ALASKA COMMUNICATIONS SYSTEMS GROUP INC
Form 10-K/A
June 10, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-28167

Alaska Communications Systems Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, Par Value $.01 per Share	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on June 30, 2008 was approximately $516 million computed upon the basis of the closing sales price of the Common Stock on that date. For purposes of this computation, shares held by directors (and shares held by any entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended; nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 20, 2009 there were outstanding 43,726,399 shares of Common Stock, $.01 par value, of the registrant.

Documents Incorporated by Reference

Portions of Registrant s definitive proxy statement for its annual stockholders meeting to be held on June 12, 2009 are incorporated by reference in Part III of this Form 10-K

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Explanatory Note

Alaska Communications Systems Group, Inc. (Company) is filing this Amendment to its Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was originally filed on March 9, 2009.

The purpose of this Amendment is to include the Report of the Independent Public Accounting Firm on Schedule II Valuation and Qualifying Accounts, inadvertently omitted by the Company s independent public accounting firm from its original Report dated March 9, 2009. This Amendment does not modify any of the underlying financial information originally reported. It is administrative in nature and simply extends the audit opinion to cover the work performed by the Company s auditors on Schedule II.

Except as expressly stated in this Amendment, this Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosure contained in the Amendment to reflect events that have occurred since the filing of the Original Filing. Accordingly, this Amendment must be read in conjunction with the Company s other filings, including amendments to those filings, if any.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2008

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Item 8. Financial Statements and Supplementary Data

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

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Alaska Communications Systems Group, Inc.:

We have audited the accompanying consolidated balance sheets of Alaska Communications Systems Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operation, stockholders equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alaska Communications Systems Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alaska Communications System s Group, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 9, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

(signed) KPMG LLP
Anchorage, Alaska
March 9, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Alaska Communications Systems Group, Inc.:

We have audited Alaska Communications Systems Group, Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Alaska Communications Systems Group, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting (Item 9A.(B)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Alaska Communications Systems Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alaska Communications Systems Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 9, 2009 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP
Anchorage, Alaska
March 9, 2009

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Balance Sheets
December 31, 2008 and 2007
(In Thousands, Except Per Share Amounts)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 1,326	$ 35,208
Restricted cash	20,517	2,589
Short-term investments		790
Accounts receivable-trade, net of allowance of $5,912 and $8,768	40,433	39,150
Materials and supplies	9,404	10,467
Prepayments and other current assets	6,515	5,155
Deferred income taxes	21,145	21,347
Total current assets	99,340	114,706
Property, plant and equipment	1,391,351	1,209,257
Less: accumulated depreciation and amortization	(891,899)	(825,663)
Property, plant and equipment, net	499,452	383,594
Non-current investments	1,005	
Goodwill	8,850	38,403
Intangible assets, net	24,118	21,604
Debt issuance cost	9,290	7,461
Deferred income taxes	114,831	96,095
Deferred charges and other assets	452	1,340
Total assets	$ 757,338	$ 663,203
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Current portion of long-term obligations	$ 666	$ 780
Accounts payable, accrued and other current liabilities	74,028	64,070
Advance billings and customer deposits	10,399	10,051
Total current liabilities	85,093	74,901
Non-current obligations, net of current portion	560,857	432,216
Other deferred credits and long-term liabilities	98,693	82,075
Total liabilities	744,643	589,192
Commitments and contingencies		
Stockholders equity (deficit):		
	437	429

Common stock, $.01 par value; 145,000 authorized, 43,719 and 42,883 issued and outstanding, respectively		
Additional paid in capital	217,740	257,982
Accumulated deficit	(187,452)	(177,313)
Accumulated other comprehensive loss	(18,030)	(7,087)
Total stockholders equity (deficit)	12,695	74,011
Total liabilities and stockholders equity (deficit)	$ 757,338	$ 663,203

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Operations
Years ended December 31, 2008, 2007, and 2006
(In Thousands, Except Per Share Amounts)

	2008	2007	2006
Operating revenues:			
Wireline	$ 246,028	$ 248,265	$ 233,351
Wireless	143,569	137,520	115,370
Total operating revenues	389,597	385,785	348,721
Operating expenses:			
Wireline (exclusive of depreciation and amortization)	185,321	179,456	172,421
Wireless (exclusive of depreciation and amortization)	84,751	74,305	62,478
Depreciation and amortization	74,002	71,337	69,096
Loss on disposal of assets, net	750	248	1,105
Loss on impairment of goodwill and intangible assets	29,641		
Total operating expenses	374,465	325,346	305,100
Operating income	15,132	60,439	43,621
Other income and expense:			
Interest expense	(32,921)	(28,386)	(30,445)
Loss on extinguishment of debt		(355)	(9,650)
Interest income	1,695	2,020	1,835
Other	(547)	(776)	8,360
Total other income and expense	(31,773)	(27,497)	(29,900)
Income (loss) before income tax	(16,641)	32,942	13,721
Income tax benefit (expense)	6,502	111,194	(443)
Net income (loss)	$ (10,139)	$ 144,136	$ 13,278
Net income (loss) per share:			
Basic	$ (0.23)	$ 3.38	$ 0.32
Diluted	$ (0.23)	$ 3.26	$ 0.31
Weighted average shares outstanding:			
Basic	43,391	42,701	42,045

Diluted	43,391	44,185	43,387

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Stockholders Equity (Deficit)
and Comprehensive Income (Loss)
Years Ended December 31, 2008, 2007 and 2006
(In Thousands, Except Per Share Amounts)

	Shares	Common Stock	Treasury Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Stockholders Equity (Deficit)
Balance, January 1, 2006	46,230	$ 462	$ (18,443)	$ 333,522	$ (334,727)	$ 322	$ (18,864)
Total comprehensive income					13,278	1,244	14,522
Dividends declared				(36,274)			(36,274)
Stock compensation				7,667			7,667
Surrender of 74 shares to cover withholding taxes on stock based compensation				(872)			(872)
Issuance of common stock, pursuant to stock plans, $.01 par	641	6		2,780			2,786
Retirement of stock held in treasury	(4,549)	(45)	18,443	(18,398)			
Balance, December 31, 2006	42,322	423		288,425	(321,449)	1,566	(31,035)
Total comprehensive income (loss)					144,136	(8,653)	135,483
Dividends declared				(36,840)			(36,840)
Stock compensation				6,390			6,390
Excess tax benefit from share-based payments				755			755
Surrender of 153 shares to cover withholding taxes on stock based compensation				(2,330)			(2,330)
Issuance of common stock,	561	6		1,582			1,588

pursuant to stock plans, $.01 par							
Balance, December 31, 2007	42,883	429		257,982	(177,313)	(7,087)	74,011
Total comprehensive income (loss)					(10,139)	(10,943)	(21,082)
Dividends declared				(37,523)			(37,523)
Stock compensation				8,770			8,770
Purchase of covertible bond call options net of tax benefits of $1,056				(19,375)			(19,375)
Sale of common stock warrants				9,852			9,852
Surrender of 273 shares to cover withholding taxes on stock-based compensation				(3,383)			(3,383)
Issuance of common stock stock, pursuant to stock plans, $.01 par	836	8		1,417			1,425
Balance, December 31, 2008	43,719	$ 437	$	$ 217,740	$ (187,452)	$ (18,030)	$ 12,695

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Cash Flows
Years Ended December 31, 2008, 2007 and 2006
(In Thousands)

	2008	**2007**	**2006**
Cash Flows from Operating Activities:			
Net income (loss)	$ (10,139)	$ 144,136	$ 13,278
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	74,002	71,337	69,096
Loss on disposal of assets, net	750	248	1,105
Loss on impairment of goodwill and intangible assets	29,641		
Gain on sale of long-term investments		(152)	(6,685)
Loss on impairment of non-current investments	245		
Amortization of debt issuance costs and original issue discount	2,539	2,059	5,180
Stock-based compensation	9,477	6,390	7,667
Deferred income taxes	(6,445)	(112,495)	
Excess tax benefit from share-based payments		(755)	
Other non-cash expenses	139	742	234
Changes in components of assets and liabilities:			
Accounts receivable and other current assets	955	(1,896)	2,136
Materials and supplies	1,063	(2,490)	(92)
Accounts payable and other current liabilities	(2,102)	(1,607)	8,823
Deferred charges and other assets	470	(193)	3,856
Other deferred credits	(6,018)	(532)	(13,013)
Net cash provided by operating activities	94,577	104,792	91,585
Cash Flows from Investing Activities:			
Investment in construction and capital expenditures	(125,711)	(62,645)	(59,720)
Change in unsettled construction and capital expenditures	6,056	(509)	(915)
Investment in intangible assets	(2,601)		
Acquisitions, net of cash acquired	(64,960)		
Change in unsettled acquisition costs	4,169		
Purchase of short-term investments	(9,400)	(64,638)	(57,500)
Proceeds from sale of short-term investments	10,190	63,848	68,025
Purchase of non-current investments	(3,625)		
Proceeds from sale of non-current investments	2,375	162	7,663
Placement of funds in restricted accounts	(74,956)	(3,009)	
Release of funds from restricted accounts	57,028	2,120	2,715
Net cash used by investing activities	(201,435)	(64,671)	(39,732)
Cash Flows from Financing Activities:			
Repayments of long-term debt	(7,832)	(5,089)	(61,860)
Proceeds from the issuance of long-term debt	135,000		52,900
Purchase of call options	(20,431)		
Sale of common stock warrants	9,852		

Debt issuance costs	(4,368)		(1,349)
Payment of cash dividend on common stock	(37,287)	(36,697)	(35,475)
Payment of withholding taxes on stock-based compensation	(3,383)	(2,330)	(872)
Excess tax benefit from share-based payments		755	
Proceeds from the issuance of common stock	1,425	1,588	2,786
Net cash provided (used) by financing activities	72,976	(41,773)	(43,870)
Change in cash and cash equivalents	(33,882)	(1,652)	7,983
Cash and cash equivalents, beginning of period	35,208	36,860	28,877
Cash and cash equivalents, end of period	$ 1,326	$ 35,208	$ 36,860
Supplemental Cash Flow Data:			
Interest paid	$ 31,175	$ 28,795	$ 31,280
Income taxes paid	355	545	264
Supplemental Noncash Transactions:			
Property acquired under capital leases	$ 1,359	$ 51	60
Dividend declared, but not paid	9,449	9,226	9,105

See Notes to Consolidated Financial Statements

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2008, 2007 and 2006
(In Thousands, Except Per Share Amounts)

1. DESCRIPTION OF COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alaska Communications Systems Group, Inc. and Subsidiaries (the Company or ACS Group), a Delaware corporation, provides wireline, wireless and other telecommunications and network services to consumer, business, and enterprise customers in the State of Alaska and beyond using its statewide and interstate telecommunications network. The Company was formed in October of 1998 for the purpose of acquiring and operating telecommunications properties.

The accompanying consolidated financial statements for the Company are as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006. They represent the consolidated financial position, results of operations and cash flows of ACS Group and the following wholly owned subsidiaries:

Alaska Communications Systems Holdings, Inc. (ACS Holdings)

ACS of Alaska, Inc. (ACSAK)

ACS of the Northland, Inc. (ACSN)

ACS of Fairbanks, Inc. (ACSF)

ACS of Anchorage, Inc. (ACSA)

ACS Wireless, Inc. (ACSW)

ACS Long Distance, Inc. (ACSLD)

ACS Internet, Inc. (ACSI)

ACS Messaging, Inc. (ACSM)

ACS Cable Systems, Inc. (ACSC)

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

Basis of Presentation

The consolidated financial statements include all majority-owned subsidiaries. In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, intercompany revenue between regulated local telephone companies and all other group companies is not eliminated. All other significant intercompany balances have been eliminated. Certain reclassifications have been made to the 2007 and 2006 balances to conform to the current presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting the financial statements are those related to the realizable value of accounts receivable, long-lived assets, goodwill and intangible assets, legal contingencies, income taxes and network access revenue reserves. These estimates and assumptions are based on management s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes is reasonable under the circumstances. Assumptions are adjusted as facts and circumstances dictate. Illiquid credit markets, volatile equity and energy markets, and declines in consumer spending have combined to increase the uncertainty in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results may differ significantly from those estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements of future periods.

Cash and Cash Equivalents

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

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements, Continued
Years Ended December 31, 2008, 2007 and 2006
(In Thousands, Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

As of December 31, 2008, the Company had placed into escrow $9,739 for the indemnification of the Company in the event of breach by Crest Communications Corporation (Crest) of certain obligations, representations and warranties specified in the Company s agreement to purchase Crest and the completion of certain capital projects; and $8,578 pending completion by Tyco Telecommunications (Tyco) of specified milestones set forth in the Company s agreement with Tyco for the construction of its Alaska Oregon Network (AKORN) fiber optic cable system.

The remaining balance, as well as the prior year balance, consists of certificates of deposit as required under the terms of certain contracts to which the Company is a party. When the restrictions are lifted, the Company will transfer these funds back into its operating accounts.

Short-Term Investments

For purposes of the Consolidated Balance Sheets and Consolidated Statement of Cash Flows , the Company considers highly liquid investments with a maturity at acquisition of more than three months but less than one year to be short-term investments. These investments are classified as available for sale and are stated at estimated fair market value. Income related to these investments is reported as interest income.

Materials and Supplies

Materials and supplies are carried in inventory at the lower of weighted average cost or market. Cash flows related to the sale of inventory, primarily wireless devices and accessories, are included in operating activities in the Company s Consolidated Statement of Cash Flows .

Property, Plant and Equipment

Telephone plant is stated substantially at original cost of construction. Telephone plant retired in the ordinary course of business, together with the cost of removal, less salvage, is charged to accumulated depreciation with no gain or loss recognized. Renewals and betterments of telephone plant are capitalized while repairs, as well as renewals of minor items, are charged to operating expense as incurred. The Company provides for depreciation of telephone plant on the straight-line method, using rates approved by regulatory authorities. The composite annualized rate of depreciation for all classes of telephone property, plant, and equipment was 4.8%, 5.2% and 5.3% for 2008, 2007 and 2006, respectively.

Non-Telephone plant is stated at purchased cost, and when sold or retired a gain or loss is recognized. Depreciation of such property is provided on the straight-line method over its estimated service life ranging from three to 39 years.

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

The Company is also the lessee of various land, building and personal property under operating lease agreements for which expense is recognized on a monthly basis. Increases in rental rates are recorded as incurred which approximates a straight-line method.

Non-current Investments

The Company s non-current investment balance is made up of auction rate securities (ARS). Beginning February 13, 2008, the Company experienced failed auctions for ARS issues and at that time, ceased to purchase auction rate securities. The Company believes that the current lack of liquidity relating to ARS investments will have no impact on the ability to fund ongoing operations and growth initiatives.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements, Continued
Years Ended December 31, 2008, 2007 and 2006
(In Thousands, Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At December 31, 2008, the Company s ARS portfolio was comprised of 100% AAA rated investments. Although the Company has the ability to hold these investments to maturity, an assessment was performed and management determined that the fair value of these securities was other-than-temporarily impaired. The Company has recorded a loss in the Consolidated Statements of Operations for the year ended December 31, 2008 of $245 related to its ARS portfolio. The Company will reassess this conclusion and the remaining portfolio balance in future reporting periods based on several factors, including the success or failure of future auctions, possible failure of the investment to be redeemed, deterioration of the credit ratings of the investments, market risk and other factors.

Goodwill and Intangible Assets

Goodwill and indefinite-lived intangible assets are not amortized but are assessed for impairment on at least an annual basis. In 2008, the Company took a charge for impairment to the goodwill balance on its wireline segment of $29,553 and intangibles of $88. See Note 8 Goodwill and Other Intangible Assets for information regarding the impairment charge recorded.

Debt Issuance Costs

Underwriting and issuance costs associated with the issuance of the Company s senior credit facility and senior unsecured notes are being amortized using the straight-line method, which approximates the effective interest method, over the term of the debt. During 2008, the Company executed a new convertible debt offering that resulted in debt issuance costs of $4,368. During 2007 and 2006, the Company repurchased its 2011 senior unsecured notes which resulted in a write-off of debt issuance costs in 2007 and 2006, of $84 and $1,731, respectively. Debt issuance cost amortization, inclusive of the write-offs, in the Consolidated Statement of Cash Flows for 2008, 2007 and 2006, was $2,539, $1,976 and $3,645, respectively.

Original Issue Discounts

Certain debt instruments of the Company have been issued below their face value, resulting in original issue discounts that are recorded net in long-term debt. These original issue discounts are amortized using the effective interest method. During 2007 and 2006, the Company repurchased its 2011 senior unsecured notes, which resulted in a write-off of original issue discount to expense of $72 and $1,479, respectively. Original issue discount, inclusive of the write-offs, in the Consolidated Statement of Cash Flows for 2008, 2007 and 2006, was zero, $83 and $1,535, respectively.

Capitalized Interest

The Company capitalizes interest charges to its construction in progress based on a weighted average interest cost calculated on the Company s outstanding debt. Interest expense for the year ended December 31, 2008, 2007 and 2006 was $32,921, $28,386 and $30,445, net of capitalized interest of $3,384, $1,904 and $807, respectively.

Preferred Stock

The Company has 5,000, no par, shares authorized, none of which were issued or outstanding at December 31, 2008 and 2007.

Treasury Stock

The Company, with Board of Directors authorization, occasionally repurchases shares of its common stock. Since management originally intended to hold the treasury stock temporarily for later re-issuance, the cost method of accounting for treasury stock was used. On December 15, 2006, the Company s Board of Directors approved the retirement of 100% of the Company s treasury stock.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements, Continued
Years Ended December 31, 2008, 2007 and 2006
(In Thousands, Except Per Share Amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Substantially all recurring service revenues are billed one month in advance and are deferred until earned. Non-recurring and usage sensitive revenues are billed in arrears and are recognized when earned. Certain of the Company s bundled products and services, primarily in wireless, have been determined to be revenue arrangements with multiple deliverables. Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values. Wireless offerings include wireless phones and service contracts sold together in its Company owned stores. The handset and accessories associated with these direct channel sales is recognized at the time the related wireless phone is sold and is classified as equipment sales. Monthly service revenue is recognized as services are rendered.

The Company establishes estimated bad debt reserves against uncollectible revenues incurred during the period. These estimates are derived through a monthly analysis of account aging profiles and a review of historical recovery experience. Receivables are charged off against the allowance when management believes the uncollectability of the receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Company accounts for bad debt expense in accordance with SFAS No. 71 for regulated entities which prescribes that revenue be recognized net of bad debt expense.

Access revenue is recognized when earned. The Company participates in access revenue pools with other telephone companies. Such pools are funded by toll revenue and/or access charges regulated by the Federal Communications Commission (FCC) within the interstate jurisdiction. Much of the interstate access revenue is initially recorded based on estimates. These estimates are derived from interim financial statements, available separations studies and the most recent information available about achieved rates of return. These estimates are subject to adjustment in future accounting periods as additional operational information becomes available for the Company and the other telephone companies. To the extent that disputes arise over revenue settlements, the Company s policy is to defer revenue collected until settlement methodologies are resolved and finalized. At December 31, 2008 and 2007, the Company had deferred revenue of $6,372 and $10,992, respectively, related to its estimate of refundable access revenue. The decrease during the year ended December 31, 2008 of $4,620 was the result of refunds, the settlement of prior period claims and positive settlements with National Exchange Carrier s Association (NECA) and Universal Service Administration Corporation (USAC) regarding our cost studies.

Concentrations of Risk

Cash is maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand. The Company has not experienced any losses on such deposits.

The Company performs credit evaluations of its suppliers and customers. The Company s customers do not, individually, represent a material concentration of risk. During 2008, 2007 and 2006, no customer accounted for 10% of consolidated revenues.

The Company also depends on a limited number of suppliers and vendors for equipment and services for its network, and in the case of the Company s wireless segment, billing processes. If these suppliers experience financial or credit difficulties, service interruptions, patent litigation, or other problems, subscriber growth the Company s operating results could be adversely affected.

Approximately 76% of the Company s employees are represented by the International Brotherhood of Electrical Workers, Local 1547 (IBEW). Management considers employee relations to be satisfactory. However, the Master Collective Bargaining Agreement with the IBEW, as amended, that governs the terms and conditions of employment for all IBEW represented employees working for the Company in the state of Alaska will expire on December 31, 2009. The Company expects to conduct extensive negotiations with the IBEW during 2009.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company utilizes the asset-liability method of accounting for income taxes in accordance with SFAS No. 109 *Accounting for Income Taxes*. Under the asset-liability method, deferred taxes reflect the temporary differences between the financial and tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that management believes it is more likely than not that such deferred tax assets will not be realized.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, which was effective for the Company on January 1, 2007. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The impact of the Company s reassessment of its tax positions in accordance with the adoption of FIN 48 did not have a material impact on the results of operations, financial condition or liquidity. The Company s policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2008, the Company had no accrued income tax interest or penalties. Tax returns prior to 2005 are no longer subject to examination by major tax jurisdictions. The Company is not aware of any material tax contingencies.

Taxes Collected from Customers and Remitted to Government Authorities

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

Regulatory Accounting and Regulation

The local telephone exchange operations of the Company account for costs in accordance with the accounting principles for regulated enterprises prescribed by 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, 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. The Company s cost studies and depreciation rates are subject to periodic audits that could result in reductions of revenues.

The Company utilizes blended depreciation rates for financial reporting, which management believes approximates the economical useful lives of the underlying plant. As a result, the Company has recorded a regulatory asset, as of December 31, 2008 and 2007, related to depreciation of the regulated telephone plant allocable to its intrastate and local jurisdictions. The balances at December 31, 2008 and 2007 are $63,363 and $65,271, respectively. The Company also has a regulatory liability of $64,117 and $62,443 at December 31, 2008 and 2007, respectively, related to accumulated removal costs for its local telephone subsidiaries. If the Company were not following SFAS No. 71, it would have followed SFAS No. 143, *Accounting for Asset Retirement Obligations* for asset retirement obligations associated with its regulated telephone plant. Non-regulated revenues and costs incurred by the local telephone exchange operations and non-regulated operations of the Company are not accounted for under SFAS No. 71 principles. In accordance with industry practice and regulatory requirements, revenue generated between regulated and non-regulated group companies are not eliminated on consolidation; these revenues totaled $41,597, $38,417 and $32,814 for the years ended December 31, 2008, 2007 and 2006, respectively.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Non-Operating Expense

The Company periodically evaluates the fair value of its investments and other non-operating assets against their carrying value whenever market conditions indicate a change in that fair value. Any changes relating to declines in the fair value of non-operating assets are charged to non-operating expense under the caption Other in the Consolidated Statement of Operations.

Derivative Financial Instruments

The Company recognizes all derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The accounting for changes in fair value of a derivative depends on the intended use of the derivative and its designation as a hedge. Derivatives that are not hedges are adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in fair value either offset the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or are recognized in other comprehensive income until the hedged transaction is recognized in earnings. The change in a derivative s fair value related to the ineffective portion of a hedge, if any, is immediately recognized in earnings. The Company does not enter into any derivative contracts for speculative purposes. On the date a derivative contract is entered into, the Company designates the derivative as either a fair value or cash flow hedge. The Company formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If the Company determines that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company would discontinue hedge accounting prospectively.

Dividend Policy

Dividends are payable when, as, and if declared by the Company s Board of Directors. In 2008, 2007 and 2006, the Company s board of directors declared quarterly cash dividends. Dividends on the Company s common stock are not cumulative.

Share-Based Payments

The Company accounts for share-based payments under SFAS No. 123(R), *Share-Based Payment*, which requires measurement of compensation cost from January 1, 2005, for all unvested stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value for each stock option granted was estimated at the date of grant using a Black-Scholes option pricing model. Expected volatilities are based on historical volatilities of our common stock; the expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and our historical exercise patterns; the dividend yield is based on dividend yield of the option strike price at grant date; and the risk free interest rate on the grant date, for which the Company uses the lowest then effective Federal Funds interest rate stated by the Board of Governors of the Federal Reserve System. The Company determines the fair value of restricted stock based on the number of shares granted and the quoted market price of the Company s common stock on the date of grant, discounted for estimated dividend payments that do not accrue to the employee during the vesting period. Stock-based compensation is treated as a temporary difference for income tax purposes and increases deferred tax assets until the compensation is realized for income tax purposes. To the extent that the realized tax benefit exceeds the book based compensation, the excess tax benefit is credited to additional paid in capital.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the second quarter of 2008, the Company granted performance stock units (PSUs) to certain executive employees contingent upon satisfaction of established performance goals. Compensation expense is recorded over the expected performance period, which is estimated by the Compensation Committee of the Company s Board of Directors. The Company re-measures the fair value of each PSU at each reporting period and records adjusted expense attributable to such period based on changes to the expected performance period or fair value of the Company s common stock or if the PSUs otherwise vest, expire, or are determined by the Compensation Committee to be unlikely to vest prior to expiration.

In September 2008, the Company began issuing stock-settled stock appreciation rights (SSARs) to certain of its executive officers. The Company computes the fair value of each SSAR at the date of grant using the same Black-Scholes pricing methodology that its uses to compute the fair value of a stock option on the Company s common stock.

Additionally, in the third quarter of 2008, the Company awarded restricted stock unit equivalents (RSUEs) to our Chief Executive Officer. These RSUEs are required to be settled in shares of the Company s common stock on a one-for-one basis on July 31, 2009, unless stockholder approval is not obtained, in which case they will be settled in cash. Compensation expense was recorded upon award and is adjusted at the close of each reporting period based upon the fair value of the Company s common stock until the RSUEs are converted to shares of common stock or paid in cash.

Accounting for Pensions

The Company accounts for pensions in accordance with FASB Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement requires an employer to recognize in its statement of financial position the over-funded or under-funded status of a defined benefit post-retirement plan measured as the difference between the fair value of a plan s assets and the benefit obligation. Employers must also recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period. The adoption of the standard, effective December 31, 2006, had no impact as the plan is frozen.

On December 23, 2008, President Bush signed the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA), which is designed to provide funding relief for certain defined benefit plans. Under the Pension Protection Act (PPA), and prior to enactment of WRERA, the Company was required to maintain a 92% funding level during 2008 to continue to qualify for transitional relief provided under the PPA. In the absence of any such transitional relief, any shortfall in funding below 100% would have been amortized and payable over a 7-year period. For most defined benefit plans, including the Company s single-employer plans, WRERA reduces the shortfall amount that is required to be amortized over a 7-year period to 92%, rather than 100%, for 2008. The Company is currently undertaking a review of WRERA to quantify its effect, if any, on the Company s obligation to make contributions during 2009.

Earnings per Share

The Company computes earnings per share based on the weighted number of shares of common stock and dilutive potential common share equivalents outstanding.

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2. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Components of accumulated other comprehensive income (loss) were comprised of the following:

	December 31,		
	2008	**2007**	**2006**
Minimum pension liability adjustment (1)	$ (6,700)	$ (2,855)	$ (4,188)
Tax effect of pension liability (2)	2,754	1,174	
Interest rate swap marked to fair value	(23,917)	(9,179)	5,754
Tax effect of interest rate swap (2)	9,833	3,773	
Total accumulated other comprehensive income (loss)	$ (18,030)	$ (7,087)	$ 1,566

(1) Liability adjustment is recorded pursuant to the Company s December 31, 2006, adoption of SFAS No. 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.*

(2) Tax effect is recorded pursuant to the 2007 release of the Tax Valuation Allowance. See Note 13 Income Taxes.

Components of other comprehensive income (loss) was comprised of the following:

	Year Ended December 31,		
	2008	**2007**	**2006**

Minimum pension liability adjustment	$ (3,845)	$ 1,333	$ 234
Tax effect of pension liability	1,580	1,174	
Interest rate swap marked to fair value	(14,738)	(14,933)	1,010
Tax effect of interest rate swap	6,060	3,773	
Total comprehensive income (loss)	$ (10,943)	$ (8,653)	$ 1,244

3. CREST COMMUNICATIONS ACQUISITION

Effective October 30, 2008, the Company closed its purchase of 100% of the outstanding stock of Crest Communications Corporation. The results of Crest s operations have been included in the Wireline segment of the Consolidated Financial Statements since that date. Crest s operations include an undersea fiber system of approximately 1,900 miles with cable landing facilities in Whittier, Juneau, and Valdez, Alaska and Nedonna Beach, Oregon. The system also includes terrestrial transport components linking Nedonna Beach, Oregon to the Network Operations Control Center in Hillsboro, Oregon and collocation facilities in Portland, Oregon and Seattle, Washington. The Company s management believes that the acquisition will complement the AKORN fiber build, by providing meaningful operating efficiencies and cost synergies, by offering enterprise customers the only diverse and redundant routing of traffic between Alaska and the lower 48, by allowing management the use of Network Operations Control Centers in Alaska and the lower 48, and by connecting our network to Southeast Alaska. Furthermore, management believes that the acquisition will drive incremental utilization of ACS differentiated Alaskan terrestrial assets from Crest s customer base and allow ACS to participate in the fast-growing bandwidth market ahead of AKORN s commercial launch.

The aggregate purchase price was $64,960, net of $1,072 in cash acquired and inclusive of $4,169 cash consideration that has been placed in an escrow account to be used for the settlement of any potential claims of misrepresentations, breach of warranties or covenants or for other indemnifications during the first eighteen months following the closing. The Company and Crest have made customary representations and warranties and covenants in the Agreement. Additionally, $4,000 has been deferred and placed in escrow until claims made by the Company against the selling stockholders for an unauthorized asset sale have been resolved.

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3. CREST COMMUNICATIONS ACQUISITION (Continued)

A valuation of the business enterprise and acquired assets and liabilities was performed resulting in a determination that the fair value of the business enterprise was greater than the total acquisition price. The major asset acquired was the Northstar fiber network connecting Alaska with the lower 48, which was valued at replacement cost. In accordance with SFAS No. 141, *Business Combinations* (SFAS 141), the total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on a pro-rata reduction of their estimated fair value at the date of acquisition. Certain purchase price adjustments are still under review and therefore the purchase price allocation is still subject to refinement. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of the acquisition after push-down of the excess.

		October 30, 2008
Current Assets	$	5,434
Property and equipment		61,685
Other assets		10
Deferred tax asset		3,393
Total assets acquired		70,522
Current liabilities		2,007
Long-term liabilities		2,483
Total liabilities assumed		4,490
Net assets acquired	$	66,032

4. FAIR VALUE MEASUREMENTS

The Company adopted the disclosure requirements of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157) effective January 1, 2008. SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. The valuation techniques required by SFAS No. 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1- Quoted prices for identical instruments in active markets.

Level 2- Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable; and

Level 3 Significant inputs to the valuation model are unobservable. The fair values of cash and cash equivalents, accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying values due to their short-term nature.

Fair Value Measurements on a Recurring Basis

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

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 at each hierarchical level:

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4. FAIR VALUE MEASUREMENTS (Continued)

		Fair Value Measurement at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Non-current investments	$ 1,005	$	$	$ 1,005
Liabilities:				
Other deferred credits and long-term liabilities	$ (23,917)	$	$ (23,917)	$

The following table presents the recociliation discoloures about fair value measurements at December 31, 2008 using significany unobservable (Level 3).

	Auction Rate Securities
Beginning balance, January 1, 2008	$
Total gains or losses (realized / unrealized) included in earnings	(245)
Purchases, issuances and settlements	1,250
Ending balance, December 31, 2008	$ 1,005
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2008	$ 245

Non-current investments consist of auction rate securities that have maturity dates greater than one year from December 31, 2008. The investments in auction rate securities are included in Level 3 as no active market or significant other observable inputs exist. The Company assigned a value to its ARS portfolio by reviewing the value assigned to similar securities by brokerages, relative yields, and assessing credit risk. An assessment was also done in which management determined that the securities were other-than-temporarily impaired, and in 2008, a charge was taken to the income statement of $245.

Included in liabilities, in other deferred credits and long-term liabilities, are derivative contracts, comprised of out-of-the-money interest rate swaps, that are valued using models based on readily observable market parameters for all substantial terms of the derivative contracts and thus are classified within Level 2.

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying value due their short-term nature. The fair value of the Company s 2005 senior credit facility, convertible notes, revolver draw, capital leases and other long-term obligations, of $443,358 and

$432,996, at December 31, 2008 and 2007, respectively, were estimated based on quoted market prices. Comparatively, the carrying values of these liabilities were $561,523 and $432,996 at December 31, 2008 and 2007, respectively.

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4. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Measurements on a Nonrecurring Basis

In February 2008, the FASB issued Financial Statement of Position (FSP) SFAS 157-2, *Effective Date of FASB Statement No. 157*, which deferred the effective date of SFAS No. 157 for one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB also issued FSP SFAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies the application of SFAS No. 157 in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. On January 1, 2008, the Company adopted, without material impact on our consolidated financial statements, the provisions of SFAS No. 157 related to financial assets and liabilities and to non-financial assets and liabilities measured at fair value on a recurring basis. Beginning January 1, 2009, the Company will adopt the provisions required related to nonfinancial assets and non-financial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, non-financial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. We do not expect the provisions of SFAS No. 157 related to these items to have a material impact on our consolidated financial statements.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115 (SFAS No. 159)

SFAS No. 159 permits but does not require the measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As the Company did not elect to fair value any of our financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective January 1, 2008 did not have an impact on the Company s financial statements.

5. ACCOUNTS RECEIVABLE

Accounts receivable trade consists of the following at December 31, 2008 and 2007:

	2008	**2007**
Customers	$ 30,420	$ 34,277
Connecting companies	8,460	6,901
Other	7,465	6,740
	46,345	47,918
Less: allowance for doubtful accounts	(5,912)	(8,768)
Accounts receivable trade, net	$ 40,433	$ 39,150

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6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2008 and 2007:

	2008	2007
Land, buildings and support assets	$ 235,324	$ 204,858
Central office switching and transmission	344,532	332,528
Outside plant cable and wire facilities	585,288	524,925
Wireless switching and transmission	98,300	98,151
Other	2,822	6,022
Construction work in progress	125,085	42,773
	1,391,351	1,209,257
Less: accumulated depreciation and amortization	(891,899)	(825,663)
Property, plant and equipment, net	$ 499,452	$ 383,594

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

	2008	2007
Land, buildings and support assets	$ 17,665	$ 12,621
Outside plant cable and wire facilities	2,115	2,115
	19,780	14,736
Less: accumulated depreciation and amortization	(7,266)	(7,910)
Property held under capital leases, net	$ 12,514	$ 6,826

Amortization of assets under capital leases included in depreciation expense in 2008, 2007 and 2006 was $938, $1,189 and $1,205, respectively. Future minimum payments under these leases for the next five years and thereafter are as follows:

2009	$ 1,209
2010	1,212
2011	1,218
2012	1,217
2013	871
Thereafter	2,469
	$ 8,196

The Company leases various land, buildings, right-of-ways and personal property under operating lease agreements. Rental expense under operating leases for 2008, 2007 and 2006 was $7,559, $6,135 and $4,725, respectively.

Future minimum payments under these leases for the next five years and thereafter are as follows:

2009	$ 7,617
2010	6,901
2011	5,808
2012	5,332
2013	5,090
Thereafter	59,128
	$ 89,876

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7. ASSET RETIREMENT

The Company accounts for asset retirement obligations in accordance with FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*. FIN No. 47 requires the Company to recognize asset retirement obligations which are conditional on a future event. Uncertainty about the timing or settlement of the obligation is factored into the measurement of the liability. The Company has a regulatory asset and liability of $64,117 and $62,443 at December 31, 2008 and 2007, respectively, related to accumulated removal costs for its local telephone subsidiaries. Consistent with the industry, the Company follows SFAS No. 71 for asset retirement obligations associated with its regulated telephone plant. The Company s assets are pooled and the depreciable lives set by the regulators include a removal component which in effect accounts for the cost of removal. Non-regulated operations of the Company are accounted for under the principles of SFAS No. 143, *Accounting for Asset Retirement Obligations* and FIN No. 47 for which the Company has a retirement obligation of $1,969 and $1,411. These balances were recorded as a result of the Company s estimated obligation related to the removal of certain cell sites at the end of their operating lease term, adjusted for accretion/depreciation over the life of the lease. Also included in this balance is an acquired liability for $380, related to the removal of batteries in the Company s new cable operations.

The following table outlines the changes in the accumulated retirement obligation liability:

Balance, January 1, 2007	$ 1,171
Asset retirement obligation	143
Accretion expense	99
Settlement of lease obligations	(2)
Balance, December 31, 2007	$ 1,411
Asset retirement obligation	119
Accretion acquired	380
Accretion expense	117
Settlement of lease obligations	(58)
Ending Balance, December 31, 2008	$ 1,969

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company performs its annual impairment test for goodwill in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*. The Company performs its annual impairment test as of the beginning of the fourth quarter or more frequently if events or changes in circumstance indicate possible impairment. The Company determines the fair value of each reporting unit for purposes of this test primarily by using a discounted cash flow valuation technique corroborated by comparative market multiples to determine the fair value of its businesses for comparison to their corresponding book values. 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. If the book value exceeds the estimated fair value for a reporting unit, a potential impairment is indicated and SFAS No. 142 prescribes the approach for determining the impairment amount, if any.

After conducting its 2008 test, the Company determined that goodwill attributable to its wireline operating segment was impaired resulting in an aggregate goodwill impairment charge of $29,553 that was recognized in the fourth quarter of 2008. The goodwill impairment charge is primarily driven by adverse equity market conditions, the industry transition from wireline to wireless products and services, decrease in current market multiples and the decline in the Company s stock price. This impairment charge reduces goodwill but does not impact the Company s overall business operations or cash flows. The tax benefit derived from recording the impairment charge was recorded as a deferred income tax benefit and is included in the deferred tax assets as part of the net operating loss carry forwards. Prior to recording the goodwill impairment charges, the Company tested the amortizable intangible assets and other long-lived assets as required by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, and determined no impairment existed.

The Company also annually reassesses previously recognized intangible assets. Cellular and PCS licenses have terms of 10 years, but are renewable indefinitely through a routine process involving a nominal fee. The Company has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its Cellular and PCS licenses. Therefore, the Company is not amortizing its Cellular and PCS licenses based on the determination

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8. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

that these assets have indefinite lives. The Company evaluates its determination of indefinite useful lives for its Cellular and PCS licenses each reporting period. Indefinite lived intangible assets are tested for impairment at least annually by comparing the fair value of the assets to their carrying amount. In 2008, the Company determined that the domain and trade names associated with its wireline segment were impaired and the balance of $88 was taken as an impairment loss.

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their residual values and reviewed for impairment in accordance with the provisions of SFAS 144. The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset by segment as of December 31, 2008 and 2007 based on the Company s reassessment of previously recognized intangible assets and their remaining amortization lives:

	Wireline	Wireless	Total
Goodwill:			
Balance, January 1, 2008	$ 29,553	$ 8,850	$ 38,403
Impairment loss	(29,553)		(29,553)
Balance, December 31, 2008	$	$ 8,850	$ 8,850
Indefinite-lived intangible assets:			
Domain names and trade names	$ 88	$	$ 88
Cellular licenses		18,193	$ 18,193
PCS licenses		3,323	3,323
Balance, January 1, 2008	$ 88	$ 21,516	$ 21,604
Spectrum licenses		$ 2,602	$ 2,602
Impairment loss	(88)		(88)
Balance, December 31, 2008	$	$ 24,118	$ 24,118

In 2007, the Company retired its only definite-lived intangible asset. This asset had a carrying value of zero at its retirement date. Amortization expense on that asset for the years ended December 31, 2008 and 2007 was zero and in 2006 was $91.

9. ACCOUNTS PAYABLE, ACCRUED AND OTHER CURRENT LIABILITIES

Accounts payable, accrued and other current liabilities consist of the following at December 31, 2008 and 2007:

	2008	2007
Accounts payable trade	$ 23,854	$ 19,160
Accrued payroll, benefits, and related liabilities	16,822	18,715
Dividend payable	9,449	9,226
Access revenue subject to refund	5,226	4,097
Unsettled acquisition costs	4,169	
Other	14,508	12,872

	$ 74,028	$ 64,070

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10. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31, 2008 and 2007:

	2008	2007
2005 senior credit facility term loan due 2012	$ 425,889	$ 427,900
5.75% convertible notes due 2013	125,000	
Revolving credit facility loan	5,000	
Capital leases and other long-term obligations	5,634	5,096
	561,523	432,996
Less current portion	(666)	(780)
Long-term obligations, net of current portion	$ 560,857	$ 432,216

The aggregate maturities of long-term obligations for each of the five years and thereafter subsequent to December 31, 2008 are as follows:

2009	$ 666
2010	737
2011	5,820
2012	551,792
2013	644
Thereafter	1,864
	$ 561,523

2005 Senior Credit Facility

During the first quarter of 2005, the Company completed refinancing transactions whereby it entered into a new $380,000 senior secured credit facility, the (2005 senior credit facility), which consisted of $335,000 of term loan borrowings and a $45,000 revolving loan facility.

On July 15, 2005, the Company completed a refinancing transaction whereby it amended and entered into a new term loan under its 2005 senior credit facility with substantially the same terms, increasing the size of the facility to $420,000. In February 2006, the Company amended its 2005 senior credit facility, increasing the $375,000 term loan under the facility by $52,900 and re-priced the facility to London Inter-Bank Offered Rate (LIBOR) plus 1.75% from LIBOR plus 2.00%. The amendment and the re-price became effective as of February 23, 2006 and February 22, 2006, respectively. The amendment permitted ACS Holdings to purchase any and all of its currently outstanding 9 7/8 % Senior Notes due 2011.

The $425,889 term loan balance under the 2005 senior credit facility was first drawn on February 1, 2005, and generally bears interest at an annual rate of LIBOR plus 1.75%, with a term of seven years from the date of closing and no scheduled principal payments before maturity. However, in conjunction with the new convertible debt offering in 2008, the Company paid down $2,011 of the term loan principal balance. At December 31, 2008 the Company had drawn $5,000 from its revolving credit facility leaving a remaining $40,000 un-drawn. To the extent drawn, the revolving credit facility bears interest at an annual rate of LIBOR plus 2.00% and has a term of six years from the date of closing. To the extent the $45,000 revolving credit facility under the 2005 senior credit facility is un-drawn, the Company will pay an annual commitment fee of 0.375% of the un-drawn principal amount over its term. The

Company also entered into floating-to-fixed interest rate swaps with total notional amounts of $135,000, $85,000, $40,000, $115,000 and $52,900, which swap the floating interest rate on the entire term loan borrowings under the 2005 senior credit facility for remaining periods at December 31, 2006 which range from one to three years, at a fixed rate of 5.88%, 6.25%, 6.18%, 6.71% and 6.75% per year, respectively, inclusive of the 1.75% premium over LIBOR. The swaps are accounted for as cash flow hedges.

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10. LONG-TERM OBLIGATIONS (Continued)

The 2005 senior secured credit facility contains a number of restrictive covenants and events of default, including covenants limiting capital expenditures, incurrence of debt and payment of dividends. The 2005 senior credit facility also requires that we achieve certain financial ratios quarterly and we are currently operating comfortably within these restrictions.

5.75% Convertible Notes due 2013

On April 8, 2008 the Company closed the sale of $125,000 aggregate principal amount of its 5.75% Convertible Notes due March 1, 2013. The notes were sold in a private placement pursuant to Rule 144A under the Securities Act of 1933. The Company received net proceeds from the offering of $110,053 after underwriter fees, the convertible note hedge, proceeds from the warrant and other associated costs.

The notes are unsecured obligations of the Company, subordinate to its obligations under its senior credit facility, will pay interest semi-annually in arrears on March 1 and September 1 of each year and will be convertible upon satisfaction of certain conditions. Upon conversion, holders will receive an amount in cash, shares of ACS common stock or a combination of both. The notes are guaranteed by substantially all of the Company s existing subsidiaries. Holders of the notes will have the right to require the Company to repurchase all or some of their notes at 100% of their principal, plus any accrued interest, upon the occurrence of certain events. The Company also entered into a registration rights agreement with the initial purchasers of the notes. Under the registration rights agreement, the Company is obligated under certain circumstances to file a shelf registration statement under the Securities Act related to the resale of the notes and the common stock issuable upon conversion of the notes. If such registration statement is required and is not filed, or does not become effective within specified time periods, the Company will be required to pay additional interest to holders of the notes.

Concurrent with the issuance of the notes, the Company entered into convertible note hedge transactions with an affiliate of one of the initial purchasers and certain other financial institutions for the purpose of reducing the potential dilution to common stockholders. If the Company is required to issue shares of its common stock upon conversion of the notes, the Company has the option of receiving up to 9,266 shares of its common stock when the price is between $12.90 and $16.42 per share upon conversion. The Company entered into warrant transactions with the same counterparties whereby the financial institutions have the option of receiving up to the same number of shares of the Company s common stock when the price exceeds $16.42 per share upon conversion. The convertible note hedge had a cost of $20,431 and has been accounted for as an equity transaction in accordance with Emerging Issues Task Force (EITF) No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially settled in, a Company s Own Stock.* Tax benefits of $1,056 were recorded for the twelve months ended December 31, 2008, as an offset to the hedge. All future tax benefits from the deduction related to the purchase of the call option, as part of the convertible note hedge transaction, will be recorded to additional paid in capital over the term of the hedge transaction. The Company received proceeds of $9,852 related to the sale of the warrants, which has also been classified as equity because they meet all of the equity classification criteria within EITF No. 00-19. Further, the Company expects the adoption of FSP APB 14-1 to increase the interest expense on the 5.75% Convertible Notes due 2013 recorded in the results of operations by an annual amount of approximately $6.5 million.

The call options purchased and warrants sold contemporaneously with the sale of the convertible notes are equity contracts that meet the paragraph 11(a) scope exception of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and hence do not need to be marked-to-market through earnings. In addition, since the call option and warrant transactions are accounted for as equity transactions, the payment associated with the purchase of the call options and the proceeds received from the issuance of the warrants were recorded in additional paid in capital in stockholders equity as separate equity transactions.

Each $1,000 principal of the notes are convertible unto 77.5014 shares of the Company s common stock, which is the equivalent of $12.90 per share, subject to adjustment upon the occurrence of specified events set forth under the terms of the note. Upon conversion, subject to certain covenants under its existing credit facility, the Company intends to pay the holders the cash value of the applicable number of shares of its common stock, up to the principal amount of the note.

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10. LONG-TERM OBLIGATIONS (Continued)

Amounts in excess of the principal balance may be paid in cash or in stock at the Company s option. Holders may convert their notes, at their option, at any time prior to the close of business on the business day immediately preceding the maturity date for the notes under the following circumstances:

(1) during any fiscal quarter after the fiscal quarter ended June 30, 2008 (and only during any such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is equal to or more than 130% of the conversion price of the notes on the applicable trading day;

(2) during the five scheduled trading day period after any five consecutive trading-day period (the measurement period) in which the trading price per $1,000 principal amount of the notes for each day of the measurement period was less than the 98.0% of the product of the last reported sale price of the Company s common stock and the conversion rate of the notes on each such day; or

(3) upon the occurrence of specified corporate transactions described in the indenture governing the notes.

In addition, holders may also convert their notes at their option at any time beginning on November 1, 2012, and ending at the close of business on the second scheduled trading day immediately preceding the maturity date for the notes, without regard to the foregoing circumstances.

Holders who convert their notes, in connection with a change of control, may be entitled to a make-whole premium in the form of an increase in the conversion rate. In addition, upon a change in control, liquidation, dissolution or de-listing, the holders of the notes may require the Company to repurchase for cash all or any portion of their notes for 100% of the principal amount plus accrued and unpaid interest. As of December 31, 2008, none of the conditions allowing holders of the notes to convert, or requiring the Company to repurchase the notes, had been met. The Company may not redeem the notes prior to maturity.

While it is the Company s intent to settle the principal portion of this debt in cash, under the provisions of, EITF No. 04-08, *The Effect of Convertible Instruments on Diluted Earnings per Share*, the Company must use the if converted method set forth in SFAS No. 128, *Earnings per Share,* in calculating the diluted earnings per share effect of the assumed conversion of our contingently convertible debt. Under the if converted method , the after tax effect of interest expense related to the convertible securities is added back to net income, and the convertible debt is assumed to have been converted in to common stock at the earlier of the debt issuance date or the beginning of the period.

Also in accordance with SFAS No. 128, the warrants sold in connection with the hedge transaction will have no impact on earnings per share until the Company s share price exceeds $16.42. Prior to exercise, the Company will include the effect of additional shares that may be issued using the treasury stock method. The call options purchased as part of the hedging transaction were anti-dilutive as of December 31, 2008 and, therefore, will have no effect on earnings per share.

Repurchased 9 7/8% Senior Unsecured Notes due 2011

In January and February 2006, the Company s subsidiary, ACS Holdings, repurchased $8,039 principal amount of its existing 9 7/8% senior unsecured notes due 2011 (CUSIP No. 011679AF4) at a weighted average premium of 9.7% over the par value. The Company incurred an early extinguishment of debt charge of $1,227 in connection with this transaction, inclusive of $778 in cash premiums. In February 2006, ACS Holdings commenced a cash tender offer for any and all of the $56,939 aggregate principal amount of outstanding 9 7/8% senior unsecured notes due 2011 issued by ACS Holdings. On February 23, 2006, the Company successfully repurchased $52,899 of the remaining $56,939 outstanding principal balance of these notes. The Company incurred an early extinguishment of debt charge of $8,423 in connection with this transaction, inclusive of $5,640 in cash premiums. On August 15, 2007, the Company successfully repurchased the remaining $4,040 outstanding principal balance of these notes. The Company incurred an early extinguishment of debt charge of $355 in connection with this transaction, inclusive of $199 in cash premiums.

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10. LONG-TERM OBLIGATIONS (Continued)

Capital Leases and Other Long-term Obligations

The Company has entered into various capital leases and other financing agreements totaling $5,634 and $5,096 with a weighted average interest rate of 10.16% and 9.94% at December 31, 2008 and 2007, respectively.

11. OTHER DEFERRED CREDITS AND LONG-TERM LIABILITIES

Deferred credits and other long-term liabilities consist of the following at December 31, 2008 and 2007:

	2008	2007
Regulatory liabilities accumulated removal costs	$ 64,117	$ 62,443
Interest rate swaps	23,917	9,179
Refundable access revenue	1,146	6,895
Pension liability	3,556	
Other deferred credits	5,957	3,558
	$ 98,693	$ 82,075

12. NON-OPERATING CHARGES

The Company periodically evaluates the fair value of its investments and other non-operating assets against their carrying value whenever market conditions indicate a change in that fair value. Any changes relating to declines in the fair value of non-operating assets are charged to non-operating expense under the caption Other in the Consolidated Statement of Operations .

13. INCOME TAXES

The following table includes a reconciliation of federal statutory tax at 35%, 35%, and 34%, respectively, to the recorded tax (expense) benefit, for the years ended December 31, 2008, 2007 and 2006, respectively.

	2008	2007	2006
Computed federal income taxes at the statutory rate	$ 5,824	$ (11,530)	$ (4,665)
(Increase) reduction in tax resulting from:			
State income taxes (net of federal benefit)	966	(2,254)	(799)
Excess compensation not allowed		(209)	(60)
Other	197	(183)	(771)
Rate change		3,361	
Stock-based compensation	(485)	(489)	747
Valuation allowance		122,498	5,105
Total income tax benefit (expense)	$ 6,502	$ 111,194	$ (443)

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13. INCOME TAXES (Continued)

The Company files a consolidated federal income tax return. The income tax provision for the years ended December 31, 2008 and 2007 comprised of the following charges:

	2008	2007
Current:		
Federal income tax	$ 48	$ (1,103)
State income tax	9	(198)
Total current	57	(1,301)
Deferred:		
Federal income tax	4,966	(7,616)
State income tax	1,479	(2,387)
Change in valuation allowance		122,498
Total deferred	6,445	112,495
Total income tax benefit (expense)	$ 6,502	$ 111,194

The Company accounts for income taxes under the asset-liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax assets and liabilities are recorded at a combined federal and state effective rate of 41.1% as of December 31, 2008 and 2007, are as follows:

	2008	2007
Deferred tax assets:		
Current:		
Accrued compensation	$ 3,723	$ 5,053
Allowance for doubtful accounts	2,430	3,604
Net operating loss carry forwards	3,238	6,757
Fair value on interest rate swaps	9,833	3,773
Pension liability	410	145
Specific reserves	685	1,022
Self insurance accruals	665	682
Other	161	311
	21,145	21,347
Long-term:		
Net operating loss carry forwards	56,076	41,141
Alternative minimum tax carry forward	5,169	1,866
Intangibles/goodwill	25,782	20,428
Deferred revenue	865	

Pension liability	2,344	1,029
Property, plant and equipment	21,319	29,807
Stock-based compensation	3,125	1,732
Other	151	92
	114,831	96,095
Total deferred tax assets	$ 135,976	$ 117,442

In the year ended December 31, 2008, the Company generated a taxable loss which was primarily caused by electing to take bonus depreciation, as allowed under the Economic Stimulus Act of 2008, on qualified fixed assets. Offsetting the loss, the Company recorded a tax benefit related to NOL s generated in the current year. In the year ended December 31, 2007 the Company recorded a net benefit when management reversed 100% of the existing valuation allowance. The allowance was reversed as management believed it was more likely than not that all of the deferred tax assets would be realized based on the weight of all available evidence, including two years of positive net income and projected future earnings. In 2008, if it

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13. INCOME TAXES (Continued)

were not for the bonus depreciation taken for tax purposes and the goodwill write-off for book purposes the Company would have recorded income for both book and tax purposes. Therefore, management continues to believe that all of the deferred tax assets will be realized and the release of our valuation allowance was appropriate.

The Company files consolidated income tax returns with all if its subsidiaries for U.S. Federal purposes and with the States of Alaska and Oregon. The Company is no longer subject to examination for years prior to 2005. The Company is not currently being audited, nor has it been notified of any pending audits. The Company is not aware of any controversial or unsupported positions taken on its tax returns that have not either been resolved in prior audits, by amending prior returns or by adjusting its Net Operating Loss (NOL) carry forwards to rectify its filings. The Company has a $1,041 income tax receivable at December 31, 2008 and a $137 income tax payable at December 31, 2007.

The Company accounts for income tax uncertainties using the provision of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). The Company has reviewed all of its tax filings and position taken on its returns and has not identified any material current or future effect on its consolidated results of operations, cash flows or financial position.

In connection with the provisions of SFAS No. 123(R), the Company elected to calculate the pool of excess tax benefits under the modified retrospective method, but only to prior interim periods in the year of initial adoption. Future tax benefits increased $1,393 and decreased $1,011 in 2008 and 2007, respectively.

The Company has available at December 31, 2008, unused acquired and operating loss carry forwards of $148,002 federal and $120,057 state that may be applied against future taxable income as shown below:

	Federal			State
Year of Expiration	**Acquired Unused Operating Loss Carry forwards**	**Unused Operating Loss Carry forwards**	**Total Unused Operating Loss Carry forwards**	**Total Unused Operating Loss Carry forwards**
2018	$ 8,879	$	$ 8,879	$
2020	2,209		2,209	2,193
2021		34,034	34,034	30,719
2022	7,797	17,983	25,780	17,458
2023	4,565		4,565	
2024	230	43,974	44,204	43,715
2025		22,648	22,648	22,613
2026	2,299		2,299	
2028		3,384	3,384	3,359
	$ 25,979	$ 122,023	$ 148,002	$ 120,057

Acquired unused operating loss carry forwards associated with the Company s acquisition of Internet Alaska in June 2000 and Crest in October of 2008 are limited by Section 382 of the Internal Revenue Code of 1986. Internet Alaska is limited to $216 and Crest is limited to $3,068 per year plus the benefit of unrealized built-in gains. To the extent that these limits are not used they can be carried forward to subsequent years thereby effectively increasing that year s limitation.

Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limit on the ability of loss corporations that undergo an ownership change . This limitation restricts the amount of operating losses that can be used to reduce its future taxable income. On December 7, 2005 ACS underwent an ownership change thereby subjecting it to the Section 382 loss limitation rules. The corrected overall annual limitation at date of ownership change was $14,874 per year annually increased by unrealized built-in gains of $10,794. The increase in limitation will be in effect through the year

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13. INCOME TAXES (Continued)

2010. The taxable loss generated in 2005 after the change in ownership from December 7, 2005 through the end of the year was $1,489 and has no limitations. In addition to the utilization of Internet Alaska s operating losses, ACS utilized additional operating losses of zero and $23,882 for 2008 and 2007, respectively, out of its operating loss carry forward.

14. EARNINGS PER SHARE

Earnings per share are based on weighted average number of shares of common stock and dilutive potential common shares equivalents outstanding. Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity. The Company includes dilutive stock options based on the treasury stock method. Due to the Company s reported net losses for the year ended December, 31, 2008, 1,428 potential common share equivalents, which consisted of options, restricted stock and stock-settled stock appreciation rights (SSARs) granted to employees and deferred shares granted to directors, were anti-dilutive. Also excluded from the calculation were shares related to the Company s convertible debt which were anti-dilutive for the twelve month period ending December 31, 2008. No shares were anti-dilutive at December 31, 2007 or December 31, 2006. The following table sets forth the computation of basic and diluted earnings per share for the years ending December 31, 2008, 2007 and 2006:

	2008	2007	2006
Numerator net income (loss)	$ (10,139)	$ 144,136	$ 13,278
Denominator weighted average shares outstanding:			
Basic shares	43,391	42,701	42,045
Dilutive impact of restricted stock, options and deferred shares		1,484	1,342
Dilutive shares	43,391	44,185	43,387
Earnings (loss) per share:			
Basic	$ (0.23)	$ 3.38	$ 0.32
Diluted	$ (0.23)	$ 3.26	$ 0.31

15. STOCK INCENTIVE PLANS

Under various plans, ACS Group, through the Compensation Committee of its Board of Directors, may grant stock options, restricted stock, stock appreciation rights and other awards to officers, employees and non-employee directors. At December 31, 2008, ACS Group has reserved a total of 11,560 (11.56 million) shares of authorized common stock for issuance under the plans. In general, options under the plans vest ratably over three, four or five years and the plans terminate in 10 years. After the plans terminate, all shares granted under the plan, prior to its termination, continue to vest under the terms of the grant when it was awarded.

Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan

ACS Group has reserved 8,660 shares under this plan, which was adopted by the Company in November 1999. At December 31, 2008, 10,769 equity instruments have been granted, 3,488 have been forfeited, 4,742 have been exercised, and 1,385 shares are available for grant under the plan.

In August 2005, the Company began granting restricted stock units in lieu of stock options as the primary equity-based incentive compensation for executive and non-union represented employees. The time-based restricted stock units have vesting terms that range from three to five years with equal annual vesting amounts. The performance-based restricted stock units generally cliff vest in five years and have accelerated vesting terms of one third per year if specified performance criteria are met. A long term incentive program (LTIP) also exists for executive management. LTIP awards

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15. STOCK INCENTIVE PLANS (Continued)

are awarded annually and cliff vest in five years with accelerated vesting in three years if cumulative three year performance criteria are met.

In June 2008, the Company began granting performance share units (PSUs) to certain executives under the 1999 Stock Incentive Plan. These performance based awards expire on December 31, 2009 if their vesting terms have not been met. The PSUs are awarded on the condition that the participant remains employed or in the service of the Company from the date of the Agreement through the time of vesting. Compensation expense associated with outstanding performance share units is recorded over the estimated performance period which would likely result in the vesting of the awards. The amount of expense recorded each period is dependent upon our estimate of the number of shares that will ultimately be issued. As the ultimate payout of these awards is subject to the approval of the compensation committee, the awards are being re-measured at each reporting period end until such time as they are vested.

The Company also granted SSARs to Ms. Pelletier, the Company s Chief Executive Officer and another named executive officer during 2008. The SSARs have a term of five years and include ratable vesting through December 2011. The Company accounts for the SSARs in the same manner as options using a Black-Scholes model for valuation.

2003 Options for Officer Inducement Grant

During 2003, the Company s Board of Directors awarded 1,000 options as an inducement grant in hiring the Company s Chief Executive Officer. As of December 31, 2008, 800 options have been exercised/converted and 200 are currently outstanding.

2008 Restricted Stock Unit Equivalents for Officer Inducement Grant

In September 2008, the Company entered into an amended and restated employment agreement with Liane Pelletier, the Company s Chief Executive Officer. Under the agreement, the Company granted Ms. Pelletier 100 fully vested (RSUEs). These RSUEs are required to be settled in shares of the Company s common stock on a one-for-one basis on July 31, 2009, unless required stockholder approval is not obtained, in which case they will be settled in cash. When settled, the Company will pay cash dividend equivalents on any and all dividends declared on shares of the Company s common stock from September 1, 2008 through July 31, 2009. The Company currently accounts for these RSUEs as a liability, re-measured at each reporting period.

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

This plan was adopted by ACS Group in November 1999 and will terminate December 31, 2009. The Company has reserved 1,550 shares under this plan. At December 31, 2008, 752 shares are available for issuance and sale. All ACS Group employees and all of the employees of designated subsidiaries generally will be eligible to participate in the purchase plan, other than employees whose customary employment is 20 hours or less per week, is not more than five months in a calendar year, or who are ineligible to participate due to restrictions under the Internal Revenue Code.

A participant in the purchase plan may authorize regular salary deductions up to a maximum of 15% and a minimum of 1% of base compensation. The fair market value of shares which may be purchased by any employee during any calendar year may not exceed $25. The amounts so deducted and contributed are applied to the purchase of shares of common stock at 85% of the lesser of the fair market value of such shares on the date of purchase or on the offering date for such offering period. The offering dates are January 1 and July 1 of each purchase plan year, and each offering period will consist of one six-month purchase period. The first offering period under the plan commenced on January 1, 2000. Shares are purchased on the open market or issued from authorized but unissued shares on behalf of participating employees on the last business days of June and December for each purchase plan year and each such participant has the rights of a stockholder with respect to such shares. During the year ended December 31, 2008, approximately 22% of eligible employees elected to participate in the plan.

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15. STOCK INCENTIVE PLANS (Continued)

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

This plan was adopted by ACS Group in November 1999. ACS Group has reserved 350 shares under this plan. At December 31, 2008, 233 shares have been awarded and 117 shares are available for grant under the plan. In 2007 and 2006, the plan required directors to receive not less than 50% of their annual retainer in the form of ACS Group s stock. Directors were permitted to elect up to 100% of their annual retainer in the form of ACS Group s stock. Beginning January 1, 2008 the plan was revised to require that Directors receive a portion of their annual retainer in the form of shares of ACS Group s stock. Directors are permitted to elect to receive up to 100% of their remaining annual retainer and meeting fees in the form of ACS Group s stock. Once a year, the Directors elect the method by which they receive their stock (issued or deferred). During the year ended December 31, 2008, 28 shares under the plan were awarded to directors, of which 11 were deferred until termination of service.

SFAS No. 123(R) Share-Based Payment

Total compensation cost for share-based payments was $9,477, $6,390 and $7,668 for the twelve months ended December 31, 2008, 2007 and 2006, respectively

The Company purchases, from shares reserved under the *Alaska Communications Systems Group, Inc. 1999 Stock Incentive Plan,* sufficient vested shares to cover employee payroll tax withholding requirements upon the vesting of restricted stock. From time to time, the Company also purchases sufficient vested shares to cover employee payroll tax withholding requirements at the aggregated exercise price upon exercise of options. Shares repurchased by the Company for this purpose are not reallocated to the share reserve set aside for future grants under the plan. The Company expects to repurchase approximately 180 shares in 2009. This amount is based upon an estimation of the number of shares of restricted stock awards expected to vest and options expected to be exercised during 2009.

Stock Options and Stock-Settled Stock Appreciation Rights

No options were granted for the twelve months ended December 31, 2008, 2007 and 2006. There were 775 SSARs granted for the twelve months ended December 31, 2008 and no SSARs granted for the same period in 2007 or 2006.

Restricted Stock Units and Performance Share Units

There were 846, 591 and 760 restricted stock grants for the twelve months ended December 31, 2008, 2007 and 2006, respectively. There were 263 PSUs awards for the period ended December 31, 2008 and no PSUs granted for the same period in 2007 or 2006. The following table describes the assumptions used for valuation of equity instruments awarded during the twelve months ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Stock Options:			
Risk free rate	0.25% - 2.00%		
Dividend yield	7.59%		
Expected volatility factor	33.88%		
Expected option life (years)	3.22		
Expected forfeiture rate			
Restricted stock:			
Risk free rate	0.25% -2.25%	4.25% - 5.25%	4.50% - 5.25%
Quarterly dividend	$ 0.215	$ 0.215	$ 0.215
Expected, per annum, forfeiture rate	0% - 4.47%	4.47%	4.47%

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15. STOCK INCENTIVE PLANS (Continued)

Options and Restricted Stock Outstanding

Stock Options and SSARs

Proceeds from the exercise of stock options for the year ended December 31, 2008 were $848. The Company chose to remit $3,003 of these proceeds for payroll taxes in exchange for shares surrendered back to the Company. Information on outstanding options under the plan for the year ended December 31, 2008 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Outstanding, January 1, 2008	1,160	$ 5.27		
Granted	775	11.33		
Exercised	(573)	4.70		
Canceled or expired	(12)	11.01		
Outstanding at December 31, 2008	1,350	8.94	4.69	$ 2,479
Exercisable at December 31, 2008	749	$ 8.43	4.68	1,729

Select information on equity instruments under the plan for the years ended December 31, 2008, 2007 and 2006 follows:

	Twelve Months Ended December 31,		
	2008	2007	2006
Weighted-average grant-date fair value of equity instruments granted	$ 5.87	$10.48	$ 9.81
Total fair value of shares vested during the period	$8,403	$5,273	$2,762
Total intrinsic value of options exercised	$4,260	$2,225	$2,927

Restricted Stock and PSU s

Restricted stock grants outstanding, all of which are non-vested at December 31, 2008, are as follows:

	Number of Shares	Weighted Average Fair Value
Outstanding at January 1, 2008	1,296	$11.07
Granted	846	9.91
Vested	(593)	10.19
Canceled or expired	(167)	11.39
Outstanding at December 31, 2008	1,382	$10.70

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements, Continued
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15. STOCK INCENTIVE PLANS (Continued)

Unamortized stock-based payment and the weighted average expense period at December 31, 2008, are as follows:

	Unamortized Expense	Average Period to Expense (years)
Stock options	$ 426	0.9
Restricted stock	5,953	2.6
	$ 6,379	2.5

16. RETIREMENT PLANS

Pension benefits for substantially all of the Company s employees are provided through the Alaska Electrical Pension Plan (AEPP). The Company pays a contractual hourly amount based on employee classification or base compensation. As a multi-employer defined benefit plan, the accumulated benefits and plan assets are not determined for or allocated separately to the individual employer. The Company s portion of the plan s pension cost for 2008, 2007 and 2006 was $11,548, $11,772 and $11,892, respectively.

The Company also provides a 401(k) retirement savings plan covering substantially all of its employees. The plan allows for discretionary contributions as determined by the Board of Directors, subject to Internal Revenue Code limitations. There was no matching contribution for 2008, 2007 or 2006.

The Company also has a separate defined benefit plan that covers certain employees previously employed by Century Telephone Enterprise, Inc. (CenturyTel Plan). This plan was transferred to the Company in connection with the acquisition of CenturyTel s Alaska properties. Existing plan assets and liabilities of the CenturyTel Plan were transferred to the ACS Retirement Plan on September 3, 1999. Accrued benefits under the ACS Retirement Plan were determined in accordance with the provisions of the CenturyTel Plan. Upon completion of the transfer to the Company, covered employees ceased to accrue benefits under the plan. On November 1, 2000, the ACS Retirement Plan was amended to conform early retirement reduction factors and various other terms to those provided by the AEPP. As a result of this amendment, prior service cost of $1,992 was recorded and is being amortized over the expected service life of the plan participants at the date of the amendment. The Company uses the traditional unit credit method for the determination of pension cost for financial reporting and funding purposes and complies with the funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA). With the recent down turn in the economy, the plan is not adequately funded under ERISA at December 31, 2008. Management is currently assessing the timing and amount of a contribution that the Company will make during 2009, to regain required funding levels. Management is also estimating what additional contributions the Company may be required to make in subsequent years in the event the value of the plan s assets remains volatile or continue to decline. In September 2007, the Company funded $300 for the 2006 tax year. The Company made no contributions in 2008. The Company uses a December 31 measurement date for the plan.

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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16. RETIREMENT PLANS (Continued)

The following is a calculation of the funded status of the ACS Retirement Plan using beginning and ending balances for 2008 and 2007 for the projected benefit obligation and the plan assets:

	2008	**2007**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 12,883	$ 13,604
Interest cost	810	782
Actuarial gain	166	(769)
Benefits paid	(765)	(734)
Benefit obligation at end of year	13,094	12,883
Change in plan assets:		
Fair value of plan assets at beginning of year	13,311	12,713
Actual return on plan assets	(3,008)	1,032
Employer contribution		300
Benefits paid	(765)	(734)
Fair value of plan assets at end of year	9,538	13,311
Funded status	$ (3,556)	$ 428

The plans projected benefit obligation equals its accumulated benefit obligation. The 2008 liability balance of $3,556 is recorded on the balance sheet in other deferred credits and long-term liabilities while the 2007 asset balance of $428 is recorded in deferred charges and other assets.

The following table represents the net periodic pension expense for the ACS Retirement Plan for 2008, 2007 and 2006:

	2008	**2007**	**2006**
Interest cost	$ 810	$ 782	$ 762
Expected return on plan assets	(1,031)	(994)	(858)
Amortization of loss	157	322	444
Amortization of prior service cost	203	203	203
Net periodic pension expense	$ 139	$ 313	$ 551

In 2009, the Company expects amortization of prior service costs of $203 and amortization of net gains and losses of $793.

	2008	**2007**
Components of other comprehensive income/loss:		
Prior service cost	$ 332	$ 535

Net loss	6,368	2,320
	$ 6,700	$ 2,855

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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16. RETIREMENT PLANS (Continued)

The assumptions used to account for the plan as of December 31, 2008 and 2007 are as follows:

	2008	**2007**
Discount rate for benefit obligation	6.63%	6.49%
Discount rate for pension expense	6.49%	6.49%
Expected long-term rate of return on assets	8.00%	8.00%
Rate of compensation increase	0.00%	0.00%

The discount rates were calculated using a proprietary yield curve based on the top 30% of the universe of bonds included in the bond pool. The expected long-term rate of return on assets rate is the best estimate of future expected return for the asset pool, given the expected returns and allocation targets for the various classes of assets.

The plan s asset allocations at December 31, 2008 and 2007, by asset category are as follows:

Asset Category	**2008**	**2007**
Equity securities*	54%	63%
Debt securities*	46%	35%
Other/Cash	0%	2%
Total	100%	100%

* Note that mutual funds that may contain both stock and bonds may be included in these categories.

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

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

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

	Minimum	**Maximum**
Equity securities	40%	100%
Fixed income	20%	60%
Cash equivalents	0%	10%

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

2009	$ 850
2010	891
2011	916
2012	926
2013	955
2014-2018	5,115

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16. RETIREMENT PLANS (Continued)

The Company also has a separate executive post retirement health benefit plan. The Alaska Communications Systems Executive Retiree Health Benefit Plan (The ACS Health Plan) was adopted by the Company in November 2001 and amended in October 2002. The ACS Health Plan covers a select group of former management employees. The ACS Health Plan provides a graded subsidy for medical, dental and vision coverage. The Compensation Committee of the Board of Directors decided to terminate The ACS Health Plan in January 2004. In February 2005, the Board adopted a resolution to exclude a former employee from the plan, causing a $90 decrease in the accumulated post retirement benefit. Three people qualified under the plan are eligible for future benefits, but the plan is closed to future participants.

The Company uses the projected unit credit method for the determination of post retirement health cost for financial reporting and funding purposes and complies with the funding requirements under ERISA. No contribution was made to The ACS Health Plan for 2008, 2007 or 2006, and no contribution is expected in 2009. The Company uses a December 31 measurement date for the plan.

The following is a calculation of the funded status and a reconciliation of the beginning and ending balances for 2008 and 2007 for the projected benefit obligation and the plan assets for The ACS Health Plan:

	2008	2007
Change in accumulated post-retirement benefit obligation:		
Accumulated post-retirement benefit obligation at beginning of the year	$ 176	$ 168
Interest cost	10	10
Actuarial gain	1	
Benefits paid	(7)	(2)
Accumulated post-retirement benefit obligation at end of the year	180	176
Change in plan assets:		
Fair value of plan assets at beginning of year	236	218
Actual return on plan assets	(26)	20
Benefits paid	(7)	(2)
Fair value of plan assets at end of year	203	236
Funded status	$ 23	$ 60

The following represents the net periodic post-retirement benefit expense for The ACS Health Plan for 2008, 2007 and 2006:

	2008	2007	2006
Interest cost	$ 10	$ 10	$ 10
Expected return on plan assets	(14)	(13)	(12)
Amortization of net gain	(4)	(5)	
Net periodic post-retirement benefit	$ (8)	$ (8)	$ (2)

The Company expects to incur no net periodic costs associated with this plan in 2009. The actuarial assumptions used to account for The ACS Health Plan as of December 31, 2008 and 2007 is an assumed discount rate of 5.75% and 6.00% for projected benefit obligation and an assumed discount rate of 6.00% and 5.89% for plan expense, respectively, and an expected long-term rate of return on plan assets of 6.00%. The discount rate is based on Moody s AA Corporate bonds. The expected long-term rate of return on assets is the best estimate of future expected return for the asset pool, given the expected returns and allocation targets for the various classes of assets.

For measurement purposes, the assumed annual rate of increase in health care costs for the next five years and thereafter, for both Pre-65 and Post-65 premiums, is 7.00%.

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16. RETIREMENT PLANS (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for The ACS Health Plan. A one percentage point change in assumed health care cost trend rates would have the following effects for 2008:

	+1%	-1%
Effect on total of service and interest cost components		(1)
Effect on accumulated postretirement benefit obligation	7	(9)

The ACS Health Plan s asset allocations at December 31, 2008 and 2007, by asset category, are as follows:

Asset Category	2008	2007
Equity securities*	19%	28%
Debt securities*	73%	66%
Other/Cash	8%	6%
Total	100%	100%

* Note that mutual funds that may contain both stock and bonds may be included in these categories.

The fundamental investment objective of the plan is to realize an annual total investment return consistent with the conservative risk tolerance plan dictated by the Company. The investment profile of the plan emphasizes liquidity and income, some capital stock investment and some fluctuation of investment return. It is anticipated that the investment manager will achieve this objective by investing the account s assets in mutual funds. The portfolio may hold common stock, fixed income securities, money market instruments and U.S. Treasury obligations.

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

	Target
Equity securities	30%
Fixed income	60%
Other/cash	10%

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

2009	$10
2010	16
2011	16
2012	16
2013	16
2014-2018	59

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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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17. BUSINESS SEGMENTS

Our segments and their principal activities consist of the following:

Wireline Wireline provides communication services including voice, broadband and data, next generation IP network services, network access, long distance and other services to consumers, carriers, business and government customers.

Wireless Wireless products and services include voice and data products and other value added services and equipment sales.

The Company also incurs interest expense, interest income and other operating and non-operating income and expense at the corporate level which are not allocated to the business segments, nor are they evaluated by the chief operating decision maker in analyzing the performance of the business segments. These non-operating income and expense items are provided in the accompanying table under the caption All Other in order to assist the users of these financial statements in reconciling the operating results and total assets of the business segments to the consolidated financial statements. Common use assets are held at ACS Holdings and are allocated to the business segments based on operating revenue. In accordance with industry practice and regulatory requirements, affiliate revenue and expense between local telephone and all other segments is not eliminated on consolidation. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2008:

	Wireline	Wireless	All Other	Eliminations	Total
Operating revenues	$261,534	$143,606	$ 19,391	$(34,934)	$389,597
Intersegment revenue	54,411	2,729	19,391		76,531
Eliminated intersegment revenue	(15,506)	(37)	(19,391)		(34,934)
Depreciation and amortization	52,159	8,223	13,620		74,002
(Gain) loss on disposal of assets, net	775	(39)	14		750
Loss on impairment of goodwill and intangible assets	29,641				29,641
Operating income (loss)	(32,394)	42,423	5,103		15,132
Interest expense	2,065	504	(35,490)		(32,921)
Interest income	1		1,694		1,695
Income (loss) before income tax	(30,328)	42,913	(29,226)		(16,641)
Income tax (expense) benefit	3,408	(17,950)	21,044		6,502
Net income (loss)	(26,920)	24,964	(8,183)		(10,139)
Total assets	561,305	188,604	10,645	(3,216)	757,338
Capital expenditures	107,920	12,151	7,118		127,189

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
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17. BUSINESS SEGMENTS (Continued)

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2007:

	Wireline	Wireless	All Other	Eliminations	Total
Operating revenues	$260,975	$137,566	$ 11,207	$(23,963)	$385,785
Intersegment revenue	48,569	2,604	11,207		62,380
Eliminated intersegment revenue	(12,710)	(46)	(11,207)		(23,963)
Depreciation and amortization	53,297	13,199	4,841		71,337
Loss on disposal of assets, net	110	12	126		248
Operating income	11,327	43,315	5,797		60,439
Interest expense	38	1,208	(29,632)		(28,386)
Loss on extinguishment of debt			(355)		(355)
Interest income	2		2,018		2,020
Income (loss) before income tax	10,729	44,522	(22,309)		32,942
Income tax (expense) benefit	(664)	(18,191)	130,049		111,194
Net income	10,065	26,331	107,740		144,136
Total assets	464,824	191,194	7,185		663,203
Capital expenditures	28,213	15,662	18,964		62,839

The following table illustrates selected financial data for each segment as of and for the year ended December 31, 2006:

	Wireline	Wireless	All Other	Eliminations	Total
Operating revenues	$242,601	$115,412	$ 10,687	$(19,979)	$348,721
Intersegment revenue	39,474	2,632	10,687		52,793
Eliminated intersegment revenue	(9,250)	(42)	(10,687)		(19,979)
Depreciation and amortization	53,181	11,515	4,400		69,096
Loss on disposal of assets, net	469	23	613		1,105
Operating income	1,489	37,140	4,992		43,621
Interest expense	(373)	426	(30,498)		(30,445)
Loss on extinguishment of debt			(9,650)		(9,650)
Interest income	1		1,834		1,835
Income (loss) before income tax	1,117	37,565	(24,961)		13,721
Income tax (expense) benefit	(3,821)	(15,578)	18,956		(443)
Net income (loss)	(2,704)	21,987	(6,005)		13,278
Total assets	404,502	146,611	5,103		556,216
Capital expenditures	39,094	14,771	6,154		60,019

18. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to hedge variable interest rate debt to manage interest rate risk. To the extent that derivative financial instruments are outstanding as of a period end, the fair value of those instruments, represented by the estimated amount the Company would receive or pay to terminate the agreement, is reported on the balance sheet.

The Company is party to floating-to-fixed interest rate swaps with total notional amounts of $135,000 and $85,000, respectively, which swap the floating interest rate on a portion of the term loan borrowings under the 2005 senior credit facility for a five year term at a fixed rate of 6.13% and 6.50%, per year. The Company also entered into a six year $40,000 notional amount fixed to floating swap arrangement, effectively fixing the rate on this portion of the term loan at 6.43% per year.

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

In February 2006, the Company and ACS Holdings executed $115,000 and $52,900 notional amount floating-to-fixed interest rate swap agreements related to its $375,000 term loan under its 2005 senior bank credit facility. The swaps effectively fix the LIBOR rate on $115,000 and $52,900 principal amount of senior bank credit facility at 6.71% and 6.75%. On December 31, 2008, 2007 and 2006 substantially all for the Company s swaps were effective. During 2008, in connection with the Company s issuance of its 5.75% convertible notes Due 2013, the Company prepaid $2,011 of principal required by its senior credit facility. The Company did not adjust its swap position to compensate for the prepayment as it was determined the overall effect on the hedge position was de minimus.

The negative carrying value of our swaps of $23,917, gross of $9,833 in tax, is the result of our fair value estimate at December 31, 2008. This balance was recorded as other comprehensive loss in the Company s Consolidated Statement of Stockholders Equity (Deficit) with a corresponding liability recorded in Other deferred credits and long-term liabilities on the Consolidated Balance Sheet.

Concurrent with the issuance of its 5.75% Convertible Notes due 2013, the Company entered into convertible note hedge transactions with an affiliate of one of the initial purchasers and certain other financial institutions for the purpose of reducing the potential dilution to common stockholders. If the Company is required to issue shares of its common stock upon conversion of the notes, the Company has the option of receiving up to 9,266 shares of its common stock when the price is between $12.90 and $16.42 per share upon conversion. The Company entered into warrant transactions with the same counterparties who have the option of receiving up to the same number of shares of the Company s common stock when the price exceeds $16.42 per share. The convertible note hedge had a cost of $20,431 and the Company received proceeds of $9,852 related to the sale of the warrants, each of which has been accounted for as an equity transaction in accordance with EITF No. 00-19.

19. COMMITMENTS AND CONTINGENCIES

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

The Company is involved in various claims, legal actions and regulatory proceedings arising in the ordinary course of business and has recorded litigation reserves of $350 as of December 31, 2008 against certain current claims and legal actions. The Company believes that the disposition of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

The Company pledges substantially all property, assets and revenue as collateral on its outstanding debt instruments.

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20. SELECTED QUARTERLY FINANCIAL INFORMATION (unaudited)

	Quarterly Financial Data				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2008					
Operating revenues	$96,776	$94,356	$101,322	$ 97,143	$389,597
Operating income	16,908	9,699	12,121	(23,596)	15,132
Net income (loss)	5,776	908	2,044	(18,867)	(10,139)
Net income per share:					
Basic	0.13	0.02	0.05	(0.43)	(0.23)
Diluted	0.13	0.02	0.05	(0.43)	(0.23)
2007					
Operating revenues	$91,623	$94,501	$100,554	$ 99,107	$385,785
Operating income	14,157	13,351	17,886	15,045	60,439
Net income	7,312	6,169	10,300	120,355	144,136
Net income per share:					
Basic	0.17	0.14	0.24	2.81	3.38
Diluted	0.17	0.14	0.23	2.71	3.26

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

Report of Independent Registered Public Accounting Firm

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

Under date of March 9, 2009, we reported on the consolidated balance sheets of Alaska Communications Systems Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement Schedule II Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

(signed) KPMG LLP
Anchorage, Alaska
March 9, 2009

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

Description	Balance at Beginning of Period	Charged to costs and expenses	Charged to other accounts (2)	Deductions (3)	Balance at End of Period
Year ended December 31, 2008					
Allowance for doubtful accounts	$ 8,768	$ 4,624	$ 105	$ (7,585)	$ 5,912
Valuation allowance for deferred taxes	$	$	$	$	$
Year ended December 31, 2007					
Allowance for doubtful accounts	$ 7,434	$ 5,103	$ 2	$ (3,771)	$ 8,768
Valuation allowance for deferred taxes	$122,498	$(122,498)(1)	$	$	$
Year ended December 31, 2006					
Allowance for doubtful accounts	$ 6,206	$ 5,121	$ (61)	$ (3,832)	$ 7,434
Valuation allowance for deferred taxes	$127,603	$ (5,105)(1)	$	$	$122,498

(1) Change in the valuation allowance allocated to income tax expense.

(2) Represents the reserve for accounts receivable collected on behalf of others, net of recovery.

(3) Represents credit losses, net of recovery.