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

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**FORM 10-Q**

**(Mark One)**

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-15279

**GENERAL COMMUNICATION, INC.**  
(Exact name of registrant as specified in its charter)

<u>STATE OF ALASKA</u> (State or other jurisdiction of incorporation or organization)	<u>92-0072737</u> (I.R.S. Employer Identification No.)
2550 Denali Street Suite 1000 <u>Anchorage, Alaska</u> (Address of principal executive offices)	<u>99503</u> (Zip Code)

Registrant's telephone number, including area code: (907) 265-5600

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Former name, former address and former fiscal year, if changed since last report

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

The number of shares outstanding of the registrant's classes of common stock as of October 25, 2002 was:  
51,871,337 shares of Class A common stock; and  
3,877,134 shares of Class B common stock.

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**GENERAL COMMUNICATION, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2002**

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## Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Quarterly Report, but should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission (“SEC”). In this Quarterly Report, in addition to historical information, we state our future strategies, plans, objectives or goals and our beliefs of future events and of our future operating results, financial position and cash flows. In some cases, you can identify those so-called “forward-looking statements” by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “project,” or “continue” or the negative of those words and other comparable words. All forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance, achievements, plans and objectives to differ materially from any future results, performance, achievements, plans and objectives expressed or implied by these forward-looking statements. In evaluating those statements, you should specifically consider various factors, including those outlined below. Those factors may cause our actual results to differ materially from any of our forward-looking statements. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Securities Reform Act. Such risks, uncertainties and other factors include but are not limited to those identified below.

- Material adverse changes in the economic conditions in the markets we serve and in general economic conditions, including the continuing impact of the current depressed telecommunications industry due to high levels of competition in the long-distance market resulting in pressures to reduce prices, an oversupply of long-haul capacity, excessive debt loads; several high-profile company failures and potentially fraudulent accounting practices by some companies;
- The efficacy of the rules and regulations to be adopted by the Federal Communications Commission (“FCC”) and state public regulatory agencies to implement the provisions of the 1996 Telecom Act; the outcome of litigation relative thereto; and the impact of regulatory changes relating to access reform;
- Our responses to competitive products, services and pricing, including pricing pressures, technological developments, alternative routing developments, and the ability to offer combined service packages that include long-distance, local, cable and Internet services;
- The extent and pace at which different competitive environments develop for each segment of our business;
- The extent and duration for which competitors from each segment of the telecommunication industries are able to offer combined or full service packages prior to our being able to do so;
- The degree to which we experience material competitive impacts to our traditional service offerings prior to achieving adequate local service entry;
- Competitor responses to our products and services and overall market acceptance of such products and services;
- The outcome of our negotiations with incumbent local exchange carriers (“ILECs”) and state regulatory arbitrations and approvals with respect to interconnection agreements;
- Our ability to purchase network elements or wholesale services from ILECs at a price sufficient to permit the profitable offering of local telephone service at competitive rates;
- Success and market acceptance for new initiatives, many of which are untested;
- The level and timing of the growth and profitability of new initiatives, particularly local telephone services expansion, Internet (consumer and business) services expansion and wireless services;
- Start-up costs associated with entering new markets, including advertising and promotional efforts;
- Risks relating to the operations of new systems and technologies and applications to support new initiatives;

- Local conditions and obstacles;
- The impact of oversupply of capacity resulting from excessive deployment of network capacity;
- Uncertainties inherent in new business strategies, new product launches and development plans, including local telephone services, Internet services, wireless services, digital video services, cable modem services, digital subscriber line services, and transmission services and the offering of these services in geographic areas with which we are unfamiliar;
- The risks associated with technological requirements, technology substitution and changes and other technological developments;
- Prolonged service interruptions which could affect our business;
- Development and financing of telecommunication, local telephone, wireless, Internet and cable networks and services;
- Future financial performance, including the availability, terms and deployment of capital; the impact of regulatory and competitive developments on capital outlays, and the ability to achieve cost savings and realize productivity improvements and the consequences of increased leverage;
- Availability of qualified personnel;
- Changes in, or failure, or inability, to comply with, government regulations, including, without limitation, regulations of the FCC, the Regulatory Commission of Alaska (“RCA”), and adverse outcomes from regulatory proceedings;
- Uncertainties in federal military spending levels and military base closures in markets in which we operate;
- The ongoing global and domestic trend towards consolidation in the telecommunications industry, which trend may be the effect of making the competitors larger and better financed and afford these competitors with extensive resources and greater geographic reach, allowing them to compete more effectively;
- The financial, credit and economic impacts of WorldCom, Inc.’s (“WorldCom”) bankruptcy filing on the industry in general and on us in particular;
- A conversion of WorldCom’s bankruptcy petition to Chapter 7, an unfavorable classification of our service provider status for post July 21, 2002 services, unfavorable reauthorization of our pre-filing contracts and agreements with WorldCom, or a migration of WorldCom’s traffic off our network without it being replaced by other common carriers that interconnect with our network;
- The effect on us of pricing pressures, new program offerings and market consolidation in the markets served by our major customers, WorldCom and Sprint Corporation (“Sprint”); and
- Other risks detailed from time to time in our periodic reports filed with the SEC.

You should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement, and such risks, uncertainties and other factors speak, only as of the date on which they were originally made and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect any change in our expectations with regard to those statements or any other change in events, conditions or circumstances on which any such statement is based, except as required by law. New factors emerge from time to time, and it is not possible for us to predict what factors will arise or when. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

ASSETS	(Unaudited)	
	September 30, 2002	December 31, 2001
	(Amounts in thousands)	
Current assets:		
Cash and cash equivalents	\$ 8,821	11,097
Receivables:		
Trade	72,947	58,895
Employee	382	358
Other	2,468	1,678
	<u>75,797</u>	<u>60,931</u>
Less allowance for doubtful receivables	14,753	4,166
Net receivables	<u>61,044</u>	<u>56,765</u>
Deferred income taxes, net	4,525	4,690
Inventories	4,704	3,462
Prepaid and other current assets	2,148	3,061
Property held for sale	1,037	481
Notes receivable with related parties	108	182
Total current assets	<u>82,387</u>	<u>79,738</u>
Property and equipment in service, net of depreciation	401,814	395,887
Construction in progress	13,769	8,121
Net property and equipment	<u>415,583</u>	<u>404,008</u>
Cable certificates, net of amortization of \$26,884,000 at September 30, 2002 and December 31, 2001	191,132	191,132
Goodwill, net of amortization of \$7,200,000 at September 30, 2002 and December 31, 2001	41,191	40,940
Other intangible assets, net of amortization of \$1,625,000 and \$1,252,000 at September 30, 2002 and December 31, 2001, respectively	2,820	3,387
Deferred loan and senior notes costs, net of amortization of \$7,017,000 and \$5,568,000 at September 30, 2002 and December 31, 2001, respectively	6,344	7,630
Notes receivable with related parties	5,625	3,246
Other assets, at cost, net of amortization of \$19,000 and \$70,000 at September 30, 2002 and December 31, 2001, respectively	5,629	4,598
Total other assets	<u>252,741</u>	<u>250,933</u>
Total assets	<u>\$ 750,711</u>	<u>734,679</u>

See accompanying notes to interim condensed consolidated financial statements.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(Continued)**

LIABILITIES AND STOCKHOLDERS' EQUITY	(Unaudited) September 30, 2002	December 31, 2001
	(Amounts in thousands)	
Current liabilities:		
Current maturities of obligations under long-term debt and capital leases	\$ 1,557	7,346
Accounts payable	36,917	36,464
Deferred revenue	16,040	11,129
Accrued payroll and payroll related obligations	10,745	15,289
Accrued liabilities	6,177	4,938
Accrued interest	3,256	8,049
Subscriber deposits	934	1,121
Total current liabilities	75,626	84,336
Long-term debt, excluding current maturities	360,125	346,000
Obligations under capital leases, excluding current maturities	44,843	44,933
Obligations under capital leases due to related party, excluding current maturities	709	703
Deferred income taxes, net of deferred income tax benefit	29,251	25,069
Other liabilities	5,617	4,339
Total liabilities	516,171	505,380
Redeemable preferred stocks	26,907	26,907
Stockholders' equity:		
Common stock (no par):		
Class A. Authorized 100,000,000 shares; issued 51,721,337 and 50,967,196 shares at September 30, 2002 and December 31, 2001, respectively	199,436	195,647
Class B. Authorized 10,000,000 shares; issued 3,877,134 and 3,882,843 shares at September 30, 2002 and December 31, 2001, respectively; convertible on a share-per-share basis into Class A common stock	3,276	3,281
Less cost of 316,554 and 296,554 Class A common shares held in treasury at September 30, 2002 and December 31, 2001, respectively	(1,836)	(1,659)
Paid-in capital	11,117	10,474
Notes receivable with related parties issued upon stock option exercise	(5,650)	(2,588)
Retained earnings (deficit)	1,869	(2,771)
Accumulated other comprehensive income (loss)	(579)	8
Total stockholders' equity	207,633	202,392
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 750,711	734,679

See accompanying notes to interim condensed consolidated financial statements.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(Amounts in thousands, except per share amounts)			
Revenues	\$ 94,550	88,019	275,500	270,471
Cost of sales and services	30,375	32,743	92,473	108,660
Selling, general and administrative expenses	32,209	30,106	96,095	84,723
Bad debt expense	1,677	851	12,874	3,676
Depreciation and amortization expense	14,257	14,127	43,255	41,767
Operating income	<u>16,032</u>	<u>10,192</u>	<u>30,803</u>	<u>31,645</u>
Interest expense	7,477	7,510	20,304	24,467
Interest income	107	35	335	297
Interest expense, net	<u>7,370</u>	<u>7,475</u>	<u>19,969</u>	<u>24,170</u>
Net income before income taxes	8,662	2,717	10,834	7,475
Income tax expense	<u>3,599</u>	<u>1,190</u>	<u>4,662</u>	<u>3,359</u>
Net income	<u>\$ 5,063</u>	<u>1,527</u>	<u>6,172</u>	<u>4,116</u>
Basic and diluted net income per common share	<u>\$ .08</u>	<u>.02</u>	<u>.08</u>	<u>.05</u>

See accompanying notes to interim condensed consolidated financial statements.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001**

(Unaudited) (Amounts in thousands)	Class A Common Stock	Class B Common Stock	Class A Shares Held in Treasury	Paid-in Capital	Notes Receivable With Related Parties	Retained Earnings (Deficit)	Accum- ulated Other Compre- hensive Income (Loss)	Total
Balances at December 31, 2000	\$182,706	3,299	(1,659)	7,368	(2,976)	(5,258)	---	183,480
Net income	---	---	---	---	---	4,116	---	4,116
Fair value of cash flow hedge, net of income tax liability of \$59	---	---	---	---	---	---	(89)	(89)
Comprehensive income								4,027
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	1,881	---	---	---	1,881
Class B shares converted to Class A	11	(11)	---	---	---	---	---	---
Shares issued under stock option plan	3,182	---	---	---	---	---	---	3,182
Amortization of the excess of GCI stock market value over stock option exercise cost on date of stock option grant	---	---	---	610	---	---	---	610
Shares issued to Employee Stock Purchase Plan	688	---	---	---	---	---	---	688
Acquisition of G.C. Cablevision, Inc. net assets and customer base	2,388	---	---	---	---	---	---	2,388
Payment received on note issued upon officer stock option exercise	---	---	---	---	688	---	---	688
Preferred stock dividends	---	---	---	---	---	(1,580)	---	(1,580)
Balances at September 30, 2001	\$188,975	3,288	(1,659)	9,859	(2,288)	(2,722)	(89)	195,364
Balances at December 31, 2001	\$195,647	3,281	(1,659)	10,474	(2,588)	(2,771)	8	202,392
Components of comprehensive income:								
Net income	---	---	---	---	---	6,172	---	6,172
Fair value of cash flow hedge, net of income tax liability of \$390	---	---	---	---	---	---	(587)	(587)
Comprehensive income								5,585
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	307	---	---	---	307
Class B shares converted to Class A	5	(5)	---	---	---	---	---	---
Shares issued under stock option plan	3,219	---	---	---	(3,062)	---	---	157
Amortization of the excess of GCI stock market value over stock option exercise cost on date of stock option grant	---	---	---	336	---	---	---	336
Shares issued to Employee Stock Purchase Plan	497	---	---	---	---	---	---	497
Shares issued to acquire minority shareholders' interest in GFCC	68	---	---	---	---	---	---	68
Purchase of treasury stock	---	---	(177)	---	---	---	---	(177)
Preferred stock dividends	---	---	---	---	---	(1,532)	---	(1,532)
Balances at September 30, 2002	\$199,436	3,276	(1,836)	11,117	(5,650)	1,869	(579)	207,633

See accompanying notes to interim condensed consolidated financial statements.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	(Unaudited)	
	Nine Months Ended	
	September 30,	
	2002	2001
	(Amounts in thousands)	
Operating activities:		
Net income	\$ 6,172	4,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,255	41,767
Amortization charged to selling, general and administrative	---	26
Non-cash cost of sale	---	10,877
Deferred income tax expense	4,757	3,359
Bad debt expense, net of write-offs	10,587	2,127
Deferred compensation and compensatory stock options	870	1,081
Employee Stock Purchase Plan expense funded with issuance of General Communication, Inc. Class A common stock	497	---
Write-off of capitalized interest	---	170
Other noncash income and expense items	36	2
Change in operating assets and liabilities	(18,567)	96
Net cash provided by operating activities	<u>47,607</u>	<u>63,621</u>
Investing activities:		
Purchases of property and equipment	(51,989)	(46,663)
Advances and billings to Kanas Telecom, Inc.	---	(5,632)
Payment of deposit	---	(1,200)
Notes receivable issued to related parties	(3,055)	(525)
Payments received on notes receivable with related parties	946	772
Purchases of other assets	(1,563)	(1,154)
Cash received upon acquisition of Kanas Telecom, Inc.	---	228
Net cash used by investing activities	<u>(55,661)</u>	<u>(54,174)</u>
Financing activities:		
Repayments of long-term borrowings and capital lease obligations	(6,802)	(13,000)
Long-term borrowings – bank debt	14,000	10,000
Payment of preferred stock dividend	(1,018)	(963)
Payment received on note receivable with related party issued upon stock option exercise	---	688
Payment of debt issuance costs	(382)	(130)
Purchase of treasury stock	(177)	---
Proceeds from common stock issuance	157	3,182
Net cash provided (used) by financing activities	<u>5,778</u>	<u>(223)</u>
Net decrease in cash and cash equivalents	(2,276)	9,224
Cash and cash equivalents at beginning of period	11,097	5,962
Cash and cash equivalents at end of period	<u>\$ 8,821</u>	<u>15,186</u>

See accompanying notes to interim condensed consolidated financial statements.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

The accompanying unaudited interim condensed consolidated financial statements include the accounts of General Communication, Inc. (“GCI”) and its subsidiaries and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. They should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2001, filed as part of our annual report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the interim periods ended September 30, 2002 and 2001, are not necessarily indicative of the results that may be expected for an entire year or any other period.

(1) General

In the following discussion, General Communication, Inc. and its direct and indirect subsidiaries are referred to as “we,” “us” and “our”.

(a) Business

GCI, an Alaska corporation, was incorporated in 1979. We offer the following services:

- Long-distance telephone service between Anchorage, Fairbanks, Juneau, and other communities in Alaska and the remaining United States and foreign countries
- Cable television services throughout Alaska
- Facilities-based competitive local access services in Anchorage, Fairbanks and Juneau, Alaska
- Internet access services
- Termination of traffic in Alaska for certain common carriers
- Private line and private network services
- Managed services to certain commercial customers
- Broadband services, including our SchoolAccess™ offering to rural school districts and a similar offering to rural hospitals and health clinics
- Sales and service of dedicated communications systems and related equipment
- Lease and sales of capacity on two undersea fiber optic cables used in the transmission of interstate and intrastate private line, switched message long-distance and Internet services between Alaska and the remaining United States and foreign countries

(b) Principles of Consolidation

The interim condensed consolidated financial statements include the accounts of GCI, GCI’s wholly-owned subsidiary GCI, Inc., GCI, Inc.’s wholly-owned subsidiary GCI Holdings, Inc., GCI Holdings, Inc.’s wholly-owned subsidiaries GCI Communication Corp., GCI Cable, Inc., and GCI Transport Co., Inc., GCI Holdings, Inc.’s 94.4% controlling interest in GCI Fiber Communication Co., Inc. (“GFCC”), GCI Communication Corp.’s wholly-owned subsidiary Potter View Development Co., Inc., GCI Cable, Inc.’s wholly-owned subsidiary GCI American Cablesystems, Inc., GCI American Cablesystems, Inc.’s wholly-owned subsidiary GCI Cablesystems of Alaska, Inc., GCI Transport Co., Inc.’s wholly-owned subsidiaries GCI Satellite Co., Inc., GCI Fiber Co., Inc. and Fiber Hold Co., Inc. and GCI Fiber Co., Inc.’s and Fiber Hold Co., Inc.’s wholly-owned partnership Alaska United Fiber System Partnership (“Alaska United”). Effective October 31, 2002 GCI Fiber Co., Inc. and Fiber Hold Co., Inc. became wholly-owned subsidiaries of GCI Holdings, Inc. All significant intercompany transactions have been eliminated.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

(c) Net Income Per Common Share

Net income per common share ("EPS") and common shares used to calculate basic and diluted EPS consist of the following (amounts in thousands, except per share amounts):

	Three Months Ended September 30,					
	2002			2001		
	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts
Net income	\$ 5,063			\$ 1,527		
Less Preferred Stock dividends:						
Series B	361			482		
Series C	152			153		
<b>Basic EPS:</b>						
Income available to common stockholders	4,550	55,142	\$ 0.08	892	53,165	\$ 0.02
<b>Effect of Dilutive Securities:</b>						
Unexercised stock options	---	717	---	---	1,615	---
<b>Diluted EPS:</b>						
Income available to common stockholders	<u>\$ 4,550</u>	<u>55,859</u>	<u>\$ 0.08</u>	<u>\$ 892</u>	<u>54,780</u>	<u>\$ 0.02</u>

	Nine Months Ended September 30,					
	2002			2001		
	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts
Net income	\$ 6,172			\$ 4,116		
Less Preferred Stock dividends:						
Series B	1,083			1,427		
Series C	449			153		
<b>Basic EPS:</b>						
Income available to common stockholders	4,640	54,995	\$ 0.08	2,536	52,699	\$ 0.05
<b>Effect of Dilutive Securities:</b>						
Unexercised stock options	---	1,176	---	---	1,367	---
<b>Diluted EPS:</b>						
Income available to common stockholders	<u>\$ 4,640</u>	<u>56,171</u>	<u>\$ 0.08</u>	<u>\$ 2,536</u>	<u>54,066</u>	<u>\$ 0.05</u>

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

Common equivalent shares outstanding which are anti-dilutive for purposes of calculating EPS for the three and nine months ended September 30, 2002 and 2001, are not included in the diluted EPS calculations, and consist of the following (shares, in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Series B redeemable preferred stock	3,062	4,067	3,062	4,067
Series C redeemable preferred stock	833	833	833	281
Anti-dilutive common equivalent shares outstanding	3,895	4,900	3,895	4,348

Weighted average shares associated with outstanding stock options for the three and nine months ended September 30, 2002 and 2001 which have been excluded from the diluted EPS calculations because the options' exercise price was greater than the average market price of the common shares consist of the following (shares, in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Weighted average shares associated with outstanding stock options	4,573	3	756	88

Effective March 31, 2001 we acquired the assets and customer base of G.C. Cablevision, Inc. The seller received 238,199 unregistered shares of GCI Class A common stock with a future payment in additional shares contingent upon the market price of our common stock on a future date. At September 30, 2002 the market price condition was not met and approximately 615,700 shares of GCI Class A common stock would be issuable if this date was the end of the contingency period. Additional shares, if any, will be issued after March 31, 2003.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

(d) Common Stock

Following is the statement of common stock shares at September 30, 2002 and 2001 (in thousands):

	Class A	Class B
Balances at December 31, 2000	48,643	3,904
Class B shares converted to Class A	13	(13)
Shares issued under stock option plan	811	---
Shares issued upon acquisition of G.C. Cablevision, Inc. net assets and customer base	238	---
Balances at September 30, 2001	49,705	3,891
Balances at December 31, 2001	50,967	3,883
Class B shares converted to Class A	6	(6)
Shares issued under stock option plan	533	---
Shares issued to the GCI Employee Stock Purchase Plan	200	---
Shares issued to acquire minority shareholders' interest in GFCC	15	---
Balances at September 30, 2002	51,721	3,877

(e) Redeemable Preferred Stocks

Redeemable preferred stocks consist of (amounts in thousands):

	September 30, 2002	December 31, 2001
Series B	\$ 16,907	16,907
Series C	10,000	10,000
	\$ 26,907	26,907

We have 1,000,000 shares of preferred stock authorized with the following shares issued at September 30, 2002 and 2001 (shares, in thousands):

	Series B	Series C
Balances at December 31, 2000	20	---
Shares issued in lieu of cash dividend payment	3	---
Shares issued upon acquisition of Kanas Telecom, Inc.	---	10
Balances at September 30, 2001	23	10
Balances at December 31, 2001 and September 30, 2002	17	10

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

Mandatory redemption of our Series C preferred stock is required at any time after June 30, 2005 at the option of holders of 80% of the outstanding shares of the Series C preferred stock. The combined aggregate amount of preferred stock mandatory redemption requirements follows (amounts in thousands):

Years ending September 30:	
2003	\$ ---
2004	---
2005	10,000
2006	---
2007	---
	<u>\$ 10,000</u>

Series B

The redemption amount of our convertible redeemable accreting Series B preferred stock at September 30, 2002 and December 31, 2001 is \$17,509,000 and \$17,148,000, respectively. The difference between the carrying and redemption amounts is due to accrued dividends which are included in Accrued Liabilities until either paid in cash or through the issuance of additional Series B preferred stock.

Series C

The redemption amount of our convertible redeemable accreting Series C preferred stock on September 30, 2002 and December 31, 2001 was \$10,150,000 and \$10,000,000, respectively. The difference between the carrying and redemption amounts at September 30, 2002 is due to accrued dividends which are included in Accrued Liabilities until paid.

(f) Sale of Fiber Optic Cable System Capacity

During the first quarter of 2001 we completed a \$19.5 million sale of long-haul capacity in the Alaska United undersea fiber optic cable system (“fiber system capacity sale”) in a cash transaction. The sale included both capacity within Alaska, and between Alaska and the 48 contiguous states south of or below Alaska (“Lower 48”). We used the proceeds from the fiber system capacity sale to repay \$11.7 million of the Fiber Facility debt and to fund capital expenditures and working capital.

The fiber system capacity sale contract gave the purchaser an indefeasible right to use a certain amount of fiber system capacity and expires on February 4, 2024. The term may be extended if the actual useful life of the fiber system capacity extends beyond the estimated useful life of twenty-five years. The fiber system capacity sold is integral equipment because it is attached to real estate. Because all of the benefits and risks of ownership have been transferred to the purchaser upon full receipt of the purchase price and other terms of the contract meet the requirements of Statement of Financial Accounting Standard (“SFAS”) No. 66, “Accounting for Sales of Real Estate” we accounted for the fiber system capacity sale as a sales-type lease. We recognized \$19.5 million in revenue and \$10.9 million in cost of sales from the fiber system capacity sale during the first quarter of 2001.

The accounting for the sale of fiber system capacity is currently evolving and accounting guidance may become available in the future which could require us to change our policy. If we are required to change our policy, it is likely the effect would be to recognize the gain from future sales of fiber system capacity, if any, over the term the capacity is provided.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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(g) Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. Excess cash is invested in high quality short-term liquid money instruments issued by highly rated financial institutions. At September 30, 2002 and December 31, 2001, substantially all of our cash and cash equivalents were invested in short-term liquid money instruments.

We have two major customers, WorldCom (see note 5) and Sprint. We may experience increased risk associated with these customers' accounts receivable balances. Our remaining customers are located primarily throughout Alaska. Because of this geographic concentration, our growth and operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resources industries, and in particular oil production, as well as tourism, government, and United States military spending. Though limited to one geographical area and except for WorldCom and Sprint, the concentration of credit risk with respect to our receivables is minimized due to the large number of customers, individually small balances, and short payment terms.

(h) New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited on a prospective basis only. Adoption of SFAS No. 141 has not had a significant impact on our results of operations, financial position or cash flows.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 provides accounting and reporting standards for intangible assets acquired individually, with a group of other assets, or as part of a business combination. This statement addresses how acquired goodwill and other intangible assets are recorded upon their acquisition as well as how they are to be accounted for after they have been initially recognized in the financial statements. Under this statement, goodwill and other intangibles with indefinite useful lives, on a prospective basis, will no longer be amortized, however will be tested for impairment at least annually, based on a fair value comparison. Intangibles that have finite useful lives will continue to be amortized over their respective useful lives. This statement also requires expanded disclosure for goodwill and other intangible assets.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. However it retains the fundamental provisions of SFAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and for measurement of long-lived assets to be disposed of by sale. This statement applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, for the disposal of segments of a business. This statement requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Adoption of SFAS No. 144 has not had a significant impact on our results of operations, financial position or cash flows.

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In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The following summarizes the effects of SFAS No. 145:

- SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect is rescinded. Upon adoption of SFAS No. 145, companies will be required to apply the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("Opinion No. 30"), in determining the classification of gains and losses resulting from the extinguishment of debt,
- SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements", amended SFAS No. 4 and is no longer necessary since SFAS No. 4 has been rescinded,
- SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers", was issued to establish accounting requirements for the effects of the transition to the provisions of the Motor Carrier Act of 1980. Those transitions are completed and, therefore, SFAS No. 44 is no longer needed, and
- SFAS No. 13, "Accounting for Leases", is amended to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions.

SFAS No. 145 will be effective for fiscal years beginning after May 15, 2002, with early adoption of the provisions related to the rescission of Statement No. 4 encouraged. Upon adoption, enterprises must reclassify prior period items that do not meet the extraordinary item classification criteria in Opinion No. 30. Unamortized bank fees and other expenses totaling \$2.4 million associated with the refinancing of the Senior Holdings Loan and the Fiber Facility as previously discussed will not be classified as an extraordinary item and will be charged to expense in the fourth quarter of 2002. We are currently assessing any further impact of this statement on our results of operations, financial position and cash flows.

(i) Reclassifications

Reclassifications have been made to the 2001 financial statements to make them comparable with the 2002 presentation.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

(2) Consolidated Statements of Cash Flows Supplemental Disclosures

Changes in operating assets and liabilities consist of (amounts in thousands):

Nine month periods ended September 30,	2002	2001
Increase in accounts receivables	\$ (14,678)	(8,819)
(Increase) decrease in inventories	(1,242)	2,119
(Increase) decrease in prepaid and other current assets	1,018	(1,517)
Increase in accounts payable	453	7,134
Increase in deferred revenues	3,911	1,038
Increase (decrease) in accrued payroll and payroll related obligations	(4,544)	2,821
Decrease in accrued interest	(4,793)	(4,127)
Increase in accrued liabilities	1,239	1,397
Increase (decrease) in subscriber deposits	(187)	150
Increase (decrease) in components of other long-term liabilities	256	(100)
	\$ (18,567)	96

We paid interest totaling approximately \$25,097,000 and \$28,594,000 during the nine months ended September 30, 2002 and 2001, respectively.

We received an income tax refund of approximately \$95,000 and \$0 during the nine months ended September 30, 2002 and 2001, respectively. We paid income taxes totaling approximately \$0 and \$61,000 during the nine months ended September 30, 2002 and 2001, respectively.

During the nine months ended September 30, 2002 we funded the employer matching portion of Employee Stock Purchase Plan contributions by issuing GCI Class A common stock valued at \$497,000. We purchased such shares on the open market during the nine months ended September 30, 2001.

We financed the purchase of telephony distribution equipment pursuant to a long-term capital lease arrangement with a leasing company during the nine month period ended September 30, 2002 at a cost of approximately \$1 million.

We acquired certain minority shareholder's interests in GFCC by issuing 15,000 shares of GCI Class A common stock in July 2002.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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(3) Intangible Assets

Effective with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002, goodwill and cable certificates (certificates of convenience and public necessity) are no longer amortized. The following pro forma financial information reflects net income and basic and diluted EPS as if goodwill and cable certificates were not subject to amortization for the three and nine months ended September 30, 2001 (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2001		Nine Months Ended September 30, 2001	
	Basic and		Basic and	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income, as reported	\$ 1,527	0.02	4,116	0.05
Add cable certificate amortization, net of income taxes	712	0.01	2,136	0.04
Add goodwill amortization, net of income taxes	183	---	533	0.01
Adjusted net income	\$ 2,422	0.03	6,785	0.10

Cable certificates are allocated to our cable services reportable segment. Goodwill is primarily allocated to the cable services segment and the remaining amount is not allocated to a reportable segment, but is included in the All Other category in note 4.

Amortization expense for amortizable intangible assets for the three and nine months ended September 30, 2002 and 2001 follow:

	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2001	
	2002	2001	2002	2001
	Amortization expense for intangible assets	\$ 180	1,801	567

Amortization expense for amortizable intangible assets for each of the five succeeding fiscal years is estimated to be (amounts in thousands):

Years ending December 31,	
2002	\$ 760
2003	374
2004	229
2005	123
2006	119

No intangible assets have been impaired based upon impairment testing performed as of January 1, 2002 and no indicators of impairment have occurred since the impairment testing was performed.

(4) Industry Segments Data

Our reportable segments are business units that offer different products. The reportable segments are each managed separately and offer distinct products with different production and delivery processes.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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We have four reportable segments as follows:

Long-distance services. We offer a full range of common-carrier long-distance services to commercial, government, other telecommunications companies and residential customers, through our networks of fiber optic cables, digital microwave, and fixed and transportable satellite earth stations and our SchoolAccess™ offering to rural school districts and a similar offering to rural hospitals and health clinics.

Cable services. We provide cable television services to residential, commercial and government users in the State of Alaska. Our cable systems serve 33 communities and areas in Alaska, including the state's three largest urban areas, Anchorage, Fairbanks and Juneau. We offer digital cable television services in Anchorage, Fairbanks, Juneau, Kenai and Soldotna and retail cable modem service (through our Internet services segment) in Anchorage, Fairbanks, Juneau and several other communities in Alaska. We plan to expand our product offerings as plant upgrades are completed in other communities in Alaska.

Local access services. We offer facilities based competitive local exchange services in Anchorage, Fairbanks and Juneau and plan to provide similar competitive local exchange services in other locations pending regulatory approval.

Internet services. We offer wholesale and retail Internet services. We offer cable modem service in Anchorage, Fairbanks, Juneau and several other communities in Alaska and plan to provide cable modem service in other areas in 2003. Our undersea fiber optic cable allows us to offer enhanced services with high-bandwidth requirements.

Included in the "All Other" category in the tables that follow are our managed services, product sales, cellular telephone services, and, during the nine months ended September 30, 2001, management services for Kanas Telecom, Inc. ("Kanas"), a related party. None of these business units has ever met the quantitative thresholds for determining reportable segments. Also included in the All Other category are corporate related expenses including management information systems, accounting, legal and regulatory, human resources and other general and administrative expenses. In 2001, the All Other category includes revenues and costs associated with the sale of undersea fiber optic cable system capacity (see note 1(f)). The September 30, 2001 Form 10-Q "Industry Segments Data" reported marketing expenses in the "All Other" category. Such 2001 expenses have been reclassified to the applicable four reportable segments in the September 30, 2002 Form 10-Q.

We evaluate performance and allocate resources based on (1) earnings or loss from operations before depreciation, amortization, net interest expense and income taxes, and (2) operating income or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in note 1. Intersegment sales are recorded at cost plus an agreed upon intercompany profit.

We earn all revenues through sales of services and products within the United States of America. All of our long-lived assets are located within the United States of America.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

Summarized financial information for our reportable segments and for the All Other category for the nine months ended September 30, 2002 and 2001 follows (amounts in thousands):

	Reportable Segments						All Other	Total
	Long-Distance Services	Cable Services	Local Access Services	Internet Services	Total Reportable Segments			
<u>2002</u>								
Revenues:								
Intersegment	\$ 16,578	1,543	7,498	7,179	32,798	558	33,356	
External	156,221	65,322	23,510	11,412	256,465	19,035	275,500	
Total revenues	<u>\$172,799</u>	<u>66,865</u>	<u>31,008</u>	<u>18,591</u>	<u>289,263</u>	<u>19,593</u>	<u>308,856</u>	
Earnings (loss) from operations before depreciation, amortization, net interest expense and income taxes	\$ 73,440	30,528	2,178	(8,444)	97,702	(22,937)	74,765	
Operating income (loss)	<u>\$ 53,134</u>	<u>18,472</u>	<u>(369)</u>	<u>(11,111)</u>	<u>60,126</u>	<u>(28,616)</u>	<u>31,510</u>	
<u>2001</u>								
Revenues:								
Intersegment	\$ 14,982	1,189	6,024	4,264	26,459	169	26,628	
External	149,979	56,032	18,538	8,772	233,321	37,150	270,471	
Total revenues	<u>\$164,961</u>	<u>57,221</u>	<u>24,562</u>	<u>13,036</u>	<u>259,780</u>	<u>37,319</u>	<u>297,099</u>	
Earnings (loss) from operations before depreciation, amortization, net interest expense and income taxes	\$ 65,475	25,400	3,881	(9,001)	85,755	(11,630)	74,125	
Operating income (loss)	<u>\$ 48,144</u>	<u>10,361</u>	<u>1,341</u>	<u>(11,060)</u>	<u>48,786</u>	<u>(16,428)</u>	<u>32,358</u>	

A reconciliation of reportable segment revenues to consolidated revenues follows (amounts in thousands):

Nine months ended September 30,	2002	2001
Reportable segment revenues	\$ 289,263	259,780
Plus All Other revenues	19,593	37,319
Less intersegment revenues eliminated in consolidation	(33,356)	(26,628)
Consolidated revenues	<u>\$ 275,500</u>	<u>270,471</u>

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
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A reconciliation of reportable segment earnings from operations before depreciation, amortization, net interest expense and income taxes to consolidated net income before income taxes follows (amounts in thousands):

Nine months ended September 30,	2002	2001
Reportable segment earnings from operations before depreciation, amortization, net interest expense and income taxes	\$ 97,702	85,755
Less All Other loss from operations before depreciation, amortization, net interest expense and income taxes	(22,937)	(11,630)
Less intersegment contribution eliminated in consolidation	(707)	(713)
Consolidated earnings from operations before depreciation, amortization, net interest expense and income taxes	74,058	73,412
Less depreciation and amortization expense	43,255	41,767
Consolidated operating income	30,803	31,645
Less interest expense, net	19,969	24,170
Consolidated net income before income taxes	\$ 10,834	7,475

A reconciliation of reportable segment operating income to consolidated net income before income taxes follows (amounts in thousands):

Nine months ended September 30,	2002	2001
Reportable segment operating income	\$ 60,126	48,786
Less All Other operating loss	(28,616)	(16,428)
Less intersegment contribution eliminated in consolidation	(707)	(713)
Consolidated operating income	30,803	31,645
Less interest expense, net	19,969	24,170
Consolidated net income before income taxes	\$ 10,834	7,475

(5) WorldCom Chapter 11 Bankruptcy Filing

We provide long-distance and other services to WorldCom, a related party and a major customer. We earned revenues from WorldCom, net of discounts, totaling approximately \$68.7 million for the nine months ended September 30, 2002. As a percentage of total revenues, WorldCom revenues totaled 24.9% for the nine months ended September 30, 2002. On July 21, 2002 WorldCom and substantially all of its active U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court. Chapter 11 allows a company to continue operating in the ordinary course of business in order to maximize recovery for the company's creditors and shareholders. The filings have enabled WorldCom to continue to conduct business while it develops a reorganization plan.

During the three and nine months ended September 30, 2002 we have recognized \$1.2 million and \$11.0 million in bad debt expense for uncollected amounts due from WorldCom, respectively. At September 30, 2002 the bad debt reserve for uncollected amounts due from WorldCom ("WorldCom reserve") totaled \$11.6 million and consisted of all billings for services rendered prior to July 21, 2002 that were not paid or deemed recoverable as of September 30, 2002 and which have not been

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
**Notes to Interim Condensed Consolidated Financial Statements**  
(Unaudited)

subsequently paid through the date of this report. The WorldCom reserve includes approximately \$655,000 in reserves recognized prior to the bankruptcy in addition to the \$11.0 million in bad debt expense previously discussed. Any payments received on amounts included in the WorldCom reserve will reduce the reserve and bad debt expense in the period of receipt. We currently cannot predict the timing or ultimate amount that WorldCom will pay on outstanding balances due us as of their bankruptcy filing date of July 21, 2002. WorldCom has made timely payments for services rendered subsequent to July 21, 2002.

(6) Commitments and Contingencies

Litigation and Disputes

We are routinely involved in various lawsuits, billing disputes, legal proceedings and regulatory matters that have arisen in the normal course of business. While the ultimate results of these items cannot be predicted with certainty, we do not expect at this time the resolution of them to have a material adverse effect on our financial position, results of operations or our liquidity.

(7) Subsequent Event

On November 1, 2002 we closed a \$225.0 million bank facility (“Senior Facility”) to refinance the Senior Holdings Loan and Fiber Facility. The Senior Holdings Loan and Fiber Facility had balances of approximately \$120.1 million and \$60.0 million, respectively, at September 30, 2002. The Senior Facility includes a term loan of \$175.0 million and a revolving credit facility of \$50.0 million. The Senior Facility matures on November 1, 2004 and bears interest at LIBOR plus 6.50%. We are required to pay a commitment fee equal to 1.5% per annum on the unused portion of the commitment. If the outstanding debt is less than \$112.5 million the commitment fee increases to 2.0% per annum on the unused portion of the commitment.

On November 30, 2003 we are required to prepay the term loan in an amount equal to 50% of the amount by which earnings before interest, taxes, depreciation, and amortization exceeds certain fixed charges as defined in the Senior Facility agreement (“Excess Cash Flow”) during the year ended September 30, 2003. On May 30, 2004 we are required to prepay the term loan in an amount equal to 50% of the Excess Cash Flow during the six months ended March 31, 2004.

The Senior Facility contains, among others, covenants limiting additional indebtedness and prohibits any direct or indirect distribution, dividend, redemption or other payment to any person on account of any general or limited partnership interest in, or shares of capital stock or other securities of GCI, Inc. and subsidiaries. Under the Senior Facility we may not allow the:

- Total leverage ratio (as defined) to be greater than 4.5:1,
- Senior secured leverage ratio (as defined) to be greater than 2.25:1, and
- Interest coverage ratio (as defined) to be less than 2.50:1.

Capital expenditures, other than those incurred to build additional fiber optic cable system capacity, in any of the years ended September 30, 2003, March 31, 2004 and September 30, 2004 may not exceed:

- \$25.0 million plus,
- 50% of any Excess Cash Flow during the applicable period less any permitted Investments (as defined) of up to \$5.0 million during the applicable period.

**GENERAL COMMUNICATION, INC. AND SUBSIDIARIES**  
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\$3.0 million of the Senior Facility has been used to provide a letter of credit to secure payment of certain access charges associated with our provision of telecommunications services within the State of Alaska.

In connection with the funding of the Senior Facility, we paid bank fees and other expenses of approximately \$104,000 and \$304,000 during the three and nine months ended September 30, 2002 which will be charged to amortization expense over the life of the agreement. Remaining unamortized bank fees and other expenses totaling \$2.4 million associated with the Senior Holdings Loan and the Fiber Facility will be charged to expense in the fourth quarter of 2002.

The refinancing agreement resulted in the classification of all Senior Holdings Loan and Fiber Facility debt as long-term at September 30, 2002. At June 30, 2002 the current portion of such debt was \$36.6 million.

**PART I.**  
**ITEM 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
(Unaudited)**

In the following discussion, General Communication, Inc. and its direct and indirect subsidiaries are referred to as "we," "us" and "our."

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. On an on-going basis, we evaluate our estimates and judgments, including those related to unbilled revenues, allowance for doubtful accounts, depreciation and amortization periods, intangible assets, income taxes, and contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. See also our *Cautionary Statement Regarding Forward-Looking Statements*.

**General Overview**

We have experienced significant growth in recent years through strategic acquisitions, deploying new business lines and expansion of our existing businesses. We have historically met our cash needs for operations, regular capital expenditures and maintenance capital expenditures through our cash flows from operating activities. Cash requirements for significant acquisitions and major capital expenditures have been provided largely through our financing activities.

**Long-Distance Services Overview**

During the third quarter of 2002 long-distance services revenue represented 56.9% of consolidated revenues. Our provision of interstate and intrastate long-distance services to residential, commercial and governmental customers and to other common carriers (principally WorldCom, a related party, (see note 5 to the *Interim Condensed Consolidated Financial Statements* for a discussion of WorldCom's Chapter 11 bankruptcy filing) and Sprint), provision of private line and leased dedicated capacity services and broadband services accounted for 95.7% of our total long-distance services revenues during the third quarter of 2002.

Factors that have the greatest impact on year-to-year changes in long-distance services revenues include the rate per minute charged to customers, usage volumes expressed as minutes of use, and the number of private line, leased dedicated service and broadband products in use.

Long-distance services face significant competition from AT&T Alascom, Inc., long-distance resellers, and from local telephone companies that have entered the long-distance market. We believe our approach to developing, pricing, and providing long-distance services and bundling different business segment services will continue to allow us to be competitive in providing those services.

Our contract to provide interstate and intrastate long-distance services to Sprint was replaced in March 2002 extending its term to March 2007 with two one-year automatic extensions to March 2009. Beginning in April 2002 the new contract reduced the rate to be charged by us for certain Sprint traffic over the extended term of the contract.

Other common carrier traffic routed to us for termination in Alaska is largely dependent on traffic routed to WorldCom and Sprint by their customers. Pricing pressures, general economic deterioration, new program offerings, business failures, and market consolidation continue to evolve in the markets served by WorldCom and Sprint. If, as a result, their traffic is reduced, or if their competitors' costs to terminate or originate traffic in Alaska are reduced, our traffic will also likely be reduced, and our pricing may be reduced to respond to competitive pressures. We are unable to predict the effect on us of such changes, however given the materiality of other common carrier revenues to us, a significant reduction in traffic or pricing could have a material adverse effect on our financial position, results of operations and liquidity.

### **Cable Services Overview**

During the third quarter of 2002, cable television revenues represented 23.3% of consolidated revenues. The cable systems serve 33 communities and areas in Alaska, including the state's three largest population centers, Anchorage, Fairbanks and Juneau.

We generate cable services revenues from four primary sources: (1) digital and analog programming services, including monthly basic or premium subscriptions and pay-per-view movies or other one-time events, such as sporting events; (2) equipment rentals or installation; (3) cable modem services (shared with our Internet services segment); and (4) advertising sales. During the third quarter of 2002 programming services generated 76.9% of total cable services revenues, equipment rental and installation fees accounted for 9.3% of such revenues, cable services' allocable share of cable modem services accounted for 9.6% of such revenues, advertising sales accounted for 3.3% of such revenues, and other services accounted for the remaining 0.9% of total cable services revenues.

The primary factors that contribute to year-to-year changes in cable services revenues are average monthly subscription and pay-per-view rates, the mix among basic, premium and pay-per-view services and digital and analog services, the average number of cable television and cable modem subscribers during a given reporting period, and revenues generated from new product offerings.

Cable services face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment. We believe our cable television services will continue to be competitive by providing, at reasonable prices, a greater variety of programming and other communication services than are available off-air or through other alternative delivery sources and superior technical performance and responsive local customer service.

### **Local Access Services Overview**

We generate local access services revenues from three primary sources: (1) business and residential basic dial tone services; (2) business private line and special access services; and (3) business and residential features and other charges, including voice mail, caller ID, distinctive ring, inside wiring and subscriber line charges. During the third quarter of 2002 local exchange services revenues represented 8.6% of consolidated revenues.

The primary factors that contribute to year-to-year changes in local access services revenues are the average number of business and residential subscribers to our services during a given reporting period, the average monthly rates charged for non-traffic sensitive services and the number and type of additional premium features selected.

Our local access services segment faces significant competition in Anchorage, Fairbanks, and Juneau from the ILEC Alaska Communications Systems, Inc. ("ACS") and AT&T Alascom, Inc. We began providing service in the Juneau market in the first quarter of 2002. We believe our approach to developing, pricing, and providing local access services and bundling different business segment services will allow us to be competitive in providing those services.

### **Internet Services Overview**

We generate Internet services revenues from three primary sources: (1) access product services, including commercial, Internet service provider, and retail dial-up access; (2) network management services; and (3) Internet services' allocable share of cable modem services (a portion of cable modem revenue is also recognized by our cable services segment). During the third quarter of 2002 Internet services segment revenues represented 4.1% of consolidated revenues.

The primary factors that contribute to year-to-year changes in Internet services revenues are the average number of subscribers to our services during a given reporting period, the average monthly subscription rates, and the number and type of additional premium features selected.

Marketing campaigns continue to be deployed targeting residential and commercial customers featuring bundled Internet products. Our Internet offerings are coupled with our long-distance and local access services offerings and provide free basic Internet services or discounted premium Internet services if certain long-distance or local access services plans are selected. Value-added premium Internet features are available for additional charges.

We compete with a number of Internet service providers in our markets. We believe our approach to developing, pricing, and providing Internet services allows us to be competitive in providing those services.

### **All Other Services Overview**

Revenues reported in the All Other category as described in note 4 in the accompanying *Notes to Interim Condensed Consolidated Financial Statements* include our managed services, product sales, and cellular telephone services.

Revenues included in the All Other category represented 7.1% of total revenues in the third quarter of 2002 and include managed services revenues totaling \$5.4 million and product sales and cellular telephone services revenues totaling \$1.3 million.

## **RESULTS OF OPERATIONS**

The following table sets forth selected Statement of Operations data as a percentage of total revenues for the periods indicated (unaudited, underlying data rounded to the nearest thousands):

	<b>Three Months Ended September 30,</b>			<b>Nine Months Ended September 30,</b>		
	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>Percent- age Change<sup>1</sup> 2002 vs. 2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>Percent- age Change<sup>1</sup> 2002 vs. 2001</u></b>
<i>Statement of Operations Data:</i>						
Revenues						
Long-distance services	56.9%	61.2%	(0.2%)	56.7%	55.5%	4.2%
Cable services	23.3%	21.7%	15.4%	23.7%	20.7%	16.6%
Local access services	8.6%	7.3%	26.6%	8.5%	6.9%	26.8%
Internet services	4.1%	3.4%	30.1%	4.2%	3.2%	30.1%
All Other services	7.1%	6.4%	19.5%	6.9%	13.7%	(48.8%)
Total revenues	100.0%	100.0%	7.4%	100.0%	100.0%	1.9%
Cost of sales and services	32.1%	37.2%	(7.2%)	33.6%	40.2%	(14.9%)
Selling, general and administrative expenses	34.1%	34.2%	7.0%	34.9%	31.3%	13.4%
Bad debt expense	1.8%	1.0%	97.1%	4.6%	1.4%	250.2%
Depreciation and amortization	15.1%	16.0%	0.9%	15.7%	15.4%	3.6%
Operating income	16.9%	11.6%	57.3%	11.2%	11.7%	(2.7%)
Net income before income taxes	9.2%	3.1%	218.8%	3.9%	2.8%	44.9%
Net income	5.4%	1.7%	231.6%	2.2%	1.5%	50.0%
<i>Other Operating Data:</i>						
Long-distance services operating income <sup>2</sup>	43.3%	31.1%	38.9%	34.0%	30.4%	16.5%
Cable services operating income <sup>3</sup>	29.0%	17.8%	88.0%	28.3%	18.5%	78.3%
Local access services operating (loss) income <sup>4</sup>	(10.2%)	48.4%	(126.8%)	(1.6%)	20.9%	(109.5%)
Internet services operating loss <sup>5</sup>	(93.7%)	(127.8%)	4.6%	(97.4%)	(126.1%)	(0.5%)

<sup>1</sup> Percentage change in underlying data.

<sup>2</sup> Computed as a percentage of total external long-distance services revenues.

<sup>3</sup> Computed as a percentage of total external cable services revenues.

<sup>4</sup> Computed as a percentage of total external local access services revenues.

<sup>5</sup> Computed as a percentage of total external Internet services revenues.

Three Months Ended September 30, 2002 ("2002") Compared To Three Months Ended September 30, 2001 ("2001").

*Revenues*

Total revenues increased 7.4% from \$88.0 million in 2001 to \$94.6 million in 2002.

Long-distance services revenues from residential, commercial, governmental, and other common carrier customers decreased 0.2% to \$53.8 million in 2002. The decrease was largely due to a 17.6% decrease in message telephone service revenues from residential, commercial, and governmental customers to \$13.7 million due to the following:

- A 15.3% decrease in retail minutes carried for residential, commercial, and governmental customers to 75.5 million minutes,
- A 10.2% decrease in the average rate per minute on minutes carried for residential, commercial, and governmental customers to \$0.123 per minute due to our promotion of and customers' enrollment in calling plans offering a certain number of minutes for a flat monthly fee, and
- A decrease of 0.5% in the number of active residential, small business and commercial customers billed to 87,100 at September 30, 2002.

Long-distance services revenue decreases described above were partially offset by the following:

- An increase of 9.3% in message telephone service revenues from other common carriers (principally WorldCom and Sprint) to \$24.5 million in 2002 resulting from a 11.4% increase in wholesale minutes carried for other common carriers to 224.5 million minutes. After excluding certain low-margin wholesale minutes no longer carried for other common carriers, comparable wholesale minutes carried for other common carriers increased 17.3% over the prior year. The increase in wholesale minutes carried for other common carriers was partially off-set by a 1.8% decrease in the average rate per minute on minutes carried for other common carriers due to a reduced rate charged by us for certain Sprint traffic due to a new contract commencing April 2002. After excluding certain 2001 low-margin wholesale minutes not carried in 2002 for other common carriers, the comparable average rate per minute decreased 6.0% from the prior year, and
- An increase of 10.8% in private line and private network transmission services revenues to \$9.0 million in 2002 due to an increased number of leased circuits in service.

Revenues from and minutes carried for WorldCom have increased in 2002 as compared to 2001.

Cable services revenues increased 15.4% to \$22.1 million in 2001. Programming services revenues increased 11.5% to \$17.0 million in 2002 and average gross revenue per average basic subscriber per month increased \$2.76 or 5.2% in 2002 resulting from the following:

- Basic subscribers served increased approximately 11,600 to approximately 134,600 at September 30, 2002 as compared to September 30, 2001 (the 2002 increase includes approximately 7,000 basic subscribers acquired from Rogers American Cablesystems, Inc. ("Rogers") on November 19, 2001),
- New facility construction efforts in 2002 and the acquisition of Rogers subscribers resulted in approximately 14,900 additional homes passed, a 8.2% increase from 2001, and
- Digital subscriber counts increased 33.8% to approximately 28,500 at September 30, 2002 as compared to September 30, 2001.

The cable services segment's share of cable modem revenue (offered through our Internet services segment) increased \$803,000 to \$2.1 million in 2002 due to an increased number of cable modems deployed.

Local access services revenues increased 26.6% in 2002 to \$8.1 million primarily due to growth in the average number of customers served. At September 30, 2002 an estimated 95,000 to 100,000 lines were in service as compared to approximately 73,300 lines in service at September 30, 2001. At September 30, 2002 approximately 2,500 additional lines were awaiting connection. The increase in local access services revenues described above was partially off-set by the following:

- The FCC Multi-Association Group (“MAG”) reform order reducing the access rates paid by interexchange carriers to local exchange carriers (“LECs”), and
- A reduction in interstate access rates charged by us to interexchange carriers in response to an FCC order forcing a competitor to reduce their interstate access rates.

Internet services revenues increased 30.1% to \$3.9 million in 2002 primarily due to growth in the average number of customers served and the number of cable modems deployed. We had approximately 71,400 active residential, commercial and small business retail dial-up Internet subscribers at September 30, 2002 as compared to approximately 67,900 at September 30, 2001. We expect the number of active residential, commercial and small business retail dial-up Internet subscribers may decline slightly in future quarters due to their conversion to cable modem subscribers. We had approximately 33,000 active residential, commercial and small business retail cable modem subscribers at September 30, 2002 as compared to approximately 21,500 at September 30, 2001. Approximately 850 cable modem subscribers were added with the Rogers acquisition on November 19, 2001.

The 19.5% increase in All Other revenues to \$6.7 million in 2002 is primarily due to a 14.0% increase in managed services revenues in 2002 to \$5.4 million primarily due to the provision of additional services to and increased revenues from a certain customer.

#### *Cost of Sales and Service*

Total cost of sales and services decreased 7.2% to \$30.4 million in 2002. As a percentage of total revenues, total cost of sales and services decreased from 37.2% in 2001 to 32.1% in 2002.

Long-distance services cost of sales and services decreased 23.2% to \$14.9 million in 2002. Long-distance services cost of sales as a percentage of long-distance services revenues decreased from 36.0% in 2001 to 27.7% in 2002 primarily due to the following:

- Reductions in access costs due to distribution and termination of our traffic on our own local services network instead of paying other carriers to distribute and terminate our traffic. The statewide average cost savings is approximately \$.038 and \$.078 per minute for interstate and intrastate traffic, respectively. We expect cost savings to continue to occur as long-distance traffic originated, carried, and terminated on our own facilities grows,
- The FCC MAG reform order reducing access rates paid by interexchange carriers to LECs, and
- In the course of business we estimate unbilled long-distance cost of sales based upon minutes of use processed through our network and established rates. Such estimates are revised when subsequent billings are received, payments are made, billing matters are researched and resolved, tariffed billing periods lapse, or when disputed charges are resolved. In 2002 we had favorable adjustments of \$1.5 million. Excluding the favorable adjustments in 2002, the long-distance services cost of sales as a percentage of long-distance services revenues was 30.6% in 2002.

Partially offsetting the 2002 decrease in long-distance services cost of sales as a percentage of long-distance services revenues is a decrease in the average rate per minute billed to customers as previously described.

Cable services cost of sales and services increased 10.8% to \$5.8 million in 2002. Cable services cost of sales and services as a percentage of cable revenues, which is less as a percentage of revenues than are long-distance, local access and Internet services cost of sales and services, decreased from 27.2% in 2001 to 26.1%

in 2002. The decrease is due to increases in equipment rental and installation, cable services' allocable share of cable modem services and advertising sales revenues which do not have corresponding costs of sales and services. Cable services cost of sales and services as a percentage of cable programming services revenue were 34.0% and 34.2% in 2002 and 2001, respectively.

Local access services cost of sales and services increased 50.4% to \$5.3 million in 2002. Local access services cost of sales and services as a percentage of local access services revenues increased from 55.4% in 2001 to 65.9% in 2002, primarily due to the following:

- Decreased network access services revenues from other carriers as the number of customers purchasing both long-distance and local access services from us increases,
- An increase in the Anchorage loop lease rates paid to ACS as described below,
- The effect of offering one to two months of free service to significant numbers of new local access services customers acquired in 2002 while continuing to incur cost of sales for such new customers,
- The FCC Multi-Association Group reform order reducing the access rates paid by interexchange carriers to LECs,
- A reduction in interstate access rates charged by us to interexchange carriers in response to an FCC order forcing a competitor to reduce their interstate access rates, and
- The lease of wholesale circuits from the ILEC in Fairbanks and Juneau pending completion of our own facilities enabling service transition to unbundled network elements ("UNE") facilities and pricing.

The increases in local access services cost of sales as a percentage of local access services revenues described above are partially offset by further economies of scale and more efficient network utilization as the number of local access services subscribers and resulting revenues increase.

ACS requested and received permission for a 7.7% increase in the UNE loop rate to \$14.92 and a 24% increase in their retail residential rates, both effective in November 2001. The wholesale service rate we pay is tied to the retail residential rate and increased approximately \$2.25 per line. Additionally, the cost of residential features increased 24% to approximately \$1.35 per line. We estimate that the increased rates will result in a 3.0% to 4.0% increase in our local access services cost of sales as a percentage of local access services revenue for the year ended December 31, 2002.

Internet services cost of sales and services increased 2.9% to \$1.2 million in 2002, and as a percentage of Internet services revenues, totaled 31.3% and 39.5% in 2002 and 2001, respectively. The decrease as a percentage of Internet services revenues is primarily due to a \$1.4 million increase in Internet's portion of cable modem revenue that generally has higher margins than do other Internet services products. As Internet services revenues increase, economies of scale and more efficient network utilization continue to result in reduced cost of sales and services as a percentage of revenues.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 7.0% to \$32.2 million in 2002 primarily due to increased labor and health insurance costs and incremental new costs to operate GCI Fiber Communication Co., Inc. ("GFCC") and Rogers, partially offset by a decreased accrual for company-wide success sharing bonus costs. As a percentage of total revenues, selling, general and administrative expenses decreased to 34.1% in 2002 from 34.2% in 2001, resulting from increased revenues without a ratable increase in selling, general and administrative expenses.

Marketing and advertising expenses as a percentage of total revenues decreased from 3.5% in 2001 to 3.2% in 2002.

### *Bad Debt Expense*

Bad debt expense increased 97.1% to \$1.7 million in 2002 and, as a percentage of total revenues, increased to 1.8% in 2002 from 1.0% in 2001. The 2002 increase is primarily due to the provision of an additional \$1.2 million in bad debt expense for uncollected accounts from WorldCom resulting from substantially all of its active U.S. subsidiaries filing voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York on July 21, 2002. The \$1.2 million WorldCom bad debt expense in 2002 includes all unpaid billings for services rendered from July 1, 2002 through July 21, 2002, net of a \$3.5 million payment received from a third party obligor that determined it was ultimately liable for services provided by GCI to the third party under a contract that had been assigned to WorldCom, and net of an estimated 10% recovery factor associated with remaining outstanding WorldCom pre-petition balances.

At September 30, 2002 the WorldCom reserve totaled \$11.6 million and consisted of all billings for services rendered prior to July 21, 2002 that were not paid or deemed recoverable as of September 30, 2002 and which have not been subsequently paid through the date of this report. Any payments received on amounts included in the WorldCom reserve will reduce the reserve and bad debt expense in the period of receipt.

### *Depreciation and Amortization*

Depreciation and amortization expense increased 0.9% to \$14.3 million in 2002. The increase is primarily attributable to an increase in depreciation expense on our \$68.0 million investment in equipment and facilities placed into service during 2001 for which a full year of depreciation will be recorded during the year ended December 31, 2002, and the \$47.3 million investment in equipment and facilities placed into service during the nine months ended September 30, 2002 for which a partial year of depreciation will be recorded during the year ended December 31, 2002.

Partially offsetting the depreciation expense increases described above is the discontinued amortization of Goodwill and Cable Certificates upon the adoption of SFAS 142, "Goodwill and Other Intangible Assets" resulting in a decrease in 2002 amortization expense of approximately \$1.6 million as compared to 2001.

### *Interest Expense, Net*

Interest expense, net of interest income, decreased 1.4% to \$7.4 million in 2002. This decrease resulted primarily from decreased interest rates in 2002 on our variable rate debt. Partially offsetting these decreases was additional interest expense in 2002 resulting from an increase in average outstanding indebtedness.

### *Income Tax Expense*

Income tax expense was \$3.6 million in 2002 and \$1.2 million in 2001. The change was due to increased net income before income taxes in 2002 as compared to 2001, as previously described. Our effective income tax rate decreased from 43.8% in 2001 to 41.5% in 2002 due to the effect of items that are nondeductible for income tax purposes.

### *Nine Months Ended September 30, 2002 ("2002") Compared To Nine Months Ended September 30, 2001 ("2001").*

#### *Revenues*

Total revenues increased 1.9% from \$270.5 million in 2001 to \$275.5 million in 2002. Excluding the fiber optic cable system capacity sale of \$19.5 million in 2001 as described in note 1(f) in the accompanying *Notes to Interim Condensed Consolidated Financial Statements*, total revenues increased 9.8% in 2002.

Long-distance services revenues from residential, commercial, governmental, and other common carrier customers increased 4.2% to \$156.2 million in 2002. The increase was largely due to the following:

- An increase of 14.4% in message telephone service revenues from other common carriers (principally WorldCom and Sprint) to \$68.2 million in 2002 resulting from a 17.8% increase in wholesale minutes carried for other common carriers to 629.9 million minutes. After excluding certain low-margin wholesale minutes no longer carried for other common carriers, comparable wholesale minutes carried for other common carriers increased 24.5% over the prior year. The increase in wholesale minutes carried for other common carriers was partially off-set by a 2.9% decrease in the average rate per minute on minutes carried for other common carriers due to a reduced rate charged by us for certain Sprint traffic due to a new contract commencing April 2002. After excluding certain 2001 low-margin wholesale minutes not carried in 2002 for other common carriers, the comparable average rate per minute decreased 7.4% from the prior year, and
- An increase in 2002 of 22.6% to \$13.3 million in revenues from our packaged telecommunications offering to rural hospitals and health clinics and our SchoolAccess™ offering to rural school districts. The increase is primarily due to an increase in circuits and services sold to rural hospitals and health clinics and the provision of SchoolAccess™ services to an additional nine school districts located in Arizona and New Mexico beginning in July 2001.

Long-distance services revenue increases described above were partially offset by a 8.0% decrease in message telephone service revenues from residential, commercial, and governmental customers to \$42.1 million due to the following:

- A 9.7% decrease in retail minutes carried for residential, commercial, and governmental customers to 235.2 million minutes,
- A 3.1% decrease in the average rate per minute on minutes carried for residential, commercial, and governmental customers to \$0.127 per minute due to our promotion of and customers' enrollment in calling plans offering a certain number of minutes for a flat monthly fee, and
- A decrease of 0.5% in the number of active residential, small business and commercial customers billed to 87,100 at September 30, 2002.

Revenues from and minutes carried for WorldCom have increased in 2002 as compared to 2001.

Cable services revenues increased 16.6% to \$65.3 million in 2002. Programming services revenues increased 12.3% to \$50.5 million in 2002 and average gross revenue per average basic subscriber per month increased \$2.95 or 5.7% in 2002 resulting from the following:

- Basic subscribers served increased approximately 11,600 to approximately 134,600 at September 30, 2002 as compared to September 30, 2001 (the 2002 increase includes approximately 7,000 basic subscribers acquired from Rogers American Cablesystems, Inc. (“Rogers”) on November 19, 2001),
- New facility construction efforts in 2002 and the acquisition of Rogers subscribers resulted in approximately 14,900 additional homes passed, a 8.2% increase from 2001, and
- Digital subscriber counts increased 33.8% to approximately 28,500 at September 30, 2002 as compared to September 30, 2001.

The cable services segment’s share of cable modem revenue (offered through our Internet services segment) increased \$2.3 million to \$5.7 million in 2002 due to an increased number of cable modems deployed.

Local access services revenues increased 26.8% in 2002 to \$23.5 million primarily due to growth in the average number of customers served. At September 30, 2002 an estimated 95,000 to 100,000 lines were in service as compared to approximately 73,300 lines in service at September 30, 2001. At September 30, 2002 approximately 2,500 additional lines were awaiting connection. The increase in local access services revenues described above was partially off-set by the following:

- The FCC MAG reform order reducing the access rates paid by interexchange carriers to LECs, and

- A reduction in interstate access rates charged by us to interexchange carriers in response to an FCC order forcing a competitor to reduce their interstate access rates.

Internet services revenues increased 30.1% to \$11.4 million in 2002 primarily due to growth in the average number of customers served and the number of cable modems deployed. We had approximately 71,400 active residential, commercial and small business retail dial-up Internet subscribers at September 30, 2002 as compared to approximately 67,900 at September 30, 2001. We expect the number of active residential, commercial and small business retail dial-up Internet subscribers may decline slightly in future quarters due to their conversion to cable modem subscribers. We had approximately 33,000 active residential, commercial and small business retail cable modem subscribers at September 30, 2002 as compared to approximately 21,500 at September 30, 2001. Approximately 850 cable modem subscribers were added with the Rogers acquisition on November 19, 2001.

The 48.8% decrease in All Other revenues to \$19.0 million in 2002 is primarily due to the \$19.5 million fiber system capacity sale in 2001 as previously described, partially offset by an increase in managed services revenue of \$1.3 million to \$15.6 million in 2002 primarily due to the provision of additional services to and increased revenues from a certain customer.

#### *Cost of Sales and Service*

Total cost of sales and services decreased 14.9% to \$92.5 million in 2002. As a percentage of total revenues, total cost of sales and services decreased from 40.2% in 2001 to 33.6% in 2002. Excluding the 2001 fiber system capacity sale, total cost of sales and services as a percentage of total revenues decreased from 39.0% in 2001 to 33.6% in 2002.

Long-distance services cost of sales and services decreased 18.7% to \$45.7 million in 2002. Long-distance services cost of sales as a percentage of long-distance services revenues decreased from 37.5% in 2001 to 29.3% in 2002 primarily due to the following:

- Reductions in access costs due to distribution and termination of our traffic on our own local services network instead of paying other carriers to distribute and terminate our traffic. The statewide average cost savings is approximately \$.038 and \$.078 per minute for interstate and intrastate traffic, respectively. We expect cost savings to continue to occur as long-distance traffic originated, carried, and terminated on our own facilities grows,
- The FCC MAG reform order reducing the access rates paid by interexchange carriers to LECs, and
- In the course of business we estimate unbilled long-distance cost of sales based upon minutes of use processed through our network and established rates. Such estimates are revised when subsequent billings are received, payments are made, billing matters are researched and resolved, tariffed billing periods lapse, or when disputed charges are resolved. In 2002 we had favorable adjustments of \$4.0 million. Excluding the favorable adjustments in 2002, the long-distance services cost of sales as a percentage of long-distance services revenues was 31.8% in 2002.

Partially offsetting the 2002 decrease in long-distance services cost of sales as a percentage of long-distance services revenues is a decrease in the average rate per minute billed to customers as previously described.

Cable services cost of sales and services increased 16.8% to \$17.7 million in 2002. Cable services cost of sales and services as a percentage of cable revenues, which is less as a percentage of revenues than are long-distance, local access and Internet services cost of sales and services, increased from 27.1% in 2001 to 27.2% in 2002. Equipment rental and installation, cable services' allocable share of cable modem services and advertising sales revenues do not have corresponding costs of sales and services. Cable services cost of sales and services as a percentage of cable programming services revenue increased from 33.8% in 2001 to 35.1% in 2002. Cable services rate increases did not keep pace with programming cost increases in 2002.

Programming costs increased for most of our cable services offerings, and we incurred additional costs on new programming introduced in 2001 and 2002.

Local access services cost of sales and services increased 47.0% to \$15.0 million in 2002. Local access services cost of sales and services as a percentage of local access services revenues increased from 54.9% in 2001 to 63.7% in 2002, primarily due to the following:

- Decreased network access services revenues from other carriers as the number of customers purchasing both long-distance and local access services from us increases,
- An increase in the Anchorage loop lease rates paid to ACS as described below,
- The effect of offering one to two months of free service to significant numbers of new local access services customers acquired in 2002 while continuing to incur cost of sales for such new customers,
- The FCC Multi-Association Group reform order reducing the access rates paid by interexchange carriers to LECs,
- A reduction in interstate access rates charged by us to interexchange carriers in response to an FCC order forcing a competitor to reduce their interstate access rates, and
- The lease of wholesale circuits from the ILEC in Fairbanks and Juneau pending completion of our facilities enabling service transition to UNE facilities and pricing.

The increases in local access services cost of sales as a percentage of local access services revenues described above are partially offset by further economies of scale and more efficient network utilization as the number of local access services subscribers and resulting revenues increase.

ACS requested and received permission for a 7.7% increase in the UNE loop rate to \$14.92 and a 24% increase in their retail residential rates, both effective in November 2001. The wholesale service rate we pay is tied to the retail residential rate and increased approximately \$2.25 per line. Additionally, the cost of residential features increased 24% to approximately \$1.35 per line. We estimate that the increased rates will result in a 3.0% to 4.0% increase in our local access services cost of sales as a percentage of local access services revenue for the year ended December 31, 2002.

Internet services cost of sales and services decreased 1.1% to \$3.6 million in 2002, and as a percentage of Internet services revenues, totaled 31.3% and 41.2% in 2002 and 2001, respectively. The decrease as a percentage of Internet services revenues is primarily due to a \$4.1 million increase in Internet's portion of cable modem revenue that generally has higher margins than do other Internet services products. As Internet services revenues increase, economies of scale and more efficient network utilization continue to result in reduced Internet cost of sales and services as a percentage of revenues.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 13.4% to \$96.1 million in 2002 and, as a percentage of total revenues, increased to 34.9% in 2002 from 31.3% in 2001. Excluding the fiber system capacity sale in 2001, selling, general and administrative expenses, as a percentage of total revenues, increased from 33.2% in 2001 to 34.9% in 2002. The 2002 increase in selling, general and administrative expenses is primarily due to increased labor and health insurance costs, incremental new costs to operate GFCC and Rogers, and costs incurred for our unsuccessful bid to purchase certain of the assets of WCIC, partially offset by a decreased accrual for company-wide success sharing bonus costs.

Marketing and advertising expenses as a percentage of total revenues increased from 3.2% in 2001 to 3.3% in 2002. Excluding revenues from the fiber system capacity sale in 2001, marketing and advertising expenses as a percentage of total revenues were 3.5% in 2001.

### *Bad Debt Expense*

Bad debt expense increased 250.2% to \$12.9 million in 2002 and, as a percentage of total revenues, increased to 4.6% in 2002 from 1.4% in 2001. Excluding revenues from the fiber system capacity sale in 2001, bad debt expense as a percentage of total revenues was 1.5% in 2001. The increase in bad debt expense in 2002 is primarily due to the \$11.0 million bad debt expense for uncollected accounts from WorldCom as previously described.

### *Depreciation and Amortization*

Depreciation and amortization expense increased 3.6% to \$43.3 million in 2002. The increase is primarily attributable to an increase in depreciation expense on our \$68.0 million investment in equipment and facilities placed into service during 2001 for which a full year of depreciation will be recorded during the year ended December 31, 2002, and the \$47.3 million investment in equipment and facilities placed into service during 2002 for which a partial year of depreciation will be recorded during the year ended December 31, 2002.

Partially offsetting the depreciation expense increases described above is the discontinuation of amortization of Goodwill and Cable Certificates upon the adoption of SFAS 142, "Goodwill and Other Intangible Assets" resulting in a decrease in 2002 amortization expense of approximately \$4.9 million as compared to 2001.

### *Interest Expense, Net*

Interest expense, net of interest income, decreased 17.4% to \$20.0 million in 2002. This decrease resulted primarily from decreased interest rates in 2002 on our variable rate debt and a \$1.3 million net interest benefit earned in 2002 from our interest rate swap agreements. In 2001 we earned a \$579,000 interest benefit from our interest rate swap agreement. Partially offsetting these decreases was additional interest expense in 2002 resulting from an increase in average outstanding indebtedness.

The interest rate swap agreement which resulted in a net interest benefit was called at no cost and terminated on August 1, 2002.

### *Income Tax Expense*

Income tax expense was \$4.7 million in 2002 and \$3.4 million in 2001. The increase was due to increased net income before income taxes in 2002 as compared to 2001, as previously described. Our effective income tax rate decreased from 44.9% in 2001 to 43.0% in 2002 due to the effect of items that are nondeductible for income tax purposes.

At September 30, 2002, we have (1) tax net operating loss carryforwards of approximately \$172.2 million that will begin expiring in 2007 if not utilized, and (2) alternative minimum tax credit carryforwards of approximately \$1.9 million available to offset regular income taxes payable in future years. Our utilization of remaining net operating loss carryforwards is subject to certain limitations pursuant to Internal Revenue Code section 382.

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through future reversals of existing taxable temporary differences and future taxable income exclusive of reversing temporary differences and carryforwards. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced which would result in additional income tax expense. We estimate that our effective income tax rate for financial statement purposes will be 42% to 45% in 2002.

The Job Creation and Worker Assistance Act of 2002 was signed into law on March 9, 2002 and contains several provisions that are effective for tax years ending in 2001, one of which relates to net operating losses. The Act amends Internal Revenue Code ("IRC") Section 172(b)(1) to provide, generally, that a net operating loss for a tax year ending in 2001 or 2002 can be carried back five years, rather than the two-year carryback generally allowed by section 172(b)(1)(A). The Act also amends IRC Section 56(d)(1) to allow alternative

minimum tax net operating losses carried forward into tax years ending in 2001 or 2002 to be used without regard to the 90 percent alternative minimum taxable income limitation that generally applies. In addition, alternative minimum tax net operating losses generated in 2001 or 2002 and carried back to an earlier year under IRC Section 172 are not subject to the 90 percent alternative minimum taxable income limitation. SFAS No. 109 states that a change in tax law or rates that affects deferred income taxes is recorded in the statement of operations in the year of enactment.

### ***FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS***

The following chart provides selected unaudited statement of operations data from our quarterly results of operations during 2002 and 2001:

	(Amounts in thousands, except per share amounts)				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<u>2002</u>					
Revenues:					
Long-distance services	\$ 50,068	52,375	53,778		156,221
Cable services	\$ 21,346	21,919	22,057		65,322
Local access services	\$ 7,308	8,106	8,096		23,510
Internet services	\$ 3,573	3,912	3,927		11,412
All Other services	\$ 5,915	6,428	6,692		19,035
Total revenues	\$ 88,210	92,740	94,550		275,500
Operating income <sup>1</sup>	\$ 10,376	4,395	16,032		30,803
Net income (loss) before income taxes <sup>1</sup>	\$ 3,858	(1,686)	8,662		10,834
Net income (loss) <sup>1</sup>	\$ 2,212	(1,103)	5,063		6,172
Basic and diluted net income (loss) per common share <sup>1</sup>	\$ 0.03	(0.03)	0.08		0.08
<u>2001</u>					
Revenues:					
Long-distance services	\$ 46,236	49,851	53,892	50,715	200,694
Cable services	\$ 18,046	18,873	19,113	20,522	76,554
Local access services	\$ 5,958	6,183	6,397	6,691	25,229
Internet services	\$ 2,619	3,134	3,019	3,224	11,996
All Other services <sup>2</sup>	\$ 24,058	7,494	5,598	5,635	42,785
Total revenues	\$ 96,917	85,535	88,019	86,787	357,258
Operating income <sup>2</sup>	\$ 13,042	8,411	10,192	7,928	39,573
Net income before income taxes	\$ 4,322	436	2,717	1,184	8,659
Net income	\$ 2,423	166	1,527	473	4,589
Basic net income (loss) per common share	\$ 0.04	(0.01)	0.02	0.00	0.05
Diluted net income (loss) per common share <sup>3</sup>	\$ 0.03	(0.01)	0.02	0.00	0.05

<sup>1</sup> The second quarter of 2002 includes provision of a \$9.7 million bad debt expense for estimated uncollectible accounts from WorldCom. The third quarter of 2002 includes an additional provision of \$1.2 million as previously described.

<sup>2</sup> The first quarter of 2001 includes \$19.5 million of revenue and \$7.3 million of operating income (after deducting direct operating costs) from the sale of long-haul capacity in the Alaska United undersea fiber optic cable system.

<sup>3</sup> Due to rounding, the sum of quarterly net income (loss) per common share amounts does not agree to total year net income per common share amounts.

### *Revenues*

Total revenues for the quarter ended September 30, 2002 (“third quarter”) were \$94.6 million, representing a 2.0% increase from \$92.7 million for the quarter ended June 30, 2002 (“second quarter”). The third quarter increase resulted primarily from a 2.7% increase in long-distance services revenues to \$53.8 million. The increase in long-distance services revenues primarily resulted from a 7.1% increase in revenues from other common carriers to \$24.5 million primarily due to the following:

- A 3.1% increase in minutes carried to 224.5 million minutes, and
- A 3.9% increase in the average rate per minute on minutes carried for other common carriers.

### *Cost of Sales and Services*

Cost of sales and services decreased from \$30.9 million in the second quarter to \$30.4 million in the third quarter. As a percentage of revenues, second and third quarter cost of sales and services totaled 33.3% and 32.1%, respectively. The third quarter decrease as a percentage of revenues primarily results from the following:

- Reductions in access costs due to distribution and termination of traffic on our own long-distance and local services networks instead of paying other carriers to distribute and terminate our traffic. We expect cost savings to continue as traffic carried on our own facilities grows, and
- The FCC MAG reform order further reducing the access rates paid by interexchange carriers to LECs as of July 1, 2002. The reduction in our long-distance services segment’s cost of sales and services as a result of the FCC MAG order reform was greater than our local access services segment’s reduction in revenues caused by the reform order.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased \$376,000 to \$32.2 million in the third quarter as compared to the second quarter. As a percentage of revenues, third quarter selling, general and administrative expenses were 34.1% as compared to 35.1% for the second quarter. The third quarter decrease in selling, general and administrative expenses as a percentage of revenues is due to increased revenues in the third quarter without a comparable increase in expenses.

### *Bad Debt Expense*

Bad debt expense decreased \$8.9 million to \$1.7 million in the third quarter as compared to the second quarter. As a percentage of revenues, third quarter bad debt expense was 1.8% as compared to 11.5% for the second quarter. The second quarter bad debt expense included a \$9.7 million bad debt expense for uncollected accounts from WorldCom as compared to \$1.2 million in additional bad debt expense for uncollected accounts from WorldCom as previously described.

### *Net Income (Loss)*

We reported net income of \$5.1 million for the third quarter as compared to net loss of (\$1.1) million for the second quarter. The increase is primarily due to the effect of the \$9.7 million WorldCom bad debt expense in the second quarter as previously described and increased revenues and decreased cost of sales, selling, general and administrative expenses in the third quarter, partially off-set by increased net interest expense and income tax expense in the third quarter.

### **Liquidity and Capital Resources**

Cash flows from operating activities totaled \$47.6 million for the nine months ended September 30, 2002 (“2002”) as compared to \$63.6 million for the nine months ended September 30, 2001 (“2001”), net of changes in the components of working capital. The decrease in 2002 is primarily due to the effect of the 2001 fiber system capacity sale partially offset by increased cash flow in 2002 from some of our segments. Uses of cash during 2002 include \$52.0 million of expenditures for property and equipment, including construction in

progress, and payment of \$3.1 million in notes receivable issued to related parties. Other sources of cash in 2002 include \$15.0 million in long-term borrowings and receipt of \$946,000 in repayments of notes receivable issued to related parties.

Gross trade receivables increased \$14.0 million from December 31, 2001 to September 30, 2002 primarily due to an increase in balances due from WorldCom preceding their filing for Chapter 11 bankruptcy reorganization, and additional broadband trade receivables related to our services to hospitals and health clinics.

Working capital totaled \$6.8 million at September 30, 2002, a \$11.4 million increase in working capital as compared to a deficit of (\$4.6) million as of December 31, 2001. The increase is primarily attributed to classification of \$5.7 million of our Senior Holdings Loan as current maturities of long-term debt as of December 31, 2001. The Senior Holdings Loan and Fiber Facility were subject to a refinancing agreement on November 1, 2002 as further described below, resulting in the classification of all such debt as long-term at September 30, 2002.

On November 1, 2002 we closed our \$225.0 million Senior Facility to refinance the Senior Holdings Loan and Fiber Facility. The Senior Holdings Loan and Fiber Facility had balances of approximately \$120.1 million and \$60.0 million, respectively, at September 30, 2002. The Senior Facility includes a term loan of \$175.0 million and a revolving credit facility of \$50.0 million. The Senior Facility matures on November 1, 2004 and bears interest at LIBOR plus 6.50%. We are required to pay a commitment fee equal to 1.5% per annum on the unused portion of the commitment. If the unused revolver is more than \$25.0 million the commitment fee increases to 2.0% per annum on the unused portion of the commitment.

On November 30, 2003 we are required to prepay the term loan in an amount equal to 50% of the amount by which earnings before interest, taxes, depreciation, and amortization exceeds certain fixed charges as defined in the Senior Facility agreement (“Excess Cash Flow”) during the year ended September 30, 2003. On May 30, 2004 we are required to prepay the term loan in an amount equal to 50% of the Excess Cash Flow during the six months ended March 31, 2004.

The Senior Facility contains, among others, covenants limiting additional indebtedness and prohibits any direct or indirect distribution, dividend, redemption or other payment to any person on account of any general or limited partnership interest in, or shares of capital stock or other securities of GCI, Inc. and subsidiaries. Under the Senior Facility we may not allow the:

- Total leverage ratio (as defined) to be greater than 4.5:1,
- Senior secured leverage ratio (as defined) to be greater than 2.25:1, and
- Interest coverage ratio (as defined) to be less than 2.50:1.

Capital expenditures, other than those incurred to build additional fiber optic cable system capacity, in any of the years ended September 30, 2003, March 31, 2004 and September 30, 2004 may not exceed:

- \$25.0 million plus,
- 50% of any Excess Cash Flow during the applicable period less any permitted Investments (as defined) of up to \$5.0 million during the applicable period.

We expect our 2003 expenditures for property and equipment for our core operations, including construction in progress, will total \$40 million to \$55 million.

\$3.0 million of the Senior Facility has been used to provide a letter of credit to secure payment of certain access charges associated with our provision of telecommunications services within the State of Alaska.

In connection with the funding of the Senior Facility, we paid bank fees and other expenses of approximately \$104,000 and \$304,000 during the three and nine months ended September 30, 2002 which will be charged to amortization expense over the life of the agreement. We expect to incur additional fees and expenses totaling approximately \$7.0 million during the fourth quarter of 2002 which will be charged to amortization expense over the life of the agreement. The \$7.0 million in additional fees and expenses will become part of the total outstanding debt balance. Remaining unamortized bank fees and other expenses totaling \$2.4 million associated with the Senior Holdings Loan and the Fiber Facility will be charged to expense in the fourth quarter of 2002.

On January 3, 2001 we entered into an interest rate swap agreement to convert \$50 million in 9.75% fixed rate to variable rate debt. This interest rate swap agreement was called at no cost and terminated on August 1, 2002.

We were in compliance with all loan covenants at September 30, 2002.

Our semi-annual Senior Notes interest payment of \$8.8 million was due August 1, 2002 and was paid in full at that time out of existing cash balances.

Our expenditures for property and equipment, including construction in progress, totaled \$53.0 million and \$46.7 million during 2002 and 2001, respectively. We expect our 2002 expenditures for property and equipment for our core operations, including construction in progress, to total \$65 million - \$68 million. Planned capital expenditures over the next five years include those necessary for continued expansion of our long-distance, local exchange and Internet facilities, supplementation of our existing network backup facilities, continuing development of our Personal Communication Services, or PCS, network, cable telephony, and upgrades to our cable television plant.

The long-distance, local access, cable, Internet and wireless services industries continue to experience substantial competition and continuing technological changes. Our future results of operations will be affected by our ability to react to changes in the competitive environment and by our ability to fund and implement new or enhanced technologies. We are unable to determine how competition, economic conditions and technological changes will affect our ability to obtain financing.

The telecommunications industry in general is depressed due to high levels of competition in the long-distance market resulting in pressures to reduce prices, an oversupply of long-haul capacity, excessive debt loads, several high-profile company failures and potentially fraudulent accounting practices by some companies. Our ability to refinance existing debt and to obtain new debt under acceptable terms and conditions in the long-term may be diminished as a result.

The financial, credit and economic impacts of WorldCom's bankruptcy filing on the industry in general and on us in particular are not yet fully understood and are not predictable. We currently cannot predict the timing or amount that WorldCom will pay on outstanding balances due us as of their bankruptcy filing date of July 21, 2002. Unpaid balances due from WorldCom for services rendered prior to their filing date total approximately \$12.9 million at September 30, 2002 for which we have reserved \$11.6 million. We believe that services provided to WorldCom subsequent to their bankruptcy filing date will be paid currently, consistent with our status in WorldCom's filing as a key service provider or utility to WorldCom's global network.

A conversion of WorldCom's bankruptcy petition to Chapter 7, an unfavorable classification of our service provider status for post July 21, 2002 services, unfavorable reauthorization of our pre-filing contracts and agreements with WorldCom, or a migration of WorldCom's traffic off our network without it being replaced by other common carriers that interconnect with our network, could have a materially adverse impact on our financial position, results of operations and liquidity.

We believe that we will be able to meet our current and long-term liquidity and capital requirements, fixed charges and preferred stock dividends through our cash flows from operating activities, existing cash, cash equivalents, short-term investments, credit facilities, and other external financing and equity sources. Should cash flows be insufficient to support additional borrowings and principal payments scheduled under our existing credit facilities, capital expenditures will likely be reduced.

### **New Accounting Standards**

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 provides accounting and reporting standards for costs associated with the retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. We will be required to adopt this statement no later than January 1, 2003 and do not expect this statement to have a material effect on our results of operations, financial position and cash flows.

In July 2002, the FASB issued SFAS No 146, "Accounting for Costs Associated with Exit or Disposal Activities". Upon adoption of SFAS 146, enterprises may only record exit or disposal costs when they are incurred and can be measured at fair value. The recorded liability will be subsequently adjusted for changes in estimated cash flows. SFAS 146 revises accounting for specified employee and contract terminations that are part of restructuring activities. We will be required to adopt this statement no later than January 1, 2003 and do not expect this statement to have a material effect on our results of operations, financial position and cash flows.

### **Critical Accounting Policies**

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our interim condensed consolidated financial statements.

- We recognize unbilled revenues based upon minutes of use carried and established rates, net of credits and adjustments.
- We estimate unbilled long-distance cost of sales based upon minutes of use carried through our network and established rates. Such estimates are revised when subsequent billings are received, payments are made, billing matters are researched and resolved, tariffed billing periods lapse, or when disputed charges are resolved.
- We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.
- When recording depreciation expense associated with our telephony and cable television distribution systems, we use estimated useful lives. Because of changes in technology and industry conditions, we periodically evaluate the useful lives of our telephony and cable television distribution systems. These evaluations could result in a change in useful lives in future periods.
- When recording amortization expense on intangible assets, we use estimated useful lives. We periodically evaluate the useful lives of our intangible assets. These evaluations could result in a change in useful lives in future periods. Additionally, we periodically review the valuation of our intangible assets. These reviews could result in write-down of the value of intangible assets.
- We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the

event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

- We have recorded revenues in the first quarter of 2001 associated with a cash sale of indefeasible rights to use certain amounts of our fiber system capacity. The fiber system capacity sold was treated as integral equipment because it is attached to real estate. Because all of the benefits and risks of ownership were transferred to the purchaser upon full receipt of the purchase price and other terms of the contract meet the requirements of SFAS No. 66, "Accounting for Sales of Real Estate," we accounted for the fiber system capacity sale as a sales-type lease. The accounting for the sale of fiber system capacity is currently evolving and accounting guidance may become available in the future which could require us to change our policy. If we are required to change our policy, it is likely the effect would be to recognize the gain from future sales of fiber system capacity, if any, over the term the capacity is provided.
- Potential refundable amounts attributed to ILEC excess earnings are accounted for as gain contingencies since we cannot estimate future refundable amounts nor do we know if or when we will receive such refunds in the future. Such refunds are not recorded until realization is a certainty upon receipt.

### **Geographic Concentration and the Alaska Economy**

We offer voice and data telecommunication and video services to customers primarily throughout Alaska. Because of this geographic concentration, growth of our business and of our operations depends upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, and in particular oil production, as well as investment earnings, tourism, government, and United States military spending. Any deterioration in these markets could have an adverse impact on us. In fiscal 2001 Alaska's oil revenues and federal funding supplied 61% and 33%, respectively, of the state's total revenues. Investment losses negatively affected the state's total revenues in fiscal 2001 due to a decline in the value of its stock market investments. Investment losses of approximately \$615.2 million reduced the state's total revenues to approximately \$3.8 billion. All of the federal funding is dedicated for specific purposes, leaving oil revenues as the primary funding source of general operating expenditures. In fiscal 2002 state economists forecast that Alaska's federal funding, oil revenues, and investment earnings will supply 42%, 33% and 10%, respectively, of the state's total projected revenues.

The volume of oil transported by the TransAlaska Oil Pipeline System over the past 20 years has been as high as 2.0 million barrels per day in fiscal 1988. Production has been declining over the last several years with an average of 0.991 million barrels produced per day in fiscal 2001. The state forecasts the production of 1.011 million barrels per day in fiscal 2002, and a production rate slightly above 1.0 million barrels per day through fiscal 2009. The state attributes the production rate increase to future development of recent discoveries in the National Petroleum Reserve Alaska, further development of heavy oil in both the Kuparuk and Prudhoe Bay fields, and additional satellite field development.

Market prices for North Slope oil averaged \$27.85 in fiscal 2001 and are forecasted to average \$21.50 in fiscal 2002. State economists forecast the average price of North Slope oil to decline to \$20.50 in fiscal 2003. The closing price per barrel was \$25.01 on October 30, 2002. The production policy of the Organization of Petroleum Exporting Countries and its ability to continue to act in concert represents a key uncertainty in the state's revenue forecast.

The State of Alaska maintains the Constitutional Budget Reserve Fund that is intended to fund budgetary shortfalls. If the state's current projections are realized, the Constitutional Budget Reserve Fund will be depleted in 2004. If the fund is depleted, aggressive state action will be necessary to increase revenues and reduce spending in order to balance the budget. The governor of the State of Alaska and the Alaska legislature continue to pursue cost cutting and revenue enhancing measures.

In 2002 the Alaska Legislature passed and the Governor signed legislation that, among other things, increased certain alcohol beverage taxes, increased the state minimum wage to \$7.15 per hour (adjusted for inflation in future years), and extended the termination date of the RCA one year to June 30, 2003.

Tourism, air cargo, and service sectors have helped offset the prevailing pattern of oil industry downsizing that has occurred during much of the last several years. Funds from federal sources totaling \$2.1 billion are expected to be distributed to the State of Alaska for highways and other federally supported projects in fiscal 2002.

Should new oil discoveries or developments not materialize or the price of oil become depressed, the long term trend of continued decline in oil production from the Prudhoe Bay area is inevitable with a corresponding adverse impact on the economy of the state, in general, and on demand for telecommunications and cable television services, and, therefore, on us, in particular. In the past year, there has been a renewed effort to allow exploration and development in the Arctic National Wildlife Refuge ("ANWR"). The U.S. Department of Energy estimates it could take seven to twelve years to begin oil field production after approval of ANWR exploration.

Deployment of a natural gas pipeline from the State of Alaska's North Slope to the Lower 48 states has been proposed to supplement natural gas supplies. A competing natural gas pipeline through Canada has also been proposed. The economic viability of a natural gas pipeline depends upon the price of and demand for natural gas. Either project could have a positive impact on the State of Alaska's revenues and the Alaska economy. According to their public comments, neither Exxon Mobil, BP nor Phillips Petroleum, Alaska's large natural gas owners, believe either natural gas pipeline makes financial sense based upon their preliminary analysis, though Phillips Petroleum says it will move forward with permitting of the project if certain federal income tax incentives are included. The governor of the State of Alaska and certain natural gas transportation companies continue to support a natural gas pipeline from Alaska's North Slope by trying to reduce the project's costs and by advocating for federal tax incentives to further reduce the project's costs. In April 2002 the U.S. Senate passed an energy bill mandating the following:

- A North Slope natural gas pipeline will follow the Alaska Highway route,
- Gas producers will be allowed to take a credit on their federal income taxes if prices fall,
- Alaskans along the pipeline route will have access to the gas, and
- Future gas discoveries will be allowed to move through the pipeline.

We have, since our entry into the telecommunication marketplace, aggressively marketed our services to seek a larger share of the available market. The customer base in Alaska is limited, however, with a population of approximately 627,000 people. The State of Alaska's population is distributed as follows:

- 42% are located in the Municipality of Anchorage,
- 13% are located in the Fairbanks North Star Borough, and
- 5% are located in the City and Borough of Juneau.

The remaining population is spread out over the vast reaches of Alaska. No assurance can be given that the driving forces in the Alaska economy, and in particular, oil production, will continue at appropriate levels to provide an environment for expanded economic activity.

No assurance can be given that oil companies doing business in Alaska will be successful in discovering new fields or further developing existing fields which are economic to develop and produce oil with access to the pipeline or other means of transport to market, even with a reduced level of royalties. We are not able to predict the effect of changes in the price and production volumes of North Slope oil on Alaska's economy or on us.

### **Seasonality**

Long-distance revenues (primarily those derived from our other common carrier customers) have historically been highest in the summer months because of temporary population increases attributable to tourism and increased seasonal economic activity such as construction, commercial fishing, and oil and gas activities. Cable television revenues, on the other hand, are higher in the winter months because consumers spend more time at home and tend to watch more television during these months. Local access and Internet services are not expected to exhibit significant seasonality. Our ability to implement construction projects is also hampered during the winter months because of cold temperatures, snow and short daylight hours.

## **PART I. ITEM 3.**

### ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes. We do not hold derivatives for trading purposes.

Our new Senior Facility carries interest rate risk. Amounts borrowed under this Agreement bear interest at Libor plus 6.5%. Should the Libor rate change, our interest expense will increase or decrease accordingly. On September 21, 2001, we entered into an interest rate swap agreement to convert \$25.0 million of variable interest rate debt to 3.98% fixed rate debt plus applicable margin. As of November 1, 2002, we have borrowed \$187.7 million of which \$162.7 million subject to interest rate risk. On this amount, a 1% increase in the interest rate would cost us \$1,627,000 in additional gross interest cost on an annualized basis.

Our Satellite Transponder Capital Lease carries interest rate risk. Amounts borrowed under this Agreement bear interest at Libor plus 3.25%. Should the Libor rate change, our interest expense will increase or decrease accordingly. As of September 30, 2002, we have borrowed \$45.2 million subject to interest rate risk. On this amount, a 1% increase in the interest rate would cost us \$452,000 in additional gross interest cost on an annualized basis.

## **PART I. ITEM 4.**

### ***Controls and Procedures***

#### **Evaluation of disclosure controls and procedures**

Within the 90 days prior to the date of this report, we carried out an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (“Exchange Act”) Rules 13a-14(c) and 15d-14(c)) under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

#### **Changes in internal controls**

There were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our disclosure controls and procedures subsequent to the date we carried out this evaluation.

**PART II. OTHER INFORMATION**  
**ITEM 1. LEGAL PROCEEDINGS**

Information regarding pending legal proceedings to which we are a party is included in note 6 to the *Interim Condensed Consolidated Financial Statements* and is incorporated herein by reference.

**PART II.**  
**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

- (a) Date of the meeting: June 6, 2002  
Purpose of meeting: Annual shareholders meeting
- (b) Name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting:

<u>Name</u>	<u>Votes for</u>	<u>Votes withheld</u>
Ronald R. Beaumont	65,486,616	13,927,820
Paul S. Lattanzio	75,518,090	3,896,346
Carter F. Page	75,037,739	4,376,697
Robert M. Walp	65,548,586	13,865,850

Directors, in addition to those listed above, whose term of office as director continued after the meeting:

Stephen M. Brett  
Ronald A. Duncan  
Donne F. Fisher  
William P. Glasgow  
Stephen R. Mooney  
James M. Schneider

- (c) Other matters voted upon:

Approving an increase in the number of shares of the Company's common stock authorized and allocated to the Company's Amended and Restated 1986 Stock Option Plan ("Stock Option Plan") by 2 million shares of Class A common stock and otherwise amending the plan to provide for an upper limit of 500,000 shares per year on the number of shares that may be granted to a participant in the Stock Option Plan.

Votes for: 66,208,088

Votes against: 12,598,551

Votes withheld: 607,797

- (d) Not applicable

**PART II.**  
**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

Exhibit 10.101 – Credit, Guaranty, Security and Pledge Agreement between GCI Holdings, Inc. and Credit Lyonnais New York Branch as Administrative Agent, Issuing Bank, Co-Bookrunner and Co-Arranger, General Electric Capital Corporation as Documentation Agent, Co-Arranger and Co-Bookrunner and CIT Lending Services Corporation as Syndication Agent, dated as of November 1, 2002.

Exhibit 99.36 – Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K filed during the quarter ended September 30, 2002 – None

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### GENERAL COMMUNICATION, INC.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ronald A. Duncan</u> Ronald A. Duncan	President and Director (Principal Executive Officer)	<u>November 8, 2002</u>
<u>/s/ John M. Lowber</u> John M. Lowber	Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer)	<u>November 8, 2002</u>
<u>/s/ Alfred J. Walker</u> Alfred J. Walker	Vice President, Chief Accounting Officer (Principal Accounting Officer)	<u>November 8, 2002</u>

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTIONS 302 AND 906 OF  
THE SARBANES-OXLEY ACT OF 2002

I, Ronald A. Duncan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Communication, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly represent in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluations Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee or registrants board of directors (or persons performing the equivalent function);
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in the quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluations, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ Ronald A. Duncan  
\_\_\_\_\_  
Ronald A. Duncan  
President and Director

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTIONS 302 AND 906 OF  
THE SARBANES-OXLEY ACT OF 2002

I, John M. Lowber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Communication, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly represent in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have;
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluations Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee or registrants board of directors (or persons performing the equivalent function);
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in the quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluations, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002

/s/ John M. Lowber

John M. Lowber

Senior Vice President, Chief Financial Officer,  
Secretary and Treasurer