

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

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)

State of Alaska

(State or other jurisdiction of
incorporation or organization)

92-0072737

(I.R.S Employer
Identification No.)

**2550 Denali Street
Suite 1000
Anchorage, Alaska**

(Address of principal
executive offices)

99503

(Zip Code)

Registrant's telephone number, including area code: **(907) 868-5600**

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's classes of common stock as of July 31, 2009 was:

49,938,000 shares of Class A common stock; and
3,191,000 shares of Class B common stock.

GENERAL COMMUNICATION, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2009

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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 these 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 these 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 these statements, you should specifically consider various factors, including those identified under “Risk Factors” in Item 1A of our December 31, 2008 annual report on Form 10-K. Those factors may cause our actual results to differ materially from any of our forward-looking statements. For these forward looking statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

You should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement, and the related 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 update or revise any forward-looking statement to reflect any change in our expectations with regard to these statements or any other change in events, conditions or circumstances on which any such statement is based. 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. FINANCIAL STATEMENTS

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

(Amounts in thousands)	ASSETS	June 30, 2009	December 31, 2008
Current assets:			
Cash and cash equivalents		\$ 27,431	29,904
Receivables		120,128	113,136
Less allowance for doubtful receivables		4,261	2,582
Net receivables		115,867	110,554
Inventories		8,688	7,085
Deferred income taxes		7,034	7,843
Prepaid expenses		6,228	5,960
Investment securities		883	1,563
Other current assets		4,756	647
Total current assets		170,887	163,556
Property and equipment in service, net of depreciation		806,020	793,051
Construction in progress		36,746	54,098
Net property and equipment		842,766	847,149
Cable certificates		191,565	191,565
Goodwill		68,586	66,868
Wireless licenses		25,967	25,967
Other intangible assets, net of amortization		20,568	22,976
Deferred loan and senior notes costs, net of amortization		5,903	6,496
Other assets		21,633	10,724
Total other assets		334,222	324,596
Total assets		\$ 1,347,875	1,335,301

See accompanying notes to interim consolidated financial statements.

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

(Amounts in thousands)	June 30,	December 31,
LIABILITIES AND STOCKHOLDERS' EQUITY	2009	2008
Current liabilities:		
Current maturities of obligations under long-term debt and capital leases	\$ 13,088	12,857
Accounts payable	32,371	40,497
Deferred revenue	21,866	22,095
Accrued payroll and payroll related obligations	19,911	22,632
Accrued liabilities	10,872	11,043
Accrued interest	9,616	10,224
Subscriber deposits	1,368	1,262
Total current liabilities	109,092	120,610
Long-term debt		
Obligations under capital leases, excluding current maturities	724,200	708,406
Obligation under capital lease due to related party, excluding current maturity	91,698	94,029
Deferred income taxes	1,872	1,868
Long-term deferred revenue	88,642	86,187
Other liabilities	50,785	49,998
Total liabilities	15,856	15,288
	1,082,145	1,076,386
Commitments and contingencies		
Stockholders' equity:		
Common stock (no par):		
Class A. Authorized 100,000 shares; issued 49,976 and 50,062 shares at June 30, 2009 and December 31, 2008, respectively; outstanding 49,702 and 49,593 shares at June 30, 2009 and December 31, 2008, respectively	150,883	151,262
Class B. Authorized 10,000 shares; issued 3,192 and 3,203 shares at June 30, 2009 and December 31, 2008, respectively; outstanding 3,192 and 3,201 shares at June 30, 2009 and December 31, 2008, respectively; convertible on a share-per-share basis into Class A common stock	2,689	2,706
Less cost of 274 and 469 Class A and Class B common shares held in treasury at June 30, 2009 and December 31, 2008, respectively	(2,369)	(2,462)
Paid-in capital	30,474	27,233
Retained earnings	84,053	80,176
Total stockholders' equity	265,730	258,915
Total liabilities and stockholders' equity	\$ 1,347,875	1,335,301

See accompanying notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Amounts in thousands, except per share amounts)	2009	2008	2009	2008
Revenues	\$ 148,796	142,461	297,485	277,135
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	47,348	52,448	95,205	103,759
Selling, general and administrative expenses	51,719	48,260	108,305	94,666
Depreciation and amortization expense	31,170	27,708	61,904	54,951
Operating income	18,559	14,045	32,071	23,759
Other income (expense):				
Interest expense (including amortization of deferred loan fees)	(13,273)	(11,778)	(25,920)	(20,686)
Interest income	11	402	19	483
Other expense, net	(13,262)	(11,376)	(25,901)	(20,203)
Income before income tax expense	5,297	2,669	6,170	3,556
Income tax expense	2,733	1,783	3,252	3,210
Net income	2,564	886	2,918	346
Net income attributable to the non-controlling interest	---	946	---	1,922
Net income attributable to General Communication, Inc.	\$ 2,564	1,832	2,918	2,268
Basic net income per common share	\$ 0.05	0.04	0.06	0.04
Diluted net income per common share	\$ 0.05	0.03	0.05	0.04

See accompanying notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(Unaudited)

(Amounts in thousands)	2009	2008
Cash flows from operating activities:		
Net income	\$ 2,918	346
Adjustments to reconcile net income to net cash provided by operating activities (net of effects of acquisition):		
Depreciation and amortization expense	61,904	54,951
Deferred income tax expense	3,252	2,470
Share-based compensation expense	3,229	2,853
Other noncash income and expense items	3,862	4,064
Change in operating assets and liabilities, net of effect of acquisition	(32,418)	43,973
Net cash provided by operating activities	42,747	108,657
Cash flows from investing activities:		
Purchases of property and equipment	(57,269)	(113,491)
Proceeds from sale of marketable securities	613	800
Purchase of marketable securities	(225)	---
Purchase of business, net of cash received	(108)	(40,161)
Purchases of other assets and intangible assets	(2,066)	(2,325)
Net cash used in investing activities	(59,055)	(155,177)
Cash flows from financing activities:		
Borrowing on Senior Credit Facility	20,000	132,100
Repayment of debt and capital lease obligations	(6,330)	(1,999)
Proceeds from common stock issuance	399	106
Issuance of long-term debt	---	614
Payment of debt issuance costs	---	(1,626)
Other	(234)	(46)
Net cash provided by financing activities	13,835	129,149
Net increase (decrease) in cash and cash equivalents	(2,473)	82,629
Cash and cash equivalents at beginning of period	29,904	13,074
Cash and cash equivalents at end of period	\$ 27,431	95,703

See accompanying notes to interim consolidated financial statements.

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

The accompanying unaudited interim consolidated financial statements include the accounts of General Communication, Inc. ("GCI") and its subsidiaries and have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. They should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008, filed with the Securities and Exchange Commission ("SEC") on March 23, 2009 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 interim periods are not necessarily indicative of the results that may be expected for an entire year or any other period.

(l) Business and Summary of Significant Accounting Principles

In the following discussion, GCI 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:

- Origination and termination of traffic in Alaska for certain common carriers,
- Cable television services throughout Alaska,
- Competitive local access services in Anchorage, Fairbanks, Juneau, Wasilla, Eagle River, Kodiak, Palmer, Kenai, Soldotna, Seward, Chugiak, Sitka, Valdez, Ketchikan, Nome, and Homer, Alaska,
- Incumbent local access services in rural Alaska,
- Long-distance telephone service between Alaska and the remaining United States and foreign countries,
- Sale of postpaid and prepaid wireless telephone services and sale of wireless telephone handsets and accessories,
- Data network services,
- Internet access services,
- Broadband services, including our SchoolAccess[®] offering to rural school districts, our ConnectMD[®] offering to rural hospitals and health clinics, and managed video conferencing,
- Managed services to certain commercial customers,
- Sales and service of dedicated communications systems and related equipment,
- Lease, service arrangements and maintenance of capacity on our fiber optic cable systems used in the transmission of interstate and intrastate data, switched message long-distance and Internet services within Alaska and between Alaska and the remaining United States and foreign countries, and
- Distribution of white and yellow pages directories to residential and business customers in certain markets we serve and on-line directory products.

(b) Principles of Consolidation

The consolidated financial statements include the consolidated accounts of GCI and its wholly-owned subsidiaries, as well as a variable interest entity in which we were the primary beneficiary as defined by Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin ("ARB") No. 51" through August 17, 2008. All significant intercompany transactions between non-regulated affiliates of our company are eliminated. Statement of Financial Accounting Standard ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" requires intercompany revenue and expenses generated between regulated and non-regulated affiliates of the company not be eliminated on consolidation. Intercompany revenue and expenses with affiliates not subject to SFAS No. 71 have been eliminated.

(c) Recently Issued Accounting Pronouncements

On June 29, 2009, the FASB issued FASB Statement No. 168, "The FASB Accounting Standards Codification[™] and the Hierarchy of Generally Accepted Accounting Principles." SFAS No. 168

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

establishes the FASB Accounting Standards Codification™ (“Codification”) to become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009, and will impact our financial statement disclosures beginning with the quarter ending September 30, 2009 as all future references to authoritative accounting literature will be referenced in accordance with the Codification. There will be no changes to the content of our financial statements or disclosures as a result of implementing the Codification.

(d) Recently Adopted Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations.” SFAS No. 141R broadens the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It also broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and acquisition related costs will generally be expensed rather than included as part of the basis of the acquisition. SFAS No. 141R expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS No. 141R became effective for all transactions entered into on or after January 1, 2009. The adoption of SFAS No. 141R effective January 1, 2009 did not have any effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Non-Controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51.” SFAS No. 160 changed the accounting and reporting for minority interests, which were recharacterized as non-controlling interests and classified as a component of equity. In addition, SFAS No. 160 requires companies to report a net income (loss) measure that includes the amounts attributable to such non-controlling interests. We adopted SFAS No. 160 effective January 1, 2009, and it will be applied prospectively to any non-controlling interests that we may acquire in the future. However, the presentation and disclosure requirements of SFAS 160 were applied retrospectively for all periods presented; as a result, our income statement for the three and six months ended June 30, 2008 was recast to reflect the adoption of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities.” SFAS No. 161 applies to the disclosure requirements for all derivative instruments and hedged items accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities and its related interpretations.” This statement amends and expands the disclosure requirements of SFAS No. 133, requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about the credit risk related contingent features in derivative agreements. We have adopted SFAS No. 161 effective January 1, 2009, and have expanded our disclosures as required by SFAS No. 161. See note 1(l) regarding adoption of this statement.

On January 1, 2009, we fully adopted SFAS No. 157 “Fair Value Measurements,” to include all nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The full adoption of SFAS No. 157 did not have any effect on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (“FSP”) No. 142-3, “Determination of the Useful Life of Intangible Assets.” FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, “Goodwill and Other Intangible Assets.” FSP No. 142-3 applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP No. 142-3 became effective on January 1, 2009. The adoption of FSP No. 142-3 effective January 1, 2009, did not have any effect on our consolidated financial statements.

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

In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) No. 03-6-1, “Determining Whether Investments Granted in Share-Based Payment Transactions are Participating Securities.” FSP EITF No. 03-6-1 requires companies to treat unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents as “participating securities” and include such securities in the computation of earnings per share pursuant to the two-class method as described in SFAS No. 128, “Earnings Per Share.” FSP EITF No. 03-6-1 became effective on January 1, 2009 and required all prior period earnings per share data presented to be adjusted retroactively. The adoption of FSP EITF No. 03-6-1 effective January 1, 2009, did not have a material effect on our computation of earnings per share. See note 1(h) regarding adoption of this statement.

In October 2008, the FASB issued FSP No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.” FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active and the use of market quotes when assessing the relevance of observable and unobservable data. FSP No.157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP No. 157-3 did not have any effect on our consolidated financial statements.

In March 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (“APB”) Opinion No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” FSP FAS No. 107-1 amends SFAS No. 107, “Disclosures about Fair Value of Financial Instruments” and APB Opinion No. 28, “Interim Financial Reporting”, to require entities to disclose the fair value of all financial instruments within the scope of SFAS No. 107 in all interim financial statements. FSP FAS No. 107-1 also requires disclosure of the method(s) and significant assumptions used to estimate the fair value of those financial instruments. Previously, these disclosures were required only in annual financial statements. FSP FAS No. 107-1 is effective for interim reporting periods ending after June 15, 2009. In periods after initial adoption, FSP FAS No. 107-1 requires comparative disclosures only for periods ending subsequent to initial adoption. The adoption of FSP FAS No. 107-1 did not have any effect on our consolidated financial statements. See note 4 regarding adoption of this statement.

In April 2009, the FASB issued FSP SFAS No. 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” which provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This pronouncement is effective for periods ending after June 15, 2009. We have adopted this guidance in making our fair value measurements as of June 30, 2009, and it did not have a significant impact on those measurements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events.” SFAS No.165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS No. 165 provides that the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No.165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS No.165 did not have any effect on our consolidated financial statements.

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

(e) Acquisitions

Effective June 1, 2008, we acquired 100% of the outstanding stock of United Utilities, Inc. ("UUI") and Unicom, Inc. ("Unicom"). Effective July 1, 2008, we acquired 100% of the ownership interests of Alaska Wireless, LLC ("Alaska Wireless"). On August 18, 2008, we acquired 18.1% of the equity interest and voting control of Alaska DigiTel, LLC ("Alaska DigiTel") giving us 100% ownership interest in this entity.

Assuming we had completed all of our acquisitions on January 1, 2008, our revenues, net income attributable to GCI and basic and diluted earnings per common share ("EPS") for the three and six months ended June 30, 2008 would have been as follows (amounts in thousands, except per share amounts):

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Pro forma consolidated revenue	\$ 146,824	288,185
Pro forma net income attributable to GCI	\$ 1,944	2,651
EPS:		
Basic – pro forma	\$ 0.04	0.05
Diluted – pro forma	\$ 0.04	0.04

(f) Regulatory Accounting and Regulation

We account for our regulated operations in accordance with the accounting principles for regulated enterprises prescribed by SFAS No. 71. This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, under SFAS No. 71, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Our cost studies and depreciation rates for our regulated operations are subject to periodic audits that could result in reductions of revenues.

(g) Revenue Recognition

As an Eligible Telecommunications Carrier ("ETC"), we receive subsidies from the Universal Service Fund ("USF") to support the provision of local access service in high-cost areas. On May 1, 2008, the Federal Communications Commission ("FCC") issued an order adopting the recommendation of the Federal State Joint Board on Universal Service ("Joint Board") to impose a state-by-state interim cap on high cost funds to be distributed to competitive ETCs. As part of the revised policy, the FCC adopted a limited exception from the cap for competitive ETCs serving tribal lands or Alaska Native regions. While the operation of the cap will generally reduce the high cost fund amounts available to competitive ETCs as new competitive ETCs are designated and as existing competitive ETCs acquire new customers, providers like us who serve tribal lands or Alaska Native regions were provided some relief. On March 5, 2009, the FCC issued an additional order waiving a previously adopted limitation to the exception, the result of which is to provide uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions during the time the interim cap is in effect. The uncapped support for tribal lands or Alaska Native regions and the cap for all other regions will be in place until the FCC takes action on proposals for long term reform. In the first quarter 2009, we recognized \$1.9 million of voice and wireless revenue from the Universal Service Administrative Company ("USAC") related to services provided from August 2008 to December 2008 due to the March 2009 FCC order that provides uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions retroactive to August 2008. On April 8, 2009, the FCC issued a Notice of Inquiry to review aspects of its high cost support program. Comments were filed on May 8, 2009, and replies

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

were filed on June 8, 2009. We cannot predict at this time the outcome of this proceeding or its affect on high cost support available to us.

In the second quarter 2009, we recognized \$3.1 million of wireless revenue from the USAC for interstate common line support for a new local access area for which we received ETC status in May 2009 of which \$690,000 and \$1.7 million were related to first quarter 2009 and the year ended December 31, 2008, respectively. Collectability was not reasonably assured until we were awarded ETC status, therefore, we deferred revenue recognition until such status was confirmed.

(h) Earnings per Common Share

We compute net income per share of Class A and Class B common stock in accordance with SFAS No. 128, "Earnings per Share" using the two class method. Under the provisions of SFAS No.128, basic net income per share is computed by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income applicable to common stockholders by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The computation of the dilutive net income per share of Class A common stock assumes the conversion of Class B common stock to Class A common stock, while the dilutive net income per share of Class B common stock does not assume the conversion of those shares.

In accordance with EITF No. 03-06, "Participating Securities and the Two Class Method under FASB No. 128," the undistributed earnings for each year are allocated based on the contractual participation rights of Class A and Class B common shares as if the earnings for the year had been distributed. Considering the terms of our Articles of Incorporation which provide that, if and when dividends are declared on our common stock in accordance with Alaska corporate law, equivalent dividends shall be paid with respect to the shares of Class A common stock and Class B common stock and that both classes of common stock have identical dividend rights and would share equally in our net assets in the event of liquidation, we have allocated undistributed earnings on a proportionate basis.

On January 1, 2009, we adopted FSP EITF No. 03-6-1. Under the guidance of FSP EITF No. 03-6-1, EPS is calculated utilizing the "two-class" method by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding during the period. In applying the "two-class" method, undistributed earnings are allocated to both common shares and participating securities. Our restricted stock grants are entitled to dividends and meet the criteria of a participating security. The adoption of FSP EITF No. 03-6-1 did not have a material impact on our calculation of earnings per share for the periods presented.

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 June 30,			
	2009		2008	
	Class A	Class B	Class A	Class B
Basic net income per share:				
Numerator:				
Allocation of undistributed earnings attributable to GCI	2,408	156	1,718	114
Denominator:				
Weighted average common shares outstanding	49,300	3,199	49,066	3,254
Basic net income per common share	0.05	0.05	0.04	0.04

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

	Three Months Ended June 30,			
	2009		2008	
	Class A	Class B	Class A	Class B
Diluted net income per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	2,408	156	1,718	114
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	156	---	114	---
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares outstanding	---	(1)	---	(1)
Net income adjusted for allocation of undistributed earnings	2,564	155	1,832	113
Denominator:				
Number of shares used in basic computation	49,300	3,199	49,066	3,254
Conversion of Class B to Class A common shares outstanding	3,199	---	3,254	---
Unexercised stock options	372	---	397	---
Unvested restricted stock awards	35	---	28	---
Number of shares used in per share computations	52,906	3,199	52,745	3,254
Diluted net income per common share	<u>0.05</u>	<u>0.05</u>	<u>0.03</u>	<u>0.03</u>

	Six Months Ended June 30,			
	2009		2008	
	Class A	Class B	Class A	Class B
Basic net income per share:				
Numerator:				
Allocation of undistributed earnings attributable to GCI	2,740	178	2,127	141
Denominator:				
Weighted average common shares outstanding	49,286	3,201	49,035	3,254
Basic net income per common share	<u>0.06</u>	<u>0.06</u>	<u>0.04</u>	<u>0.04</u>

Diluted net income per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	2,740	178	2,127	141
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	178	---	141	---
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares outstanding	---	(17)	---	(26)
Effect of share based compensation that may be settled in cash or shares	(242)	---	(401)	---
Net income adjusted for allocation of undistributed earnings and effect of share based compensation that may be settled in cash or shares	2,676	161	1,867	115
Denominator:				
Number of shares used in basic computation	49,286	3,201	49,035	3,254
Conversion of Class B to Class A common shares outstanding	3,201	---	3,254	---
Unexercised stock options	338	---	385	---

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	Six Months Ended June 30,			
	2009		2008	
	Class A	Class B	Class A	Class B
Unvested restricted stock awards	39	---	25	---
Effect of share based compensation that may be settled in cash or shares	237	---	251	---
Number of shares used in per share computations	53,101	3,201	52,950	3,254
Diluted net income per common share	0.05	0.05	0.04	0.04

Weighted average shares associated with outstanding share awards for the three and six months ended June 30, 2009 and 2008, which have been excluded from the computations of diluted EPS, because the effect of including these share awards would have been anti-dilutive, consist of the following (shares, in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Weighted average shares associated with unexercised stock options	5,044	4,737	5,134	4,735
Weighted average shares associated with unvested restricted share awards	150	233	---	249
Effect of share-based compensation that may be settled in cash or shares	247	253	---	---

Additionally, 414,000 and 376,000 weighted average shares associated with contingent awards for the three and six months ended June 30, 2009 and 2008, respectively, were excluded from the computation of diluted EPS because the contingencies of these awards have not been met at June 30, 2009 and 2008, respectively.

(i) Common Stock

Following are the changes in issued common stock for the six months ended June 30, 2009 and 2008 (shares, in thousands):

	Class A	Class B
Balances at December 31, 2007	50,437	3,257
Class B shares converted to Class A	1	(1)
Shares issued under stock option plan	17	---
Shares issued under the Director Compensation Plan	20	---
Shares retired	(540)	---
Other	(5)	---
Balances at June 30, 2008	49,930	3,256
Balances at December 31, 2008	50,062	3,203
Class B shares converted to Class A	9	(9)
Shares issued under stock option plan	69	---
Share awards issued	55	---
Shares retired	(219)	(2)
Balances at June 30, 2009	49,976	3,192

We retired 219,000 and 2,000 shares of our Class A and Class B common stock, respectively, during the six months ended June 30, 2009, that were acquired to settle the minimum statutory

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tax-withholding requirements pursuant to restricted stock award vesting and the settlement of deferred compensation.

(j) Investment Securities

We have investment securities of \$883,000 at June 30, 2009, that are classified as trading under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Our investments consist primarily of money market funds and U.S. government securities. Trading securities are recorded at fair value with unrealized holding gains and losses included in net income. During the six months ended June 30, 2009, the change in net unrealized holding gains/losses in the trading portfolio included in earnings was a net loss of \$20,000.

(k) Asset Retirement Obligations

Following is a reconciliation of the beginning and ending aggregate carrying amount of our asset retirement obligations at June 30, 2009 and 2008 (amounts in thousands):

Balance at December 31, 2007	\$ 4,173
Liability incurred	18
Accretion expense for the six months ended June 30, 2008	124
Additions upon acquisition of UUI and Unicom	6,211
Liability settled	(40)
Balance at June 30, 2008	<u>\$ 10,486</u>
Balance at December 31, 2008	\$ 6,179
Liability incurred	377
Accretion expense for the six months ended June 30, 2009	202
Liability settled	(20)
Balance at June 30, 2009	<u>\$ 6,738</u>

Our asset retirement obligations are included in Other Liabilities.

(l) Derivatives

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 requires entities to provide greater transparency in interim and annual financial statements about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. We adopted SFAS No. 161 effective January 1, 2009.

We enter into derivative contracts to manage exposure to variability in cash flows from floating-rate financial instruments, particularly on our long-term debt instruments and credit facilities. We do not apply hedge accounting to our derivative instruments and therefore treat these instruments as "economic hedges." Consistent with the guidance in SFAS No. 133, derivative instruments are accounted for at fair value as either assets or liabilities on the balance sheet. Changes in the fair value of derivatives are recognized in earnings each reporting period.

Derivative financial instruments are subject to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. We minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates or other market variables. The market risk associated with interest-rate contracts

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is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

In the third quarter of 2008, we entered into two interest rate caps with a combined notional value of \$180.0 million that mature on July 1, 2010. The initial cost of the caps was \$928,000. These derivative instruments are being used to manage the interest rate risk on our Senior Credit Facility, which is indexed to the London Interbank Offered Rate ("LIBOR").

The following is a summary of the derivative contracts outstanding in the balance sheet at June 30, 2009 (dollar amounts in thousands):

	Number of Contracts	Notional Value	Balance Sheet Location	Fair Value
Interest rate caps	2	\$ 180,000	Other Assets	\$8

For the three and six months ended June 30, 2009, our derivative financial instruments had the following effect on our consolidated income statement:

Derivatives not designated as hedging instruments under SFAS No. 133:	Location of Gain (Loss) Recognized	Amount of Gain (Loss) Recognized	
		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Interest rate caps	Interest expense	\$ 7	\$ 1

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the allowance for doubtful receivables, unbilled revenues, accrual of the USF high-cost area program subsidy, share-based compensation, reserve for future customer credits, valuation allowances for deferred income tax assets, depreciable and amortizable lives of assets, the carrying value of long-lived assets including goodwill, cable certificates and wireless licenses, our effective tax rate, purchase price allocations, the accrual of cost of goods sold exclusive of depreciation and amortization ("Cost of Goods Sold"), and the accrual of contingencies and litigation. Actual results could differ from those estimates.

(n) Classification of Taxes Collected from Customers

We report sales, use, excise, and value added taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between us and a customer on a net basis in our income statement. Following are certain surcharges on a gross basis in our income statement for the three and six months ended June 30, 2009 and 2008 (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Surcharges reported gross	1,067	1,062	1,983	2,012

(o) Reclassifications

Reclassifications have been made to the 2008 financial statements to make them comparable with the 2009 presentation.

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(2) Consolidated Statements of Cash Flows Supplemental Disclosures

Change in operating assets and liabilities, net of effect of acquisition, consists of (amounts in thousands):

Six month period ended June 30,	2009	2008
(Increase) decrease in accounts receivable	\$ (6,948)	7,001
Decrease in prepaid expenses	64	114
Increase in inventories	(1,537)	(2,030)
(Increase) decrease in other current assets	(4,180)	89
Increase in other assets	(11,251)	---
Increase (decrease) in accounts payable	(4,341)	1,979
Increase (decrease) in deferred revenues	(325)	3,159
Decrease in accrued payroll and payroll related obligations	(2,890)	(41)
Increase (decrease) in accrued liabilities	(171)	1,314
Increase (decrease) in accrued interest	(608)	324
Increase in subscriber deposits	106	115
Increase (decrease) in long-term deferred revenue	(794)	36,893
Increase (decrease) in components of other long-term liabilities	457	(4,944)
	<u>\$ (32,418)</u>	<u>43,973</u>

We paid interest, exclusive of capitalized interest, totaling \$25.7 million and \$18.9 million during the six months ended June 30, 2009 and 2008, respectively.

We paid \$0 and \$478,000 for income taxes during the six months ended June 30, 2009 and 2008, respectively. We received \$911,000 and \$0 in income tax refunds during the six months ended June 30, 2009 and 2008, respectively.

During the six months ended June 30, 2009 and 2008, we capitalized interest of \$368,000 and \$2.1 million, respectively.

During the six months ended June 30, 2009 and 2008, we had \$377,000 and \$18,000, respectively, in non-cash additions to property and equipment for assets added when recording asset retirement obligations.

During the six months ended June 30, 2009, we applied \$465,000 of a warranty receivable to offset our cash obligation relating to a capital lease.

During the six months ended June 30, 2008, we financed \$98.6 million for the use of satellite transponders through a capital lease obligation. We also financed \$1.3 million in capital expenditures through the extension of a previously existing capital lease.

We received net cash of \$110.6 million from the \$145.0 million term loan that we obtained in May 2008. We used \$30.0 million of the term loan to repay the revolver portion of our Senior Credit Facility and our loan proceeds were reduced by \$2.9 million for an original issue discount and \$1.5 million for bank and legal fees associated with the new term loan.

In June 2008 the Galaxy XR satellite was taken out of service resulting in the removal of the remaining \$8.8 million net book value and the recognition of an \$8.8 million warranty receivable.

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We had \$8.7 million and \$13.0 million in non-cash additions to property and equipment due to unpaid purchases as of June 30, 2009 and 2008, respectively.

We retired Class A common stock in the amount of \$1.2 million and \$5.5 million during the six months ended June 30, 2009 and 2008, respectively. The Class A common stock retired in the six months ended June 30, 2009, was acquired to settle the minimum statutory tax-withholding requirements pursuant to restricted stock awards vesting and the settlement of deferred compensation.

(3) Intangible Assets

Goodwill increased \$1.7 million at June 30, 2009 as compared to December 31, 2008, primarily to record an adjustment for grant deferred revenue to the UUI and Unicom purchase price allocations.

Amortization expense for amortizable intangible assets was as follows (amounts in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Amortization expense	\$ 1,889	1,165	3,770	2,080

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,	
2009	\$ 7,607
2010	5,711
2011	3,640
2012	2,691
2013	1,391

For the period from January 1, 2009 to June 30, 2009, the U.S. economy has been experiencing the effects of a recession. Should economic conditions in the State of Alaska and other indicators deteriorate such that they impact our ability to achieve levels of forecasted operating results and cash flows, should our stock price and market capitalization decline below our book value for a sustained period of time, or should other events occur indicating the carrying value of goodwill and intangible assets might be impaired, we would test our goodwill and intangible assets for impairment and may recognize an impairment loss to the extent that the carrying amount exceeds such asset's fair value. Any future impairment charges could have a material adverse effect on our results of operations.

(4) Financial Instruments

Fair Value of Financial Instruments

On June 30, 2009, we adopted FSP FAS No. 107-1 and APB 28-1. Under the guidance of FSP FAS No. 107-1 and APB 28-1, FSP FAS No. 107-1 amends SFAS No. 107 and APB Opinion No. 28 to require entities to disclose the fair value of all financial instruments within the scope of SFAS No. 107 in all interim financial statements. FSP FAS No. 107-1 also requires disclosure of the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. At June 30, 2009 the fair values of cash and cash equivalents, net receivables, current portion of notes receivable, accounts payable, accrued payroll and payroll related obligations, accrued interest, accrued liabilities, and subscriber deposits approximate their carrying value due to the short-term nature of these financial instruments. The carrying amounts and estimated fair values of our financial instruments at June 30, 2009 follow (amounts in thousands):

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	June 30, 2009	
	Carrying Amount	Fair Value
Current and long-term debt and capital lease obligations	\$ 830,858	776,198
Other liabilities	65,374	65,131

The following methods and assumptions were used to estimate fair values:

Current and long-term debt and capital lease obligations: The fair value of our Senior Notes is estimated based on the quoted market price for the same issue. The fair value of our Senior Credit Facility is estimated to approximate the carrying value because these instruments are subject to variable interest rates. The fair value of the CoBank Mortgage Note Payable is valued at the discounted amount of future cash flows using our current incremental rate of borrowing on our Senior Credit Facility. The fair value of the Rural Utilities Services Debt is valued at the discounted amount of future cash flows using a treasury rate that corresponds to the remaining term of the loan. The fair value of our capital leases and capital lease due to related party are estimated based upon the discounted amount of future cash flows using our current incremental rate of borrowing on our Senior Credit Facility.

Other Liabilities: Deferred compensation liabilities have no defined maturity dates therefore the fair value is the amount payable on demand as of the balance sheet date. Asset retirement obligations are recorded at their fair value and, over time, the liability is accreted to its present value each period. Lease escalation liabilities are valued at the discounted amount of future cash flows using the Senior Credit Facility interest rate at June 30, 2009. Our non-employee share-based compensation awards are reported at their fair value at each reporting period.

Fair Value Measurements

SFAS No. 157, "Fair Value Measurements," establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. Level 1 inputs, the highest priority, are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect other than quoted prices included in Level 1 that are either observable directly or through corroboration with observable market data. Level 3 inputs are unobservable inputs, due to little or no market activity for the asset or liability, such as internally-developed valuation models. We have applied the provisions of SFAS No. 157 to our trading securities, the assets of our deferred compensation plan (primarily money market funds and mutual funds) and interest rate caps.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 were as follows (amounts in thousands):

Description	Balance as of June 30, 2009	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities:				
Money market funds	\$ 79	\$ 79	---	---
U.S. treasury notes	332	332	---	---
U.S.	472	472	---	---

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Description	Balance as of June 30, 2009	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
government securities				
Deferred compensation plan assets (money market funds)	1,272	1,272	---	---
Derivative financial instruments	8	---	8	---
Total assets at fair value	\$ 2,163	\$ 2,155	\$ 8	\$ ---

The valuation of our marketable securities, money market funds, and mutual funds are determined using quoted market prices in active markets utilizing market observable inputs. Derivative financial instruments are valued using mid-market quotations in active markets that are based on actual bid/ask quotations shown on reliable electronic information screens as of June 30, 2009.

(5) Share-Based Compensation

Our 1986 Stock Option Plan ("Stock Option Plan"), as amended, provides for the grant of options and restricted stock awards (collectively "award") for a maximum of 15.7 million shares of GCI Class A common stock, subject to adjustment upon the occurrence of stock dividends, stock splits, mergers, consolidations or certain other changes in corporate structure or capitalization. If an award expires or terminates, the shares subject to the award will be available for further grants of awards under the Stock Option Plan. The Compensation Committee of GCI's Board of Directors administers the Stock Option Plan. Substantially all restricted stock awards granted vest over periods of up to five years. Substantially all options vest in equal installments over a period of five years and expire ten years from the date of grant. Options granted pursuant to the Stock Option Plan are only exercisable if at the time of exercise the option holder is our employee, non-employee director, or a consultant or advisor working on our behalf. New shares are issued when stock option agreements are exercised and restricted stock awards are made.

The fair value of restricted stock awards is determined based on the quoted price of our common stock. We use a Black-Scholes-Merton option pricing model to estimate the fair value of stock options issued. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. We have reviewed our historical pattern of option exercises and have determined that meaningful differences in option exercise activity existed among employee job categories. Therefore, for all stock options, we have categorized these awards into two groups for valuation purposes.

The weighted average grant date fair value of options granted during the six months ended June 30, 2009 and 2008 was \$3.49 per share and \$4.27 per share, respectively. The total fair value of options vesting during the six months ended June 30, 2009 and 2008 was \$2.4 million and \$2.3 million, respectively.

We have recorded share-based compensation expense of \$3.2 million for the six months ended June 30, 2009, which consists of \$3.6 million for employee share-based compensation expense and a \$411,000 decrease in the fair value of liability-classified share-based compensation. We recorded

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share-based compensation expense of \$2.9 million for the six months ended June 30, 2008, which consists of \$3.5 million for employee share-based compensation expense and a \$681,000 decrease in the fair value of liability-classified share-based compensation. Share-based compensation expense is classified as selling, general and administrative expense in our consolidated income statement. Unrecognized share-based compensation expense was \$2.0 million relating to 316,000 restricted stock awards and \$7.7 million relating to 2.3 million unvested stock options as of June 30, 2009. We expect to recognize share-based compensation expense over a weighted average period of 2.5 years for stock options and 1.3 years for restricted stock awards.

The following is a summary of our Stock Option Plan activity for the six months ended June 30, 2009:

	Shares (in thousands)	Weighted Average Exercise Price
Outstanding options and restricted stock awards at December 31, 2008	7,205	\$9.08
Options granted	153	\$6.65
Restricted stock awards granted	32	\$7.15
Options exercised	(69)	\$5.76
Restricted stock awards vested	(128)	\$11.23
Options forfeited and retired	(13)	\$10.43
Outstanding options and restricted stock awards at June 30, 2009	<u>7,180</u>	\$9.02
Available for grant at June 30, 2009	<u><u>779</u></u>	

The following is a summary of activity for stock option grants that were not made pursuant to the Stock Option Plan for the six months ended June 30, 2009:

	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at December 31, 2008 and June 30, 2009	<u>150</u>	\$6.50
Available for grant at June 30, 2009	<u><u>---</u></u>	

In January 2001 we entered into an aircraft operating lease agreement with a company owned by our President and CEO. The lease was amended effective January 1, 2002 and February 25, 2005. Upon signing the lease, the lessor was granted an option to purchase 250,000 shares of GCI Class A common stock at \$6.50 per share, of which 150,000 shares remain available for purchase and expire on March 31, 2010.

The total intrinsic values, determined as of the date of exercise, of options exercised during the six months ended June 30, 2009 and 2008 were \$96,000 and \$38,000, respectively. We received \$399,000 and \$106,000 in cash from stock option exercises during the six months ended June 30, 2009 and 2008, respectively.

(6) Industry Segments Data

Our reportable segments are business units that offer different products and are each managed separately.

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A description of our five reportable segments follows:

Consumer - We offer a full range of voice, video, data and wireless services to residential customers.

Network Access - We offer a full range of voice, data and wireless services to common carrier customers.

Commercial - We offer a full range of voice, video, data and wireless services to business and governmental customers.

Managed Broadband - We offer data services to rural school districts and rural hospitals and health clinics through our SchoolAccess[®] and ConnectMD[®] initiatives and managed video conferencing.

Regulated Operations - We offer voice, data and wireless services to residential, business, governmental, and common carrier customers in areas of rural Alaska.

Corporate related expenses including engineering, information technology, accounting, legal and regulatory, human resources, and other general and administrative expenses for the three and six months ended June 30, 2009 and 2008 are allocated to our segments using segment margin for the years ended December 31, 2008 and 2007, respectively. Bad debt expense for the three and six months ended June 30, 2009 and 2008 is allocated to our segments using a combination of specific identification and allocations based upon segment revenue for the three and six months ended June 30, 2009 and 2008, respectively.

We evaluate performance and allocate resources based on earnings before depreciation and amortization expense, net interest expense, income taxes, share-based compensation expense, and non-cash contribution adjustment ("adjusted EBITDA"). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in note 1 in the "Notes to Consolidated Financial Statements" included in Part II of our December 31, 2008 annual report on Form 10-K. 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. All of our long-lived assets are located within the United States of America, except approximately 82% of our undersea fiber optic cable systems which transit international waters and all of our satellite transponders.

Summarized financial information for our reportable segments for the three and six months ended June 30, 2009 and 2008 follows (amounts in thousands):

Three months ended June 30,	Consumer	Network Access	Commer- cial	Managed Broadband	Regulated Operations	Total Reportable Segments
2009						
Revenues:						
Intersegment	\$ ---	156	1,482	---	52	1,690
External	73,399	31,120	26,911	10,998	6,368	148,796
Total revenues	\$ 73,399	31,276	28,393	10,998	6,420	150,486
Adjusted EBITDA	\$ 22,292	15,671	5,592	5,358	2,323	51,236
2008						
Revenues:						
Intersegment	\$ 17	167	1,569	---	116	1,869
External	62,113	41,891	27,444	9,134	1,879	142,461

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Three months ended June 30,	Consumer	Network Access	Commercial	Managed Broadband	Regulated Operations	Total Reportable Segments
Total revenues	\$ 62,130	42,058	29,013	9,134	1,995	144,330
Adjusted EBITDA	\$ 13,423	21,676	5,696	3,138	359	44,292

Six months ended June 30,	Consumer	Network Access	Commercial	Managed Broadband	Regulated Operations	Total Reportable Segments
2009						
Revenues:						
Intersegment	\$ ---	383	2,938	---	104	3,425
External	144,118	64,319	54,903	21,608	12,537	297,485
Total revenues	\$ 144,118	64,702	57,841	21,608	12,641	300,910
Adjusted EBITDA	\$ 41,070	32,590	10,893	9,276	3,855	97,684

2008						
Revenues:						
Intersegment	\$ 17	468	2,918	---	116	3,519
External	123,496	81,065	54,035	16,660	1,879	277,135
Total revenues	\$ 123,513	81,533	56,953	16,660	1,995	280,654
Adjusted EBITDA	\$ 25,677	41,813	10,021	5,615	359	83,485

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Reportable segment revenues	\$ 150,486	144,330	300,910	280,654
Less intersegment revenues eliminated in consolidation	1,690	1,869	3,425	3,519
Consolidated revenues	\$ 148,796	142,461	297,485	277,135

A reconciliation of reportable segment earnings from adjusted EBITDA to consolidated income before income taxes follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Reportable segment adjusted EBITDA	\$ 51,236	44,292	97,684	83,485
Less depreciation and amortization expense	31,170	27,708	61,904	54,951
Less share-based compensation expense	1,427	1,593	3,229	2,853
Less non-cash contribution adjustment	80	---	480	---
Less net loss attributable to non-controlling interest	---	946	---	1,922
Consolidated operating income	18,559	14,045	32,071	23,759
Less other expense, net	13,262	11,376	25,901	20,203
Consolidated income before income tax expense	\$ 5,297	2,669	6,170	3,556

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(7) Commitments and Contingencies

Litigation, Disputes, and Regulatory Matters

We are involved in various lawsuits, billing disputes, legal proceedings, and regulatory matters that have arisen from time to time 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 liquidity.

In the third quarter of 2008, Alaska DigiTel received a request for documents pursuant to a notification of investigation from the FCC's Office of the Inspector General in connection with its review of Alaska DigiTel's compliance with program rules and requirements under certain USF programs. The request covers the period beginning January 1, 2004 through August 31, 2008, and relates to amounts received by Alaska DigiTel and its affiliates during that period. Alaska DigiTel was an Alaska based wireless communications company of which we acquired an 81.9% equity interest on January 2, 2007 and the remaining 18.1% equity interest on August 18, 2008 and subsequently dissolved in April 2009. Prior to August 18, 2008, our control over the operations of Alaska DigiTel was limited as required by the FCC upon its approval of our initial acquisition completed in January 2007. We have been and intend to continue fully complying with this request on behalf of Alaska DigiTel and the GCI companies as affiliates. This request has not had a material impact on our income statement, financial position or cash flows but given the preliminary nature of this request we are unable to assess the ultimate resolution of this matter.

Alaska Communications Systems ("ACS") Access Service Pricing

On May 22, 2006, the ACS subsidiary serving Anchorage filed a petition with the FCC, seeking forbearance from regulation of interstate broadband and access services. On August 20, 2007, the FCC granted in part and denied in part the requested relief, requiring that ACS comply with certain safeguards to ensure the relief granted would not result in harm to consumers or competition. On October 22, 2008, ACS filed a petition to convert to price cap regulation the access services it provides in each of its operating areas. The petition was granted on April 17, 2009, rescinding the forbearance relief previously granted. While we currently cannot predict with certainty the effect of these matters on our cost of purchasing ACS services, we believe the new ACS rates will reduce the cost of switched access services provided by ACS.

Universal Service

The USF pays subsidies to ETCs to support the provision of local service in high-cost areas. Under FCC regulations, we have qualified as a competitive ETC in the Anchorage, Fairbanks, Juneau, Matanuska Telephone Association ("MTA"), Mukluk, Ketchikan, Fort Wainwright/Eielson, Interior Telephone Company, and Glacier State study areas. Without ETC status, we would not qualify for USF subsidies in these areas or other rural areas where we propose to offer wireline and wireless local services, and our revenue for providing local services in these areas would be materially adversely affected.

On May 1, 2008, the FCC issued an order adopting the recommendation of the Joint Board to impose a state-by-state interim cap on high cost funds to be distributed to competitive ETCs. As part of the revised policy, the FCC adopted a limited exception from the cap for competitive ETCs serving tribal lands or Alaska Native regions. While the operation of the cap will generally reduce the high cost fund amounts available to competitive ETCs as new competitive ETCs are designated and as existing competitive ETCs acquire new customers, providers like us who serve tribal lands or Alaska Native regions were provided some relief. On March 5, 2009, the FCC issued an additional order waiving a previously adopted limitation to the exception, the result of which is to provide uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions during the time the interim cap is in effect. The uncapped support for tribal lands or Alaska Native regions and the cap for all other regions will be in place until the FCC takes action on proposals for long term reform. On April 8, 2009, the FCC issued a Notice of Inquiry to review aspects of its high cost support program. Comments were

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

filed on May 8, 2009, and replies were filed on June 8, 2009. We cannot predict at this time the outcome of this proceeding or its affect on high cost support available to us.

Dobson Resale Agreement

AT&T Mobility, LLC ("AT&T Mobility") acquired Dobson Communications Corporation ("Dobson"), including its Alaska properties, on November 15, 2007. In December 2007 we signed an agreement with AT&T Mobility that provides for an orderly transition of our wireless customers from the Dobson/AT&T network in Alaska to our wireless facilities that we began building in 2008 and are expected to be substantially completed in 2010 or 2011. The agreement required our customers to be on our wireless network by June 30, 2009, but allows our customers to use the AT&T Mobility network for roaming during the transition period. We successfully migrated all but 200 customers from the AT&T Mobility network to our network as of June 30, 2009. The four-year transition period, which expires June 30, 2012, provides us adequate time to replace the Dobson/AT&T network in Alaska with our own wireless facilities. Under the agreement, AT&T Mobility's obligation to purchase network services from us terminated as of July 1, 2008. AT&T Mobility provided us with a large block of wireless network usage at no charge to facilitate the transition of our customers to our facilities. We will pay for usage in excess of that base transitional amount. Under the previous agreement with Dobson, our margin was fixed. Under the new agreement with AT&T Mobility, we will pay for usage in excess of the block of free minutes on a per minute basis. The block of wireless network usage at no charge is expected to substantially reduce our wireless product Cost of Goods Sold during the approximate four year period beginning June 4, 2008 and ending June 30, 2012.

(8) Subsequent Event

We have performed an evaluation of subsequent events through August 7, 2009, which is the date the financial statements were issued.

On August 6, 2009, we filed a Tender Offer Statement on Schedule TO (the "Exchange Offer") with the SEC. The Exchange Offer was an offer by us to eligible officers, employees and stakeholders, other than officers of GCI who also serve on our Board of Directors ("participants") the opportunity to exchange, on a grant-by-grant basis, their outstanding eligible stock options that were granted under our Stock Option Plan, whether vested or unvested, for shares of restricted stock of GCI Class A common stock that we will grant under the Stock Option Plan ("Restricted Stock"). Generally, eligible options include all options issued pursuant to the Stock Option Plan between January 1, 1999, and February 15, 2009, excluding any options that vest based on EBITDA performance ("eligible options"). Participants have until September 4, 2009 to exchange their outstanding eligible stock options for shares of Restricted Stock. Restricted Stock awards will be granted promptly following the expiration of the offer in exchange for properly tendered options and are subject to vesting. One-half of the Restricted Stock received in exchange for eligible options will vest on December 20, 2011 with the remainder vesting on February 28, 2012. The number of shares of Restricted Stock that were offered in exchange for each eligible option was equal to the lesser of (i) a number of shares of Restricted Stock having a fair value equal to 100% of the fair value of the eligible options exchanged for shares of Restricted Stock, or (ii) a number of shares of Restricted Stock equal to 40% of the number of shares issuable pursuant to the eligible options surrendered.

The exchange of stock options for Restricted Stock will be treated as a modification of the stock options in accordance with SFAS No. 123(R) "Share-Based Payment." The remaining unamortized stock compensation expense related to the original options will continue to be amortized over the original vesting period related to those options. The compensation expense for the incremental difference between the fair value of the new Restricted Stock and the fair value of the original options on the date of modification, reflecting the current facts and circumstances on the modification date, will be amortized over the vesting period of the new Restricted Stock. We cannot reasonably estimate the incremental stock-based compensation expense related to the modification because we are uncertain as to the number of employees who will accept our offer to exchange their options and due to the highly subjective nature of the estimates used to calculate the incremental expense.

PART I.
ITEM 2.

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

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 U.S. Generally Accepted Accounting Principles ("GAAP"). 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 the allowance for doubtful receivables, unbilled revenues, accrual of the USF high-cost area program subsidy, share-based compensation, reserve for future customer credits, valuation allowances for deferred income tax assets, depreciable and amortizable lives of assets, the carrying value of long-lived assets including goodwill, cable certificates and wireless licenses, our effective tax rate, purchase price allocations, the accrual of cost of goods sold exclusive of depreciation and amortization ("Cost of Goods Sold"), depreciation, 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

Through our focus on long-term results, acquisitions, and strategic capital investments, we strive to consistently grow our revenues and expand our margins. We have historically met our cash needs for operations and regular and maintenance capital expenditures through our cash flows from operating activities. Historically, cash requirements for significant acquisitions and major capital expenditures have been provided largely through our financing activities. The ongoing weakness in the national economy and credit market turmoil continue to negatively impact consumer confidence and spending. If these trends continue, they could lead to reductions in our customers' spending which could impact our revenue growth. We believe the Alaska economy continues to perform well compared to most other states at the current time. Mortgage foreclosure rates in Alaska are among the lowest in the nation and the commercial real estate market is steady. The majority of our revenue is driven by the strength of the Alaska economy which appears to be relatively well positioned to weather recessionary pressures despite the continued low price per barrel of Alaska oil. The State of Alaska has large cash reserves that should enable it to maintain its budget for at least the next two fiscal years. This is important for Alaska's economy as the State is the largest employer and second largest source of gross state product. We cannot predict the impact the economic crisis may have on us.

Our five reportable segments are Consumer, Network Access, Commercial, Managed Broadband and Regulated Operations. Our reportable segments are business units that offer different products, are each managed separately, and serve distinct types of customers. The Network Access segment provides services to other common carrier customers and the Managed Broadband segment provides services to rural school districts, hospitals and health clinics. Effective June 1, 2008, we purchased 100% of the outstanding stock of United Utilities, Inc. ("UUI") and Unicom, Inc. ("Unicom"). The financial results of the long-distance, local access, wireless and Internet services sold to consumer and commercial customers of certain of these acquired companies are reported in the Regulated Operations segment. The financial results of the long-distance services sold to other common carrier customers and the managed broadband services components of certain of these acquired companies are included in the Network Access and Managed Broadband Services segments, respectively. Effective July 1, 2008, we closed on our purchase of 100% of the ownership interests of Alaska Wireless whose results are included in the Consumer segment.

Following are our segments and the services and products each offers to its customers:

Services and Products	Reportable Segments				
	Consumer	Network Access	Commercial	Managed Broadband	Regulated Operations
Voice:					
Long-distance	X	X	X		X
Local Access	X	X	X		X
Directories			X		
Video					
Video	X		X		
Data:					
Internet	X	X	X	X	X
Data Networks		X	X	X	
Managed Services			X	X	
Managed Broadband Services				X	
Wireless					
Wireless	X	X	X		X

An overview of our services and products follows.

Voice Services and Products

Long-distance

We generate long-distance services revenues from monthly plan fees and usage charges.

Factors that have the greatest impact on year-to-year changes in long-distance services revenues include the rate per minute charged to customers and usage volumes expressed as minutes of use.

Common carrier traffic routed to us for termination in Alaska is largely dependent on traffic routed to our common carrier customers by their customers. Pricing pressures, new program offerings, and market and business consolidations continue to evolve in the markets served by our other common carrier customers. If, as a result, their traffic is reduced, our traffic will also likely be reduced or, if their competitors' costs to terminate or originate traffic in Alaska are reduced, our pricing may be reduced to respond to competitive pressures, consistent with federal law. Additionally, disruption in the economy resulting from terrorist attacks and other attacks or acts of war could affect our carrier customers. 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.

AT&T Mobility, LLC ("AT&T Mobility") acquired Dobson Communications Corporation ("Dobson"), including its Alaska properties, on November 15, 2007. In December 2007 we signed an agreement with AT&T Mobility that provides for an orderly transition of our wireless customers from the Dobson/AT&T network in Alaska to our wireless facilities that we began building in 2008 and are expected to be substantially completed in 2010 or 2011. The agreement required our customers to be on our wireless network by June 30, 2009, but allows our customers to use the AT&T Mobility network for roaming during the transition period. We successfully migrated all but 200 customers from the AT&T Mobility network to our network as of June 30, 2009. The four-year transition period, which expires June 30, 2012, provides us adequate time to replace the Dobson/AT&T network in Alaska with our own wireless facilities. Under the agreement, AT&T Mobility's obligation to purchase network services from us terminated as of July 1, 2008. AT&T Mobility provided us with a large block of wireless network usage at no charge to facilitate the transition of our customers to our facilities. We will pay for usage in excess of that base transitional amount. Under the previous agreement with Dobson, our margin was fixed. Under the new agreement with AT&T Mobility, we will pay for usage in excess of the block of free minutes on a per minute basis. The block of wireless network usage at no charge is expected to substantially reduce our wireless product Cost of Goods Sold during the approximate four year period beginning June 4, 2008 and ending June 30, 2012.

Due in large part to the favorable synergistic effects of our bundling strategy focused on consumer and commercial customers, long-distance services continue to be a significant contributor to our overall

performance, although the migration of traffic from our voice products to our data and wireless products continues.

Our long-distance service faces significant competition from AT&T Alascom ("Alascom"), ACS, Matanuska Telephone Association ("MTA"), long-distance resellers, and certain smaller rural 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 services will continue to allow us to be competitive in providing those services.

Local Access

We generate local access services revenues from five primary sources: (1) basic dial tone services; (2) data network and special access services; (3) Universal Service Administrative Company ("USAC") support; (4) origination and termination of long-distance calls for other common carriers; and (5) features and other charges, including voice mail, caller ID, distinctive ring, inside wiring and subscriber line charges.

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

We estimate that our June 30, 2009 and 2008 total lines in service represent a statewide market share of 34% and 33%, respectively. At June 30, 2009 and 2008, 72% and 66%, respectively, of our lines are provided on our own facilities.

Our local access service faces significant competition in Anchorage, Fairbanks, Juneau, and the Kenai Soldotna area from ACS, which is the largest incumbent local exchange carrier ("ILEC") in Alaska. In the Matanuska-Susitna Valley our local access service faces competition from MTA, the ILEC in this area. We compete against other smaller ILECs in certain smaller communities. We believe our approach to developing, pricing, and providing local access services and bundling different services will continue to allow us to be competitive in providing those services.

UUI and its subsidiary, United-KUC, Inc. ("United-KUC"), which we acquired effective June 1, 2008, are ILECs and therefore are subject to regulation by the Regulatory Commission of Alaska ("RCA"). UUI and United-KUC do not face significant competition although we expect technological changes and wireless substitution will affect their results.

We plan to continue to deploy digital local phone service ("DLPS") lines which utilize our coaxial cable facilities. This service delivery method allows us to utilize our own cable facilities to provide local access service to our customers and avoid paying local loop charges to the ILEC.

On May 1, 2008, the Federal Communications Commission ("FCC") issued an order adopting the recommendation of the Joint Board to impose a state-by-state interim cap on high cost funds to be distributed to competitive Eligible Telecommunications Carriers ("ETC"). As part of the revised policy, the FCC adopted a limited exception from the cap for competitive ETCs serving tribal lands or Alaska Native regions. While the operation of the cap will generally reduce the high cost fund amounts available to competitive ETCs as new competitive ETCs are designated and as existing competitive ETCs acquire new customers, providers like us who serve tribal lands or Alaska Native regions were provided some relief. On March 5, 2009, the FCC issued an additional order waiving a previously adopted limitation to the exception, the result of which is to provide uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions during the time the interim cap is in effect. The uncapped support for tribal lands or Alaska Native regions and the cap for all other regions will be in place until the FCC takes action on proposals for long term reform.

The Joint Board has recommended for FCC consideration long-term options for reforming Universal Service Fund ("USF") support, including establishing separate funds for mobility and broadband support. Separately, the FCC has issued two reform proposals for changing the basis for support amounts. On April 8, 2009, the FCC issued a Notice of Inquiry to review aspects of its high cost support program. Comments were filed on May 8, 2009, and replies were filed on June 8, 2009. We cannot predict at this time the outcome of the FCC proceedings to consider USF reform proposals or their respective impacts on us. Both these and any future

regulatory, legislative, or judicial actions could affect the operation of the USF and result in a change in our revenue for providing local access services in new and existing markets and facilities-based wireless services in new markets.

Directories

We sell advertising in our yellow pages directories to commercial customers, distribute white and yellow pages directories to customers in certain markets we serve, and offer an on-line directory.

Video Services and Products

We generate cable services revenues from three primary sources: (1) digital programming services, including monthly basic and premium subscriptions, pay-per-view movies, video on demand and one-time events, such as sporting events; (2) equipment rentals; and (3) advertising sales.

Our cable systems serve 40 communities and areas in Alaska, including the state's five largest population centers, Anchorage, Fairbanks, the Matanuska-Susitna Valley, the Kenai Peninsula, and Juneau. We transmit an entirely digital signal for all cable television channels in all markets we serve.

The primary factors that contribute to period-to-period changes in cable services revenues include average monthly subscription rates and pay-per-view and video on demand buys, the mix among basic, premium and digital tier services, the average number of cable television subscribers during a given reporting period, set-top box utilization and related rates, revenues generated from new product offerings, and sales of cable advertising services.

Our cable service offerings are bundled with various combinations of our long-distance, local access, wireless, and Internet services. Value-added premium services are available for additional charges.

Our cable television systems face competition primarily from alternative methods of receiving and distributing television signals, including DBS and digital video over telephone lines, and other sources of news, information and entertainment, including Internet services.

Data Services and Products

Internet

We generate Internet services revenues from four primary sources: (1) access product services, including cable modem, dial-up, and dedicated access; (2) network management services; (3) wholesale access for other common carriers; and (4) usage charges.

The primary factors that contribute to year-to-year changes in Internet services revenues include the average number of subscribers to our services during a given reporting period, the average monthly subscription rates, the amount of bandwidth purchased by large commercial customers, and the number and type of additional premium features selected.

Marketing campaigns continue to be deployed featuring bundled products. Our Internet offerings are bundled with various combinations of our long-distance, cable, local access, and wireless services and provide free or discounted basic or premium Internet services. 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.

Data Networks

We generate data network services revenue from two primary sources: (1) leasing capacity on our facilities that utilize voice and data transmission circuits dedicated to particular subscribers, which link a device in one location to another in a different location and (2) through the sale of Internet Protocol ("IP") based data services on a secured shared network to businesses linking multiple enterprise locations. The factor that has the greatest impact on year-to-year changes in data network services revenues is the number of data networks in use. We compete against Alascom, ACS and other local telecommunication service providers.

Managed Services

We design, sell, install, service and operate, on behalf of certain customers, communications and computer networking equipment and provide field/depot, third party, technical support, communications consulting and outsourcing services. We also supply integrated voice and data communications systems incorporating interstate and intrastate digital data networks, point-to-point and multipoint private network and small earth station services. There are a number of competing companies in Alaska that actively sell and maintain data and voice communications systems.

Our ability to integrate communications networks and data communications equipment has allowed us to maintain our market position based on "value added" support services rather than price competition. These services are blended with other transport products into unique customer solutions, including managed services and outsourcing.

Managed Broadband Services

We generate managed broadband services revenue through our SchoolAccess[®], ConnectMD[®] and managed video conferencing products. Our customers may purchase end-to-end broadband services solutions blended with other transport and software products. There are several competing companies in Alaska that actively sell broadband services. Our ability to provide end-to-end broadband services solutions has allowed us to maintain our market position based on "value added" products and services rather than solely based on price competition.

SchoolAccess[®] is a suite of services designed to advance the educational opportunities of students in underserved regions of the country. Our SchoolAccess[®] division provides Internet and distance learning services designed exclusively for the school environment. The Schools and Libraries Program of the USF makes discounts available to eligible rural school districts for telecommunication services and monthly Internet service charges. The program is intended to ensure that rural school districts have access to affordable services.

Our network, Internet and software application services provided through our Managed Broadband segment's Medical Services Division are branded as ConnectMD[®]. Our ConnectMD[®] services are currently provided under contract to medical businesses in Alaska, Washington and Montana. The Rural Health Care Program of the USF makes discounts available to eligible rural health care providers for telecommunication services and monthly Internet service charges. The program is intended to ensure that rural health care providers pay no more for telecommunications in the provision of health care services than their urban counterparts. Customers utilize ConnectMD[®] services to securely move data, images, or voice traffic, to include real time multipoint interactive video.

We offer a managed video conferencing product for use in distance learning, telemedicine and group communication and collaboration environments. The product is designed to offer customers enhanced communication services that support video, audio and data presentation. Our product benefits customers by reducing travel costs, improving course equity in education and increasing the quality of health services available to patients. The product bundles our data products, video conferencing services and optional rental of video conferencing endpoint equipment. Our video conferencing services include multipoint conferencing, Integrated Services Digital Network gateway and transcoding services, online scheduling and conference control, and videoconference recording, archiving and streaming. We provide 24-hour technical support via telephone or online.

Wireless Services and Products

We generate wireless services and equipment revenues from five primary sources: (1) monthly plan fees; (2) usage and roaming charges; (3) USAC support; (4) wireless Internet access; and (5) handset and accessory sales.

We offer wireless services by selling services over our own facilities and, primarily in 2008, reselling AT&T Mobility's services under the GCI brand name and by selling services over our own facilities under the Alaska DigiTel and Alaska Wireless brand names. We compete against AT&T Mobility, ACS, MTA, and resellers of those services in Anchorage and other markets. The GCI and Alaska DigiTel brands compete against each other.

In December 2007 we signed an agreement with AT&T Mobility that provides for an orderly transition of our wireless customers from the AT&T Mobility network in Alaska to our wireless facilities. The agreement required our customers to be on our wireless network by June 30, 2009, but allows our customers to use the AT&T Mobility network for roaming during the transition period. We successfully migrated all but 200 customers from the AT&T Mobility network to our network as of June 30, 2009. The four-year transition period, which expires June 30, 2012, provides us adequate time to replace the AT&T Mobility network in Alaska with our own wireless facilities. We started transitioning our customers to our wireless facilities in November 2008.

For a discussion of the FCC's action on proposals for long term reform of USF support, please see Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Voice Services and Products – Local Access.

Results of Operations

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

	Three Months Ended June 30,		Percent- age Change ¹ 2009 vs. 2008	Six Months Ended June 30,		Percent- age Change ¹ 2009 vs. 2008
	2009	2008		2009	2008	
(Unaudited)						
Statements of Operations Data:						
Revenues:						
Consumer segment	49.3%	43.6%	18.2%	48.4%	44.5%	16.7%
Network Access segment	20.9%	29.4%	(25.7%)	21.6%	29.3%	(20.7%)
Commercial segment	18.1%	19.3%	(1.9%)	18.5%	19.5%	1.6%
Managed Broadband segment	7.4%	6.4%	20.4%	7.3%	6.0%	29.7%
Regulated Operations segment	4.3%	1.3%	238.9%	4.2%	0.7%	567.2%
Total revenues	100.0%	100.0%	4.5%	100.0%	100.0%	7.3%
Selling, general and administrative expenses	34.8%	33.9%	7.2%	36.4%	34.2%	14.4%
Depreciation and amortization expense	21.0%	19.5%	12.5%	20.8%	19.8%	12.7%
Operating income	12.5%	9.9%	32.1%	10.8%	8.6%	35.0%
Other expense, net	8.9%	8.0%	16.6%	8.7%	7.3%	28.2%
Income before income taxes	3.6%	1.9%	98.5%	2.1%	1.3%	73.5%
Net income	1.7%	0.6%	189.4%	1.0%	0.1%	743.4%
Net income attributable to GCI	1.7%	1.3%	40.0%	1.0%	0.8%	28.7%

¹ Percentage change in underlying data.

Three Months Ended June 30, 2009 (“second quarter of 2009”) Compared to Three Months Ended June 30, 2008 (“second quarter of 2008”)

Overview of Revenues and Cost of Goods Sold

Total revenues increased 4.5% from \$142.5 million in the second quarter of 2008 to \$148.8 million in the second quarter of 2009. Revenue increases in our Consumer, Managed Broadband and Regulated Operations segments were partially off-set by decreased revenue in our Network Access and Commercial segments. See the discussion below for more information by segment.

Total Cost of Goods Sold decreased 9.7% from \$52.4 million in the second quarter of 2008 to \$47.3 million in the second quarter of 2009. Cost of Goods Sold decreases in our Commercial, Network Access, and Managed Broadband segments were partially off-set by increases in our Consumer and Regulated Operations segments. See the discussion below for more information by segment.

Consumer Segment Overview

Consumer segment revenue represented 49.3% of second quarter of 2009 consolidated revenues. The components of Consumer segment revenue are as follow (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Voice	\$ 12,988	12,117	7.2%
Video	27,132	25,668	5.7%
Data	12,166	10,386	17.1%
Wireless	21,113	13,942	51.4%
Total Consumer segment revenue	\$ 73,399	62,113	18.2%

Consumer segment Cost of Goods Sold represented 50.7% of second quarter of 2009 consolidated Cost of Goods Sold. The components of Consumer segment Cost of Goods Sold are as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Voice	\$ 3,775	4,682	(19.4%)
Video	11,037	9,936	11.1%
Data	1,014	1,877	(46.0%)
Wireless	8,185	7,194	13.8%
Total Consumer segment Cost of Goods Sold	\$ 24,011	23,689	1.4%

Consumer segment adjusted EBITDA, representing 43.5% of second quarter of 2009 consolidated adjusted EBITDA, is as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Consumer segment adjusted EBITDA	\$ 22,292	13,423	66.1%

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Consumer segment follow:

	June 30,		Percentage
	2009	2008	Change
Voice:			
Long-distance subscribers ¹	88,600	89,800	(1.3%)
Long-distance minutes carried (in millions)	28.3	32.0	(11.4%)
Total local access lines in service ²	81,200	78,100	4.0%
Local access lines in service on GCI facilities ²	70,300	60,500	16.2%
Video:			
Basic subscribers ³	129,700	130,300	(0.5%)
Digital programming tier subscribers ⁴	76,200	68,200	11.7%
HD/DVR converter boxes ⁵	74,400	56,900	30.8%
Homes passed	230,400	226,900	1.5%
Average monthly gross revenue per subscriber ⁶	\$69.59	\$65.86	5.7%
Data:			
Cable modem subscribers ⁷	94,900	91,000	4.3%
Wireless:			
Wireless lines in service ⁸	103,600	77,000	34.6%

	June 30,		Percentage
	2009	2008	Change
Average monthly gross revenue per subscriber ⁹	\$57.88	\$57.39	0.9%

- ¹ A long-distance customer is defined as a customer account that is invoiced a monthly long-distance plan fee or has made a long-distance call during the month.
- ² A local access line in service is defined as a revenue generating circuit or channel connecting a customer to the public switched telephone network.
- ³ A basic cable subscriber is defined as one basic tier of service delivered to an address or separate subunits thereof regardless of the number of outlets purchased. On January 1, 2009, our Consumer segment transferred 2,900 basic cable subscribers to our Commercial segment.
- ⁴ A digital programming tier subscriber is defined as one digital programming tier of service delivered to an address or separate subunits thereof regardless of the number of outlets or digital programming tiers purchased. Digital programming tier subscribers are a subset of basic subscribers.
- ⁵ A high definition/digital video recorder ("HD/DVR") converter box is defined as one box rented by a digital programming or basic tier subscriber. A digital programming or basic tier subscriber is not required to rent an HD/DVR converter box to receive service.
- ⁶ Quarter-to-date average monthly consumer video revenues divided by the average of consumer video basic subscribers at the beginning and end of the period.
- ⁷ A cable modem subscriber is defined by the purchase of cable modem service regardless of the level of service purchased. If one entity purchases multiple cable modem service access points, each access point is counted as a subscriber. Cable modem subscribers may also be video basic subscribers though basic cable service is not required to receive cable modem service. On January 1, 2009, our Consumer segment transferred 1,400 cable modem subscribers to our Commercial segment.
- ⁸ A wireless line in service is defined as a revenue generating wireless device.
- ⁹ Quarter-to-date average monthly consumer wireless revenues divided by the average of consumer wireless subscribers at the beginning and end of the period.

Consumer Segment Revenues

The increase in voice revenue is primarily due to a \$761,000 or 66.9% increase in recognized support from the USAC primarily due to increased local subscribers. The increase was partially offset by decreased long-distance billable minutes carried and long-distance subscribers.

The increase in video revenue is primarily due to the following:

- A 4.7% increase in programming services revenue to \$21.5 million in the second quarter of 2009 primarily resulting from an increase in digital programming tier subscribers in the second quarter of 2009, and
- A 11.3% increase in equipment rental revenue to \$5.3 million in the second quarter of 2009 primarily resulting from our customers' increased use of our HD/DVR converter boxes.

The increase in data revenue is primarily due to a 18.2% increase in cable modem revenue to \$10.6 million due to increased subscribers and their selection of more value-added features.

The increase in wireless revenue is primarily due to an increase in the number of wireless subscribers and recognition of \$3.1 million to be received from the USAC for interstate common line support for a new local access area for which we received ETC status in May 2009 of which \$690,000 and \$1.7 million were related to first quarter 2009 and the year ended December 31, 2008, respectively. Collectability was not reasonably assured until we were awarded ETC status, therefore, we deferred revenue recognition until such status was confirmed.

Consumer Segment Cost of Goods Sold

The decrease in voice Cost of Goods Sold is primarily due to cost savings resulting from the increased deployment of local access services DLPS lines on our own facilities during the last six months of 2008 and the first six months of 2009 and decreased voice minutes carried.

The video Cost of Goods Sold increase is primarily due to increased channels offered to our subscribers, increased rates paid to programmers, increased costs associated with delivery of digital services offered over our HD/DVR converter boxes due to the increased number of boxes in service, and an increase in digital programming tier subscribers.

The decrease in data Cost of Goods Sold is primarily due to the transition of traffic to our own facilities from leased facilities.

The decrease in wireless Cost of Goods Sold is primarily due to decreased costs due to the June 4, 2008 implementation of the new distribution agreement with AT&T Mobility as described in "Part I – Item II – Management's Discussion and Analysis of Financial Condition and Results of Operations – Voice Services and Products – Long Distance." The decrease was partially off-set by costs associated with the increased number of wireless subscribers.

Consumer Segment Adjusted EBITDA

The increase in adjusted EBITDA is primarily due to increased margin resulting from increased revenue as described above in "Consumer Segment Revenues." The increased margin was partially offset by an increase in the selling, general and administrative expense that was allocated to our Consumer segment primarily due to an increase in the 2008 segment margin upon which the allocation is based.

Network Access Segment Overview

Network access segment revenue represented 20.9% of second quarter of 2009 consolidated revenues. The components of Network Access segment revenue are as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Voice	\$ 13,444	23,213	(42.1%)
Data	16,073	17,988	(10.7%)
Wireless	1,603	690	132.3%
Total Network Access segment revenue	\$ 31,120	41,891	(25.7%)

Network Access segment Cost of Goods Sold represented 13.9% of second quarter of 2009 consolidated Cost of Goods Sold. The components of Network Access segment Cost of Goods Sold are as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Voice	\$ 4,464	8,226	(45.7%)
Data	1,726	2,830	(39.0%)
Wireless	366	473	(22.6%)
Total Network Access segment Cost of Goods Sold	\$ 6,556	11,529	(43.1%)

Network Access segment adjusted EBITDA, representing 30.6% of second quarter of 2009 consolidated adjusted EBITDA, is as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Network Access segment adjusted EBITDA	\$ 15,671	21,676	(27.7%)

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Network Access segment follow:

	2009	June 30, 2008	Percentage Change
Voice:			
Long-distance minutes carried (in millions)	215.6	326.2	(33.9%)
Data:			
Total Internet service provider access lines in service ¹	1,700	2,000	(15.0%)

¹ An Internet service provider access line in service is defined as a revenue generating circuit or channel connecting a customer to the public switched telephone network.

Network Access Segment Revenues

The decrease in voice revenue is primarily due to the June 4, 2008 implementation of the new distribution agreement with AT&T Mobility as described in "Part I – Item II – Management's Discussion and Analysis of Financial Condition and Results of Operations – Voice Services and Products – Long Distance." The voice revenue decrease also resulted from a decrease in our average rate per minute on billable minutes carried for our common carrier customers and the transition of voice traffic to dedicated networks. The average rate per minute decrease is primarily due to a change in the composition of traffic and a 3.0% rate decrease mandated by federal law. Voice revenue continues to decline as expected due to increased competition in the Network Access business. The increased competition will continue to compress the rates we may charge our customers and, therefore, we expect a continued decline in Network Access segment voice revenue.

The decrease in data revenue is primarily due to a change in the composition of traffic resulting in IRU leases and service agreements replacing data network service agreements. The nature of IRU leases and service agreements generally results in lower periodic revenue as compared to data network service agreements.

Network Access Segment Cost of Goods Sold

The decrease in voice Cost of Goods Sold is primarily due to decreased long-distance minutes carried.

The decrease in data Cost of Goods Sold is primarily due to a change in the composition of traffic resulting in IRU leases and service agreements replacing data network service agreements and a \$585,000 favorable adjustment resulting from a refund of fiber repair costs. The fiber repair costs were originally recognized in the first quarter 2008. Due to the uncertainty surrounding the refund of the fiber repair costs, we deferred recognition until collection of the refund was reasonably assured.

Network Access Segment Adjusted EBITDA

The adjusted EBITDA decrease is primarily due to decreased margin resulting from decreased revenue as described above in "Network Access Segment Revenues." The adjusted EBITDA decrease is partially off-set by decreased Cost of Goods Sold as described above in "Network Access Segment Cost of Goods Sold" and a decrease in the selling, general and administrative expense that was allocated to our Network Access segment primarily due to a decrease in the 2008 segment margin upon which the allocation is based.

Commercial Segment Overview

Commercial segment revenue represented 18.1% of second quarter of 2009 consolidated revenues. Commercial segment data revenue is comprised of monthly recurring charges for data services and charges billed on a time and materials basis largely for personnel providing on-site customer support. This latter category can vary significantly based on project activity. The components of Commercial segment revenue are as follows (amounts in thousands):

	2009	Second Quarter of 2008	Percentage Change
Voice	\$ 7,701	7,280	5.8%
Video	2,221	2,149	3.4%
Data	15,409	16,584	(7.1%)
Wireless	1,580	1,431	10.4%

	Second Quarter of		Percentage
	2009	2008	Change
Total Commercial segment revenue	\$ 26,911	27,444	(1.9%)

Commercial segment Cost of Goods Sold represented 27.4% of second quarter of 2009 consolidated Cost of Goods Sold. The components of Commercial segment Cost of Goods Sold are as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Voice	\$ 4,898	4,809	1.9%
Video	506	382	32.5%
Data	6,696	7,481	(10.5%)
Wireless	877	1,240	(29.3%)
Total Commercial segment Cost of Goods Sold	\$ 12,977	13,912	(6.7%)

Commercial segment adjusted EBITDA, representing 10.9% of second quarter of 2009 consolidated adjusted EBITDA, is as follows (amounts in thousands):

	Second Quarter of		Percentage
	2009	2008	Change
Commercial segment adjusted EBITDA	\$ 5,592	5,696	(1.8%)

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Commercial segment follow:

	June 30,		Percentage
	2009	2008	Change
Voice:			
Long-distance subscribers ¹	9,600	10,400	(7.7%)
Total local access lines in service ²	47,300	45,400	4.2%
Local access lines in service on GCI facilities ²	18,400	16,600	10.8%
Long-distance minutes carried (in millions)	31.8	32.9	(3.4%)
Data:			
Cable modem subscribers ³	10,400	9,000	15.6%
Wireless:			
Wireless lines in service ⁴	8,900	7,100	25.4%

¹ A long-distance customer is defined as a customer account that is invoiced a monthly long-distance plan fee or has made a long-distance call during the month.

² A local access line in service is defined as a revenue generating circuit or channel connecting a customer to the public switched telephone network.

³ A cable modem subscriber is defined by the purchase of cable modem service regardless of the level of service purchased. If one entity purchases multiple cable modem service access points, each access point is counted as a subscriber. On January 1, 2009, our Consumer segment transferred 1,400 cable modem subscribers to our Commercial segment.

⁴ A wireless line in service is defined as a revenue generating wireless device.

Commercial Segment Revenues

The decrease in data revenue is primarily due to a \$1.3 million or 15.5% decrease in managed services projects.

Commercial Segment Cost of Goods Sold

The decrease in data Cost of Goods Sold is primarily due to an \$862,000 or 15.9% decrease in managed services projects Cost of Goods Sold.

Commercial Segment Adjusted EBITDA

The adjusted EBITDA decrease was primarily due to an increase in the selling, general and administrative expense that was allocated to our Commercial segment primarily due to an increase in the 2008 segment margin upon which the allocation is based partially offset by an increased margin resulting from decreased Cost of Goods Sold as described above in "Commercial Segment Cost of Goods Sold."

Managed Broadband Segment Overview

Managed Broadband segment revenue, Cost of Goods sold and adjusted EBITDA represented 7.4%, 5.0% and 10.5% of second quarter of 2009 consolidated revenues, Cost of Goods Sold and adjusted EBITDA, respectively.

Managed Broadband Segment Revenues

Managed Broadband segment revenue, which includes data products only, increased 20.4% to \$11.0 million in second quarter of 2009 as compared to second quarter of 2008. The increase is primarily due to increased data network lines purchased by our Rural Health customers and revenue totaling \$2.2 million from our acquisition of Unicom effective June 1, 2008 partially off-set by a \$600,000 decrease in product sales.

Managed Broadband Segment Cost of Goods Sold

Managed Broadband segment Cost of Goods Sold decreased 22.0% to \$2.4 million primarily due to the decrease in costs associated with product sales as discussed above partially off-set by an increase in data network line costs.

Managed Broadband Segment Adjusted EBITDA

Managed Broadband segment adjusted EBITDA increased 70.8% to \$5.4 million in 2009 primarily due to an increase in the margin resulting from increased revenue as described above in "Managed Broadband Segment Revenues" and decreased Cost of Goods Sold as described above in "Managed Broadband Segment Cost of Goods Sold."

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Regulated Operations Segment Overview

Regulated Operations segment revenue represented 4.3% of second quarter of 2009 consolidated revenues, Cost of Goods Sold represented 3.1% of second quarter of 2009 consolidated Cost of Goods Sold and adjusted EBITDA represented 4.5% of second quarter of 2009 consolidated adjusted EBITDA. The Regulated Operations segment includes voice, data and wireless services.

Selected key performance indicators for our Regulated Operations segment follow:

	June 30,		Percentage
	2009	2008	Change
Voice:			
Long-distance subscribers ¹	830	900	(6.4%)
Long-distance minutes carried (in millions)	0.3	0.1	172.5%
Total local access lines in service (all on GCI facilities) ²	11,600	12,200	(5.2%)

¹ A long-distance subscriber is defined as a customer account that is invoiced a monthly long-distance plan fee or has made a long-distance call during the month.

² A local access line in service is defined as a revenue generating circuit or channel connecting a customer to the public switched telephone network.

Regulated Operations Segment Revenues

We completed our acquisition of UUI effective June 1, 2008. In connection with this acquisition, we recognized revenues of \$6.4 million from the acquired operations during the second quarter of 2009 and \$1.9 million during the second quarter of 2008.

Regulated Operations Segment Cost of Goods Sold

In connection with our acquisition of UUI we recognized Cost of Goods Sold of \$1.4 million during the second quarter of 2009 and \$300,000 during the second quarter of 2008.

Regulated Operations Segment Adjusted EBITDA

Regulated Operations segment adjusted EBITDA was \$2.3 million during the second quarter of 2009 and \$359,000 during the second quarter of 2008.

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income (loss) before income taxes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 7.2% to \$51.7 million in the second quarter of 2009 primarily due to the following:

- A \$1.8 million increase in labor costs,
- \$1.3 million in additional expense resulting from our June 1, 2008, acquisition of UUI and Unicom, and
- A \$654,000 increase in our company-wide success sharing bonus accrual in 2009.

As a percentage of total revenues, selling, general and administrative expenses increased to 34.8% in the second quarter of 2009 from 33.9% in the second quarter of 2008, primarily due to the increases described above without a proportional increase in revenues.

Depreciation and Amortization Expense

Depreciation and amortization expense increased 12.5% to \$31.2 million in the second quarter of 2009. The increase is primarily due to our \$322.3 million investment in equipment and facilities placed into service during 2008 for which a full year of depreciation will be recorded in 2009 and the \$43.5 million investment in equipment and facilities placed into service during 2009 for which a partial year of depreciation will be recorded in 2009.

Other Expense, Net

Other expense, net of other income, increased 16.6% to \$13.3 million in the second quarter of 2009 primarily due to a \$1.5 million increase in interest expense to \$13.3 million in the second quarter of 2009 due to the following:

- \$1.1 million in additional interest expense resulting from the Galaxy 18 capital lease commencing in May 2008, and
- A \$1.8 million increase in interest expense on our Senior Credit Facility to \$4.6 million resulting from additional debt from the Additional Incremental Term Loan agreement beginning in May 2008, the increased interest rate on our Senior Credit Facility beginning in May 2008, and
- A \$1.2 million decrease in capitalized interest.

Income Tax Expense

Income tax expense totaled \$2.7 and \$1.8 million in the second quarters of 2009 and 2008, respectively. Our effective income tax rate decreased from 66.8% in 2008 to 51.6% in 2009 primarily due to a decrease in the permanent differences as compared to our net income before income tax expense in 2009 as compared to 2008.

At June 30, 2009, we have (1) tax net operating loss carryforwards of \$177.7 million that will begin expiring primarily in 2019 if not utilized, and (2) alternative minimum tax credit carryforwards of \$3.1 million available to offset regular income taxes payable in future years.

We have recorded deferred tax assets of \$72.8 million associated with income tax net operating losses that were generated from 1995 to 2009, and that expire from 2011 to 2029, and with charitable contributions that were converted to net operating losses in 2004 through 2007, and that expire in 2024 through 2027, respectively.

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. The amount of deferred tax asset considered realizable, however, could be reduced 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 annual income tax rate for financial statement purposes will be 52% to 54% in the year ended December 31, 2009.

Six Months Ended June 30, 2009 (“2009”) Compared to Six Months Ended June 30, 2008 (“2008”)

Overview of Revenues and Cost of Goods Sold

Total revenues increased 7.3% from \$277.1 million in 2008 to \$297.5 million in 2009. Revenue increases in our Consumer, Commercial, Managed Broadband and Regulated Operations segments were partially off-set by decreased revenue in our Network Access segment. See the discussion below for more information by segment.

Total Cost of Goods Sold decreased 8.2% from \$103.8 million in 2008 to \$95.2 million in 2009. Cost of Goods Sold decreases in our Consumer, Commercial, Network Access and Managed Broadband segments were partially off-set by an increase in our Regulated Operations segment. See the discussion below for more information by segment.

Consumer Segment Overview

Consumer segment revenue represented 48.4% of 2009 consolidated revenues. The components of Consumer segment revenue are as follow (amounts in thousands):

	2009	2008	Percentage Change
Voice	\$ 26,903	23,978	12.2%
Video	54,502	51,315	6.2%
Data	23,928	20,482	16.8%
Wireless	38,785	27,721	39.9%
Total Consumer segment revenue	\$ 144,118	123,496	16.7%

Consumer segment Cost of Goods Sold represented 49.8% of 2009 consolidated Cost of Goods Sold. The components of Consumer segment Cost of Goods Sold are as follows (amounts in thousands):

	2009	2008	Percentage Change
Voice	\$ 7,492	9,735	(23.0%)
Video	22,359	19,866	12.6%
Data	2,128	3,703	(42.5%)
Wireless	15,435	15,087	2.3%
Total Consumer segment Cost of Goods Sold	\$ 47,414	48,391	(2.0%)

Consumer segment adjusted EBITDA, representing 42.0% of 2009 consolidated adjusted EBITDA, is as follows (amounts in thousands):

	2009	2008	Percentage Change
Consumer segment adjusted EBITDA	\$ 41,070	25,677	60.0%

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Consumer segment follow:

	June 30,		Percentage
	2009	2008	Change
Voice:			
Long-distance minutes carried (in millions)	57.9	65.6	(11.8%)
Video:			
Average monthly gross revenue per subscriber ¹	\$69.28	\$66.19	4.7%
Wireless:			
Average monthly gross revenue per subscriber ²	\$58.59	\$58.25	0.6%

¹ Year-to-date average monthly consumer video revenues divided by the average of consumer video basic subscribers at the beginning and end of the period.

² Year-to-date average monthly consumer wireless revenues divided by the average of consumer wireless subscribers at the beginning and end of the period.

Please refer to our three-month results of operations discussion for additional selected key performance indicators for the second quarters of 2009 and 2008.

Consumer Segment Revenues

The increase in voice revenue is primarily due to a \$2.7 million or 117.1% increase in recognized support from the USAC primarily due to increased local subscribers and the FCC order issued in March 2009, the result of which provides uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions retroactive to August 2008. The issuance of this order allowed us to recognize in the first quarter 2009 \$674,000 in additional USAC support for services provided from August 2008 to December 2008 that is included in the revenue increase discussed above. The increase was partially offset by decreased long-distance billable minutes carried and long-distance subscribers.

The increase in video revenue is primarily due to the following:

- A 4.8% increase in programming services revenue to \$43.2 million in 2009 primarily resulting from an increase in digital programming tier subscribers in 2009, and
- A 13.6% increase in equipment rental revenue to \$10.6 million in 2009 primarily resulting from our customers' increased use of our HD/DVR converter boxes.

The increase in data revenue is primarily due to a 17.9% increase in cable modem revenue to \$20.6 million due to increased subscribers and their selection of more value-added features.

The increase in wireless revenue is primarily due to the following:

- A \$6.2 million or 212.8% increase in recognized support from the USAC primarily due to increased wireless subscribers and the FCC order issued in March 2009, the result of which provides uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions retroactive to August 2008. The issuance of this order allowed us to recognize \$810,000 in additional USAC support from August 2008 to December 2008 in 2009 that is included in the revenue increase discussed above
- Recognition of \$3.1 million to be received from the USAC for interstate common line support for a new local access area for which we received ETC status in May 2009 of which \$1.7 million was related to services provided during the year ended December 31, 2008. Collectability was not reasonably assured until we were awarded ETC status, therefore, we deferred revenue recognition until such status was confirmed, and
- An increase in the number of wireless subscribers.

Consumer Segment Cost of Goods Sold

The decrease in voice Cost of Goods Sold is primarily due to cost savings resulting from the increased deployment of local access services DLPS lines on our own facilities during the last six months of 2008 and first six months of 2009 and decreased voice minutes carried.

The video Cost of Goods Sold increase is primarily due to increased channels offered to our subscribers, increased rates paid to programmers, increased costs associated with delivery of digital services offered over our HD/DVR converter boxes due to the increased number of boxes in service, and an increase in digital programming tier subscribers.

The decrease in data Cost of Goods Sold is primarily due to the transition of traffic to our own facilities from leased facilities.

The increase in wireless Cost of Goods Sold is primarily due to the increased number of wireless subscribers. The increase was partially off-set by decreased costs due to the June 4, 2008 implementation of the new distribution agreement with AT&T Mobility as described in "Part I – Item II – Management's Discussion and Analysis of Financial Condition and Results of Operations – Voice Services and Products – Long Distance."

Consumer Segment Adjusted EBITDA

The increase in adjusted EBITDA is primarily due to increased margin resulting from increased revenue and decreased Cost of Goods Sold as described above in "Consumer Segment Revenues" and "Consumer Segment Cost of Goods Sold," respectively. The increased margin was partially offset by an increase in the selling, general and administrative expense that was allocated to our Consumer segment primarily due to an increase in the 2008 segment margin upon which the allocation is based.

Network Access Segment Overview

Network access segment revenue represented 21.6% of 2009 consolidated revenues. The components of Network Access segment revenue are as follows (amounts in thousands):

	2009	2008	Percentage Change
Voice	\$ 27,778	45,155	(38.5%)
Data	34,027	34,827	(2.3%)
Wireless	2,514	1,083	132.1%
Total Network Access segment revenue	\$ 64,319	81,065	(20.7%)

Network Access segment Cost of Goods Sold represented 13.9% of 2009 consolidated Cost of Goods Sold. The components of Network Access segment Cost of Goods Sold are as follows (amounts in thousands):

	2009	2008	Percentage Change
Voice	\$ 8,541	15,533	(45.0%)
Data	4,212	5,556	(24.2%)
Wireless	487	694	(29.8%)
Total Network Access segment Cost of Goods Sold	\$ 13,240	21,783	(39.2%)

Network Access segment adjusted EBITDA, representing 33.4% of 2009 consolidated adjusted EBITDA, is as follows (amounts in thousands):

	2009	2008	Percentage Change
Network Access segment adjusted EBITDA	\$ 32,590	41,813	(22.1%)

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Network Access segment follow:

	2009	June 30, 2008	Percentage Change
Voice:			
Long-distance minutes carried (in millions)	416.1	640.8	(35.1%)

Please refer to our three-month results of operations discussion for additional selected key performance indicators for the second quarters of 2009 and 2008.

Network Access Segment Revenues

The decrease in voice revenue is primarily due to the June 4, 2008 implementation of the new distribution agreement with AT&T Mobility as described in "Part I – Item II – Management's Discussion and Analysis of Financial Condition and Results of Operations – Voice Services and Products – Long Distance." The voice revenue decrease also resulted from a decrease in our average rate per minute on billable minutes carried for our common carrier customers and the transition of voice traffic to dedicated networks. The average rate per minute decrease is primarily due to a change in the composition of traffic and a 3.0% rate decrease mandated by federal law. Voice revenue continues to decline as expected due to increased competition in the Network Access business. The increased competition will continue to compress the rates we may charge our customers and, therefore, we expect a continued decline in Network Access segment voice revenue.

The decrease in data revenue is primarily due to a change in the composition of traffic resulting in IRU leases and service agreements replacing data network service agreements.

The increase in wireless revenue is primarily due to an increase in roaming revenue due to the addition of a certain roaming customer.

Network Access Segment Cost of Goods Sold

The decrease in voice Cost of Goods Sold is primarily due to decreased long-distance minutes carried.

The decrease in data Cost of Goods Sold is primarily due to a change in the composition of traffic resulting in IRU leases and service agreements replacing data network service agreements and a \$585,000 favorable adjustment resulting from a refund of fiber repair costs. The fiber repair costs were originally recognized in the first quarter of 2008.

Network Access Segment Adjusted EBITDA

The adjusted EBITDA decrease is primarily due to decreased margin resulting from decreased revenue as described above in "Network Access Segment Revenues." The adjusted EBITDA decrease is partially off-set by decreased Cost of Goods Sold as described above in "Network Access Segment Cost of Goods Sold" and a decrease in the selling, general and administrative expense that was allocated to our Network Access segment primarily due to a decrease in the 2008 segment margin upon which the allocation is based.

Commercial Segment Overview

Commercial segment revenue represented 18.5% of 2009 consolidated revenues. Commercial segment data revenue is comprised of monthly recurring charges for data services and charges billed on a time and materials basis largely for personnel providing on-site customer support. This latter category can vary significantly based on project activity. The components of Commercial segment revenue are as follows (amounts in thousands):

	2009	2008	Percentage Change
Voice	\$ 15,685	14,494	8.2%
Video	4,271	3,969	7.6%
Data	31,924	32,793	(2.7%)
Wireless	3,023	2,779	8.8%
Total Commercial segment revenue	\$ 54,903	54,035	1.6%

Commercial segment Cost of Goods Sold represented 27.7% of 2009 consolidated Cost of Goods Sold. The components of Commercial segment Cost of Goods Sold are as follows (amounts in thousands):

	2009	2008	Percentage Change
Voice	\$ 9,467	9,738	(2.8%)
Video	1,003	770	30.3%
Data	14,261	15,061	(5.3%)
Wireless	1,601	2,414	(33.7%)
Total Commercial segment Cost of Goods Sold	\$ 26,332	27,983	(5.9%)

Commercial segment adjusted EBITDA, representing 11.2% of 2009 consolidated adjusted EBITDA, is as follows (amounts in thousands):

	2009	2008	Percentage Change
Commercial segment adjusted EBITDA	\$ 10,893	10,021	8.7%

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Commercial segment follow:

	June 30, 2009	2008	Percentage Change
Voice:			
Long-distance minutes carried (in millions)	64.0	65.7	(2.7%)

Please refer to our three-month results of operations discussion for additional selected key performance indicators for the second quarter of 2009 and for the second quarter of 2008.

Commercial Segment Revenues

The increase in voice revenue is primarily due to increased local access lines in service and a \$766,000 or 142.4% increase in recognized support from the USAC primarily due to increased local subscribers and the FCC order issued in March 2009, the result of which provides uncapped support for all lines served by competitive ETCs for tribal lands or Alaska Native regions retroactive to August 2008. The issuance of this order allowed us to recognize \$386,000 in additional USAC support from August 2008 to December 2008 in 2009 that is included in the revenue increase discussed above. The increase in voice revenue was partially off-set by decreased long-distance subscribers and decreased voice minutes carried.

The decrease in data revenue is primarily due to a \$1.5 million or 8.8% decrease in managed services projects partially off-set by an \$894,000 or 10.9% increase in Internet revenue primarily due to an increase in cable modem subscribers.

Commercial Segment Cost of Goods Sold

The decrease in data Cost of Goods Sold is primarily due to a \$953,000 or 8.7% decrease in managed services projects Cost of Goods Sold.

The decrease in wireless Cost of Goods Sold is primarily due to decreased costs due to the June 4, 2008 implementation of the new distribution agreement with AT&T Mobility as described in "Part I – Item II – Management's Discussion and Analysis of Financial Condition and Results of Operations – Voice Services and Products – Long Distance." The decrease was partially off-set by costs associated with the increased number of wireless subscribers.

Commercial Segment Adjusted EBITDA

The adjusted EBITDA increase was primarily due to increased margin resulting from increased revenue as described above in "Commercial Segment Revenues" and decreased Cost of Goods Sold as described above in "Commercial Segment Cost of Goods Sold." The increased margin was partially offset by an increase in the selling, general and administrative expense that was allocated to our Commercial segment primarily due to an increase in the 2008 segment margin upon which the allocation is based.

Managed Broadband Segment Overview

Managed Broadband segment revenue, Cost of Goods sold and adjusted EBITDA represented 7.3%, 5.3% and 9.5% of 2009 consolidated revenues, Cost of Goods Sold and adjusted EBITDA, respectively.

Managed Broadband Segment Revenues

Managed Broadband segment revenue, which includes data products only, increased 29.7% to \$21.6 million in 2009 as compared to 2008. The increase is primarily due to increased circuits purchased by our Rural Health customers and a \$4.6 million increase from our acquisition of Unicom effective June 1, 2008. The increase is partially off-set by a \$1.0 million or 15.0% decrease in School Access revenue primarily due to the decision to temporarily stop revenue recognition for services provided to a certain continuing customer pending resolution of certain issues.

Managed Broadband Segment Cost of Goods Sold

Managed Broadband segment Cost of Goods Sold decreased 4.9% to \$5.0 million primarily due to the decrease in costs associated with product sales partially off-set by an increase in costs associated with the increased revenue.

Managed Broadband Segment Adjusted EBITDA

Managed Broadband segment adjusted EBITDA increased 65.2% to \$9.3 million in 2009 primarily due to an increase in the margin resulting from increased revenue as described above in "Managed Broadband Segment Revenues."

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Regulated Operations Segment Overview

Regulated Operations segment revenue represented 4.2% of 2009 consolidated revenues, Cost of Goods Sold represented 3.3% of 2009 consolidated Cost of Goods Sold and adjusted EBITDA represented 4.0% of 2009 consolidated adjusted EBITDA. The Regulated Operations segment includes voice, data and wireless services.

Selected key performance indicators for our Regulated Operations segment follow:

	June 30,		Percentage
	2009	2008	Change
Voice:			
Long-distance minutes carried (in millions)	0.7	0.1	454.5%

Please refer to our three-month results of operations discussion for additional selected key performance indicators for the second quarters of 2009 and 2008.

Regulated Operations Segment Revenues

We completed our acquisition of UUI effective June 1, 2008. In connection with this acquisition, we recognized revenues of \$12.5 million from the acquired operations during 2009 and \$1.9 million during 2008.

Regulated Operations Segment Cost of Goods Sold

In connection with our acquisition of UUI we recognized Cost of Goods Sold of \$3.2 million during 2009 and \$300,000 during 2008.

Regulated Operations Segment Adjusted EBITDA

Regulated Operations segment adjusted EBITDA was \$3.9 million in 2009 and \$359,000 during 2008.

See note 6 in the "Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated adjusted EBITDA, a non-GAAP financial measure, to consolidated income (loss) before income taxes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 14.4% to \$108.3 million in 2009 primarily due to the following:

- A \$5.3 million increase in labor costs,
- \$4.3 million in additional expense resulting from our June 1, 2008, acquisition of UUI and Unicom,
- \$1.2 million in additional expense incurred in 2009 for the conversion of our customers' wireless phones to our facilities, and
- A \$1.2 million increase in our company-wide success sharing bonus accrual in 2009.

As a percentage of total revenues, selling, general and administrative expenses increased to 36.4% in 2009 from 34.2% in 2008, primarily due to the increases described above without a proportional increase in revenues.

Depreciation and Amortization Expense

Depreciation and amortization expense increased 12.7% to \$61.9 million in 2009. The increase is primarily due to our \$322.3 million investment in equipment and facilities placed into service during 2008 for which a full year of depreciation will be recorded in 2009 and the \$43.5 million investment in equipment and facilities placed into service during 2009 for which a partial year of depreciation will be recorded in 2009.

Other Expense, Net

Other expense, net of other income, increased 28.2% to \$25.9 million in 2009 primarily due to a \$5.2 million increase in interest expense to \$25.9 million in 2009 due to the following:

- \$2.8 million in additional interest expense resulting from the Galaxy 18 capital lease commencing in May 2008,
- A \$3.8 million increase in interest expense on our Senior Credit Facility to \$8.4 million resulting from additional debt from the Additional Incremental Term Loan agreement beginning in May 2008, the increased interest rate on our Senior Credit Facility beginning in May 2008, and
- A \$1.7 million decrease in capitalized interest.

Income Tax Expense

Income tax expense totaled \$3.3 million and \$3.2 million in 2009 and 2008, respectively. Our effective income tax rate decreased from 90.3% in 2008 to 52.7% in 2009 primarily due to a decrease in the permanent differences as compared to our net income before income tax expense in 2009 as compared to 2008.

Multiple System Operator Operating Statistics

Our operating statistics include customer information from our Consumer and Commercial segments which offer services utilizing our cable services' facilities.

The standardized definition of a customer relationship is the number of customers that receive at least one level of service utilizing our cable service facilities, encompassing voice, video, and data services, without regard to which services customers purchase. At June 30, 2009 and 2008 we had 132,000 and 130,400 customer relationships, respectively.

The standardized definition of a revenue generating unit is the sum of all primary digital video, high-speed data, and telephony customers, not counting additional outlets. At June 30, 2009 and 2008 we had 334,023 and 314,400 revenue generating units, respectively.

Liquidity and Capital Resources

Our principal sources of current liquidity are cash and cash equivalents. We believe, but can provide no assurances, that we will be able to meet our current and long-term liquidity and capital requirements and fixed charges through our cash flows from operating activities, existing cash, cash equivalents, credit facilities, and other external financing and equity sources. Should operating cash flows be insufficient to support additional borrowings and principal payments scheduled under our existing credit facilities, capital expenditures will likely be reduced.

Global capital and credit markets have recently experienced increased volatility and disruption. Despite this volatility and disruption, we continue to have full access to our Senior Credit Facility. Although there can be no assurances in these difficult economic times that financial institutions will continue to provide financing, we believe that the lenders participating in our credit facilities will be willing and able to provide financing to us in accordance with their legal obligations under our credit facilities. While our short-term and long-term financing abilities are believed to be adequate as a supplement to internally generated cash flows to fund capital expenditures and acquisitions as opportunities arise, the decline in the global financial markets may negatively impact our ability to access the capital markets in a timely manner and on attractive terms, which may have a negative impact on our ability to grow our business.

We monitor the third-party depository institutions that hold our cash and cash equivalents on a daily basis. Our emphasis is primarily on safety of principal and secondarily on maximizing yield on those funds.

Our net cash flows provided by and (used for) operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows for the six months ended June 30, 2009 and 2008, are summarized as follows:

	2009	2008
Operating activities	\$ 42,747	108,657
Investing activities	(59,055)	(155,177)
Financing activities	13,835	129,149
Net increase (decrease) in cash and cash equivalents	\$ (2,473)	82,629

Operating Activities

The decrease in cash flows provided by operating activities is due primarily to the absence of cash received up-front for IRU leases and service agreement in 2009 compared to 2008, a \$15.0 million contractually required payment in 2009, and an increase in cash payments to reduce accounts payable and accrued payroll liabilities that was partially offset by an increase in depreciation and amortization expense for 2009 compared to 2008.

Investing Activities

The decrease in cash flows used for investing activities is due primarily to a decrease in spending for property and equipment, including construction in progress in 2009.

Capital Expenditures

Our expenditures for property and equipment, including construction in progress, totaled \$54.0 million and \$122.3 million during the six months ended June 30, 2009 and 2008, respectively. The 2009 expenditures do not include \$12.1 million for additions of property and equipment that had been accrued at December 31, 2008 and paid for during the six months ended June 30, 2009 net of \$8.3 million of additions of property and equipment that are accrued as of June 30, 2009. The 2008 expenditures include additions of \$12.5 million for property and equipment that are accrued at June 30, 2008 net of \$6.1 million that had been accrued at December 31, 2007 and paid for during the six months ended June 30, 2008. Our capital expenditure requirements in excess of approximately \$25.0 million per year are largely success driven and are a result of the progress we are making in the marketplace. We expect our 2009 expenditures for property and equipment for our core operations, including construction in progress to total \$115.0 million to \$120.0 million, depending on available opportunities and the amount of cash flow we generate during 2009.

Financing Activities

The decrease in cash flows provided by financing activities is due primarily to reduced borrowing in 2009 on our Senior Credit Facility.

Senior Notes and Senior Credit Facility

At June 30, 2009, we were in compliance with all our Senior Notes and Senior Credit Facility loan covenants.

The long-distance, local access, cable, Internet and wireless services industries continue to experience substantial competition, regulatory uncertainty, and continuing technological changes. Our future results of operations will be affected by our ability to react to changes in the competitive and regulatory environment and by our ability to fund and implement new or enhanced technologies. We are unable to determine how competition, economic conditions, and regulatory and technological changes will affect our ability to obtain additional financing under acceptable terms and conditions. A complete discussion of our liquidity and capital resources can be found in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our December 31, 2008 annual report on Form 10-K.

Critical Accounting Policies

Our accounting and reporting policies comply with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of our financial condition and results, and require management to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under U.S. GAAP. For all of these policies, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Management has discussed the development and the selection of critical accounting policies with our Audit Committee.

Those policies considered to be critical accounting policies for the six months ended June 30, 2009 are the allowance for doubtful accounts, impairment and useful lives of intangible assets, accruals for unbilled costs, and the valuation allowance for net operating loss deferred tax assets. A complete discussion of our critical accounting policies can be found in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our December 31, 2008 annual report on Form 10-K.

We are considering changing the date of our annual goodwill impairment test to provide additional time to complete the required impairment test analysis.

Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. Policies related to revenue recognition, share-based expense, and financial instruments require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these and other matters are among topics currently under reexamination by accounting standards setters and regulators. No specific conclusions reached by these standard setters appear likely to cause a material change in our accounting policies, although outcomes cannot be predicted with confidence. A complete discussion of our significant accounting policies can be found in note 1 included in Part II of our December 31, 2008 annual report on Form 10-K.

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 Senior Credit Facility carries interest rate risk. Amounts borrowed under this agreement bear interest at LIBOR plus 4.25% or less depending upon our Total Leverage Ratio (as defined). Should the LIBOR rate

change, our interest expense will increase or decrease accordingly. In July 2008, we entered into an interest rate cap agreement with a two year term to limit the LIBOR rate on \$180.0 million of variable interest rate debt to 4.5%. The agreement is being accounted for as a derivative under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities." As of June 30, 2009, we have borrowed \$378.6 million subject to interest rate risk. On this amount, each 1% increase in the LIBOR interest rate would result in \$3.8 million of additional gross interest cost on an annualized basis.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined below) under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation and as described below under "Changes in Internal Control over Financial Reporting" (Item 4(b)), we identified material weaknesses in our "internal control over financial reporting" (as defined in Item 4(b) below). Because of these material weaknesses, which are in the process of being remediated as described below under "Changes in Internal Control over Financial Reporting" (Item 4(b)), our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2009, which is the end of the period covered by this report.

Our "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 Securities Exchange Act of 1934, as amended (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.

The certifications attached as Exhibits 31 and 32 to this report should be read in conjunction with the disclosures set forth herein.

(b) Changes in Internal Control over Financial Reporting

Our entity-level control related to the selection and application of accounting policies in accordance with U.S. GAAP was not designed to include policies and procedures to periodically review our accounting policies to ensure ongoing U.S. GAAP compliance. This led to ineffective procedures for recording depreciation expense that was identified in second quarter 2008, which caused material errors in interim financial reporting which were corrected through the restatement of our 2007 interim financial information. Although we began to remediate this material weakness in June 2008, by expanding our accounting policy documentation, we have not had sufficient time to fully implement the control changes necessary to ensure that a misstatement of interim or annual financial reporting does not occur. We continued to work towards remediation of this deficiency during the six months ended June 30, 2009, and will continue to remediate this deficiency during the remainder of 2009 by implementing policies and procedures to periodically review our accounting policies to ensure ongoing U.S. GAAP compliance.

The internal control over financial reporting at Alaska DigiTel did not include i) activities adequate to timely identify changes in financial reporting risks, ii) activities adequate to monitor the continued effectiveness of controls, and iii) staff with adequate technical expertise to ensure that policies and procedures necessary for reliable interim and annual financial statements were selected and applied. Prior to August 18, 2008, our control over the operations of Alaska DigiTel was limited as required by the FCC upon its approval of our initial acquisition completed in January 2007. These control deficiencies in our Alaska DigiTel business represented material weaknesses in our internal control over financial reporting and led to the failure to timely identify and respond to triggering events which necessitated a change in useful life of depreciable assets to ensure reporting in accordance with U.S. GAAP. These material weaknesses led to errors in our interim financial reporting which were corrected through the restatement of our interim financial information for the March 31 and June 30, 2008 quarterly periods. We made progress towards remediation with the acquisition

of the Alaska DigiTel minority interest on August 18, 2008, which gave us 100% ownership and control over this subsidiary. During the fourth quarter of 2008 we made progress towards integrating Alaska DigiTel into our financial reporting process by replacing the accounting management with GCI accounting management. During the first quarter of 2009 we integrated Alaska DigiTel's general ledger into our general ledger system. During the six months ended June 30, 2009, we have been integrating Alaska DigiTel's accounting processes into our internal control over financial reporting and will continue this integration during the remainder of 2009. Additionally, Alaska DigiTel will become subject to the improvements we anticipate due to the fourth quarter 2008 expansion of our accounting policy documentation and the 2009 implementation of a procedure to periodically review our accounting policies to ensure ongoing U.S. GAAP compliance. Although we have taken the steps noted above to remediate this material weakness, we have not had sufficient time to fully implement the control changes necessary to ensure that a misstatement of interim or annual financial reporting does not occur.

Except as described above, there were no changes in our internal control over financial reporting during the quarter ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

We may enhance, modify, and supplement internal controls and disclosure controls and procedures based on experience.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Except as set forth in this item, neither the Company, its property nor any of its subsidiaries or their property is a party to or subject to any material pending legal proceedings. We are parties to various claims and pending litigation as part of the normal course of business. We are also involved in several administrative proceedings and filings with the FCC and state regulatory authorities. In the opinion of management, the nature and disposition of these matters are considered routine and arising in the ordinary course of business. In addition, the FCC's Office of Inspector General has initiated an investigation of our compliance with program rules and requirements under certain USF programs. The request covers the period beginning January 1, 2004 through August 31, 2008, and relates to amounts received by Alaska DigiTel and its affiliates during that period. Alaska DigiTel was an Alaska based wireless communications company of which we acquired an 81.9% equity interest on January 2, 2007 and the remaining 18.1% equity interest on August 18, 2008 and subsequently dissolved in April 2009. Prior to August 18, 2008, our control over the operations of Alaska DigiTel was limited as required by the FCC upon its approval of our initial acquisition completed in January 2007. This request has not had a material impact on our statement of operations, financial position

or cash flows but given the preliminary nature of this request we are unable to assess the ultimate resolution of this matter.

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The annual shareholders meeting of GCI was held on June 29, 2009.
- (b) Not applicable.
- (c) The matters voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, are as follows:

Description of Matter	For	Against	Withheld	Abstentions	Broker Nonvotes
1. Election of Directors:					
Stephen M. Brett	74,642,474	3,001,513	----	----	---
Ronald A. Duncan	76,581,216	1,062,771	----	----	---
Stephen R. Mooney	60,223,278	17,420,709	----	----	---
Mark W. Kroloff	76,733,827	910,160	----	----	---
2. Approving certain amendments to our Amended and Restated 1986 Stock Option Plan to approve a one-time offer of exchange of certain options.					
	For	Against	Withheld	Abstentions	Broker Nonvotes
	45,832,525	25,590,579	---	993,160	5,227,723

The minutes of the June 23, 2008 shareholders meeting of GCI were unanimously approved.

- (d) Not applicable

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by our President and Director
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by our Senior Vice President, Chief Financial Officer, Secretary and Treasurer
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by our President and Director
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by our Senior Vice President, Chief Financial Officer, Secretary and Treasurer

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>August 7, 2009</u>
<u>/s/ John M. Lowber</u> John M. Lowber	Senior Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer)	<u>August 7, 2009</u>
<u>/s/ Lynda L. Tarbath</u> Lynda L. Tarbath	Vice President, Chief Accounting Officer (Principal Accounting Officer)	<u>August 7, 2009</u>