions)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Source(1)</b>										
Local network service	\$ 96.3	29.3%	\$ 99.5	29.3%	\$ 96.4	29.8%	\$ 73.4	29.8%	\$ 69.0	30.3%
Network access	103.0	31.3	108.3	31.8	97.8	30.2	74.0	30.1	75.4	33.2
Deregulated and other revenue	22.2	6.7	18.6	5.5	21.3	6.6	15.2	6.2	15.6	6.9
<b>Total local telephone</b>	<b>221.4</b>	<b>67.3</b>	<b>226.4</b>	<b>66.6</b>	<b>215.4</b>	<b>66.6</b>	<b>162.5</b>	<b>66.1</b>	<b>160.0</b>	<b>70.4</b>
Wireless	41.9	12.8	43.2	12.7	46.5	14.4	34.9	14.2	41.3	18.1
Directory(2)	33.9	10.3	33.6	9.9	11.6	3.6	11.6	4.7		
Internet	13.7	4.2	20.8	6.1	33.0	10.2	24.4	9.9	15.0	6.6
Interexchange	17.6	5.4	16.1	4.7	17.0	5.2	12.6	5.1	11.1	4.9
<b>Total</b>	<b>\$ 328.5</b>	<b>100.0%</b>	<b>\$ 340.2</b>	<b>100.0%</b>	<b>\$ 323.5</b>	<b>100.0%</b>	<b>\$ 246.0</b>	<b>100.0%</b>	<b>\$ 227.3</b>	<b>100.0%</b>

(1) For more information on our segments, including statements of profit and loss, see note 17 "Business Segments" to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2003 incorporated by reference in the accompanying prospectus.

(2) On May 8, 2003, we completed the sale of a majority interest (87.42%) in our Directories Business. Subsequently, on August 27, 2003, we disposed of substantially all of our remaining interest in the Directories Business. As a result of these disposals, we own less than 0.1% of the Directories Business and accordingly no longer record the revenues and expenses of the Directories Business.

### Local telephone

We provide local telephone service through our four local telephone companies. Local telephone revenue consists of local network service, network access (including universal service revenue), and deregulated and other revenue, each of which is described below.





**Local network service**

Local network service consists of basic local network service and competitive local network service.

**Basic local network service.** Basic local network service enables customers to originate and receive telephone calls within a defined "exchange" area. We provide basic local services on a retail basis to consumer and business customers, generally for a fixed monthly charge. The maximum amount that can be charged to a customer for basic local services is determined by rate proceedings involving the RCA. We charge business customers higher rates to recover a portion of the costs of providing local service to consumers, as is customary in the industry. Basic local service also includes non-recurring charges to customers for the installation of new products and services and recurring charges for enhanced features such as call waiting and caller identification.

At September 30, 2004, approximately 51% of our retail access lines served consumers and 49% served business customers. Currently, monthly charges for basic local service for consumers range from \$9.42 to \$16.30 in our service areas, compared to the U.S. national average for urban areas of \$14.59 for 2002. Monthly charges for business customers range from \$17.65 to \$35.00 in our service areas, compared to the national average for urban areas of \$33.64 for 2002. See "Regulation" for further discussion of regulatory matters including our local network service rate proceedings.

The table below sets forth the change in our number of access lines from December 31, 1999 to December 31, 2003 and as of September 30, 2003 and 2004. The number of access lines shown represents all revenue producing access lines connected to both retail and wholesale customers.

	As of December 31,					As of September 30,	
	1999	2000	2001	2002	2003	2003	2004
Retail access lines	281,726	272,936	261,002	236,148	220,818	221,956	209,414
Wholesale access lines	15,680	17,303	22,859	22,148	19,157	18,803	17,498
Unbundled network elements	28,202	39,221	49,062	64,711	74,246	72,441	74,772
Total local telephone access lines	325,608	329,460	332,923	323,007	314,221	313,200	301,684
Percentage change		1.2	1.1	(3.0)	(2.7)	(4.3)	(3.7)

We believe that future access line growth is dependent on, among other things, the economic outlook in Alaska and the United States, the impact of technology and competition on line demand and population growth in our service areas.

**Competitive local network service.** We also provide interconnection through wholesale access to our basic local service and through leasing unbundled network elements, or UNEs, to our competitors as required by the federal law. Revenues for these services are included in local network service revenues. As of November 26, 2004, we were authorized by the RCA to increase the UNE loop rate for our Anchorage service area to \$18.64. In the Fairbanks and Juneau service areas we have an agreement to increase UNE loop rates to \$23.00 and \$18.00, respectively as of January 1, 2005. We provided 92,270 lines to competitors in the Anchorage, Fairbanks and Juneau service areas on either a wholesale or UNE basis as of September 30, 2004.

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While there is some seasonality in local network service, represented primarily by reduced line demand in the Alaskan winter as tourists and seasonal residents seek warmer climates and seasonal businesses close for the winter, operating results for local telephone services are not materially impacted by seasonal factors.

### *Network access*

Network access services arise in connection with the origination and termination of long distance, or toll, calls and typically involve more than one company in the provision of such long distance service on an end-to-end basis. Since toll calls are generally billed to the customer originating the call, a mechanism is required to compensate each company providing services relating to the call. This mechanism is the access charge, which we bill to each interexchange carrier for the use of our facilities to access the customer. We also receive universal service revenue, which we include in our reported network access revenue. These components of network access revenue are described below.

*Intrastate access charges.* We generate intrastate access revenue when an intrastate long distance call that involves an ACS Group LEC and an interexchange carrier is originated and terminated within Alaska. The interexchange carrier pays us an intrastate access charge for either terminating or originating the call. We record the details of the call through our carrier access billing system and receive the access payment from the interexchange carrier. We also provide billing and collection services for interexchange carriers through negotiated agreements for certain types of toll calls placed by our local customers. ACSA, ACSAK and ACSF are under their own tariffs for intrastate access. In non-competitive areas, ACSN participates in a mandatory statewide tariff and access charge pooling arrangement that is administered by the Alaska Exchange Carriers Association, or the AECA. The access charges for our intrastate services are regulated by the RCA.

*Interstate access charges.* We generate interstate access revenue when an interstate long distance call is originated from an local calling area in Alaska that is served by our local telephone operations and is terminated in a local calling area in another state, and vice versa. We bill interstate access charges in a manner similar to intrastate access charges. However, interstate access charges are regulated by the FCC rather than the RCA. Our local telephone companies participate in a nationwide tariff and access charge pooling arrangement that is administered by the National Exchange Carrier Association ("NECA") for all our local telephone companies, except ACSA. ACSA participates in the NECA common line tariff, but has its own interstate access tariff for traffic sensitive and special access services. Common line revenues billed to the end user for the FCC-mandated interstate charges are also categorized as interstate access revenue.

*Universal service revenue.* We are required to contribute to the Federal Universal Service Fund. In general, these funds are created to subsidize telecommunications services in rural and high-cost service areas of the United States, including Alaska. We currently receive federal Universal Service revenue in certain of our local telephone service areas. Universal service revenue supplements the amount of local service revenue we receive to ensure that basic local service rates for customers in high cost rural areas are not significantly higher than rates charged in lower cost urban and suburban areas. The Telecommunications Act prescribed new standards applicable to universal service, including mechanisms for defining the types of services to be provided as part of a universal service program, specific goals or criteria applicable to universal service programs, new qualifications for receipt of universal service funding and new requirements for contributions to universal service funding. The FCC, in conjunction with a federal-state joint board composed of FCC and state commission members, has been working since passage of the Telecommunications Act to implement these new

statutory provisions. While new cost-identification models for non-rural local carriers were adopted effective on January 1, 2000, similar models for rural carriers were rejected by the FCC, leaving previous Universal Service Fund ("USF") calculations based on embedded costs in place for the Federal High-Cost Fund. In accordance with the Telecommunications Act's requirement to eliminate implicit subsidies, the FCC has specifically identified and renamed certain support mechanisms that had previously been provided implicitly through access revenue. It also made all support portable to competitive local exchange carriers ("CLECs") on a per-line basis. A joint board has recommended to the FCC some changes to the Federal Universal Service Funds and the FCC will examine modifications to the universal service funding mechanisms.

Interstate access, intrastate access, and universal service funding are all influenced by both LEC cost levels and by competitive local market penetration. Toll traffic originating or terminating on a competitors' network does not generate access billings to interexchange carriers for us. Many of the underlying factors in jurisdictional cost separations studies that allow network costs to be recovered through access charges are diminished as competitive market penetration increases. Universal service funding may also diminish as a result of competitive local market penetration. Under FCC rules, when a CLEC is formally designated an "eligible telecommunications carrier," as GCI has been in Anchorage, Fairbanks and Juneau, universal service funding becomes portable to the CLEC on a per-line basis, further eroding the ILECs' revenue.

Operating results for network access services are not materially impacted by seasonal factors.

#### ***Deregulated and other revenue***

Deregulated and other revenues consist of billing and collection contracts, space and power rents, pay telephone service, customer premise equipment sales, and other miscellaneous revenues generated by our local telephone operations. We seek to capitalize on our local presence and network infrastructure by offering these additional services to customers and interexchange carriers. Deregulated and other revenue is generally not subject to seasonal impacts on operating results.

#### **Wireless**

We provide statewide mobile and fixed voice and data communications services throughout Alaska under the ACS brand name. Our wireless segment generates revenue through subscriber access charges, airtime usage, toll charges, connection fees, roaming revenues, and enhanced features, such as short messaging services and voicemail. A subscriber may purchase services separately or may purchase rate plans that package these services in different ways to fit different calling patterns and desired features.

In the second half of 2004, the RCA granted us Eligible Telecommunications Carrier ("ETC") status as a competitive provider of wireless services for a significant portion of our rural wireless service area. By obtaining ETC status, we are now eligible to receive Universal Service Fund ("USF") support for subscribers residing in the areas covered by this designation. At present levels of USF support and current subscriber counts, we estimate this will generate approximately \$6 million in new revenue annually to the Company.

*Subscribers.* The table below sets forth the annual growth in the number of our wireless subscribers served and our total covered population as of December 31, 1999, 2000, 2001, 2002 and 2003, and as of September 30, 2003 and 2004.

	As of December 31,					As of September 30,	
	1999	2000	2001	2002	2003	2003	2004
Estimated covered population	460,802	462,057	468,622	478,413	480,422	478,413	480,422
Ending subscribers	73,068	75,933	80,120	82,220	87,017	83,933	95,529
Ending penetration	15.9%	16.4%	17.1%	17.2%	18.1%	17.6%	19.9%

We believe there are opportunities to improve the penetration rates of our wireless operations throughout Alaska, and in particular, southeast Alaska. We also believe that the market for wireless services will continue to grow with expansion of the wireless industry as a whole, and our planned deployment of data services on our new CDMA 1xRTT and EV-DO networks. CDMA 1xRTT will provide wireless voice and data services for our customers while EV-DO will provide broadband wireless data services.

*Licenses.* We own 800 megahertz B side cellular licenses which cover the major population centers in Alaska, including Anchorage, Fairbanks, Juneau and the Kenai Peninsula. Today, these B side frequencies support our TDMA networks. We also own several 10 megahertz E Block PCS licenses covering the entire state including Anchorage, Fairbanks and Juneau. During 2002, we purchased 10 megahertz F Block PCS licenses covering Fairbanks and Juneau. We have recently constructed and are continuing to enhance and expand a commercial network using CDMA 1xRTT, which we launched during May 2004 and which is currently supported on our PCS spectrum.

*Seasonality.* Wireless revenue declines slightly in the winter months and increases in the summer months due to Alaska's northern latitude and the wide swing in available daylight and changes in weather patterns between summer and winter and their effect on business, tourism and subscriber calling patterns.

## Internet

We provide Internet access services to approximately 46,000 customers, including high-speed DSL service to approximately 24,000 subscribers. In order to offer Internet access, we provide local dial-up telephone numbers for our customers. We are currently able to offer high-speed DSL service to approximately 72% of our local access lines in our major local telephone service territories. These local dial-up numbers and dedicated DSL connections allow customers access, through a modem connection on their computer, to a series of computer servers we own and maintain. These servers allow customers to access their e-mail accounts and to be routed to local access points that connect customers to the Internet. We charge customers either a flat rate for unlimited use or a usage sensitive rate. Operating results for Internet access services are not materially impacted by seasonal factors.

## Long distance

We currently have approximately 44,000 long distance customers, which we believe represents approximately 5% of total long distance revenues in Alaska.

We own fiber capacity for high-speed links within Alaska and for termination of traffic outside Alaska. We also resell the services of other long distance carriers.

### **Video entertainment**

In the third quarter of 2003 we began offering customers in Alaska satellite video entertainment through a partnership arrangement with DISH Network. The current agreement with the provider became effective August 2003 and will either be renegotiated or terminate December 2005.

### **Sales and marketing**

We market our product and service offerings under the "Alaska Communications Systems" and "ACS" brands, subject to regulatory and strategic business considerations. Recently, we reorganized to more efficiently sell and service all of our product offerings through single points of customer contact.

Key components of our sales and marketing strategy include:

establishing name recognition of the ACS brand across all product and service offerings,

making, buying and using ACS products and services easier than ever,

marketing all of our offerings to each consumer to obtain a greater percentage of each consumer's telecommunications services expenditures,

providing convenient and valuable bundles of products and services,

centralizing marketing functions to optimize impact and efficiency,

improving quality and reliability of customer service,

developing and delivering to the market new products and services driven by a view of total customer needs,

driving greater productivity from direct sales efforts, and

teaming sales and service for a complete and seamless customer experience.

We believe that we can leverage our position as an integrated, one-stop provider of telecommunications services with strong positions in local access, wireless, Internet and long distance markets. By pursuing a marketing strategy that takes advantage of these characteristics and that facilitates cross-selling and packaging of our products and services, we believe we can increase penetration of new product offerings, improve customer retention rates, increase our share of our customers' overall telecommunications expenditures, and achieve continued revenue and operating cash flow growth.

### **Network facilities**

As of September 30, 2004, we owned 65 host switches serving approximately 300,000 access lines. All of our access lines are served by digital switches provided predominately by Nortel Networks Corporation. Our switches are linked through a combination of extensive aerial, underground and buried cable, including 640 sheath miles of fiber optic cable and digital microwave and satellite links. We have 100% single-party services, or services of one customer per access line, and believe substantially all of our major switches have current generic software upgrades installed which allows for the full range of enhanced customer features, such as call waiting, caller identification and call forwarding.

We have integrated numerous network elements to offer a variety of services and applications that meet the increasingly sophisticated needs of our customers. These elements include Signal System 7 signaling networks, voice messaging platforms, digital switching, DSL and, in some communities, integrated service digital network access. As the telecommunications industry experiences significant changes in technology, customer demand and competition, we intend to introduce additional enhancements.

Network operations and monitoring are provided by our network operating control center located in Anchorage. The network operating control center has technicians staffed seven days a week, 24 hours a day and monitors both wireline and wireless switching. We also have customer care call center and walk-in facilities in Anchorage and Fairbanks along with additional walk-in customer care facilities in Juneau, Sitka, Kenai/Soldotna, Kodiak, North Pole and Homer. These customer care facilities sell and service all of our product lines. All of these facilities offer extended business hours to efficiently handle customer inquiries and orders for service.

We have enhanced our network to accommodate developing products and technology. We completed our Multi-Protocol Label Switching over Asynchronous Transfer Mode network, referred to as our MPLS/ATM networks in early 2002. Core MPLS/ATM nodes were installed in Anchorage, Fairbanks, Juneau, the Kenai Peninsula, the Mat-Su valley and Seattle. We believe the MPLS/ATM network enhances our capability to provide a complete suite of converged telecommunications, data and video services and achieve significant operating efficiencies. We currently offer a variety of enhanced products and services and are able to converge them all over our MPLS core network, including the following:

virtual private networks and lines,

voice over Internet Protocol services,

transparent local area networks (LAN) and proprietary LANs and wide area networks (WAN),

high speed Internet access,

managed services and

video conferencing.

Our wireless operations consist of four digital switching centers, 185 cell sites and three repeaters covering over 70% of Alaska's population and substantially all major population centers and highway corridors in the state plus one analog switch and cell site covering Barrow, Alaska. Our switching and cell site infrastructure is linked by fiber, wireline and digital microwave, primarily owned by us. Our TDMA wireless voice network consists of three Ericsson digital switches, one analogue switch and 106 cell sites using our 800 megahertz B side cellular licenses. Our TDMA network covers the major population centers in Alaska, including Anchorage, Fairbanks, Juneau and the Kenai Peninsula. We have also constructed and are continuing to enhance and expand a commercial wireless voice and data CDMA 1xRTT and EV-DO networks which we launched during May of 2004. To support this launch, we have installed one Nortel digital CDMA switch and over 75 cell sites as of September 2004. Over time, we plan to continue to expand our CDMA 1xRTT and EV-DO networks and migrate our TDMA subscribers onto our CDMA network. Our CDMA network was initially deployed using our 10 megahertz E and F Block PCS spectrum, but we expect to eventually deploy CDMA technology over our 800 megahertz B side cellular licenses and phase out TDMA service at some time in the future.

Our facilities-based long distance network connects the major population center of Anchorage, Fairbanks, Juneau and the Kenai Peninsula to each other primarily over owned fiber optic facilities or IRU capacity. We also own undersea IRU fiber optic capacity connecting Alaska to the rest of the world via Seattle, Washington and own undersea fiber optic capacity over a redundant route connecting Alaska to the rest of the world via Portland, Oregon.

## **Customers**

We have three basic types of customers for the services of our LECs:

consumer and business customers located in our local service areas that pay for local phone service,

long distance carriers that pay for access to long distance calling customers located within our local service areas and

CLECs that pay for wholesale access to our network in order to provide competitive local service.

As of September 30, 2004, we had approximately 389,000 retail relationships.

As of September 30, 2004, approximately 51% of our retail access lines served consumers while 49% served business customers.

We have approximately 95,000 wireless subscribers, 46,000 Internet subscribers and 44,000 long-distance subscribers consisting substantially of retail consumer and business customers.

GCI accounted for 10% of consolidated 2003 revenues and 15% of our local telephone revenues. No other customers accounted for more than 10% of consolidated revenue.

## **Competition**

### ***Local telephone service***

Our local telephone services operations may be subject to any of several types of competition:

facilities-based competition from providers with their own local service network,

resale competition from resale interconnection, or providers who purchase local service from us at wholesale rates and resell these services to their customers,

competition from UNE interconnection, that is, providers who lease UNEs from us, and

alternatives to local service networks, including wireless, IP, satellite and cable telephony.

In September 1997, GCI and AT&T Alascom, the two largest long distance carriers in Alaska, began providing competitive local telephone services in Anchorage. GCI competes principally through UNE interconnection with our local telephone subsidiary's, ACSA, facilities, and increasingly over its own facilities while AT&T Alascom competes primarily by reselling ACSA's services. Competition is based upon price and pricing plans, types of services offered, customer service, billing services and quality and reliability of service. GCI has focused principally on advertising discount plans for bundled services. AT&T Alascom's strategy has been to resell ACSA's service as part of a package of local and long distance services. As a result, ACSA now has only approximately 48% competitive market penetration as of September 30, 2004. We





expect GCI and AT&T Alascom to continue to compete with us for local telephone business in many of our markets.

As of September 30, 2004, we estimate that we now have approximately 71% market share in Fairbanks. GCI has competed in Fairbanks primarily through reselling services and through UNE interconnection. Similar trends are being experienced by ACSAK in our Juneau market where, as of September 30, 2004, we have approximately 71% market share.

We expect increasing competition from providers of various services that bypass our network. Long distance companies may construct, modify or lease facilities to transmit traffic directly from a user to a long distance company. Cable television companies are able to modify their networks to partially or completely bypass our local network. GCI commenced deployment of cable telephony in 2004 and announced plans to migrate its customers served using our UNEs off of our network and onto its own cable system over the next three years. Such a migration would result in a significant reduction of revenue for us, as GCI would no longer be leasing our facilities to serve those customers, which could have a material impact on our results of operations.

In addition, while wireless telephone services have historically complemented traditional LEC services, we anticipate that existing and emerging wireless technologies may increasingly compete with LEC services. For example, we are deploying CDMA 1xRTT and EV-DO wireless services in certain of our markets and our principal wireless competitor, Dobson is deploying GSM wireless services. Both CDMA and GSM technologies may serve as a satisfactory wireless alternative to traditional LEC wireline services. At this time it is not possible to predict the impact of the growth in wireless networks on our share of the local market. Technological developments in wireless telephone features, digital microwave and other wireless technologies are expected to further permit the development of alternatives to traditional wireline services. The FCC's requirement that ILECs offer wireline-to-wireless number portability may also increase the competition our ILECs face from wireless carriers.

#### ***Wireless services***

The wireless telecommunications industry is experiencing significant technological change, as evidenced by the increasing pace of improvements in the capacity and quality of digital technology, shorter cycles for new products and enhancements, and changes in consumer preferences and expectations. We believe that the demand for wireless telecommunications services is likely to increase significantly as equipment costs and service rates continue to decline and equipment becomes more convenient and functional. Competition is based on price, quality, network coverage, packaging features and brand reputation. There are six PCS licensees in each of our wireless service areas. We hold B side cellular licenses for Alaska's major communities and PCS licenses covering the entire state, including Anchorage, Fairbanks, Juneau and the Kenai Peninsula. We currently compete with at least one other wireless provider in each of our wireless service areas, including Dobson and Alaska DigiTel. In addition, Dobson, our main wireless competitor, also provides some coverage on its own network outside Alaska. We believe that the unique and vast terrain and the high cost of a PCS system build out make additional competitive entrance into markets outside of Anchorage uneconomical at this time.

As the market for simple wireless voice services approaches maturity, providers are experiencing downward pressure on price. We are positioning ourselves to offset this impact by bringing new higher margin services to market, by developing products for targeted market segments and leveraging our advantage in market share and geographical coverage to attract new customers and increase monthly revenues from existing customers. We continuously evaluate new service offerings in order to differentiate us from our competitors, produce additional

revenues and increase margins. The FCC's requirement that wireless carriers implement number portability may decrease customer loyalty and increase wireless competition.

#### ***Internet services***

The market for Internet access services is highly competitive in most markets in the state. There are few significant barriers to entry, and we expect that competition will intensify in the future. We primarily compete with GCI in the market for Internet access services.

In addition to GCI, we currently compete with a number of established online services companies, interexchange carriers and cable television operators. Competition is particularly intense for broadband services. For example, the number of cable modems deployed by GCI is approximately three times the number of DSL modems deployed by us. The expected addition of wireless broadband to the mix of options available to consumers may reduce the demand for DSL. We believe that our ability to compete successfully will depend upon a number of factors, including the reliability and security of our network infrastructure, the ease of access to the Internet, the availability of broadband ISP access and the pricing policies of our competitors. We continue to deploy our DSL services in Anchorage, Fairbanks, Juneau, Kenai/Soldotna, Homer and Sitka, Alaska for both consumer and business applications.

#### ***Long distance services***

The long distance telecommunications market is highly competitive. We believe we currently have approximately 5% of total interexchange revenues in Alaska and our previous attempts to increase our market share have not proved successful. Competition in the long distance business is based primarily on price, although service bundling, branding, customer service, billing services and quality play a role in customer's choices to some extent. We currently offer long distance service to customers located primarily in the more populous communities within our service territory. AT&T Alascom and GCI are currently the two major competing long distance providers in Alaska. We also face competition from wireless service providers for long distance customers. In addition, new carriers offering VoIP services may lead to a reduction in traditional long distance telephone service customers and revenues. Another area of competition comes from the use of prepaid calling cards which reduces the traditional reliance on long distance telephone service, while also depriving us of revenues obtained by the use of our interexchange facilities. Expanded use of prepaid calling cards may have an adverse effect on the demand for our long distance services. We provide traditional "1+" direct distance dialing, toll-free services, calling cards and private line services for data and voice applications. We have also introduced flat-fee long distance programs. These programs allow customers to purchase interstate minutes of use in blocks of time for a single monthly fee. We expect to continue offering innovative products of this nature in the future.

#### ***Video entertainment***

ACS is a reseller of DISH Network. DISH Network's primary competitor is GCI, the cable provider in most of Alaska with a dominant position in the video entertainment sector. The current agreement with the provider became effective August 2003 and will either be renegotiated or terminate December 2005.

#### ***Employees***

As of September 30, 2004, we employed a total of 1,054 regular full-time employees, 842 of whom are represented by the International Brotherhood of Electrical Workers, Local 1547 ("IBEW"). Management considers employee relations to be good with both the represented and non-represented workforce. On November 2, 1999, the IBEW membership for our company

ratified the terms of a master collective bargaining agreement that governs the terms and conditions of employment for all IBEW represented employees working for us in the State of Alaska. The master agreement embraces a labor-management relationship that is founded on trust, cooperation and shared goals. The November 1999 agreement, which expires December 31, 2006, provides for wage increases up to 4% in specified years based on the annual increases in the consumer price index for Anchorage as reported by the U.S. Department of Labor CPI-U. The last wage increase under the agreement was implemented in January 2004 and the next scheduled wage increase is scheduled for January 2005. The master agreement also limits the increases in our health and welfare contributions for represented employees to 4% annually.

Non-represented employees qualify for wage increases based on individual and company performance, and key employees are also eligible for performance-based incentives. We provide a total benefits package, including health, welfare, and retirement components, that is competitive in our market.

### **Properties**

At September 30, 2004, our telecommunications network includes over 640 sheath miles of fiber optic cable, over 188 switching facilities and a statewide wireless network. In addition, we own fiber capacity for high-speed links within Alaska and for termination of traffic in the continental United States. We plan to continue enhancing our network to meet customer demand for increased bandwidth and advanced services. See "Business Network facilities." We own approximately 334,000 square feet of facilities in Anchorage, Alaska, which includes our corporate headquarters. We also own or lease facilities in our service areas across Alaska. We believe this space is sufficient for us to conduct our business.

Substantially all of our assets (including those of our subsidiaries) are pledged as collateral for our senior obligations and will be pledged as collateral for our new revolving credit facility. See "Description of the new senior credit facility" for further discussion.

### ***Local telephone***

Our primary local telephone properties consist of 188 switching facilities. We own most of our administrative and maintenance facilities, customer service center, central office and remote switching platforms and transport and distribution network facilities. Our local telephone assets are located in Alaska. Our transport and distribution network facilities include a fiber optic backbone and copper wire distribution facilities that connect customers to remote switch locations or to the central office and to points of presence or interconnection with interexchange carriers. These facilities are located on land pursuant to permits, easements, right of ways or other agreements.

### ***Wireless***

We have four digital switching centers, 185 cell sites and three repeaters covering substantially all major population centers and highway corridors in Alaska plus one analog switch and cell site covering Barrow, Alaska. We lease the land or tower space on which 168 sites are located, and own the remaining 17 sites.

### ***Internet***

We own or lease point of presence facilities that permit our dial-up and DSL customers to access the Internet in more than 30 communities serving the majority of Alaska's populated

areas. These communities are linked over both owned and leased facilities to the Internet at Seattle, Washington.

***Interexchange***

We are a facilities based interexchange carrier. We have invested in fiber optic capacity through an indefeasible right of use that provides bandwidth between our Anchorage, Fairbanks, and Juneau locations and Seattle, Washington. We also lease transport facilities and have arrangements with other interexchange carriers to terminate traffic in the lower 48 states.

***Legal proceedings***

We are involved in the various legal proceedings involving regulatory matters described under "Regulation."

On January 7, 2005, GCI filed suit in federal district court seeking reversal of the RCA's 2004 orders arbitrating certain elements of, and approving, the interconnection agreement between GCI and ACSA. GCI claims that the pricing methodology the RCA used to determine the rates we charge GCI under the interconnection agreement did not comply with the FCC's pricing methodology regulations. The court may decide to retroactively or prospectively reduce the rates we charge GCI under this agreement, which would reduce our revenue. We intend to vigorously defend the RCA's methodologies as sound and fully in compliance with federal law. We cannot predict the duration or outcome of this litigation. See "Regulation State regulation Interconnection."

A class action lawsuit was filed against us on May 11, 2001. The litigation alleges various contract and statutory claims concerning our decision to terminate our Infinite Minutes long distance plan. The parties have agreed to settle the matter for a combination of: (1) 12 monthly coupons of \$10 for each member of the class, to be applied against our consumer services; (2) 100 free interstate long distance minutes per month for 12 months; and (3) \$950,000 in cash for plaintiff's legal fees. The settlement has been submitted to the court for approval. On October 27, 2004, the court granted preliminary approval of the settlement and final approval by the court is expected in February or March 2005.

We are litigating a dispute with Dobson Communications concerning the ownership of a tower.

We are also involved in these various other claims, legal actions and regulatory proceedings arising in the ordinary course of business. We cannot predict with certainty when or how these matters will be resolved. In the opinion of management, the ultimate disposition of these matters is unlikely to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

## Regulation

The following summary of the regulatory environment in which our business operates does not describe all present and proposed federal, state and local legislation and regulations affecting the telecommunications industry in Alaska. Some legislation and regulations are currently the subject of judicial review, legislative hearings and administrative proposals which could change the manner in which this industry operates. We cannot predict the outcome of any of these matters or their potential impact on our business. Regulation in the telecommunications industry is subject to rapid change, and any such change may have an adverse effect on us in the future. See "Risk factors Risks related to our business."

## Overview

The telecommunications services we provide and from which we derive a large majority of our revenue are subject to extensive federal, state and local regulation. Our local exchange carrier, or LEC, subsidiaries are regulated common carriers and have the right to set maximum rates at a level that allows us to recover the reasonable costs incurred in the provision of regulated telecommunications services and to earn a reasonable rate of return on the investment required to provide these services. Because they face competition, however, most of our LEC subsidiaries may not be able to realize their allowed rates of return.

In conjunction with the recovery of costs and establishment of rates for regulated services, our LEC subsidiaries must first determine their aggregate costs and then allocate those costs between regulated and nonregulated services, then between state and federal jurisdictions, and finally among their various interstate and intrastate services. This process is referred to as "separations" and is governed primarily by the FCC's rules and regulations. The FCC is considering whether to modify or eliminate the current separations process. This decision could indirectly increase or reduce earnings of carriers subject to separations rules by reallocating costs between the federal and state jurisdictions. Maximum rates for regulated services and the amount of high-cost support are set by the FCC with respect to interstate services and by the RCA with respect to intrastate services.

At the federal level, the FCC generally exercises jurisdiction over services of telecommunications common carriers, such as us, that provide, originate or terminate interstate or international communications and related facilities. The FCC does not directly regulate enhanced services and has preempted inconsistent state regulation of enhanced services. Our wireless services use FCC radio-frequency licenses and are subject to various FCC regulations, including E911 and number portability requirements. The RCA generally exercises jurisdiction over services used to provide, originate or terminate communications between points in Alaska as well as related facilities. In addition, pursuant to the federal Telecommunications Act of 1996, or Telecommunications Act, federal and state regulators share responsibility for implementing and enforcing certain policies intended to foster competition in local telecommunications services. In particular, state regulatory agencies have substantial oversight over the provision by incumbent local exchange carriers, or ILECs, of interconnection and non-discriminatory network access to competitive local exchange carriers, or CLECs. Local governments often regulate the public rights-of-way necessary to install and operate networks, may require communications services providers to obtain licenses or franchises regulating their use of public rights-of-way, and may require carriers to obtain construction permits and abide by building codes.

### **Federal regulation**

We must comply with the Communications Act of 1934, as amended, or Communications Act, and regulations promulgated thereunder which require, among other things, that communications carriers offer interstate services at just, reasonable and nondiscriminatory rates and terms. The amendments to the Communications Act contained in the Telecommunications Act significantly changed and are expected to continue to change the telecommunications industry. Among other changes, the Telecommunications Act promotes competition in local telecommunications services by removing barriers to entry and through interconnection and network access requirements, and makes universal service support explicit and portable. We must obtain FCC approval before we transfer control of any of our common carrier subsidiaries or our radio frequency licenses or authorizations, make such an acquisition or discontinue an interstate service.

#### ***Interconnection with local telephone companies and access to other facilities***

In order to ensure access to local facilities and services at reasonable rates, the Telecommunications Act imposes a number of access and interconnection requirements on LECs. Generally, a LEC must:

- not prohibit or unreasonably restrict the resale of its services;
- provide for telephone number portability, so customers may keep the same telephone number if they switch service providers;
- ensure that customers are able to route their calls to telecommunications service providers without having to dial additional digits;
- provide access to their poles, ducts, conduits and rights-of-way on a reasonable, non-discriminatory basis; and
- when a call originates on its network, compensate other telephone companies for terminating or transporting the call.

Most ILECs have the following additional obligations under the Telecommunications Act:

- negotiate in good faith with any carrier requesting interconnection;
- provide interconnection for the transmission and routing of telecommunications at any technically feasible point in its network on just, reasonable and nondiscriminatory rates, terms and conditions;
- provide access to unbundled network elements, or UNEs, such as local loops, switches and trunks, or combinations of UNEs at nondiscriminatory, cost-based rates;
- offer retail local telephone services to resellers at discounted wholesale rates;
- provide notice of changes in information needed for another carrier to transmit and route services using its facilities; and
- provide physical collocation, which allows a CLEC to install and maintain its network termination equipment in an ILEC's central office, or to obtain functionally equivalent forms of interconnection.

Because our ILEC subsidiaries other than ACSA qualify as rural LECs, or RLECs, under the Telecommunications Act, a statutory exemption from the interconnection requirements for



those carriers applies until we receive a *bona fide* request for interconnection and the RCA lifts the exemption. The RCA must continue an exemption until it determines that interconnection is technically feasible, not unduly economically burdensome and consistent with universal service. Without such exemption, our RLECs may face more competition, declining revenues and higher costs. Even after lifting the exemption for a RLEC, the RCA may suspend or modify an interconnection requirement if it determines that such action is in the public interest and necessary to avoid a significant adverse economic impact on users, an undue economic burden or a technically infeasible requirement.

On June 30, 1999, the APUC issued an order terminating the rural exemptions of ACSAK and ACSF. On April 18, 2004, after years of litigation concerning this order, ACSF and ACSAK entered into a settlement agreement with GCI in which ACSF and ACSAK waive their claim to the rural exemption in exchange for GCI's agreement to increase rates for UNE loops.

Since the RCA terminated our rural exemptions, our discretionary capital expenditures have decreased in Fairbanks and Juneau in light of the UNE-based competition. There are new subdivisions and buildings for which we have not built transmission plant and we may need to increase our capital expenditures and operating expenses in some areas in order to meet our universal service and service quality obligations under state regulation. The UNE rates set by the RCA have been set at below our cost of capital in Anchorage, Fairbanks and Juneau and we may face similar excessively low UNE rates set by the RCA if we lose our other rural exemptions. The April 18, 2004 settlement agreement noted above allows GCI to continue to provide UNE-based competition and, despite some increases in local loop rates, our operating results could be adversely affected.

To implement the interconnection requirements of the Telecommunications Act, the FCC adopted rules requiring, among other provisions, that ILECs price UNEs based on forward-looking economic costs using the total element long-run incremental cost methodology, and that ILECs combine UNEs for competitors when they are unable to do so themselves.

In its Triennial Review order released in August 2003, the FCC eliminated or eased a number of its unbundling requirements. In March 2004, the U.S. Court of Appeals for the D.C. Circuit vacated and remanded part of the FCC's Triennial Review order. The court upheld the FCC's termination of unbundling requirements for new fiber loops, packet switches, line sharing and high-capacity transport services. The Appeals Court remanded the matter back to the FCC for further proceedings consistent with its order. On August 20, 2004, the FCC issued interim rules which required ILECs to continue to their UNE offerings temporarily. On December 15, 2004, the FCC adopted new rules for unbundling which, according to the FCC's press release, reduce ILECs' obligations to lease interoffice transport and high-capacity loops, and eliminate the requirement to lease mass market local circuit switching, including the UNE platform, or UNE-P. The revised rules allow a transition period during which the FCC has mandated specified price increases for different UNEs. The FCC has not published the new rules and several parties are expected to challenge those rules in court. Final details of the new rules will not be known until a written order is issued and any subsequent reconsideration or appeal is completed.

In addition, the FCC is reexamining its pricing standard for UNEs and may reconsider other aspects of its rules. The FCC is seeking comment on amending its rules to ensure that state commissions do not set UNE prices in a manner that understates ILECs' costs. The Triennial Review order clarified that, in setting UNE prices, states should adjust their assumptions about depreciation and cost-of-capital to reflect a competitive marketplace, and the FCC suggested that states consider whether accelerated rather than straight-line depreciation more accurately reflects the competitive marketplace. Furthermore, Congress may consider legislation that may



modify some aspects of these rules. We cannot predict the outcome of any of these proceedings or of any action taken by the RCA pursuant to the new rules.

***Interstate access charges***

The FCC regulates the prices that ILECs charge for the use of their local telephone facilities in originating or terminating interstate transmissions. The FCC structured these prices, or access charges, as a combination of flat monthly charges paid by the end-users, or subscriber line charges, and usage sensitive charges paid by long distance carriers.

Our ILECs' interstate access charges are developed by a cost-of-service method to earn an authorized maximum rate of return. The National Exchange Carrier Association, or NECA, develops averaged access rates for participating ILECs based on the costs of these carriers. All our ILECs participate in NECA's tariff for non-traffic sensitive costs, which are primarily loop costs. While ACSA files its own traffic sensitive access tariff, which covers primarily switching costs, our other ILECs participate in NECA's traffic sensitive access tariff. Participants in a NECA tariff charge averaged access rates, pool their revenues, and distribute the revenues on the basis of each individual carrier's costs. The NECA tariffs reduce the cost burden on individual ILECs of filing tariffs and also spread some of the risks of providing interstate access services. None of our ILECs has chosen the FCC's price cap method for its interstate access charges.

In 2001, the FCC adopted an order implementing certain proposals of the Multi-Association Group, or MAG, to reform the access charge system for rural ILECs. This order governs the access charges that our ILECs can collect from long distance carriers. Among other things, the MAG plan reduces usage sensitive access charges on long distance carriers and shifts a portion of cost recovery to subscriber line charges. As a result, the aggregate amount of access charges paid by long distance carriers to ILECs has decreased and may continue to decrease. In adopting the MAG plan, the FCC determined that rate-of-return carriers, such as our ILECs, continue to be permitted to set rates based on the authorized rate of return of 11.25%. Additionally, the FCC initiated a rulemaking proceeding to investigate the MAG's proposed incentive regulation plan and other means of encouraging rate-of-return carriers to increase their efficiency and competitiveness. The MAG plan expires in 2006 and will need to be renewed or replaced at such time. We cannot predict what changes, if any, the FCC may eventually adopt.

Proposals currently being considered by the FCC and debated within the industry may result in the elimination of interstate and intrastate access charges paid by long distance carriers, and the requirement that carriers such as ACSA, ACSF, ACSAK and ACSN recover those interstate and intrastate costs from a combination of end-user charges and universal service support. The FCC has indicated it expects to take some action to reform intercarrier compensation, including access charges, in 2005. We cannot predict what or when, the FCC may adopt any changes.

***Federal Universal Service Support***

The Communications Act requires the FCC to establish a universal service program to ensure that affordable, quality telecommunications services are available to all Americans. The program at the federal level has several components, including one that pays support to LECs servicing areas for which the costs of providing basic telephone service are higher than the national average. The Telecommunications Act requires the FCC to make universal service support explicit, expand the types of communications carriers that are required to pay universal support, and allow CLECs to be eligible for universal service support, including where they serve customers formerly served by ILECs.

In May 2001, the FCC adopted a proposal from the Rural Task Force to reform universal service support for rural areas. As adopted, for an interim five-year period, until no later than July 1, 2006, eligible rural carriers will continue to receive support based on a modified embedded cost mechanism. The FCC has indicated that, for the period thereafter, it will develop a comprehensive plan for high-cost support mechanisms for rural and non-rural carriers which may rely on forward-looking costs. On June 28, 2004, the FCC issued an order asking the Federal-State Joint Board on Universal Service to review the rules governing federal universal service support mechanisms for rural carriers. The FCC requested recommendations on whether USF payments should be calculated on the basis of a rural carrier's actual embedded costs or forward-looking economic cost estimates, whether to modify the definition of rural telephone company, and other issues. We are unable to predict whether and to what extent we would be eligible to receive any federal high-cost support under such a plan.

Universal service funds are only available to carriers that are designated as eligible telecommunications carriers, or ETCs, by a state regulatory commission. CLECs and other providers that have been granted ETC status are eligible to receive the same amount of universal service support per customer as the ILEC serving the same area. Under current FCC regulations, the total amount of federal universal service funds available to all ETCs is subject to a cap. In any given year, the cap may or may not be reached. In any year where the cap is reached, the per access line rate at which ILECs can recover Universal Service Fund payments may decrease. In each of the last few years, the cap has effectively decreased USF payments. Moreover, some disbursements to schools and libraries from the universal service fund were suspended to comply with the Anti-Deficiency Act. Some analysts have indicated disbursements under the USF HC could also be suspended to comply with the Anti-Deficiency Act. While Congress has temporarily suspended the application of the Anti-Deficiency Act to the USF, we cannot predict the impacts on us, including on our receipts from and contributions to the universal service fund, of any actions taken to definitively address this issue.

On February 27, 2004, a Federal-State Joint Board recommended certain reforms to the FCC, such as limiting support to just one line per customer, raising the minimum requirements for receiving support, and limiting per line support in areas subject to competition, that could significantly reduce USF support to us. In addition, Congress has indicated it might step in to remedy some of the perceived problems of USF. For example, one of the perceived problems is that the size of the fund is growing too much and demanding too much of the interexchange carriers and others that pay into the USF. The FCC is reviewing many issues related to USF payments following the recommendations from a Federal-State Joint Board on Universal Service, including the level of support for CLECs and the effects of payments to CLECs on support provided to ILECs. The FCC may act on some of these USF issues by the end of February 2005, and some ILECs believe that revised rules may reduce their support to the extent that CLECs in their service areas receive USF support for UNE-loop based service.

The RCA granted GCI's request that it be designated an ETC in Anchorage, Fairbanks, Juneau, and Fort Wainwright, all of which are currently served by our subsidiaries. The addition of a second ETC in our service areas could increase the competition we face by providing additional revenues to our competitors, and thereby decrease our revenues. There is a trend toward granting ETC status to wireless carriers. On August 28, 2003, the RCA granted ETC status to Alaska DigiTel, LLC, or DigiTel, for wireless services in the Matanuska Telephone Association ("MTA") service area. In July 2004, ACSW was granted ETC status in this service area and Fairbanks, and MTA Wireless was granted ETC status for service in the MTA area on December 8, 2004. In addition, ACSW also was granted ETC status as a competitive provider for local services in all but one (the Sitka study area) remaining ACS LEC study areas on November 17, 2004. Dobson is seeking ETC status and asked the RCA to redefine the study

areas of our and other Alaskan LECs on a wire center basis. If this petition is granted, Dobson might be allowed to receive USF support for serving portions but not all of our service areas. We cannot predict whether these pending petitions will be granted or when a decision will be rendered. The granting of Dobson's request to redefine study areas could reduce our revenues from USF, in addition to increasing competition.

Our operating subsidiary companies are required to contribute to the federal USF a percentage of their revenue earned from interstate and international services. Although our rural ILECs receive payment from the federal USF, we cannot be certain of how, in the future, our contributions to the fund will compare to the support they receive from the fund. The FCC has proposed making changes to its USF contribution methodology, and we cannot predict the outcome of that proceeding or any legislation which may change the USF.

#### *Interstate long distance services*

The FCC does not regulate the rates, terms or facilities of our interstate long distance services. However, we must comply with the general requirement that our charges and terms be just, reasonable and nondiscriminatory. Also, we must comply with FCC rules regarding unauthorized switching of a customer's long distance service provider, or slamming; the FCC has recently levied substantial fines on some carriers for slamming. In addition, ACSLD must post the rates, terms and conditions of its service on its Internet web site and engage in other public disclosure activities.

The FCC required that ILECs that provide interstate long distance services originating from their local exchange service territories must have long distance affiliates which maintain separate books of account and acquire any services from their affiliated ILECs at tariffed rates, terms and conditions.

#### *Wireless services*

The FCC regulates the licensing, construction, operation, acquisition and sale of personal communications services and cellular systems in the United States. All cellular and personal communications services licenses have a 10-year term, at the end of which they must be renewed. Licenses may be revoked for cause, and license renewal applications may be denied if the FCC determines that renewal would not serve the public interest. In addition, all personal communications services licensees must satisfy certain coverage requirements. Licensees that fail to meet the coverage requirements may be subject to forfeiture of the license.

Federal law preempts state and local regulation of the entry of, or the rates charged by, any provider of commercial mobile radio services, or CMRS, which includes personal communications services and cellular services. The FCC does not regulate such rates. The FCC imposes a variety of regulatory requirements on CMRS operators. For example, CMRS operators must be able to transmit 911 calls from any qualified handset without credit check or validation, are required to provide the location of the 911 caller within an increasingly narrow geographic tolerance over time, and as of December 31, 2003, are required to provide 911 service for individuals with speech and hearing disabilities, or TTY service. ACSW has petitioned the FCC for a limited waiver of the 911 implementation deadlines and for forbearance from the accuracy requirements for a limited period; we cannot predict when or how the petitions will be decided.

Local number portability allows a customer to retain his or her telephone number when changing telecommunications carriers within the same local market. ACSW implemented number portability as of May 24, 2004 in most of our markets, however, we may not be able to comply with this requirement in some of our smaller operating areas. Our failure to comply

with the local number portability requirements could result in fines, other penalties or enforcement actions against us.

The FCC also requires that if a LEC customer wants to retain a telephone number while changing to a CMRS service provider (such as ACSW), the LEC must have the capability to allow this wireline-to-wireless number portability by May 24, 2004 or within six months of a bona fide request, where the requesting CMRS carrier's coverage area overlaps the geographic location of the LEC rate center to which the number is assigned (unless the LEC can provide specific evidence demonstrating that doing so is not technically feasible). These number portability rules are expected to increase the level of competition among CMRS service providers, but also to increase the ability of CMRS providers to win customers from LECs. This rule has had little impact on our LECs, but we cannot predict the net impact of these new rules on us over the long-term.

#### ***Internet services***

We provide Internet access services as an Internet service provider, or ISP. The FCC has classified such services as information services, so they are not subject to various regulatory obligations that are imposed on common carriers, such as paying access charges or contributing to USF. Also, the FCC generally preempts state and local regulation of information services.

In March 2002, the FCC held that high-speed Internet access service delivered using cable television facilities constitutes an "information service" (which is not subject to common carrier regulations). Although the Company's provision of high-speed Internet services over its telecommunications network is currently regulated as a telecommunications service, the FCC is considering whether to narrow the scope of this regulation to "non-dominant" status or reclassify such services as information services. The Company also offers a retail Internet service that is an information service under the FCC's current policies. The FCC's classification of cable modem services has been remanded by the United States Court of Appeals for the Ninth Circuit, which reiterated an earlier decision finding that cable modem services constituted both a "telecommunications service" and an "information service." The United States Supreme Court has accepted the FCC's appeal and a decision is expected this summer. The FCC is also currently giving further consideration to its regulation of high-speed Internet access services offered over cable facilities versus telecommunications facilities. The FCC may decrease regulation on the Company's broadband services or possibly subject cable modem services to certain common carrier responsibilities. If the FCC implements such a requirement, the Company may be able to supplement its own high-speed Internet access offerings by obtaining access to GCI's high-speed Internet access cable lines for its own Internet service provider.

In February 2004, the FCC determined that particular entirely Internet-based voice over Internet Protocol, or VoIP, service is an information service and exempt from such regulatory obligations. Also in February 2004, the FCC launched a comprehensive rulemaking to determine the appropriate types of regulation, including such matters as intercarrier compensation and contributions to USF, to which ISPs offering or enabling different types of services, including VoIP, should be subject. In November 2004, the FCC decided that some VoIP services are exempt from certain state regulations. We cannot predict the outcome of these proceedings or the effect of FCC decisions in this area on our business.

#### ***Other federal regulations***

We are subject to various other federal rules and statutes, including with regard to the use of customer proprietary network information in marketing services, and implementing capabilities to be used by law enforcement officials in executing court authorized electronic surveillance. Other FCC initiatives that may impact our regulated subsidiaries include access to poles, ducts,

conduits and rights-of-way, Truth-in-Billing requirements, EEO reporting, and anti-slamming rules. These requirements may impose costs on us and limit our business opportunities.

### **State regulation**

Telecommunication companies are required to obtain certificates of public convenience and necessity from the RCA prior to operating as a public utility in Alaska. The RCA must also approve transfers of such certificates. The RCA regulates rates and terms for local, intrastate access and intrastate long distance services. Also, pursuant to the Telecommunications Act and the FCC's rules, the RCA decides various aspects of local network interconnection offerings and agreements. In addition, the RCA supervises the administration of the Alaska Universal Service Fund, or AUSF, and decides on ETC status for purposes of the federal USF.

The direction of state regulation under the RCA remains unclear. The RCA was formed in 1999 and is subject to periodic reauthorization. The RCA's ability to implement improved regulatory policies and practices was called into question by the Alaska legislature during the RCA's most recent reauthorization proceedings in 2003. While the RCA ultimately received reauthorization through 2007, the legislature did provide guidance on certain telecommunications policies, and it continues to scrutinize the regulatory process. Given the large number of proceedings currently before the RCA, including those addressing various aspects of local exchange competition, market structure and issues including whether ACSA, ACSF and ACSAK continue to retain dominant status for regulatory purposes, the continuing debate over regulatory policy and the recent seating of a majority of new commissioners creates uncertainty regarding the timing and direction of state regulatory policies. The RCA may also open rulemakings on issues in 2005, including USF eligibility rules, intercarrier compensation, service quality, bundling, depreciation and/or carrier of last resort obligations, which could impact our business.

### **Interconnection**

The Telecommunications Act specifies that resale and UNE rates are to be negotiated among the parties subject to approval by the state regulatory commission, or, if the parties fail to reach an agreement, arbitrated by the state regulatory commission.

In January 1997, ACSA's predecessor, ATU, entered into an interconnection agreement with GCI, which provided for resale and UNE interconnection, and with AT&T Alascom, which provided for resale. Neither interconnection agreement contained a defined term or a termination date. Near the end of 1999, we notified GCI of our view that the interconnection agreement pertaining to ACSA had reached the end of a reasonable period of availability. In January 2000, we filed a motion with the RCA to reopen the original GCI arbitration proceedings involving ACSA for the purpose of establishing an appropriate forward looking cost model and re-pricing various interconnection services and UNEs. On December 7, 2004, the RCA approved a new interconnection agreement between ACS and GCI, establishing new rates, terms and conditions effective November 26, 2004. On January 7, 2005, GCI filed suit in federal court seeking reversal of the RCA's 2004 orders arbitrating certain elements of, and approving, the interconnection agreement between GCI and ACSA. GCI claims that the pricing methodology the RCA used to determine the rates we charge GCI under the interconnection agreement did not comply with the FCC's pricing methodology regulations. The court may decide to retroactively or prospectively reduce the rates we charge GCI under this agreement, which would reduce our revenue. We intend to vigorously defend the RCA's methodologies as sound and fully in compliance with federal law. We cannot predict the duration or outcome of this litigation.

Subsequent to the RCA terminating the rural exemptions for ACSF's, ACSAK's and ACSN's Glacier State study area markets, we entered into unsuccessful negotiations for interconnection

agreements with GCI. Interconnection issues, including the pricing for UNEs, were subject to a RCA arbitration during 2000. On September 5, 2000, the RCA issued orders largely ratifying the findings of the arbitrator in these interconnection arbitration proceedings. The agreements were scheduled to expire on October 5, 2003. Pursuant to the previously noted April 18, 2004 settlement agreement between ACS and GCI, ACSF and ACSAK have agreed to extend the existing interconnection agreements through 2007, with increased local loop rates effective January 1, 2005. On December 12, 2003, the Alaska Supreme Court reinstated ACSN's rural exemption for its Glacier State study area. Thus, ACSN currently retains its rural exemption, but it is subject to petitions for termination at any time.

Since 1999, we have also entered into interconnection agreements with Alaska Fiber Star, LLC, TelAlaska Long Distance, Inc., Level 3, and other entities.

#### ***Competitive local exchange regulations***

The APUC adopted regulations to govern competition in the local exchange marketplace. The transitional regulations provide for, among other things:

initial classification of all ILECs, including our rural properties and ACSA, as dominant carriers;

requirements that all carriers, both dominant and nondominant, offer all retail services for resale at wholesale rates (although the extent of the offerings depends on the facilities and general service offerings of the carriers);

dominant carrier pricing flexibility in competitive areas, under which carriers may reduce retail rates, offer new or repackaged services and implement special contracts for retail service upon 30 days' notice. Only rate increases affecting existing services are subject to full cost support showings for ILECs in areas with local competition; and

application of such regulations limited initially to the ACSA market, and in 2002, extended to the ACSF and ACSAK markets.

The RCA has been reviewing and considering changes to these regulations to address changes in market structure. ACSA, ACSAK and ACSF have been granted, on a trial basis only for retail tariff purposes, non-dominant status. While we have actively participated in this proceeding, we cannot predict whether the RCA will enact any significant changes to the current regulations.

#### ***End user local rates***

The rates charged by our ILECs to end-users for basic local service are generally subject to the RCA's regulation based on a cost-of-service method using an authorized rate of return. Local rates have historically been set at a level that will allow recovery of embedded costs for local service. Competition may prevent local rates from being sufficient to recover such costs for local service. Rate cases are typically infrequent, carrier-initiated and require the carrier to meet substantial burdens of proof.

In compliance with an order of the APUC, all our ILECs filed revenue requirement studies on July 1, 2001. On April 8, 2004, the RCA approved a settlement proposed by the parties for ACSF, ACSAK and ACSN. This settlement generally resulted in some lower rates for ACSF and ACSN and some higher rates for ACSAK. New retail rates for ACSA will remain at current levels.

#### ***Intrastate access rates***

ILECs not yet subject to local competition participate in a pool administered by the Alaska Exchange Carrier Association, or AECA, for intrastate access charges to long distance carriers.

The AECA pools their access costs and sets a statewide average price annually which participating ILECs charge to long distance carriers for originating or terminating calls. Access revenues are collected in a pool and then redistributed to the ILECs based on their actual costs.

The RCA requires an ILEC to file separate, individual company access charge tariffs when a competitor enters its service area. These tariffs are based on the ILEC's cost of service and are revised annually. Our only ILEC remaining in the AECA pool as of December 31, 2004 is ACSN, but it has a stand-alone rate. The RCA has approved draft regulations for public comment that propose to change the current annual update process to a biennial review.

The RCA recently adopted new regulations reducing the access fees local carriers can charge interchange carriers and a Network Access Fee on end-users to make up for the reduction in fees paid by interchange carriers. The RCA is also analyzing the effects of various FCC intercarrier compensation proposals on Alaskan consumers and telecommunications companies.

#### ***Alaska Universal Service Fund***

To remove subsidies which had been implicit in intrastate access pricing, the RCA established the Alaska Universal Service Fund, or AUSF. The AUSF serves as a complement to the federal USF, but must meet federal statutory criteria concerning consistency with federal rules and regulations. Currently, the AUSF supports a portion of certain higher cost carriers' switching costs, the costs of lifeline service (which supports rates of low income customers), and a portion of the cost of Public Interest Pay Telephones. Recent proposals have targeted the AUSF as a source of funding for cost shifts that are likely to occur as a result of intrastate access charge reform. The RCA has adopted regulations which limit high-cost switching support to local companies with access lines of 20,000 or less. This change has eliminated the switching support that our rural ILECs received. The resulting cost recovery shift is being addressed in the local service rate cases commenced in 2001. It is unclear the degree to which the AUSF might be used to absorb cost shifts that result if federal universal service support is scaled back in the future.

#### ***Other state regulations***

The RCA has adopted new rules governing provision of statewide directory assistance, or DA, that would alter the DA market structure, the manner of providing DA service in Alaska and carrier-to-carrier DA obligations. The new rules make the provision of DA more competitive and permit CLECs to provide DA service. ACSA may remain the provider of DA service in some areas, at least for some period of time, but other competitors such as GCI may enter the business.

In addition, the RCA recently adopted regulations allowing some bundling of local exchange and intrastate interexchange services. The RCA's rules, however, impose some restrictions and limitations on our ability to bundle our services.

#### **Environmental regulations and radio emissions**

Our operations are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner or operator of property and a generator of hazardous wastes, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe, however, that our operations are in substantial compliance with applicable environmental laws and regulations.

Our wireless operations are also subject to regulations and guidelines that impose a variety of operational requirements relating to radio frequency emissions. The potential connection between radio frequency emissions and negative health effects, including some forms of cancer, has been the subject of substantial study by the scientific community in recent years. To date, the results of these studies have been inconclusive. Although we have not been named in any lawsuits alleging damages from radio frequency emissions, it is possible we could be in the future, particularly if scientific studies conclusively determine that radio frequency emissions are harmful.

**Management**

The following table sets forth certain information about our current executive officers and directors.

Name	Age	Title
Liane Pelletier	46	Chairman, Chief Executive Officer, President and Director
David Wilson	37	Senior Vice President and Chief Financial Officer
Kenneth L. Sprain	60	Senior Vice President, Operations
Leonard A. Steinberg	51	Vice President, General Counsel, and Corporate Secretary
David C. Eisenberg	44	Senior Vice President, Corporate Strategy and Development
Sheldon Fisher	42	Senior Vice President, Sales and Product Marketing
Kevin P. Hemenway	44	Senior Vice President, Corporate Projects
W. Dexter Paine, III	44	Director
Saul A. Fox	51	Director
John M. Egan	57	Director
Patrick Pichette	42	Director
Byron I. Mallott	61	Director
Wray T. Thorn	33	Director
Brian Rogers	54	Director
Charles P. Sitkin	70	Director

**Liane Pelletier** has served as Director and as Chief Executive Officer and President since October 6, 2003 and Chairman since January 1, 2004. Prior to joining us, Ms. Pelletier served as Senior Vice President and Chief Integration Officer at Sprint Corporation from June 2003 through September 2003. In this position, she oversaw Sprint's transformation from a product-centric to a more customer-centric organization. For the three years prior to that appointment, Ms. Pelletier served as Sprint's Senior Vice President of Strategic Planning & Corporate Development. Her responsibilities during that period included driving corporate strategy, managing Sprint's broadband spectrum assets and developing and marketing integrated products. Over the course of her 17-year career at Sprint, Ms. Pelletier also served as a vice president in a wide variety of departments, including in corporate strategy, customer acquisition and retention and marketing positions to both business and consumer customers. Before joining Sprint, she worked as a consultant at Touche Ross and Temple, Barker, Sloane. Ms. Pelletier has an MBA from the Massachusetts Institute of Technology and a B.A. from Wellesley College.

**David Wilson** has served as Senior Vice President and Chief Financial Officer since March 1, 2004. Prior to joining us, Mr. Wilson was Chief Financial Officer of Triumph Communications, a subsidiary of Hughes Electronics from May 2003 through November 2003. Prior to this, Mr. Wilson was at DIRECTV Broadband (formerly Telocity Inc.) where he was appointed Chief Financial Officer in April 2001, after serving as Vice President of Finance and Chief Accounting Officer from February 2000. At Telocity, he helped lead the company through its initial public





offering and eventual sale to Hughes Electronics. Mr. Wilson also worked in public accounting at PricewaterhouseCoopers in both international and domestic offices from 1990 to 2000 where he most recently managed a portfolio of high profile publicly traded network and communications audit clients in San Jose, California. Mr. Wilson is a Chartered Accountant, and holds a Bachelor of Commerce from the University of Birmingham, U.K.

**Kenneth L. Sprain** serves as Senior Vice President, Operations. Mr. Sprain is responsible for operations in the local exchange, interexchange, and Internet business units. Mr. Sprain has over 35 years of telecommunications experience. Mr. Sprain joined us in 2003 after being a consultant with us for two years. Prior to this position, from 1997 to 2002, Mr. Sprain was the Vice President of Operations Planning and Vice President of the Midwest Region for CenturyTel, responsible for operations, assignments, and planning. Mr. Sprain started his telecommunications career as a technician, moving to supervisor and district manager positions for RCA Alaska Communications from 1968 to 1979. In 1979, Mr. Sprain became an Anchorage district manager for Alascom. Starting in 1983, Mr. Sprain worked for Pacific Telecom and then PTI as the Vice President for Eastern Washington then Montana Divisions and then Executive Vice President and General Manager for the Midwest. In these executive positions, Mr. Sprain was responsible for local exchange operations.

**Leonard A. Steinberg** serves as Vice President, General Counsel and Corporate Secretary, a position he has held since January 2001. Mr. Steinberg left private practice in June 2000 to join us as a Senior Attorney in the Corporate Legal Department. From 1998 to 2000, Mr. Steinberg used his expertise in regulatory and administrative matters to represent telecommunications and energy clients of Brena, Bell & Clarkson, P.C., an Anchorage, Alaska law firm. Prior to that, Mr. Steinberg was a partner in the firm of Hoise, Wes, Sacks & Brelsford with offices in Anchorage, Alaska and San Francisco, California. Mr. Steinberg practiced in the firm's Anchorage office from 1996 to 1998 and in the firm's San Francisco office from 1988 to 1996 where he primarily represented large clients in oil and gas royalty and tax disputes. Mr. Steinberg holds a Masters in Public Administration degree from Harvard University's Kennedy School of Government, a Masters of Business Administration degree from U.C. Berkeley's Haas School of Business and a J.D. from the University of California's Hastings College of Law.

**David C. Eisenberg** has served as Senior Vice President, Corporate Strategy and Development, since November 3, 2003. From 2000 until joining us, Mr. Eisenberg served as Vice President Corporate Strategy for Sprint Corporation where he was responsible for helping shape that corporation's strategic direction. From 1996 to 2000, Mr. Eisenberg was Sprint's Director of Strategic Policy Development. In this role, he directed analysis of Sprint and competitors strategic positions that emerged from changes to regulatory, political, and economic frameworks. In his 21-year career with Sprint and Centel, Mr. Eisenberg held numerous management positions within the Local Telecommunications Division and on Sprint's corporate staff. These included roles in sales and marketing, finance, and regulatory and strategic planning. Mr. Eisenberg earned his bachelor's degree in mathematics at Northwestern University and his master's degree in business at Keller Graduate School of Management.

**Sheldon Fisher** has served as Senior Vice President, Sales and Product Marketing since February 23, 2004. Prior to this appointment, Mr. Fisher served as Vice President, Wireless Broadband at Sprint Corporation where he was the general manager of Sprint's wireless broadband business since April 2002, with broad operational and product development responsibilities. Mr. Fisher started with Sprint Corporation in January 1999 as Senior Attorney Mergers and Acquisitions. In September 1999, he became the Senior Director Business Development. In September 2000, Mr. Fisher became Assistant Vice President, Architecture and

Technology responsible for Sprint's wireless broadband advanced technology group. In September 2001, Mr. Fisher became Assistant Vice President, Network Operations and Technology responsible for management of Sprint's wireless broadband network operations. Prior to joining Sprint, Mr. Fisher worked for Hughes Electronics from 1995 to 1999 and was an attorney for Latham & Watkins from 1990 to 1994. He has a J.D. from Yale Law School and a B.A. in economics from Brigham Young University.

**Kevin P. Hemenway** currently serves as Senior Vice President, Corporate Projects, a position he has held since March 2004. Prior to being appointed to his current position, Mr. Hemenway had served as Senior Vice President, Chief Financial Officer and Treasurer since November 2000. He joined us as Vice President and Treasurer in July 1999. Mr. Hemenway has over 14 years of experience in the telecommunications industry. Before joining us, Mr. Hemenway served as the Chief Financial Officer and Treasurer of Atlantic Tele-Network, Inc. based in the U.S. Virgin Islands. From January 1990 to October 1998, as an independent consultant, Mr. Hemenway performed financial, accounting, management and rate-making consulting services for the telecommunications industry, principally for Atlantic Tele-Network, Inc. and its subsidiaries. From 1986 through 1989, Mr. Hemenway was employed by Deloitte & Touche LLP as a CPA and manager, performing both audit and consulting services, and from 1983 to 1986, was employed by Grant Thornton as a CPA and senior staff accountant. Mr. Hemenway graduated from Creighton University in 1982 with a Bachelor of Science in Business Administration, majoring in accounting, and is a non-practicing CPA certificate holder registered in the State of Nebraska.

**W. Dexter Paine, III**, a Director since May 1999, was a co-founder of Fox Paine & Company, LLC and has served as its President since its inception in 1997. From 1994 until founding Fox Paine, Mr. Paine served as a senior partner of Kohlberg & Co. Prior to joining Kohlberg & Co., Mr. Paine served as a general partner at Robertson Stephens & Company. Mr. Paine has a B.A. in economics from Williams College. Since January 2000, Mr. Paine has served as the Chairman of the board of directors of WJ Communications, Inc. (Nasdaq WJCI) and since September 2003 he has served as a director of United National Group, Ltd. (Nasdaq UNGL).

**Saul A. Fox**, a Director since May 1999, has served as Chief Executive of Fox Paine & Company, LLC since he co-founded the firm in 1997. Prior to founding Fox Paine, Mr. Fox was general partner with Kohlberg, Kravis Roberts & Co. Prior to joining Kohlberg, Kravis Roberts & Co., Mr. Fox was an attorney specializing in tax, business law and mergers and acquisitions and participated significantly in law firm management at Latham & Watkins LLP, an international law firm headquartered in Los Angeles, California. Mr. Fox received a B.S. in Communications from Temple University in 1975 (summa cum laude) and a J.D. from the University of Pennsylvania School of Law in 1978 (cum laude). Mr. Fox has been a director of United National Group, Ltd. (Nasdaq UNGL) since September 2003 and is a member of the Board of Overseers, University of Pennsylvania Law School.

**John M. Egan**, a Director since November 2003, is the recently retired founder and chairman and chief executive officer of ARRIS Group (Nasdaq: ARRS). ARRIS is a global communications technology company specializing in the design and engineering of broadband local access networks and a leading developer and supplier of optical transmission, cable telephony and Internet access for cable systems operators. Mr. Egan joined ARRIS in 1973 and had been chairman of its board of directors since 1997. Mr. Egan was President of ARRIS from 1980 to 1997 and Chief Executive Officer of ARRIS and its predecessors from 1980 through 1999. On January 1, 2000, Mr. Egan stepped down from his role as Chief Executive Officer of ARRIS. He remained a full-time employee until his retirement in May 2002. Mr. Egan has served on the board of directors of the National Cable Television Association, or NCTA, for 20 years, and has been actively involved in the Walter Kaitz Foundation, an association seeking to help the cable

industry diversify its management workforce to include minorities, as well as the Society of Cable Television Engineers and Cable Labs, Inc. Mr. Egan currently serves on the advisory board of KB Partners, a Chicago based venture capital firm and on several boards in the technology start-up sector. Mr. Egan has a B.S. degree in economics from Boston College.

**Patrick Pichette**, a Director since January 2004, is currently Executive Vice-President at Bell Canada (BCE). Mr. Pichette joined BCE in January 2001 as Executive Vice-President, Planning and Performance Management before being appointed Chief Financial Officer in 2002. Prior to joining BCE, Mr. Pichette was a Partner at McKinsey & Company's Montreal office, from June 1996 to December 2000, where he was a lead member of McKinsey's North American Telecom Practice. Previously, Mr. Pichette was Vice-President and Chief Financial Officer of Call-Net Enterprises (1994-1996) and an Associate at McKinsey & Company in Toronto (1989-1994). Mr. Pichette earned a B.A. Business Administration from Université du Québec à Montréal (1985-1987) and a M.A. Philosophy Politics and Economics from Oxford University where he attended as a Rhodes Scholar (1987-1989). Mr. Pichette is also a board member of Manitoba Telecom Services (MTS) and non-governmental organizations including: Engineers Without Borders (EWB) and The Trudeau Foundation.

**Byron I. Mallott**, a Director since January 2000, is the President and Chief Executive Officer of the First Alaskans Institute. From 1995 until January 2000, Mr. Mallott served as the Executive Director of the Alaska Permanent Fund Corporation. Prior to joining the Alaska Permanent Fund Corporation, Mr. Mallott served in various capacities, including Director, Chairman and President and Chief Executive Officer of Sealaska Corporation over a period of nearly 20 years. Mr. Mallott has also served in various political appointments and elected positions and presently serves on the board of directors of Alaska Air Group, Inc. and of Native American Bank, N.A.

**Wray T. Thorn**, a Director since January 2000, was also a Director with Fox Paine & Company, LLC from January 2000 until July 2004. From 1996 until joining Fox Paine & Company, Mr. Thorn was a Principal and founding member of Dubilier & Company. Prior to joining Dubilier & Company, Mr. Thorn was an Associate in the Acquisition Finance Group of Chase Securities, Inc. Mr. Thorn is a graduate of Harvard University. Since January 2000, Mr. Thorn has served on the board of directors of WJ Communications, Inc. (Nasdaq WJCI).

**Brian Rogers**, a Director since February 2001, is currently Principal Consultant and Chief Financial Officer for Information Insights, Inc., a management and public policy consulting firm. Mr. Rogers served as Vice President of Finance for the University of Alaska Statewide System from 1988 to 1995. Mr. Rogers is a former state legislator, who served in the Alaska State House of Representatives from 1979 to 1982. Mr. Rogers chaired the State of Alaska Long-Range Planning Commission during 1995 and 1996, and currently, as a Regent of the University of Alaska, serves as the Board Chair and a member of all committees, including the University's Finance and Audit Committee. He holds a Master in Public Administration degree from the Kennedy School of Government, Harvard University.

**Charles P. Sitkin**, a director since February 2003, is currently an independent consultant assisting enterprises with strategic and organizational planning. Prior to 1994, Mr. Sitkin's experience includes being the National Director of Management Consulting at R.W. Beck & Associates, a Partner and Office Director of Information Technology at Ernst & Young and various leadership positions at the Boeing Company. Mr. Sitkin is a Certified Management Consultant and is a graduate of Lafayette College and the University of Washington.

**Principal stockholders**

The following table sets forth the number of shares of the Company's common stock beneficially owned as of January 11, 2005 and after giving effect to this offering of common stock by:

each person known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;

each director;

each executive officer; and

all of the directors and executive officers as a group.

Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act. Each person has sole voting and investment power with respect to the shares indicated except as otherwise stated in the footnotes to the table.

The percentage ownership of each stockholder is calculated based on 30,695,389 shares of our common stock outstanding as of January 11, 2005. The percentage ownership of each stockholder after this offering is calculated based on \_\_\_\_\_ shares of our common stock outstanding, which is derived from the shares of our common stock outstanding as of January 11, 2005 plus the \_\_\_\_\_ shares of our common stock we intend to issue in this offering. For purposes of this table, we have assumed the underwriters have not exercised their over-allotment option.

Name of beneficial owner	Number of shares of our common stock beneficially owned prior to the offering		Number of shares of our common stock beneficially owned after the offering	
	Number of shares	Percentage of shares outstanding	Number of shares	Percentage of shares outstanding
Fox Paine Capital, LLC (1)(2)(3)	19,498,879	63.5%	19,498,879	
Fox Paine & Company, LLC (1)(2)(3)	16,492,802	53.7%	16,492,802	
Fox Paine Capital Fund, L.P. (1)(2)(3)	16,251,658	52.9%	16,251,658	
Directors:				
Liane Pelletier(4)	402,958	1.3%	402,958	
Saul A. Fox(3)(5)	19,624,749	63.9%	19,624,749	
W. Dexter Paine, III(3)(5)	19,621,515	63.9%	19,621,515	
Wray T. Thorn	26,437	*	26,437	
Byron I. Mallott	14,731	*	14,731	
Brian Rogers(6)	19,506	*	19,506	
Charles P. Sitkin	3,433	*	3,433	
John M. Egan	3,220	*	3,220	
Patrick Pichette	3,296	*	3,296	
Non-Director Executive Officers:				
Kevin P. Hemenway(7)	161,986	*	161,986	
Kenneth L. Sprain(8)	42,350	*	42,350	
David C. Eisenberg	40,000	*	40,000	
Leonard A. Steinberg(9)	79,801	*	79,801	
Sheldon Fisher	40,000	*	40,000	
David Wilson	50,000	*	50,000	
All directors and executive officers	20,535,107	65.5%	20,535,107	

as a group (15 persons)

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\*

The percentage of shares beneficially owned does not exceed 1% of the class.

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- (1) Fox Paine Capital, LLC is General Partner of Fox Paine Capital Fund, L.P. and FPC Investors, L.P., and the Managing Member of ALEC Coinvestment Fund I, LLC, ALEC Coinvestment Fund II, LLC, ALEC Coinvestment Fund III, LLC, ALEC Coinvestment IV, LLC, and ALEC Coinvestment Fund V, LLC, and possesses voting and investment power over all shares held by each of these entities. Fox Paine & Company, LLC is the manager of Fox Paine Capital Fund, L.P. and FPC Investors, L.P. Fox Paine & Company, LLC is not the record owner of any shares of our common stock.
- (2) The address of Fox Paine & Company, LLC is 950 Tower Lane, Suite 501, Foster City, CA 94404.
- (3) Fox Paine Capital, LLC is General Partner of Fox Paine Capital Fund, L.P. and FPC Investors, L.P., and the Managing Member of ALEC Coinvestment Fund I, LLC, ALEC Coinvestment Fund II, LLC, ALEC Coinvestment Fund III, LLC, ALEC Coinvestment IV, LLC, and ALEC Coinvestment Fund V, LLC, and possesses voting and investment power over all shares held by each of these entities. Fox Paine & Company, LLC is the manager of Fox Paine Capital Fund, L.P. and FPC Investors, L.P. Fox Paine & Company, LLC is not the record owner of any shares of our common stock.
- (4) Ms. Pelletier owns 202,958 shares and can acquire 200,000 shares within 60 days.
- (5) Mr. Saul A. Fox and Mr. W. Dexter Paine, III are members of Fox Paine Capital, LLC and share voting power of Fox Paine Capital, LLC. In addition, Mr. Fox and Mr. Paine are the managing members of Bucks Capital, LLC. Bucks Capital, LLC is an investment vehicle created for the purposes of allowing selected members of Fox Paine & Company, LLC to invest primarily in selected portfolio companies in which investment funds managed by Fox Paine & Company, LLC invest. None of the shares shown as beneficially owned by Mr. Fox and Mr. Paine are owned of record by these individuals. Mr. Fox and Mr. Paine each disclaim beneficial ownership of the shares owned by Bucks Capital, LLC or the entities of which Fox Paine Capital, LLC is General Partner or Managing Member, except to the extent of their respective pecuniary interest therein.
- (6) Mr. Rogers owns 1,000 shares and can acquire 18,506 shares within 60 days.
- (7) Mr. Hemenway owns 25,819 shares and can acquire 136,167 shares within 60 days.
- (8) Mr. Sprain owns 2,350 shares and can acquire 40,000 shares within 60 days.
- (9) Mr. Steinberg owns 2,411 shares and can acquire 77,390 shares within 60 days.

**Certain relationships and related party transactions**

Fox Paine and its affiliates hold a majority of our outstanding shares of common stock. Fox Paine receives an annual management fee in the amount of 1% of our earnings before interest expense, income taxes and depreciation and amortization, calculated without regard to the payment of the management fee, pursuant to a management services agreement dated May 14, 1999 between Fox Paine and ACSH, which we refer to as the management services agreement. The management fee expense for the nine months ended September 30, 2004 and for the year ended December 31, 2003 was \$0.8 million and \$0.9 million, respectively. As of September 30, 2004, the management fee payable to Fox Paine was \$0.8 million.

We are in the process of discussing the payment of a transaction advisory fee to Fox Paine in connection with its advice and assistance in structuring the Refinancing Transactions and to terminate our obligation to pay Fox Paine management fees in any year after December 31, 2004. However, we will be obligated to pay Fox Paine a management fee of approximately \$1.1 million for the year ended December 31, 2004, as provided in the management services agreement, and we will continue to reimburse Fox Paine for its expenses. Payment of any transaction advisory fee to Fox Paine will be subject to the approval of a majority of our independent directors. These independent directors have not yet approved the payment of such a fee to Fox Paine as of the date of this prospectus supplement. We do not expect that the transaction advisory fee, in the aggregate, will exceed \$2.7 million, in addition to the approximately \$1.1 million management fee for the year for December 31, 2004. We cannot assure you if or when we will reach an agreement with Fox Paine in connection with the payment of any transaction advisory fee and/or the termination of the management fee under the management services agreement. The possible payment to Fox Paine of any transaction advisory fee in connection with the Refinancing Transactions has not been included in our calculation of fees and expenses related to the Refinancing Transactions.

Messrs. Saul A. Fox and W. Dexter Paine, III are co-founders of, and Chief Executive Officer and President, respectively, of, Fox Paine. Mr. Wray T. Thorn is a former Director of Fox Paine. Each of Messrs. Fox, Paine and Thorn are members of our board of directors.

Our board of directors approved the payment to Fox Paine of a fee equal to 1% of the gross proceeds generated from the sale of our Directories Business, plus expenses in connection with such transaction, including the reimbursement by us of the \$250,000 consulting fee and transaction bonus paid to Mr. Charles E. Robinson, our former President and Chief Executive Officer, under the agreement described below. We paid Fox Paine \$2,095,000 on May 8, 2003.

Fox Paine entered into a consulting agreement with Mr. Robinson for services rendered for our benefit related to the sale of our Directories Business. Under this agreement, Mr. Robinson received a lump-sum consulting fee and transaction bonus of \$250,000 in May 2003. As described above, Fox Paine was reimbursed for this expense.

Our board of directors approved the payment of a fee to Fox Paine equal to 1% of the funded capital raised through the ACSH senior notes offering and the closing of our existing credit facilities, plus expenses in connection with such transactions. On August 28, 2003, we paid to Fox Paine \$3,759,703 for this fee, excluding expenses.

On September 19, 2003, Fox Paine entered into a consulting agreement with Mr. Robinson. The consulting term began on January 1, 2004 and continued for one year, after which the arrangement was terminated. During the consulting term, Mr. Robinson advised Fox Paine on



and evaluate potential opportunities in the telecommunications industry, and Fox Paine paid the former officer a monthly fee of \$20,000 for these services.

On April 17, 2001, we made an interest bearing loan to Mr. Carson totaling \$328,000 to facilitate payment by Mr. Carson of taxes on the income deemed received in connection with the exercise of options by Mr. Carson. The note evidencing the loan bore interest at the Mid-Term Applicable Federal Rate and was due on April 15, 2005. The note was secured by a pledge of 100,000 shares of our stock held in Mr. Carson's name. The largest aggregate amount outstanding during 2003 was \$237,983. Pursuant to Mr. Carson's employment agreement, the indebtedness was subject to forgiveness over a three-year period or in the event of termination of the employment agreement for specified reasons. Mr. Carson waived certain rights under his employment agreement upon completing the sale of our Directories Business, for which he received a fee of \$840,000. Included in these waived rights, valued in total at approximately \$700,000, Mr. Carson waived the forgiveness terms of this indebtedness that would have occurred during 2003 and 2004. On May 8, 2003, Mr. Carson paid off the note balance of \$237,983 in cash, including accrued interest.

During 2003, we spun off our Directory Business to ACS Media, LLC and subsequently sold 99.90% of our interest in ACS Media LLC to the public through a Canadian income fund. As part of that transaction, we entered into several long-term contracts with ACS Media LLC, including a 50-year publishing agreement, a 50-year license agreement, a 45-year non-compete agreement and a 10-year billing and collection agreement. At September 30, 2004, we had recorded in accounts payable affiliates \$2.8 million due to ACS Media, LLC under these contracts, primarily under the billing and collection agreement. We have a right to minority representation of one manager of the permitted nine managers of ACS Media LLC so long as our long-term contracts with ACS Media LLC are in effect. Currently, Leonard A. Steinberg, one of our officers, is a manager of ACS Media LLC.

On September 14, 2003, we entered into an agreement with Mr. Robinson to reacquire 266,788 shares of our stock owned by Mr. Robinson in January 2004 at a purchase price per share equal to the highest average closing price of a share of our stock during any consecutive five-day trading period in January 2004. Mr. Robinson will deliver the shares to us in 2004, and we will make the repurchase payments totaling \$1.3 million to Mr. Robinson in four equal quarterly installments commencing on March 31, 2004. We made three quarterly installment payments and approximately \$316,000 remains outstanding as of September 30, 2004.

On May 14, 1999, we entered into a stockholders' agreement with Fox Paine Capital Fund, investors affiliated with Fox Paine Capital Fund and several non-fund investors, including co-investors and some of our employees listed on the signatures pages to the stockholders' agreement. Under the stockholders' agreement, subject to limited exceptions, Fox Paine Capital Fund and its affiliates, as a group, may make up to six demands for registration under the Securities Act of their shares of common stock.

### **Description of the new senior credit facility**

This summary highlights the principal proposed terms of our new senior credit facility under a new bank credit agreement with Canadian Imperial Bank of Commerce, as administrative agent, which we expect to enter into with ACSH, as borrower, and the other guarantors party thereto, concurrently with the closing of this offering of common stock. Because the final terms of our new senior credit facility have not been agreed upon, the final terms may differ from those set forth herein, and, in certain cases, such differences may be significant. The closing of this offering is conditioned on our entering into the new senior credit facility. Additionally, this offering and our entering into the new senior credit facility are both conditioned on receiving the requisite consents necessary to amend the indenture governing the ACSH senior notes under the ACSH senior notes tender offer and consent solicitation as described under "Refinancing transactions."

The new senior credit facility will establish a \$50.0 million revolving credit facility and a \$335.0 million term loan facility. Borrowings under the revolving credit facility may be used for general corporate purposes, including working capital, permitted acquisitions, capital expenditure, dividends and investments.

### **Interest and fees**

The interest rates per annum applicable to loans under the new senior credit facility will be, at our option, the Base Rate or an adjusted London interbank offered rate (LIBOR) plus, in each case, an applicable margin. The applicable margin for revolving credit loans under the new senior credit facility is subject to adjustment based on our total leverage ratio. In addition, we will be required to pay to the lenders under the revolving credit facility a commitment fee in respect of the unused commitments, a fronting fee payable to the issuing bank in respect of letters of credit, and certain other fees. Amounts under the new senior credit facility not paid when due bear interest at a default rate equal to 2.00% above the otherwise applicable rate.

### **Guarantees and collateral**

ACS Group and substantially all of ACSH's domestic subsidiaries will jointly and severally guarantee our obligations under the new senior credit facility. ACSH's obligations under the new senior credit facility and those of the guarantors under their guarantees thereof will be secured by liens on substantially all of our and such guarantor's assets.

### **Mandatory prepayments**

Our new senior credit facility will, in certain circumstances, be required to be prepaid with excess cash flow, cumulative distributable cash and proceeds from certain asset sales, debt issuances and condemnation and casualty proceeds, subject to certain reinvestment rights.

### **Maturity**

Unless terminated earlier, the revolving credit facility will mature in 2011. The term loan facility will mature in 2012, provided, however, in the event that the ACSH senior notes are not repaid in full prior to March 31, 2011, then the term loan facility will terminate on March 31, 2011.

**Covenants and Other Matters**

The new senior credit facility will require ACSH to comply with certain financial covenants, including a total leverage ratio, senior secured leverage ratio and a fixed charge coverage ratio. The new senior credit facility will include certain negative covenants restricting our ability to, among other things and subject to certain exceptions:

incur additional indebtedness;

incur liens;

guarantee obligations;

engage in mergers, acquisitions and other business combinations;

pay dividends or other restricted payments;

make capital expenditures;

make investments, loans and advances;

sell certain assets;

prepay or amend or otherwise alter terms of subordinated debt and other debt instruments and material documents;

enter into transactions with affiliates;

engage in sale-leaseback transactions;

change our fiscal year;

enter into hedging arrangements;

enter into any agreement prohibiting the creation or assumption of liens on our assets or consensual encumbrances on the ability of our subsidiaries to pay dividends, make loans or transfer assets to us; and

alter the business we conduct. The new senior credit facility contains certain customary representations and warranties, affirmative covenants and events of default, including change of control and cross-defaults to other debt.

See "Dividend policy and restrictions Restrictions on payment of dividends."

**Material U.S. federal income tax consequences**

The following discussion describes the material U.S. federal income tax consequences associated with the purchase, ownership and disposition of our common stock as of the date hereof by U.S. Holders (as defined below) and Non-U.S. Holders (as defined below). This discussion deals only with common stock held as capital assets by holders who purchase common stock in this offering. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to the purchase, ownership or disposition of our common stock by prospective investors in light of their particular circumstances. In particular, this discussion does not address all of the tax considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, such as:

dealers in securities or currencies,

financial institutions,

regulated investment companies,

real estate investment trusts,

tax-exempt entities,

insurance companies,

persons holding common stock as part of a hedging, integrated, conversion or constructive sale transaction or a straddle,

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings,

persons liable for alternative minimum tax,

investors in pass-through entities, or

U.S. Holders (as defined below) whose "functional currency" is not the U.S. dollar.

Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof, and all of which may be repealed, revoked, modified or subject to differing interpretations, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below. This discussion does not address any state, local or non-U.S. tax consequences.

A "U.S. Holder" means a beneficial owner of common stock that is for U.S. federal income tax purposes:

an individual citizen or resident of the United States,

a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any state thereof or the District of Columbia,

an estate the income of which is subject to U.S. federal income taxation regardless of its source, or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

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If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership purchasing common stock, we urge you to consult your own tax advisor.

**If you are considering the purchase of common stock, we urge you to consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of common stock, as well as any consequences to you arising under the laws of any other taxing jurisdiction.**

### **Consequences to U.S. Holders**

The following discussion applies only to U.S. Holders.

#### ***Dividends***

The gross amount of dividends paid to you will be treated as dividend income to you to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Distributions to you in excess of earnings and profits will be treated first as a return of capital that reduces your tax basis in the shares of our common stock, and then as gain from the sale or exchange of shares of our common stock. Under current law, which is scheduled to "sunset" at the end of 2008, dividend income will generally be taxed to you (if you are an individual) at the rates applicable to long-term capital gains, provided that a minimum holding period and other requirements are satisfied. Dividends received after 2008 will be taxable to you at ordinary income rates. Corporate U.S. Holders may be entitled to a dividends-received deduction with respect to distributions treated as dividend income for U.S. federal income tax purposes, subject to numerous limitations and requirements.

#### ***Sale, exchange or other disposition of common stock***

Upon the sale, exchange or other disposition of shares of our common stock, you generally will recognize capital gain or loss in an amount equal to the difference between the amount realized for your shares of common stock and your tax basis in the shares of common stock. Capital gains of individuals derived with respect to capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

#### ***Information reporting and backup withholding***

In general, information reporting requirements will apply to dividends paid on common stock and to the proceeds of the sale of common stock paid to a U.S. Holder other than certain exempt recipients (such as corporations). A backup withholding tax will generally apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service ("IRS").

### **Consequences to Non-U.S. Holders**

The following discussion applies only to Non-U.S. Holders. A "Non-U.S. Holder" is a beneficial owner of common stock, other than an entity or arrangement classified as a partnership for

U.S. federal income tax purposes, that is not a U.S. Holder. Special rules may apply to certain Non-U.S. Holders, such as:

U.S. expatriates,

"controlled foreign corporations,"

"passive foreign investment companies,"

corporations that accumulate earnings to avoid U.S. federal income tax, and

investors in pass-through entities that are subject to special treatment under the Code.

Such Non-U.S. Holders are urged to consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

### ***Dividends***

Dividends paid to you (to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes) generally will be subject to withholding at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with your conduct of a trade or business within the United States and, if certain tax treaties apply, are attributable to your U.S. permanent establishment, are not subject to the withholding tax, but instead are subject to U.S. federal income tax on a net income basis in the same manner as if you were a U.S. Holder. Special certification and disclosure requirements must be satisfied for effectively connected income to be exempt from withholding. If you are a foreign corporation, any such effectively connected dividends received by you may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

If you wish to claim the benefit of an applicable treaty rate (and also avoid backup withholding as discussed below) for dividends, you will be required to:

complete IRS Form W-8BEN (or other applicable form) and certify under penalties of perjury that you are not a U.S. person and that you are entitled to the benefits of the applicable treaty, or

if the shares of our common stock are held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury regulations.

Special certification and other requirements apply to certain Non-U.S. Holders that are entities rather than individuals.

If you are eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

### ***Sale, exchange or other disposition of common stock***

You generally will not be subject to U.S. federal income tax with respect to gain recognized on a sale or other disposition of shares of our common stock unless:

the gain is effectively connected with your conduct of a trade or business in the United States, and, if certain tax treaties apply, is attributable to your U.S. permanent establishment,





if you are an individual and hold shares of our common stock as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale or other disposition, and certain other conditions are met, or

we are or have been during a specified testing period a "United States real property holding corporation" for U.S. federal income tax purposes.

If you are an individual and are described in the first bullet above, you will be subject to tax on any gain derived from the sale, exchange or other disposition under regular graduated U.S. federal income tax rates in the same manner as if you were a U.S. Holder. If you are an individual and are described in the second bullet above, you will be subject to a flat 30% tax on any gain derived from the sale, exchange or other disposition which may be offset by U.S. source capital losses (even though you are not considered a resident of the United States). If you are a foreign corporation and are described in the first bullet above, you will be subject to tax on your gain under regular graduated U.S. federal income tax rates in the same manner as if you were a U.S. Holder and, in addition, may be subject to the branch profits tax on your effectively connected earnings and profits at a rate of 30% or at such lower rate as may be specified by an applicable income tax treaty.

We believe that we are not and do not anticipate becoming, a "United States real property holding corporation" for U.S. federal income tax purposes.

#### ***Information reporting and backup withholding***

Under certain circumstances, Treasury regulations require information reporting and backup withholding on certain payments on common stock.

Dividends on common stock paid to a Non-U.S. Holder will generally be exempt from backup withholding provided the Non-U.S. Holder meets applicable certification requirements or otherwise establishes an exemption. We must report annually to the IRS and to each Non-U.S. Holder the amount of dividends paid to that holder and the U.S. federal withholding tax withheld with respect to those dividends.

Under Treasury regulations, payments on the sale or redemption of our common stock effected through a foreign office of a broker to its customer generally are not subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation, a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period, a foreign partnership with significant ownership or that is engaged in the conduct of a U.S. trade or business, or a branch of a foreign bank or insurance company, then information reporting (but not backup withholding) will be required, unless the broker has in its records documentary evidence that the beneficial owner of the payment is not a U.S. person or is otherwise entitled to an exemption, and other applicable certification requirements are met. Information reporting and backup withholding generally will apply to sale or redemption payments effected at a U.S. office of any U.S. or foreign broker, unless the broker has in its records documentary evidence that the beneficial owner of the payment is not a U.S. person or is otherwise entitled to an exemption, and other applicable certification requirements are met.

Backup withholding does not represent an additional income tax. Any amounts withheld from a payment to a holder under the backup withholding rules will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information or returns are timely furnished by the holder to the IRS.

**Underwriting**

J.P. Morgan Securities Inc., CIBC World Markets Corp. and Banc of America Securities LLC are the representatives of the underwriters. Subject to the terms and conditions set forth in the underwriting agreement dated as of the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and we have agreed to sell to each underwriter, the number of shares of common stock set forth opposite its name below:

Name	Number of Shares
J.P. Morgan Securities Inc.	
CIBC World Markets Corp.	
Banc of America Securities LLC	
Legg Mason Wood Walker, Incorporated	
Raymond James & Associates, Inc.	
Wells Fargo Securities, LLC	
Total	

The underwriting agreement provides that the obligations of each underwriter to pay for and accept delivery of the shares offered by this prospectus supplement are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and the independent auditors. The underwriters are committed to purchase all of the shares of common stock offered by this prospectus supplement, other than those shares covered by the over-allotment option described below, if they purchase any shares of common stock.

We have granted to the underwriters an option, exercisable for 30 days after the date of this prospectus supplement, to purchase up to additional shares of common stock to cover over-allotments, if any, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares.

**Underwriting discounts and commissions**

	Without over-allotment exercise	With over-allotment exercise
Per share	\$	\$
Total	\$	\$

We estimate that our total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$5.9 million.

The underwriters initially propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at the public offering price less a concession not to exceed \$ per share. The underwriters may allow, and such dealers may reallow, a concession not in excess of

\$ \_\_\_\_\_ per share to certain other dealers. After the initial public offering of the shares, the offering price and other selling terms may be changed by the underwriters.

The offering of the common stock is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

We and certain of our executive officers and directors and Fox Paine and its affiliates have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which we and such holders of stock have agreed, subject to certain exceptions, not to offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock, options or warrants to acquire shares of common stock, or securities convertible into or exchangeable or exercisable for shares of common stock currently or hereafter owned either of record or beneficially (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) by us, or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares of common stock, or publicly announce an intention to do any of the foregoing, without the prior written consent of J.P. Morgan Securities Inc. for a period of 90 days after the date of this prospectus supplement. Such consent may be given at any time without public notice. J.P. Morgan Securities Inc. may release any of the securities subject to these lock-up agreements at any time and without notice.

Notwithstanding the foregoing, if (1) during the last 17 days of the 90-day lock-up period we issue an earnings release or material news or a material event relating to us occurs; or (2) prior to the expiration of the 90-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day lock-up period, then the restrictions described above will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make because of any of those liabilities.

Persons participating in the offering may engage in transactions including over-allotments, syndicate covering transactions, stabilizing bids, or imposition of penalty bids, that may have the effect of stabilizing or maintaining above, or otherwise affecting, the market price of shares of our common stock at a level from that which might otherwise prevail in the open market.

A syndicate covering transaction is a bid for or the purchase of shares of common stock on behalf of the underwriters to reduce a syndicate short position incurred by the underwriters in connection with the offering. The underwriters may create a syndicate short position by making short sales of shares of common stock and may purchase shares of common stock on the open market to cover syndicate short positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering. Short sales can be either covered or naked. Covered short sales are sales made in an amount not greater than the underwriters' over-allotment option to

purchase additional shares from us in the offering. Naked short sales are sales in excess of the over-allotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares of common stock in the open market after pricing that could adversely affect investors who purchase in this offering. If the underwriters create a syndicate short position, they may choose to reduce or cover this position by either exercising all or part of the over-allotment option to purchase additional shares of common stock from us or by engaging in syndicate covering transactions.

The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing securities in the open market. The underwriters must close out any naked short position by purchasing securities in the open market. In determining the source of shares of common stock to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase securities through the over-allotment option.

A stabilizing bid is a bid for or the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of shares of common stock. A penalty bid is an arrangement that permits the representative to reclaim the selling concession from an underwriter or a syndicate member for shares of common stock purchased by the underwriters in a syndicate member covering transaction and therefore have not been effectively placed by the underwriter or syndicate member. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time. Similar to other purchase activities, these activities may have the effect of preventing or retarding a decline in the market price of shares of common stock. As a result, the price of shares of common stock may be higher than the price that might otherwise exist in the open market.

Affiliates of J.P. Morgan Securities Inc. and CIBC World Markets Corp. are lenders under the existing senior secured credit facility and as such will receive a portion of the proceeds from term loan borrowings under the new senior credit facility, which will be used to repay amounts outstanding under the existing senior secured credit facility. Accordingly, we may be considered to be a "connected issuer" in connection with this offering under applicable Canadian Securities laws with respect to J.P. Morgan Securities Inc. and CIBC World Markets Corp. We have in the past been, and are as of the date of this prospectus supplement, in compliance with the terms of the existing senior secured credit facility and our financial position and the value of security granted to the lenders pursuant to such facility have not materially changed since we entered into the existing senior secured credit facility. The decision to conduct this offering and the determination of the terms of this offering were made through negotiations between the underwriters and us. The lenders under the existing senior secured credit facility (and the lenders under our new senior credit facility) did not have any involvement in such decision or determination. As a consequence of their participation in this offering, each of the underwriters will be entitled to share in the underwriting commission relating to this offering.

More than 10% of the proceeds of this offering, not including underwriting compensation, may be received by entities who are affiliated with the underwriters, who are National Association of Securities Dealers, Inc., or NASD, members. As a result, this offering is being conducted in compliance with the NASD Conduct Rule 2710(h). Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, because a bona fide independent market, as defined in the NASD Conduct Rules, exists in our common stock.

In the ordinary course of the underwriters' respective businesses, the underwriters and their affiliates may, from time to time, engage in commercial and investment banking transactions with us and or affiliates. Affiliates of J.P. Morgan Securities Inc. and CIBC World Markets Corp. are lenders under our existing senior secured credit facility and as such will receive a portion of the proceeds from term loan borrowings under the new credit bank facility, which will be used to repay amounts outstanding under the existing senior secured credit facility. In addition, Canadian Imperial Bank of Commerce, an affiliate of CIBC World Markets Corp., will serve as administrative agent, JPMorgan Chase Bank, N.A., an affiliate of J.P. Morgan Securities Inc., will serve as syndication agent, and Bank of America, N.A., an affiliate of Banc of America Securities LLC, will serve as documentation agent in connection with our new senior credit facility, and affiliates of certain of the underwriters will serve as lenders under our new senior credit facility. CIBC World Markets Corp. and J.P. Morgan Securities Inc. are serving as dealer managers and solicitation agents in connection with the tender offers and consent solicitations for the ACSH senior subordinated notes and the ACSH senior notes.

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### **Legal matters**

The validity of the shares of common stock being offered by this prospectus supplement will be passed upon for us by Leonard A. Steinberg, General Counsel of Alaska Communications Systems Group, Inc. As of the date of this prospectus supplement, Mr. Steinberg owns directly 2,411 shares of the Company's common stock and owns beneficially 120,000 shares of the Company's common stock under various option grants, some of which are immediately exercisable. Certain legal matters in connection with the offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. The underwriters have been represented by Shearman & Sterling LLP, New York, New York in connection with this offering.

### **Where you can find more information**

We are subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended, and, as a result, file periodic reports, proxy statements and other information with the Securities and Exchange Commission. We have filed a registration statement on Form S-3 with the Securities and Exchange Commission regarding this offering. The registration statement of which this prospectus supplement and the accompanying prospectus is a part contains additional important information about us and our capital stock. The rules and regulations of the SEC allow us to omit from this prospectus supplement and accompanying prospectus certain information that is included in the registration statement of which this prospectus supplement and accompanying supplement forms a part. You should refer to the registration statement and its exhibits to read that information.

You may read and copy the registration statement, the related exhibits, the periodic reports we file and the other material we file with the Securities and Exchange Commission at its Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the Securities and Exchange Commission at (800) SEC-0330 for further information on the operation of the public reference rooms. The Securities and Exchange Commission also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file with the Securities and Exchange Commission. The site's address is [www.sec.gov](http://www.sec.gov).

Our website is [www.acsalaska.com](http://www.acsalaska.com). Our filings are available on our investor relations website [www.alsk.com](http://www.alsk.com). Information contained in or connected to our website is not a part of this prospectus supplement or the accompanying prospectus. You may also request a copy of these filings, at no cost, by writing or telephoning us at:

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

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PROSPECTUS

15,000,000 SHARES OF COMMON STOCK  
PLUS  
19,598,879 SHARES OF COMMON STOCK  
OFFERED BY THE SELLING STOCKHOLDERS

## **ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.**

### **COMMON STOCK**

We may offer and sell, from time to time, up to 15,000,000 shares of common stock in amounts, at prices and on terms that we will decide at the time of the offering. In addition, the selling stockholders named in this prospectus may offer and sell, from time to time, up to 19,598,879 shares of our common stock. Our common stock covered by this prospectus may be sold at fixed prices or prices that may be changed, at market prices prevailing at the time of sale, at prices related to those prevailing market prices or at negotiated prices. We will not receive any of the proceeds from the sale of our common stock by the selling stockholders.

We will provide the specific terms of these offers and sales by us and the selling stockholders in supplements to this prospectus. This prospectus may not be used to sell common stock unless accompanied by a prospectus supplement. You should read this prospectus and any supplements carefully before you invest. We may, and the selling stockholders may, offer common stock directly to investors or through agents, underwriters, or dealers. If any agents, underwriters, or dealers are involved in the sale of any of our common stock, their name and any applicable purchase price, fee, commission or discount arrangement will be set forth in the prospectus supplement.

Our common stock is quoted on the Nasdaq National Market under the symbol "ALSK." The last reported sale price of our common stock on January 6, 2005 was \$8.14 per share.

**INVESTING IN OUR COMMON STOCK INVOLVES RISKS. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 2 OF THIS PROSPECTUS BEFORE YOU MAKE AN INVESTMENT IN THE COMMON STOCK.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

Prospectus dated January 7, 2005.

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We have not authorized any other person to provide you with any information or to make any representation that is different from, or in addition to, the information and representations contained in this prospectus and any prospectus supplement or in any of the documents that are incorporated by reference in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus and any prospectus supplement, as well as the information contained in any document incorporated by reference, is accurate as of the date of each such document only, unless the information specifically indicates that another date applies.

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The distribution of this prospectus may be restricted by law in certain jurisdictions. You should inform yourself about, and observe, any of these restrictions. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation.



## PROSPECTUS SUMMARY

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf registration process, we may offer and sell, from time to time, up to an aggregate of 15,000,000 shares of common stock, in one or more offerings and at prices and on terms that we determine at the time of the offering. In addition, the selling stockholders named in this prospectus may offer and sell, from time to time, up to an aggregate of 19,598,879 shares of our common stock. This prospectus provides you with a general description of the common stock we are offering and may offer in the future. Each time we or the selling stockholders offers any of our common stock under this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplements may add, update or change information contained in this prospectus. To the extent that any statement we make in a prospectus supplement is inconsistent with statements made in this prospectus, the statements made in this prospectus will be deemed modified or superseded by those made in the prospectus supplement. You should read this prospectus and any prospectus supplement together with the additional information described under the heading "Where You Can Find More Information."

Unless the context otherwise requires, the terms "we," "our," "us," "the company," "the registrant" and "ACS Group" refer to Alaska Communications Systems Group, Inc. and its consolidated subsidiaries. Any reference to "ACSH" refers to our wholly owned subsidiary, Alaska Communications Systems Holdings, Inc., and its consolidated subsidiaries, unless otherwise indicated.

## ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.

### OUR BUSINESS

We are the leading facilities-based telecommunications services provider and the largest local exchange carrier (LEC) in Alaska and the 13th largest LEC in the United States. We are focused on providing leading telecommunications services to our retail relationships under a single brand name, Alaska Communications Systems. On a retail basis, we provide our consumer and business customers with a complete range of telecommunications services, including local telephone, wireless, Internet, and long distance, using our own network, as well as video entertainment through our partnership arrangement with DISH Network, a leading satellite service provider. In addition, we also provide selected local telephone and wireless services on a wholesale basis.

We continue to grow our retail relationships, and as of September 30, 2004, had increased the number of our retail relationships to 388,913. A "retail relationship" refers to one service provided to one customer and, therefore, each customer may represent more than one retail relationship. As of September 30, 2004, including both retail and wholesale customers, we served 95,529 wireless subscribers, 301,684 local telephone access lines, 44,334 long distance customers and 46,291 Internet subscribers (including 22,592 high-speed digital subscriber line, or DSL, subscribers).

We began operations in May 1999 when we completed the acquisition and integration of four local telephone companies in Alaska. Each of the businesses we purchased had been operating in its local markets for over 50 years. Since 1999, we have invested in upgrading our network and service capabilities, improved our cost management in our operations, and focused on improving customer service. As a result, our business, which has been characterized by a stable customer base and predictable capital expenditure requirements, has generated stable revenues and cash flows since 2000, with consolidated cash flow from operations of \$50.4 million for the year ended December 31, 2003 and \$38.7 million for the nine months ended September 30, 2004. We have generated a net loss from operations during each year since 1999 and we expect to generate a net loss from operations in 2004. We currently have substantial indebtedness and an accumulated deficit of \$286.0 million as of September 30, 2004.

Our principal offices are located at 600 Telephone Avenue, Anchorage, Alaska 99503. Our telephone number is (907) 297-3000.

## RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW AND OTHER INFORMATION INCLUDED AND INCORPORATED BY REFERENCE IN THIS PROSPECTUS IN EVALUATING US AND OUR BUSINESS. IF ANY OF THE EVENTS DESCRIBED BELOW OCCUR, OUR BUSINESS AND FINANCIAL RESULTS COULD BE ADVERSELY AFFECTED IN A MATERIAL WAY. THIS COULD CAUSE THE TRADING PRICE OF OUR COMMON STOCK TO DECLINE, PERHAPS SIGNIFICANTLY.

### *Risks Related to Our Common Stock*

*ACS Group is a holding company and relies on dividends, interest and other payments, advances and transfer of funds from its subsidiaries to meet its debt service and pay dividends.*

ACS Group has no direct operations and no significant assets other than ownership of 100% of the stock of Alaska Communication Systems Holdings, Inc. ("ACSH"). Because we conduct our operations through our direct and indirect subsidiaries, we depend on those entities for dividends and other payments to generate the funds necessary to meet our financial obligations, including to pay dividends with respect to our common stock. Legal restrictions applicable to our subsidiaries and contractual restrictions in our credit facilities and the indentures governing the 9<sup>3</sup>/<sub>8</sub>% senior subordinated notes due 2009 and the 9<sup>7</sup>/<sub>8</sub>% senior notes due 2011 issued by ACSH (together, the "ACSH notes"), and other agreements governing current and future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. The earnings from, or other available assets of, our subsidiaries may not be sufficient to pay dividends on the common stock.

*Our dividend policy may limit our ability to pursue growth opportunities.*

Our board of directors has adopted a dividend policy which reflects an intention to distribute a substantial portion of the cash generated by our business in excess of operating needs, interest and principal payments on our indebtedness and capital expenditures as regular quarterly dividends to our stockholders. As a result, we may not retain a sufficient amount of cash to finance a material expansion of our business, or to fund our operations consistent with past levels of funding in the event of a significant business downturn. In addition, because a significant portion of cash available to pay dividends will be distributed to holders of our common stock under our dividend policy, our ability to pursue any material expansion of our business, including through acquisitions or increased capital spending, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost. In addition, as we have only recently adopted this dividend policy, the effect of the dividend policy on our operations is not known to us.

*You may not receive the level of dividends provided for in our dividend policy or any dividends at all.*

We are not obligated to pay dividends. Our board of directors may, in its absolute discretion, amend or repeal the dividend policy which may result in the decrease or discontinuation of dividends. Future dividends with respect to shares of our capital stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant. Additionally, Delaware law and the terms of our credit facilities and the indentures governing the ACSH notes may limit or completely restrict our ability to pay dividends.

We might not generate sufficient cash from operations in the future to pay dividends on our common stock in the intended amounts or at all. Our board of directors may decide not to pay dividends at any time and for any reason. Our dividend policy is based upon our directors' current assessment of our business and the environment in which we operate, and that assessment could change

based on competitive or technological developments (which could, for example, increase our need for capital expenditures), new growth opportunities or other factors. If our cash flows from operations for future periods were to fall below our minimum expectations, we would need either to reduce or eliminate dividends or, to the extent permitted under the terms of our credit facilities and the indentures governing the ACSH notes or any future agreement governing our indebtedness, fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively affect our financial condition, results of operations, liquidity, ability to maintain or expand our business and ability to fund dividends. Our board is free to depart from or change our dividend policy at any time and could do so, for example, if it were to determine that we had insufficient cash to take advantage of growth opportunities. In addition, our credit facilities and the indentures governing the ACSH notes contain limitations on our ability to pay dividends. The reduction or elimination of dividends may negatively affect the market price of our common stock.

***Our substantial indebtedness could restrict our ability to pay dividends on our common stock and adversely affect our financing options and liquidity position.***

We have now and will continue to have a substantial amount of indebtedness. As of September 30, 2004 we had total long-term obligations, including current portion, of \$533.3 million and a net loss for the nine months ended September 30, 2004 of \$32.2 million.

Our substantial level of indebtedness could have important consequences for you as a holder of our common stock. For example, our substantial indebtedness could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, future business opportunities and other general corporate purposes;

- limit our flexibility to plan, adjust or react to changing economic, market or industry conditions, reduce our ability to withstand competitive pressures, and increase our vulnerability to general adverse economic and industry conditions;

- place us at a competitive disadvantage to many of our competitors who are less leveraged than we are;

- limit our ability to borrow additional amounts for working capital, capital expenditures, future business opportunities, including strategic acquisitions and other general corporate requirements or hinder us from obtaining such financing on terms favorable to us or at all;

- limit our ability to refinance our indebtedness.

The terms of our credit facilities and the terms of our other indebtedness, including the indentures governing the ACSH notes, allow us and our subsidiaries to incur additional indebtedness upon the satisfaction of certain conditions. If new indebtedness is added to current levels of indebtedness, the related risks described above could intensify.

***Our debt instruments include restrictive and financial covenants that limit our operating flexibility.***

Our credit facilities require us to maintain certain financial ratios and our credit facilities and the indentures governing the ACSH notes contain covenants that, among other things, restrict our ability to take specific actions, even if we believe such actions are in our best interest. These include restrictions on our ability to:

- issue certain preferred or redeemable capital stock;

- incur debt;

- create liens;



pay dividends or distributions on, redeem or repurchase our capital stock;

make certain types of investments, loans, advances or other forms of payments;

issue, sell or allow distributions on capital stock of specified subsidiaries;

prepay or defease specified indebtedness, including the notes;

enter into transactions with affiliates; or

merge, consolidate or sell our assets.

These restrictions could limit our ability to obtain financing, make acquisitions or fund capital expenditures, withstand downturns in our business or take advantage of business opportunities. A breach of any of these covenants, ratios or tests could result in a default under our credit facilities or the indentures governing the ACSH notes. Upon the occurrence of an event of default under our credit facilities, the lenders could elect to declare all amounts outstanding under our credit facilities to be immediately due and payable. If the lenders accelerate the payment of the indebtedness under our credit facilities, our assets may not be sufficient to repay in full this indebtedness and our other indebtedness.

***We will require a significant amount of cash to service our indebtedness, pay dividends and fund our other liquidity needs. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and to refinance our indebtedness, including amounts borrowed under our credit facilities, to pay dividends and to fund planned capital expenditures and any strategic acquisitions we may make, if any, will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations in the future, that our currently anticipated growth in revenues and cash flow will be realized on schedule or that future borrowings will be available to us in an amount sufficient to enable the repayment of our indebtedness, pay dividends or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the ACSH notes, on or before maturity. We cannot assure you that we will be able to refinance any of our debt, including the ACSH notes and our credit facilities, on commercially reasonable terms or at all. If we are unable to refinance our debt or obtain new financing under these circumstances, we would have to consider other options, including:

sales of certain assets to meet our debt service requirements;

sales of equity; and

negotiations with our lenders to restructure the applicable debt.

If we are forced to pursue any of the above options our business and/or the value of our common stock could be adversely affected.

***Future sales, or the possibility of future sales, of a substantial amount of our common stock may depress the price of the shares of our common stock.***

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock, and could impair our ability to raise capital through future sales of equity securities.

If we or our existing stockholders sell substantial amounts of our common stock in the public market or if there is a perception that these sales may occur, the market price of our common stock could decline. As of January 4, 2005 we would have had 45,695,389 shares of common stock outstanding assuming all shares offered under this prospectus have been issued and assuming no exercise of outstanding options to purchase common stock. Substantially all of these shares will be freely tradable in the public market without restriction or further registration under the Securities Act, unless the shares are held by "affiliates" of ours as such term is defined in Rule 144 of the Securities Act.



We may issue shares of our common stock or other securities from time to time as consideration for future acquisitions and investments. In the event any such acquisition or investment is significant, the number of shares of our common stock, or the number or aggregate principal amount, as the case may be, of other securities that we may issue may be significant. We may also grant registration rights covering those shares or other securities in connection with any such acquisitions and investments.

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

The trading price of our common stock may be volatile in response to a number of factors, many of which are beyond our control, including actual or anticipated variations in quarterly financial results, changes in financial estimates by securities analysts and announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments. For example, following our announcement in October 2004 of our dividend policy, the trading price of our common stock increased significantly. In addition, our financial results may be below the expectations of securities analysts and investors. If this were to occur, the market price of our common stock could decrease, perhaps significantly. Additionally, prior to this offering, there has been a limited public market for our common stock. The limited liquidity for holders of our common stock may add to the volatility of the trading price of our common stock. These effects could materially adversely affect the trading market and prices for our common stock, as well as our ability to issue additional securities or to secure additional financing in the future.

In addition, the U.S. securities markets have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Broad market and industry factors may negatively affect the price of our common stock, regardless of our operating performance.

***Your interests may conflict with those of our current stockholders.***

Our largest stockholders, affiliates of Fox Paine & Company, LLC (together, "Fox Paine"), beneficially own 64% of our outstanding common stock. As a result, Fox Paine currently has the ability to exert significant influence over the outcome of matters requiring stockholder approval, including:

the election of our directors and the directors of our subsidiaries;

the amendment of our charter or by-laws; and

the adoption or prevention of mergers, consolidations or the sale of all or substantially all of our assets or our subsidiaries' assets.

Our certificate of incorporation does not expressly prohibit action by written consent of stockholders. As a result, to the extent Fox Paine owns more than 50% of our total voting power, Fox Paine would be able to take any action to be taken by stockholders without the necessity of holding a meeting. Finally, Fox Paine may make significant investments in other telecommunications companies. Some of these companies may compete with us. Fox Paine and its affiliates are not obligated to advise us of any investment or business opportunities of which they are aware, and they are not restricted or prohibited from competing with us.

***Our largest stockholders are registering the sale of all of their shares of our common stock and their interest in selling those shares may conflict with our other stockholders.***

Fox Paine has registered the sale of all of the shares of our common stock that it holds. If Fox Paine sells substantial amounts of our common stock, the market price of our common stock may fall. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. Additionally, the interests of Fox Paine in selling its shares may conflict with your interests. Assuming Fox Paine sells all of its shares of our common stock that are being registered, this will effectively cause a change in the ability to control matters

requiring stockholder approval and Fox Paine would no longer have the ability to exert as much influence over matters affecting us.

***The limited liquidity of the trading market for our common stock may affect the trading price of our common stock.***

As of January 4, 2005, we had 30,695,389 shares of our common stock issued and outstanding and eligible to be traded on the Nasdaq National Market. Currently, only approximately 11 million of these shares are freely tradable without restriction. As a result, the trading market for our common stock is limited. There can be no assurance that we will sell enough of our common stock to create a liquid trading market for our common stock. It is more likely for common stock issued in larger aggregate numbers of shares to trade more favorably than similar common stock issued in smaller aggregate number of shares because of the increased liquidity created by higher trading volumes resulting from larger issuances. There can be no assurance as to the liquidity of any market for our common stock, the ability of the holders of our common stock to sell any of their common stock and the price at which the holders of our common stock would be able to sell any of our common stock.

***If you purchase shares of our common stock from us, you will experience immediate and substantial dilution.***

Investors purchasing common stock from us in the offering will experience immediate and substantial dilution in the net tangible book value of their shares. Additional dilution will occur upon exercise of outstanding stock options. If we seek additional capital in the future, the issuance of shares of common stock or securities convertible into shares of common stock in order to obtain such capital may lead to further dilution of your equity investment. See "Dilution."

***Ownership change will limit our ability to use certain losses for U.S. federal income tax purposes and may increase our tax liability.***

As of September 30, 2004, we had net operating loss carryforwards, or NOLs, of approximately \$135 million, which are due to expire in the years 2020 through 2024. These NOLs may be used to offset future taxable income through 2024 and thereby reduce our U.S. federal income taxes otherwise payable. Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of a corporation that undergoes an "ownership change" to use its NOLs to reduce its tax liability. It is possible that the transactions described in this offering, either on a stand alone basis or when combined with future transactions (including issuances of new shares of our common stock and sales of shares of our common stock), will cause us to undergo an ownership change. In that event, we would not be able to use our pre-ownership-change NOLs in excess of the limitation imposed by Section 382. Such limitation is generally determined by multiplying the company's equity value and the long term tax exempt rate at the time of the ownership change.

***Risks Related to Our Business***

***Our business is subject to extensive governmental legislation and regulation. Applicable federal and state legislation and regulations and changes to them could adversely affect our business.***

We operate in a heavily regulated industry, and most of our revenues come from the provision of services regulated by the Federal Communications Commission, or the FCC, and the Regulatory Commission of Alaska, or the RCA. Laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by legislation or regulatory orders at any time. We cannot predict the impact of future developments or changes to the regulatory environment or the impact such developments or changes would have on us.

There are a number of FCC and RCA rules under review that could have a significant impact on us. For example, many of the FCC's rules with regard to the provisioning of unbundled network elements, or UNEs, and other LEC interconnection rules were revised by the FCC in 2003, on



August 20, 2004, again on December 15, 2004, and are subject to further proceedings at the FCC. An appellate court vacated, remanded and upheld different portions of the FCC's 2003 order and several parties are expected to challenge the 2004 decisions in court. Court rulings, further FCC actions or new legislation in this area could affect our obligation to provide UNEs and the prices we receive for the UNEs. Changes to intercarrier compensation that could affect our access revenues are also likely over the next few years. The FCC and Congress are also looking at universal service fund contribution and disbursement rules that are likely to affect the amount and timing of our contributions to and receipt of universal service funds; our obligations may increase and/or our revenue may decline, and our competitors may receive greater payments. Further, most FCC and RCA telecommunications decisions are subject to substantial delay and judicial review. These delays and related litigation create risk associated with uncertainty over the final direction of federal and state policies.

***As the incumbent local exchange carrier, or ILEC, in our service areas, we are subject to legislation and regulation that are not applicable to our competitors.***

Existing federal and state rules impose obligations and limitations on us, as the incumbent local telephone company, or ILEC, that are not imposed on our competitors. Federal obligations to share facilities, file and justify tariffs, maintain certain types of accounts, and file certain types of reports are all examples of disparate regulation. Similarly, state regulators impose, accounting and reporting requirements and service obligations on us that do not exist for our competitors. In addition, state regulators have imposed greater tariffing standards and obligations on us than on our competitors. The requirement to disclose proposed tariffs six to 12 months before they go into effect has enabled our competitors to plan competitive responses before we are able to implement new rates, diminishing our ability to compete in the marketplace. As our business becomes increasingly competitive, the continued regulatory disparity could impede our ability to compete in the marketplace, which could have a material adverse effect on our business.

***A reduction by the RCA or the FCC of the rates we charge our customers would reduce our revenues and earnings.***

The rates we charge our local telephone customers are based, in part, on a rate of return authorized by the RCA on capital invested in our LECs' networks. These authorized rates, as well as allowable investment and expenses, are subject to review and change by the RCA at any time. If the RCA orders us to reduce our rates, both our revenues and our earnings will be reduced. Additionally, in this competitive market, we are not sure we would be able to implement higher rates even if approved by the RCA.

State regulators may rebalance our planned rates or set new rates closer to costs, and refuse to keep sensitive business information confidential, continuing our competitive disadvantage in the marketplace. Our local exchange service competitors may also gain a competitive advantage as a result of the state regulators permitting our competitors to intervene in rate-setting proceedings.

FCC regulations also affect rates that are charged to customers. The FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of our network service revenue. The FCC currently is considering proposals to reduce interstate access charges for carriers like us. If the FCC lowers interstate access charges without adopting an adequate revenue replacement mechanism, we may be required to recover more revenue through subscriber line charges and universal service funds or forego this revenue altogether. This could reduce our revenue or impair our competitive position.

***The rates, terms and conditions for the leasing of facilities and resale of services in Anchorage are subject to regulatory review and may be adjusted in a manner adverse to us.***

The rates, terms and conditions for the leasing of facilities in Anchorage by our competitors, including General Communication, Inc., or GCI, has only recently been resolved after years of debate. There is risk associated with the implementation of this new agreement. Further, there is the risk that

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particular issues or the entire matter may be subject to judicial appeal, which would result in an extended period of uncertainty and additional cost associated with the proceedings.

***Loss of the exemption from certain forms of competition granted to our rural LECs under the Federal Telecommunications Act of 1996 exposes us to increased competition.***

Historically, our LECs (which do not include our wholly owned subsidiary, ACS of Anchorage, Inc., or ACSA) operated under a federal statutory exemption under which they were not required to offer UNEs and wholesale discounted resale services to competitors. On June 30, 1999, the Alaska Public Utilities Commission (or APUC) issued an order revoking these rural exemptions. On April 18, 2004, after years of litigation concerning this order, ACS of Fairbanks, Inc., or ACSF, and ACS of Alaska, Inc., or ACSAK, settled with GCI over the revocation of these rural exemptions. ACSF and ACSAK waived their claim to the rural exemption with regards to GCI's requests to lease UNEs in exchange for GCI's agreement to pay higher rates for leased facilities. ACSF and ACSAK will, therefore, continue to face local exchange service competition, which may reduce revenues and returns.

Interconnection duties are governed by telecommunications rules and regulations related to the UNEs that must be provided. These rules and regulations remain subject to ongoing modifications. In addition, to the extent that rural exemptions are terminated, other carriers are entitled to obtain interconnection agreements with us on the same basis as GCI. Finally, to the extent the new rates are higher than the previous rates, that may encourage GCI or other competitors to provide service over their own facilities, further depriving us of revenue.

***Our results of operations could be materially harmed if GCI develops its own network facilities and stops leasing capacity on our network elements.***

GCI commenced offering cable telephony in Anchorage during 2004 and initiated migration of its customers served using our UNEs off of our network and onto its own cable system. GCI has also announced plans to substantially increase the number of customers it migrates to cable telephony in 2005 with the aim of migrating virtually all of its Anchorage customers to its own network by the end of 2006. Significant migration of customers could result in a significant reduction of revenue for us, as GCI would no longer be leasing our facilities to serve those customers, which could materially harm our results of operations.

***The telecommunications industry is extremely competitive, and we may have difficulty competing effectively.***

The telecommunications industry is extremely competitive and we face competition in local voice, local high-speed data, wireless, Internet and long distance services. Competition in the markets in which we operate could:

reduce our customer base;

require us to lower rates and other prices in order to compete;

require us to invest in new facilities and capabilities;

increase marketing expenditures and the use of discounting and promotional campaigns that would adversely affect our margins; or

otherwise lead to reduced revenues, margins, and returns.

New competitors in local services may be encouraged by FCC and RCA rules regarding interconnection agreements and universal service supports. We face competition from wireless service providers for local, long distance and wireless customers. Existing and emerging wireless technologies are increasingly competitive with local exchange services in some or all of our service areas. We and a competitor of ours are deploying a new generation of wireless technologies which will provide wireless data in addition to wireless voice services, and the FCC has ordered wireline-to-wireless and wireless-to-wireless number portability. As a consequence, we anticipate increased risk of wireless

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substitution for traditional local telephone services and increased competition among wireless carriers. In addition, new carriers offering voice over Internet Protocol, or VoIP, services may also lead to a reduction in traditional local and long distance telephone service customers and revenues as well as our network access revenues. Some of our competitors may have financial and technical resources greater than ours, and may be exempt from or subject to lesser regulatory burdens.

### ***Revenues from our retail local telephone lines may be reduced or lost.***

As the ILEC, we face stiff competition mainly from resellers, local providers who lease UNEs from us, and, to a lesser degree, facilities-based providers of local telephone services. In 1996, the two largest long distance carriers in Alaska began providing competitive local telephone services in Anchorage through UNE interconnection with our facilities and resale of our services. Interconnection agreements have since been executed with several other competitors. As a result, since 1996 when the industry was opened to competition through September 30, 2004, we have lost approximately 30% of our retail local telephone lines. In our largest market, Anchorage, which opened to competition in 1996, we have lost approximately 50% of our retail local telephone access lines. Similarly, in Fairbanks and Juneau, where competition began only a few years ago, we have lost more than 30% of our retail local telephone access lines. While we generally continue to enjoy revenues for these lines from our competitors, albeit at reduced rates compared to retail customers, our competitors may, in the future, bypass or remove these customers from our network completely, which would eliminate our revenue from those lines altogether. Additionally, although we plan to reacquire customers previously lost to competitors, there can be no assurance that we will be successful in this regard.

### ***Revenues from access charges may be reduced or lost.***

We received 27.9% of our operating revenues for the nine months ended September 30, 2004 from access charges paid by interstate and intrastate interexchange carriers and subscriber line charges paid by end users for the use of our network to connect the customer premises to the interexchange network. The amount of revenue that we receive from access charges and subscriber line charges is calculated in accordance with requirements set by the FCC and the RCA. Any change in these requirements may reduce our revenues and earnings. Generally, access charges have decreased since our inception in 1999.

Under the regulatory rules that exist today, we receive access revenue related to the calls made by all of our retail customers as well as our competitors' customers who are served via wholesale resale service. Access revenue related to our competitors' retail customers that are served by UNEs or by the competitors' own facilities flows to our competitors. To the extent that competitors shift the form in which they provide service away from wholesale resale to UNEs or their own facilities, our access revenue will be reduced.

The FCC is reviewing mechanisms for intercarrier compensation, and some parties have suggested terminating all interstate access charge payments by interexchange carriers. If such a proposal is adopted, it could have a material impact on our revenue and earnings. In any event, the FCC has stated its intent to adopt some form of access charge reform soon, which more likely than not will reduce this source of revenue. Similarly, the RCA has adopted regulations modifying intra-state access charges, which are not intended to, but may, reduce our revenue.

In addition, both GCI and AT&T have previously alleged that we collected excess interstate access revenue. While those claims have been resolved, we cannot assure you that claims alleging excess charges in subsequent years will not be made, nor that we will be able to defeat all such claims.

### ***A reduction in the universal service support currently received by some of our subsidiaries would reduce our revenues and earnings.***

We received 5.3% of our operating revenues for the nine months ended September 30, 2004 from the Universal Service Fund, or USF, which was established under the direction of the FCC to

compensate carriers for the high cost of providing universal telecommunications services in rural, insular, and high-cost areas. If the support received from the USF is materially reduced or discontinued, some of our rural LECs might not be able to operate profitably. Also, because we provide interstate and international services, we are required to contribute to the USF a percentage of our revenue earned from such services. Although our rural LECs receive support from the USF, we cannot be certain of how, in the future, our contributions to the USF will compare to the support we receive from the USF. Congress recently adopted legislation exempting the USF from the Anti-Deficiency Act until December 31, 2005, but this issue may adversely affect USF distributions or contributions in the future.

Various reform proceedings are under way at the FCC to change the method of calculating the amount of contributions paid into the USF by all carriers and the amount of contributions or support rural carriers like ACSF, ACSAK and ACSN receive from the USF, as well as the amount of support received by our competitors. Already the FCC has imposed caps or limits on the amount of USF distributed and has explored opportunities to obtain contributions from providers of services not currently contributing to USF. We cannot predict at this time whether or when any change in the method of calculating contributions and support may affect our business.

The RCA has granted Eligible Telecommunications Carrier, or ETC, status to GCI in Fairbanks and Juneau. Under current FCC rules, this entitles GCI to the same amount of per-line USF support that we are entitled to receive regardless of GCI's costs, and may reduce the amount of USF payments we receive. To the extent that any competitive ETC, such as GCI, has lower costs than us, but receives the same amount of financial support, the competitor gains a competitive cost advantage over us. We cannot say when or how these rules may change.

There has been a trend toward granting ETC status to wireless carriers. Alaska DigiTel LLC, or DigiTel, ACS Wireless, Inc., or ACSW, and MTA Wireless have been granted ETC status. Further, Dobson Communications Corporation has petitioned for ETC status and asked the RCA to redefine our rural service areas to permit Dobson to receive support on a wire-center basis, but without having to serve the entire area that we are currently required to serve. Redefining our rural service areas requires the approval of both the RCA and the FCC. Creating additional service areas may impose a costly regulatory burden on us for which we may not be compensated. The granting of Dobson's request to redefine service areas could reduce our revenues from USF, in addition to increasing competition.

***Revenues from wireless services may be reduced.***

Market prices for wireless voice and data services have declined over the last several years and may continue to decline in the future due to increased competition. We cannot assure you that we will be able to maintain or improve our average revenue per user, or ARPU. We expect significant competition among wireless providers, which has been intensified by wireless number portability to continue to drive service and equipment prices lower, which may lead to increased turnover of customers. If market prices continue to decline it could adversely affect our ability to grow revenue, which would have an adverse effect on our financial condition and results of operation.

***We may not be able to offer long distance and Internet services on a profitable basis.***

Our long distance operations have historically been modest in relation to the long distance businesses of our competitors and have generated losses from continuing operations of \$2.0 million in 2001, \$1.6 million in 2002 and \$21.2 million in 2003, and \$3.4 million for the nine months ended September 30, 2004. Our Internet operations generated losses from continuing operations of \$9.6 million in 2001, \$21.6 million in 2002, \$60.5 million in 2003, and \$9.8 million for the nine months ended September 30, 2004. We have, over the last several years, failed to achieve various plans to increase sales and revenue for these businesses. There is, therefore, no assurance that our operating

losses from long distance and Internet services will not increase in the future, even after taking into account additional revenue from complementary or advanced services.

***If we substantially underestimate or overestimate the demand for our long distance services, our cost of providing these services could increase.***

We expect to continue to enter into resale agreements for a portion of our long distance services. In connection with these agreements, we must estimate future demand for our long distance service. If we overestimate this demand, we may be forced to pay for services we do not need, and if we underestimate this demand, we may need to lease additional capacity on a short-term basis at unfavorable prices, assuming additional capacity is available. If additional capacity is not available, we will not be able to meet this demand.

***We may not be able to profitably take advantage of future fiber-optic capacity that we may purchase.***

In anticipation of our obligations under the Telecommunications Services Partnering Agreement, or TPA, we entered with the State of Alaska, we entered into an agreement that enables us to purchase additional fiber-optic capacity in future years from Crest Communications, L.L.C., or Crest, the expenditures for which are expected to be significant and may exceed \$20 million over the next two years. The subsequent termination of our contract with the State of Alaska has reduced our utilization of the additional fiber-optic capacity purchased from Crest and may reduce the profitability of the agreement with Crest.

As part of this agreement, we made a \$15 million loan to Crest. In connection with this loan, Crest has granted us an option to purchase certain of its network assets no later than January 2, 2006 at a price equal to the then-outstanding loan balance. Certain material terms of the agreement with Crest remain subject to continued negotiation, and it is impossible to determine the ultimate outcome of these negotiations at this time. We cannot assure you that we will successfully resolve any open issues nor can we assure you of the consequences of our inability to resolve any open issues. In addition, even if we are able to resolve the issues, we cannot assure you that we will generate sufficient revenue from these future acquisitions of fiber-optic capacity to provide satisfactory returns on our investment. The \$15 million loan to Crest was written down to zero, its estimated fair value, in September 2003.

***If we do not adapt to technological changes in the telecommunications industry, we could lose customers or market share.***

Our success may depend on our ability to adapt to rapid technological changes in the telecommunications industry. Our failure to adopt a new technology, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete or meet the demands of our customers. Technological change could, among other things, reduce the capital required by a competitor to provide local service in our service areas. As we cannot predict with precision the pace of technology change, our ability to deploy new technologies may be constrained by insufficient capital and/or the need to generate sufficient cash to make interest payments on our indebtedness.

New products and services may arise out of technological developments and our inability to keep pace with these developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological changes or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers. The successful delivery of new products and services is uncertain and dependent on many factors, and we may not generate anticipated revenues from such services.

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

We cannot predict the extent to which the government will impose new unfunded mandates such as those related to emergency location, law enforcement assistance and local number portability. Each of these government obligations has imposed new requirements for capital that could not have been predicted with any precision. Along with these obligations the FCC has imposed deadlines for compliance with these mandates. We may not be able to provide services that comply with these mandates in time to meet the imposed deadlines or our petitions for extensions of the deadlines may be denied. We cannot predict whether other mandates, from the FCC or other regulatory authorities, will occur in the future or the demands they will place on capital expenditures.

*Our network capacity and customer service system may not be adequate and may not expand quickly enough to support our anticipated customer growth.*

Our financial and operational success depends on ensuring that we have adequate network capacity, sufficient infrastructure equipment and a sufficient customer support system to accommodate anticipated new customers and the related increase in usage of our network. Our failure to expand and upgrade our networks, including through obtaining and constructing additional cell sites, obtaining wireless telephones of the appropriate model and type to meet the demands and preferences of our customers and obtaining additional spectrum, if required, to meet the increased usage could have a material adverse effect on our business. As a result of our dividend policy, our available cash to expand and upgrade our network may be limited.

*The successful operation and growth of our businesses are dependent on economic conditions in Alaska.*

Substantially all of our customers and operations are located in Alaska. Due to our geographical concentration, the successful operation and growth of our businesses is dependent on economic conditions in Alaska. The Alaskan economy, in turn, is dependent upon many factors, including:

the strength of the natural resources industries, particularly oil production;

the strength of the Alaskan tourism industry;

the level of government and military spending; and

the continued growth in services industries.

The customer base for telecommunications services in Alaska is small and geographically concentrated. According to U.S. Census Bureau estimates, the population of Alaska is approximately 649,000, over 60% of whom live in Anchorage, Fairbanks and Juneau. There can be no assurance that Alaska's economy will grow or even be stable.

*We depend on key members of our senior management team.*

Our success depends largely on the skills, experience and performance of key members of our senior management team, as well as our ability to attract and retain other highly qualified management and technical personnel. There is intense competition for qualified personnel in our industry, and we cannot assure you that we will be able to attract and retain the personnel necessary for the development of our business. If we lose one or more of our key employees, or the transition in leadership is not successful, our ability to successfully implement our business plan could be materially adversely affected. We do not maintain any "key person" insurance on any of our personnel.

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

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. If these suppliers experience interruptions or other problems delivering these network components on a timely basis, subscriber growth and our operating results could suffer significantly. Our initial choice of a network infrastructure supplier can, where proprietary technology of the supplier is an integral component of the network, cause us to be effectively locked into one of a few suppliers for key network components. As a result we have become reliant upon a limited number of network equipment manufacturers. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement suppliers or vendors on economically attractive terms, on a timely basis, or at all, which could increase costs and may cause disruption in service.

***Wireless devices may pose health and safety risk, and driving while using a wireless phone may be prohibited; as a result, we may be subject to new regulations, and demand for our services may decrease.***

Media reports have suggested that, and studies have been undertaken to determine whether, certain radio frequency emissions from wireless handsets and cell sites may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. In addition, lawsuits have been filed against other participants in the wireless industry alleging various adverse health consequences as a result of wireless phone usage.

If consumers' health concerns over radio frequency emission increase, they may be discouraged from using wireless handsets, regulators may impose or increase restrictions on the location and operation of cell sites or increase regulation on handsets and wireless providers may be exposed to litigation, which, even if not successful, may be costly to defend. The actual or perceived risk of radio frequency emissions could also adversely affect us through a reduced subscriber growth rate, a reduction in our subscribers, reduced network usage per subscriber or reduced financing available to the wireless communications industry.

In addition, the use of a wireless device while driving may also adversely affect our results of operations. Studies have indicated that using wireless devices while driving may impair a driver's attention. The U.S. Congress has proposed legislation that would seek to withhold a portion of federal funds from any state that does not enact legislation prohibiting an individual from using a wireless telephone while driving motor vehicles. In addition, many state and local legislative bodies have passed or proposed legislation to restrict the use of wireless telephones while driving motor vehicles. Concerns over safety risks and the effect of future legislation, if adopted and enforced in the areas we serve, could limit our ability to market and sell our wireless services and may discourage use of our wireless devices and decrease our revenue from customers who now use their wireless telephones while driving. Further, litigation relating to accidents, deaths or serious bodily injuries allegedly incurred as a result of wireless telephone use while driving could result in damage awards against telecommunications providers, adverse publicity and further governmental regulation. Any or all of these results, if they occur, could have a material adverse effect on our results of operations and financial condition.

***We are subject to environmental regulation and environmental compliance expenditures and liabilities.***

Our business is subject to many environmental laws and regulations, particularly with respect to owned or leased real property relating to our network equipment and tower sites. Some or all of the environmental laws and regulations to which we are subject could become more stringent or more stringently enforced in the future. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement

actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

In addition to operational standards, environmental laws also impose obligations to clean up contaminated properties or to pay for the costs of such remediation. We could become liable, either contractually or by operation of law, for such remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. Moreover, future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to material remediation costs.

***A system failure could cause delays or interruptions of service, which could cause us to lose customers.***

To be successful, we will need to continue to provide our customers reliable service over our network. Some of the risks to our network and infrastructure include:

physical damage to access lines;

power surges or outages;

software defects; and

disruptions beyond our control.

We rely heavily on our networks, network equipment, data and software and the networks of other telecommunications providers to support all of our functions and for substantially all of our revenues. We are able to deliver services only to the extent that we can protect our network systems against damage from power or telecommunication failures, computer viruses, natural disasters, unauthorized access and other disruptions. While we endeavor to provide for failures in the network by providing back-up systems and procedures, we cannot guarantee that these back-up systems and procedures will operate satisfactorily in an emergency. Should we experience a prolonged system failure or a significant service interruption, our customers may choose a different provider and our reputation may be damaged.

***We cannot assure you that we will be able to successfully integrate any acquisitions we may make in the future.***

We continually explore acquisitions. However, any future acquisitions we make may involve some or all of the following risks:

diversion of management attention from operating matters;

unanticipated liabilities or contingencies of acquired businesses;

failure to achieve projected cost savings or cash flow from acquired businesses;

inability to retain key personnel of the acquired business or maintain relationships with its customers;

inability to successfully integrate acquired businesses with our existing businesses, including information-technology systems, personnel, products and financial, computer, payroll and other systems of the acquired businesses;



difficulties in enhancing our customer support resources to adequately service our existing customers and the customers of the acquired businesses; and

difficulty in maintaining uniform standards, controls, procedures, and policies.

As a result of our dividend policy and other factors, we may not have sufficient available cash or access to sufficient capital resources necessary to complete a transaction.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus and the documents incorporated herein by reference include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these provisions. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, pricing plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "aims," "anticipates," "believes," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "should" and variations of these words and similar expressions are intended to identify these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Forward-looking statements by us are based on estimates, projections, beliefs and assumptions of management and are not guarantees of future performance. Such forward-looking statements may be contained in this prospectus under "Prospectus Summary" or "Risk Factors" or may be contained in our Annual Report on Form 10-K or our Quarterly Reports on Form 10-Q, each of which is incorporated herein by reference, under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," among other places. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements made by us as a result of a number of important factors. Examples of these factors include (without limitation):

rapid technological developments and changes in the telecommunications industries;

our competitive environment;

ongoing deregulation (and the resulting likelihood of significantly increased price and product/service competition) in the telecommunications industry as a result of the Telecommunications Act of 1996 and other similar federal and state legislation and the federal and state rules and regulations enacted pursuant to that legislation;

changes in revenue from Universal Service Funds;

regulatory limitations on our ability to change our pricing for communications services;

the possible future unavailability of Statement of Financial Accounting Standards, or SFAS, No. 71, Accounting for the Effects of Certain Types of Regulation, to our wireline subsidiaries;

our ability to bundle our products and services;

possible changes in the demand for our products and services;

changes in general industry and market conditions and growth rates;

changes in interest rates or other general national, regional or local economic conditions;

governmental and public policy changes;

our ability to generate sufficient earnings and cash flows to continue to make dividend payments to our stockholders;

the continued availability of financing in the amounts, at the terms, and subject to the conditions necessary to support our future business;

the success of any future acquisitions;

changes in accounting policies or practices adopted voluntarily or as required by accounting principles generally accepted in the United States; and

the matters described under "Risk Factors."

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this prospectus not to occur. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this prospectus. Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

### **INDUSTRY, MARKET SHARE AND OTHER INFORMATION**

Unless otherwise indicated, information contained in this prospectus concerning the telecommunications industry, our general expectations concerning this industry and our and our competitors' market position and market shares within this industry are based on assumptions and estimates prepared by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the telecommunications industry generally. We believe these estimates are accurate as of the date of this prospectus; however, this information may prove to be inaccurate because, as a result of the method by which we obtained some of the data for our estimates or the nature of the information, it cannot always be verified with certainty. We have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. In addition, we believe that data regarding the telecommunications industry and our market positions and market shares within the telecommunications industry provide general guidance but are inherently imprecise. Further, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" in this prospectus and the various factors discussed in the documents incorporated herein by reference.

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### **DILUTION**

Dilution is the amount by which the portion of the offering price paid by purchasers of our common stock to be sold by us in the offering exceeds the net tangible book value or deficiency per share of our common stock after the offering. Net tangible book value or deficiency per share of our common stock is determined at any date by subtracting our total liabilities from our total assets less our intangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date. Our unaudited net tangible book deficiency, defined as stockholders' deficit, less goodwill, less intangible assets, at September 30, 2004 was approximately \$88.9 million, or approximately \$3.03 per each of the 29,387,159 shares of common stock then outstanding. New investors who purchase shares of our common stock from us may suffer an immediate dilution of the difference between the purchase price per share and our net tangible book value per share at the date they purchase. See the relevant prospectus supplement for the calculation for each specific offering.

### USE OF PROCEEDS

Unless we inform you otherwise in a prospectus supplement, we expect to use the net proceeds from the sale of our common stock from time to time as our board of directors may determine:

for general corporate and other purposes;

to finance acquisitions of other businesses; or

to repay or refinance our indebtedness.

We may temporarily invest net proceeds from the sale of our common stock in short-term securities. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. All proceeds from those sales will be for the accounts of the selling stockholders. See "Selling Stockholders" and "Plan of Distribution."

### SELLING STOCKHOLDERS

We are registering 19,598,879 shares of common stock covered by this prospectus for re-offers and resales by Fox Paine Capital, LLC and its affiliates, the selling stockholders named below. Fox Paine is hereby registering all of the shares of common stock it owns. We are registering these shares to permit the selling stockholders to resell the shares when they deem appropriate. The selling stockholders may resell all, a portion or none of their shares at any time and from time to time. The selling stockholders may also sell, transfer or otherwise dispose of some or all of their shares of our common stock in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. We do not know when or in what amounts the selling stockholders may offer shares for sale under this prospectus. We will pay all expenses incurred with respect to the registration and sale of the shares of common stock owned by the selling stockholders, other than underwriting fees, discounts or commissions, which will be borne by the selling stockholders.

The following table sets forth (i) the selling stockholders, (ii) as of January 4, 2005, the number of shares of common stock that each of the selling stockholders beneficially owns and the number of shares being registered for resale by each of the selling stockholders, and (iii) the number of shares of our common stock that will be beneficially owned by each of the selling stockholders, assuming that all of the shares of common stock offered by the selling stockholders under this prospectus have been sold. The number of shares of common stock outstanding as of January 4, 2005 was 30,695,389.

As used in this prospectus, "selling stockholders" includes the selling stockholders named in the table below and their respective transferees, pledges, donees, heirs or other successors-in-interest selling shares received from the selling stockholders listed below as a gift, partnership distribution or other non-sale-related transfer after the date of this prospectus.

	Number of Shares of Our Common Stock Beneficially Owned Prior to the Offering		Number of Shares of Our Common Stock Being Offered		Number of Shares of Our Common Stock Beneficially Owned After the Offering(1)
Selling Stockholders	Number of Shares	Percentage of Shares Outstanding	Number of Shares	Number of Shares	Percentage of Shares Outstanding
Fox Paine Capital, LLC(2)(3)	19,498,879(4)	63.52%	19,498,879		
Fox Paine & Company, LLC(2)(3)	16,492,802(4)	53.73%	16,492,802		
Fox Paine Capital Fund, L.P.(2)(3)	16,251,658(4)	52.94%	16,251,658		
FPC Investors, L.P.	241,144	*	241,144		
ALEC Coinvestment Fund I, LLC	812,453	2.65%	812,453		
ALEC Coinvestment Fund II, LLC	406,227	1.32%	406,227		
ALEC Coinvestment Fund III, LLC	487,472	1.59%	487,472		
ALEC Coinvestment Fund IV, LLC	487,472	1.59%	487,472		
ALEC Coinvestment Fund V, LLC	812,453	2.65%	812,453		
Bucks Capital, LLC(5)	100,000	*	100,000		

\*

The percentage of shares beneficially owned does not exceed 1% of the class.

(1)

Assumes the sale of all shares of common stock being offered by the selling stockholders. The exact amount of shares that will be held by the selling stockholders after completion of this offering cannot be determined at this time because the selling stockholders may offer and sell some, all or none of their shares. The actual number of shares offered by us and/or by a selling stockholder will be included in any supplements to this prospectus.

(2)

Fox Paine Capital, LLC is General Partner of Fox Paine Capital Fund, L.P. and FPC Investors, L.P., and the Managing Member of ALEC Coinvestment Fund I, LLC, ALEC Coinvestment Fund II, LLC, ALEC Coinvestment Fund III, LLC, ALEC Coinvestment IV, LLC, and ALEC Coinvestment Fund V, LLC, and possesses voting and investment power over all shares held by each of these entities. Fox Paine & Company, LLC is the manager of Fox Paine Capital Fund, L.P. and FPC Investors, L.P. Fox Paine & Company, LLC is not the record owner of any shares of our common stock.

(3)

The address of Fox Paine & Company, LLC is 950 Tower Lane, Suite 1150, Foster City, CA 94404.

(4)

Fox Paine Capital, LLC is General Partner of Fox Paine Capital Fund, L.P. and FPC Investors, L.P., and the Managing Member of ALEC Coinvestment Fund I, LLC, ALEC Coinvestment Fund II, LLC, ALEC Coinvestment Fund III, LLC, ALEC Coinvestment IV, LLC, and ALEC Coinvestment Fund V, LLC, and possesses voting and investment power over all shares held by each of these entities. Fox Paine & Company, LLC is the manager of Fox Paine Capital Fund, L.P. and FPC Investors, L.P. Fox Paine & Company, LLC is not the record owner of any shares of our common stock.

(5)

Mr. Saul A. Fox and Mr. W. Dexter Paine, III are members of Fox Paine Capital, LLC and share voting power of Fox Paine Capital, LLC. In addition, Mr. Fox and Mr. Paine are the managing members of Bucks Capital, LLC. Bucks Capital, LLC is an investment vehicle created for the purposes of allowing selected members of Fox Paine & Company, LLC to invest primarily in selected portfolio companies in which investment funds managed by Fox Paine & Company, LLC invest. None of the shares shown as beneficially owned by Mr. Fox and Mr. Paine are owned of record by these individuals. Mr. Fox and Mr. Paine each disclaim beneficial ownership of the shares owned by Bucks Capital, LLC or the entities of which Fox Paine Capital, LLC is General Partner or Managing Member, except to the extent of their respective pecuniary interest therein.

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Fox Paine and its affiliates hold a majority of our outstanding shares, receives an annual management fee in the amount of 1% of our earnings before interest expense, income taxes and depreciation and amortization, calculated without regard to the fee. The management fee expense for the three and nine months ended September 30, 2004 was \$0.24 million and \$0.76 million, respectively, and for the three and nine months ended September 30, 2003 was \$0.30 million and \$0.87 million, respectively. At September 30, 2004, the payable due to Fox Paine was \$0.77 million.

Messrs. Saul A. Fox and W. Dexter Paine, III are co-founders of, and Chief Executive Officer and President, respectively, of, Fox Paine. Mr. Wray T. Thorn is a former Director of Fox Paine. Each of Messrs. Fox, Paine and Thorn are members of our board of directors.

Our board of directors approved the payment to Fox Paine of a fee equal to 1% of the gross proceeds generated from the sale of our Directories Business, plus expenses in connection with such transaction, including the reimbursement by us of the \$250,000 consulting fee and transaction bonus paid to Mr. Charles E. Robinson, our former President and Chief Executive Officer, under the agreement described below. We paid Fox Paine \$2,095,000 on May 8, 2003.

Fox Paine entered into a consulting agreement with Mr. Robinson, our former chief executive officer, for services rendered for our benefit related to the sale of our Directories Business. Under this agreement, Mr. Robinson received a lump-sum consulting fee and transaction bonus of \$250,000 in May 2003. As described above, Fox Paine was reimbursed for this expense.

Our board of directors approved the payment of a fee to Fox Paine equal to 1% of the funded capital raised through the ACSH senior notes offering and the closing of our existing credit facilities, plus expenses in connection with such transactions. On August 28, 2003, we paid to Fox Paine \$3,759,703 for this fee, excluding expenses.

On September 19, 2003, Fox Paine entered into a consulting agreement with Mr. Robinson. The consulting term began on January 1, 2004 and continued for one year, after which the arrangement was terminated. During the consulting term, Mr. Robinson advised Fox Paine on and evaluated potential opportunities in the telecommunications industry, and Fox Paine paid the former officer a monthly fee of \$20,000 for these services.

On May 14, 1999, we entered into a stockholders' agreement with Fox Paine Capital Fund, L.P. investors affiliated with Fox Paine Capital Fund, L.P. and several non-fund investors, including co-investors and some of our employees listed on the signatures pages to the stockholders' agreement. Under the stockholders' agreement, subject to limited exceptions, Fox Paine Capital Fund, L.P. and its affiliates, as a group, may make up to six demands for registration under the Securities Act of their shares of common stock and have an unlimited number of "piggy-back" registration rights, which allows Fox Paine Capital Fund, L.P. and its affiliates to include their shares in connection with registered offers and sales of our common stock by us. We have included the shares of the selling stockholders covered by this prospectus in accordance with these "piggy-back" registration rights.

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The following unaudited pro forma condensed consolidated financial statements have been derived by the application of pro forma adjustments to our historical consolidated financial statements incorporated by reference into this prospectus. We are providing the following pro forma condensed consolidated financial information to give effect to the disposition of our Directories Business in 2003 because that event was significant to our operations and represents the disposition of a business segment.

An unaudited pro forma condensed consolidated balance sheet as of September 30, 2004 and an unaudited pro forma condensed consolidated statement of operations for the nine months ended September 30, 2004 are not included because the effects of the disposition of our Directories Businesses are already included in our historical consolidated financial statements as of and for that period.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2003 has been prepared to reflect the adjustments as if the disposition of our Directories Business had occurred on January 1, 2003. Only results from continuing operations are depicted. Actual amounts could vary from these pro forma adjustments.

The adjustments illustrate the effect of eliminating the results of operations of the Directories Business and the \$113.5 million gain on disposal, \$4.2 million of foreign exchange gains, and alternative maximum taxes of \$1.1 million associated with its disposition from the unaudited pro forma condensed consolidated statement of operations. We disposed of 99.9% of the Directories Business through two separate sales of our equity interest in this segment during 2003. The disposal of the Directories Business did not qualify as a discontinued operation under accounting principles generally accepted in the United States.



**ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations**  
**For the Year Ended December 31, 2003**  
(in thousands except per share data)

	<b>Historical Consolidated</b>	<b>Pro Forma Directory Adjustments</b>	<b>Pro Forma Consolidated</b>
<b>Operating revenues:</b>			
Local telephone	\$ 215,387	\$	\$ 215,387
Wireless	46,548		46,548
Directory	11,631	(11,631)	
Internet	33,026		33,026
Interexchange	16,956		16,956
<b>Total operating revenues</b>	<b>323,548</b>	<b>(11,631)</b>	<b>311,917</b>
<b>Operating expenses:</b>			
Local telephone, exclusive of depreciation and amortization	116,354		116,354
Wireless, exclusive of depreciation and amortization	31,064		31,064
Directory, exclusive of depreciation and amortization	5,249	(5,249)	
Internet, exclusive of depreciation and amortization	45,523		45,523
Interexchange, exclusive of depreciation and amortization	25,542		25,542
Contract termination and asset impairment charges	54,858		54,858
Depreciation and amortization	82,185	(2)	82,183
Loss (gain) on disposal of assets	(112,622)	113,518	896
<b>Total operating expenses</b>	<b>248,153</b>	<b>108,267</b>	<b>356,420</b>
<b>Operating income (loss)</b>	<b>75,395</b>	<b>(119,898)</b>	<b>(44,503)</b>
<b>Other income (expense):</b>			
Interest expense	(71,470)		(71,470)
Interest income and other	(10,191)	(4,249)	(14,440)
Equity in earnings of investment	783	(783)	
<b>Total other income (expense)</b>	<b>(80,878)</b>	<b>(5,032)</b>	<b>(85,910)</b>
<b>Loss before income taxes</b>	<b>(5,483)</b>	<b>(124,930)</b>	<b>(130,413)</b>
<b>Income taxes</b>	<b>1,095</b>	<b>(1,095)</b>	
<b>Loss from continuing operations</b>	<b>\$ (6,578)</b>	<b>\$ (123,835)</b>	<b>\$ (130,413)</b>
<b>Loss per share from continuing operations basic and diluted</b>	<b>\$ (0.22)</b>	<b>\$ (4.13)</b>	<b>\$ (4.35)</b>
<b>Weighted average shares outstanding basic and diluted</b>	<b>29,980</b>	<b>29,980</b>	<b>29,980</b>

## PLAN OF DISTRIBUTION

We currently intend to offer and sell pursuant to one or more prospectus supplements, from time to time, up to an aggregate of 15,000,000 shares of common stock, in one or more underwritten or other public offerings and at prices and on terms that we determine at the time of the offering. In addition, the selling stockholders currently intend to offer and sell, from time to time, up to an aggregate of 19,598,879 shares of our common stock in one or more underwritten or other public offerings. However, we and/or the selling stockholders also may offer and sell our common stock, as applicable:

through agents or underwriters;

through a block trade in which the broker or dealer engaged to handle the block trade will attempt to sell the shares of our common stock as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

directly to one or more purchasers (through a specific bidding or auction process or otherwise); or

through a combination of any of these methods of sale.

The distribution of our common stock may be effected from time to time in one or more transactions either:

at a fixed price or prices, which may be changed;

at market prices prevailing at the time of sale;

at prices relating to the prevailing market prices; or

at negotiated prices.

Offers to purchase our common stock may be solicited by agents designated by us and/or the selling stockholders from time to time. Any agent involved in the offer or sale of our common stock will be named, and any commissions payable by us and/or the selling stockholders to the agent will be described, in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment. Any agent may be deemed to be an underwriter, as such term is defined in the Securities Act, of the securities so offered and sold.

If we and/or the selling stockholders offer and sell our common stock through an underwriter or underwriters, we and/or the selling stockholders will execute an underwriting agreement with the underwriter or underwriters. The names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transactions, including compensation of the underwriters and dealers, which may be in the form of discounts, concessions or commissions, if any, will be described in the applicable prospectus supplement, which will be used by the underwriters to make resales of our common stock. That prospectus supplement and this prospectus will be used by the underwriters to make resales of our common stock. If underwriters are used in the sale of any of our common stock in connection with this prospectus, those securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices or at varying prices determined by the underwriters and us and/or the selling stockholders at the time of sale. Our common stock may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriters. If any underwriter or underwriters are used in the sale of our common stock, unless otherwise indicated in a related prospectus supplement, the underwriting agreement will provide that the obligations of the underwriters are subject to some conditions

precedent and that with respect to a sale of our common stock the underwriters will be obligated to purchase all such securities if any are purchased.

If any underwriters are involved in the offer and sale of our common stock, they will be permitted to engage in transactions that maintain or otherwise affect the price of the common stock or other securities of ours. These transactions may include over-allotment transactions, purchases to cover short positions created by the underwriter in connection with the offering and the imposition of penalty bids. If an underwriter creates a short position in the common stock in connection with the offering, i.e., if it sells more shares of common stock than set forth on the cover page of the applicable prospectus supplement, the underwriter may reduce that short position by purchasing common stock in the open market. In general, purchases of common stock to reduce a short position could cause the price of the common stock to be higher than it might be in the absence of such purchases. As noted above, underwriters may also choose to impose penalty bids on other underwriters and/or selling group members. This means that if underwriters purchase common stock on the open market to reduce their short position or to stabilize the price of the common stock, they may reclaim the amount of the selling concession from those underwriters and/or selling group members who sold such common stock as part of the offering.

If we and/or the selling stockholders offer and sell our common stock through a dealer, we, the selling stockholders or an underwriter will sell our common stock to the dealer, as principal. The dealer may then resell our common stock to the public at varying prices to be determined by the dealer at the time of resale. Any such dealer may be deemed to be an underwriter, as such term is defined in the Securities Act, of our common stock so offered and sold. The name of the dealer and the terms of the transactions will be set forth in the applicable prospectus supplement.

We and/or the selling stockholders may solicit offers to purchase our common stock directly and we and/or the selling stockholders may sell our common stock directly to institutional or other investors, who may be deemed to be an underwriter within the meaning of the Securities Act with respect to any resales of those securities. The terms of these sales, including the terms of any bidding or auction process, if utilized, will be described in the applicable prospectus supplement.

We and/or the selling stockholders may enter into agreements with agents, underwriters and dealers under which we may agree to indemnify the agents, underwriters and dealers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments they may be required to make with respect to these liabilities. The terms and conditions of this indemnification or contribution will be described in the applicable prospectus supplement.

Some of the agents, underwriters or dealers, or their affiliates may be customers of, engage in transactions with or perform services for us, the selling stockholders or any of our or their affiliates in the ordinary course of business.

We and/or the selling stockholders may authorize our respective agents or underwriters to solicit offers to purchase our common stock at the public offering price under delayed delivery contracts. The terms of these delayed delivery contracts, including when payment for and delivery of our common stock sold will be made under the contracts and any conditions to each party's performance set forth in the contracts, will be described in the applicable prospectus supplement. The compensation received by underwriters or agents soliciting purchases of our common stock under delayed delivery contracts will also be described in the applicable prospectus supplement.

From time to time, the selling stockholders may pledge or grant a security interest in some or all of our shares of common stock owned by them. If the selling stockholders default in the performance of their secured obligations, the pledgees or secured parties may offer and sell such common stock from time to time by this prospectus. The selling stockholders also may transfer and donate our common stock owned by them in other circumstances. The number of shares of our common stock

beneficially owned by selling stockholders will decrease as and when the selling stockholders transfers or donates their shares of our common stock or defaults in performing obligations secured by their shares of our common stock. The plan of distribution for the securities offered and sold under this prospectus will otherwise remain unchanged, except that the transferees, donees, pledgees, other secured parties or other successors in interest will be the selling stockholders for purposes of this prospectus.

If we or the selling stockholders sell any common shares pursuant to a prospectus supplement, the shares will be listed on the Nasdaq National Market subject to official notice of issuance.

## DESCRIPTION OF CAPITAL STOCK

This prospectus contains a summary of the material terms of our capital stock, including our common stock and preferred stock. The following description of our capital stock is subject to, and qualified in its entirety by, our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

Our authorized capital stock consists of 150,000,000 shares, par value \$0.01 per share, consisting of 145,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of January 4, 2005, we had 30,695,389 shares of common stock outstanding. Assuming all of the shares of common stock to be sold by us under this prospectus are sold, there would be 45,695,389 shares of common stock outstanding.

### Common Stock

Subject to the rights of the holders of any preferred stock that may be outstanding, each holder of common stock on the applicable record date is entitled to receive dividends as may be declared by our board of directors out of funds legally available to pay dividends, and, in the event of liquidation, to share ratably in any distribution of our assets after payment or providing for the payment of liabilities and the liquidation preference of any outstanding preferred stock. Common stock will vote together as a single class on all matters presented to a vote of stockholders, including the election of directors. Each holder of common stock is entitled to one vote for each share held of record on the applicable record date for all of these matters. Holders of common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any stock or other securities, and there are no conversion rights or redemption or sinking fund provisions with respect to common stock. All outstanding shares of common stock are, and the shares of common stock sold in the offering will be, when issued, fully paid and nonassessable.

### Preferred Stock

Our board of directors has the authority to issue shares of preferred stock in one or more series and to fix, by resolution, the voting powers, and designations, preferences and relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, including the number of shares in each series (which our board of directors may increase or decrease as permitted by Delaware law), liquidation preferences, dividend rates, conversion rights and redemption provisions of the shares constituting any series, without any further vote or action by the stockholders. Any shares of preferred stock so issued would have priority over the common stock with respect to dividend or liquidation rights or both. Although our board of directors has no present plans to do so, it could issue one or more series of preferred stock, without stockholder approval, that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt.

### Delaware General Corporate Law

Section 203 of the Delaware General Corporation Law (the "DGCL") generally prevents Delaware corporations from engaging under certain circumstances in a business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder. We have opted out of the provisions of Section 203.

### Action By Written Consent

Under the DGCL, unless the certificate of incorporation expressly prohibits action by the written consent for stockholders, any action required or permitted to be taken by our stockholders at a duly

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called annual or special meeting of stockholders may be taken by a consent in writing executed by stockholders possessing the requisite votes for the action to be taken. Our certificate of incorporation does not expressly prohibit action by the written consent of stockholders. As a result, to the extent Fox Paine owns greater than 50% of our total voting power, Fox Paine would be able to take any action to be taken by stockholders without the necessity of holding a stockholders' meeting. We intend, however, to hold annual meetings of stockholders.

### **Limitations on Liability and Indemnification of Officers and Directors.**

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors. Our certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for actions taken as a director, except for liability:

for breach of duty of loyalty;

for acts or omissions not in good faith or involving intentional misconduct or knowing violation of law;

under Section 174 of the DGCL (unlawful dividends or stock repurchases); or

for transactions from which the director derived improper personal benefit.

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

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

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Mellon Investor Services, L.L.C.

### **Listing**

Our common stock is quoted on the Nasdaq National Market under the symbol "ALSK".

## **LEGAL MATTERS**

The validity of the shares of common stock being offered by this prospectus will be passed upon for us by Leonard A. Steinberg, General Counsel of Alaska Communications Systems Group, Inc. As of the date of this prospectus, Mr. Steinberg owns directly 2,411 shares of the Company's common stock and owns beneficially 120,000 shares of the Company's common stock under various option grants, some of which are immediately exercisable. Certain legal matters in connection with the offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York.

## EXPERTS

The consolidated financial statements as of December 31, 2003 and 2002, and for each of the three years in the period ended December 31, 2003 and the related financial statement schedule incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2003 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference (which report expresses an unqualified opinion and includes an explanatory paragraph referring to our adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, and our adoption of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations), and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating by reference certain documents we file with the Securities and Exchange Commission, which means that we can disclose important information to you by referring you to those documents. Any information that we reference this way is considered part of this prospectus. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this prospectus or any prospectus supplement relating to an offering of our securities.

We incorporate by reference into this prospectus the documents listed below and any future filings we make with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of this prospectus and the date of the closing of each offering. These additional documents include periodic reports, such as annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (other than information furnished under Items 2.02 and 7.01, which is deemed not to be incorporated by reference in this prospectus), as well as proxy statements. You should review these filings as they may disclose a change in our business, prospects, financial condition or other affairs after the date of this prospectus.

This prospectus incorporates by reference the documents listed below that we have filed with the SEC but have not been included or delivered with this document:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on March 30, 2004;

Our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2004, June 30, 2004 and September 30, 2004, filed with the Securities and Exchange Commission on May 12, 2004, August, 9, 2004 and November 10, 2004, respectively;

Our Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on July 6, 2004; and

The description of our common stock contained in our Form 8-A filed with the Securities and Exchange Commission on November 17, 1999.

These documents contain important information about us and our financial condition. Information contained in this prospectus supersedes information incorporated by reference that we have filed with the SEC prior to the date of this prospectus, while information that we file with the SEC after the date of this prospectus that is incorporated by reference will automatically update and supersede this information.

#### **WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended, and, as a result, file periodic reports, proxy statements and other information with the Securities and Exchange Commission. We have filed a registration statement on Form S-3 with the Securities and Exchange Commission regarding this offering. The registration statement of which this prospectus is a part contains additional important information about us and our capital stock. The rules and regulations of the SEC allow us to omit from this prospectus certain information that is included in the registration statement of which this prospectus forms a part. You should refer to the registration statement and its exhibits to read that information.

You may read and copy the registration statement, the related exhibits, the periodic reports we file and the other material we file with the Securities and Exchange Commission at its Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the Securities and Exchange Commission at (800) SEC-0330 for further information on the operation of the public reference rooms. The Securities and Exchange Commission also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file with the Securities and Exchange Commission. The site's address is [www.sec.gov](http://www.sec.gov).

Our website is [www.acsalaska.com](http://www.acsalaska.com). Our filings are available on our investor relations website [www.alsk.com](http://www.alsk.com). Information contained in or connected to our website is not a part of this prospectus. You may also request a copy of these filings, at no cost, by writing or telephoning us at:

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



*shares*

*Common stock*

## **Prospectus Supplement**

(To Prospectus Dated January 7, 2005)

**JPMorgan  
CIBC World Markets  
Banc of America Securities LLC**

**Legg Mason Wood Walker  
Incorporated  
Raymond James  
Wells Fargo Securities**

, 2005

You should rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus supplement or contained or incorporated by reference in the accompanying prospectus is accurate as of the date of each such document only, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sale of common stock.

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