

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 2)

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

For the fiscal year ended December 31, 2003

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)

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

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

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

Class A common stock
(Title of class)

Class B common stock
(Title of class)

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 X No .

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

Indicate by check mark whether the registrant is an accelerated filer. Yes X No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average bid and asked prices of such stock as of the close of trading on as of the last business day of the registrant's most recently completed second fiscal quarter of June 30, 2003 was approximately \$335,357,000.

The number of shares outstanding of the registrant's common stock as of February 24, 2004, was:

Class A common stock - 53,271,720 shares; and,
Class B common stock - 3,865,580 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, in connection with the Annual Meeting of Stockholders of the registrant to be held on June 10, 2004 are incorporated by reference into Part III of this report.

filed with the SEC on March 12, 2004. Amendment No. 1 was filed with the SEC on December 21, 2004. The purpose of this Amendment No. 2 is to provide an updated Exhibit 32, Section 906 Certification. There are no other changes made by this Amendment No. 2.

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GENERAL COMMUNICATION, INC.

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This Annual Report on Form 10-K/A is for the year ending December 31, 2003. This Annual Report modifies and supersedes documents filed prior to this Annual Report. The Securities and Exchange Commission ("SEC") allows us to "incorporate by reference" information that we file with them, which means that we can disclose important information to you by referring you directly to those documents. Information incorporated by reference is considered to be part of this Annual Report. In addition, information that we file with the SEC in the future will automatically update and supersede information contained in this Annual Report.

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Glossary

Access Charges -- Expenses incurred by an IXC and paid to LECs for accessing the local networks of the LECs in order to originate and terminate long-distance calls and provide the customer connection for Private Line services.

ACS -- Alaska Communications Systems Group, Inc., previously ALEC Holdings, Inc. -- ACS, one of our competitors, includes acquired properties from Century Telephone Enterprises, Inc. and the Anchorage Telephone Utility ("ATU"). ATU provided local telephone and long distance services primarily in Anchorage and cellular telephone services in Anchorage and other Alaska markets.

Alaska United or AULP -- Alaska United Fiber System Partnership -- an Alaska partnership, indirectly wholly owned by the Company. Alaska United was organized to construct and operate fiber optic cable systems connecting various locations in Alaska and the Lower 49 States and foreign countries through Seattle, Washington.

AT&T -- AT&T Corp. -- A long distance carrier, parent company to AT&T Alascom.

AT&T Alascom -- Alascom, Inc. -- A wholly owned subsidiary of AT&T and one of our competitors.

AULP East -- An undersea fiber optic cable system connecting Whittier, Valdez and Juneau, Alaska and Seattle, Washington, which was placed into service in February 1999.

AULP West -- A new undersea fiber optic cable system under construction connecting Seward, Alaska to Warrenton, Oregon with a scheduled ready for service date of April 30, 2004.

Basic Service -- The basic service tier includes, at a minimum, signals of local television broadcast stations, any public, educational, and governmental programming required by the franchise to be carried on the basic tier, and any additional video programming service added to the basic tier by the cable operator.

BOC -- Bell System Operating Company -- A LEC owned by any of the remaining Regional Bell Operating Companies, which are holding companies established following the AT&T Divestiture Decree to serve as parent companies for the BOCs.

Backbone -- A centralized high-speed network that interconnects smaller, independent networks.

Bandwidth -- A range or band of the frequency spectrum, measured in Hertz (Hz). It has become vogue, though strictly a misuse of the term, to say bandwidth is the number of bits of data per second that can move through a communications medium.

Broadband -- A high-capacity communications circuit/path, usually implying speeds of 256 kilobits per second ("kbps") or better.

CAP -- Competitive Access Provider -- A company that provides its customers with an alternative to the LEC for local transport of Private Line and special access communications services.

Central Offices -- The switching centers or central switching facilities of the LECs.

CLEC -- Competitive Local Exchange Carrier -- A company that provides its

customers with an alternative to the ILEC for local transport of communications services, as allowed under the 1996 Telecom Act.

Co-Carrier Status -- A regulatory scheme under which the ILEC is required to integrate new, competing providers of local exchange service, into the systems of traffic exchange, inter-carrier compensation, and other inter-carrier relationships that already exist among LECs in most jurisdictions.

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Collocation -- The ability of a CAP or CLEC to connect its network to the LEC's central offices. Physical collocation occurs when a connecting carrier places its network connection equipment inside the LEC's central offices. Virtual collocation is an alternative to physical collocation pursuant to which the LEC permits a CAP or CLEC to connect its network to the LEC's central offices on comparable terms, even though the CAP's or CLEC's network connection equipment is not physically located inside the central offices.

The Company -- GCI and its direct and indirect subsidiaries, also referred to as "we," "us" and "our."

Compression or Decompression -- A method of encoding, decoding and processing signals that allows transmission (or storage) of more information than the medium would otherwise be able to support. Both compression and decompression require processing capacity, but with many products, the signal delay time due to processing is not noticeable.

DAMA -- Demand Assigned Multiple Access -- The Company's digital satellite earth station technology that allows calls to be made between remote villages using only one satellite hop thereby reducing satellite delay and capacity requirements while improving quality.

Dark Fiber -- An inactive fiber-optic strand without electronics or optronics. Dark fiber is not connected to transmitters, receivers and regenerators.

DBS -- Direct Broadcast Satellite -- Subscription television service obtained from satellite transmissions using frequency bands that are internationally allocated to the broadcast satellite services. Direct-to-home service such as DBS has its origins in the large direct-to-home satellite antennas that were first introduced in the 1970's for the reception of video programming transmitted via satellite. Because these first-generation direct-to-home satellites operated in the C-band frequencies at low power, direct-to-home satellite antennas, or dishes, as they are also known, generally needed to be seven to ten feet in diameter in order to receive the signals being transmitted. More recently, licensees have been using the Ku and extended Ku-bands to provide direct-to-home services enabling subscribers to use a receiving home satellite parabolic dish typically less than one meter in diameter. The major providers of DBS are currently DirectTV and EchoStar (marketed as the DISH Network).

DS-0 -- A data communications circuit that carries data at the rate of 64 kbps.

DS-1 -- A data communications circuit that carries data at the rate of 1.544 Megabits per second (Mb/s), often interchangeably referred to as a T-1.

DS-3 -- A data communications circuit that is equivalent to 28 multiplexed T-1 channels capable of transmitting data at 44.736 Mbps (sometimes called a T-3).

Dedicated -- Communications lines dedicated or reserved for use by particular customers.

Digital -- A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of these pulses to represent information as opposed to the continuously variable analog signal. Digital transmission is advantageous in that it is more resistant to the signal degrading effects of noise (such as graininess or snow in the case of video transmission, or static or other background distortion in the case of audio transmission).

DLC -- Digital Loop Carrier -- A digital transmission system designed for subscriber loop plant. Multiplexes a plurality of circuits onto very few wires or onto a single fiber pair.

DLPS -- Digital Local Phone Service -- A term we use referring to our deployment of voice telephone service utilizing our hybrid-fiber coax cable facilities.

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DOCSIS 1.1 -- Data-Over-Cable Service Interface Specification 1.1 -- An industry specification that provides for high-speed Internet service tiers, using techniques known as data fragmentation and quality of service. Under this specification, which is compatible with the existing DOCSIS 1.0 specification, cable operators can deliver high-speed Internet services simultaneously over the same plant and in a path parallel to core video services.

DSL -- Digital Subscriber Line -- Technology that allows Internet access and other high-speed data services at data transmission speeds greater than those of

modems over conventional telephone lines.

Equal Access -- Connection provided by a LEC permitting a customer to be automatically connected to the IXC of the customer's choice when the customer dials "1". Also refers to a generic concept under which the BOCs must provide access services to AT&T's competitors that are equivalent to those provided to AT&T.

FCC -- Federal Communications Commission -- A federal regulatory body empowered to establish and enforce rules and regulations governing public utility companies and others, such as the Company.

Frame Relay -- A wideband (64 kilobits per second to 1.544 Mbps) packet-based data interface standard that transmits bursts of data over WANs. Frame-relay packets vary in length from 7 to 1024 bytes. Data oriented, it is generally not used for voice or video.

FTC -- Federal Trade Commission -- A federal regulatory body empowered to establish and enforce rules and regulations governing companies involved in trade and commerce.

GCC -- GCI Communication Corp. -- An Alaska corporation and a wholly owned subsidiary of Holdings.

GCI -- General Communication, Inc. -- An Alaska corporation and the Registrant.

GCI, Inc. -- A wholly owned subsidiary of GCI, an Alaska corporation and issuer of \$180 million of senior notes (increased to \$250 million in the first quarter of 2004).

GFCC -- GCI Fiber Communication Co., Inc. -- An Alaska corporation and a wholly owned subsidiary of Holdings. Holdings acquired all minority ownership interests in GFCC in the third and fourth quarters of 2002. GFCC owns and operates a fiber optic cable system constructed along the trans-Alaska oil pipeline corridor extending from Prudhoe Bay to Valdez, Alaska. See Kanas.

Holdings -- GCI Holdings, Inc. -- A wholly owned subsidiary of GCI, Inc., an Alaska corporation and party to the Company's Senior Credit Facility.

HDTV -- High-Definition Television -- A digital television format delivering theater-quality pictures and CD-quality sound. HDTV offers an increase in picture quality by providing up to 1,920 active horizontal pixels by 1,080 active scanning lines, representing an image resolution of more than two million pixels. In addition to providing improved picture quality with more visible detail, HDTV offers a wide screen format and Dolby(R) Digital 5.1 surround sound.

ILEC -- Incumbent Local Exchange Carrier -- With respect to an area, the LEC that -- (A) on the date of enactment of the Telecommunications Act of 1996, provided telephone exchange service in such area; and (B) (i) on such date of enactment, was deemed to be a member of the exchange carrier association pursuant to section 69.601(b) of the FCC's regulations (47 C.F.R. 69.601(b)); or (ii) is a person or entity that, on or after such date of enactment, became a successor or assign of a member described in clause (i).

Interexchange -- Communication between two different LATAs or, in Alaska, between two different local exchange serving areas.

IP -- Internet Protocol -- The method or protocol by which data is sent from one computer to another on the Internet. Each computer (known as a host) on the Internet has at least one IP address that uniquely identifies it from all other computers on the Internet.

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ISDN -- Integrated Services Digital Network -- A set of standards for transmission of simultaneous voice, data and video information over fewer channels than would otherwise be needed, through the use of out-of-band signaling. The most common ISDN system provides one data and two voice circuits over a traditional copper wire pair, but can represent as many as 30 channels. Broadband ISDN extends the ISDN capabilities to services in the Gigabit per second range.

ISP -- Internet Service Provider -- A company providing retail and/or wholesale Internet services.

Internet -- A global collection of interconnected computer networks which use TCP/IP, a common communications protocol.

IXC -- Interexchange Carrier -- A long-distance carrier providing services between local exchanges.

Kanas -- Kanas Telecom, Inc. -- An Alaska corporation that was renamed GFCC in 2001.

LAN -- Local Area Network -- The interconnection of computers for sharing files,

programs and various devices such as printers and high-speed modems. LANs may include dedicated computers or file servers that provide a centralized source of shared files and programs.

LATA -- Local Access and Transport Area -- The approximately 200 geographic areas defined pursuant to the AT&T Divestiture Decree. The BOCs were historically prohibited from providing long-distance service between the LATA in which they provide local exchange services, and any other LATA.

LEC -- Local Exchange Carrier -- A company providing local telephone services. Each BOC is a LEC.

LMDS -- Local Multipoint Distribution System -- LMDS uses microwave signals (millimeterwave signals) in the 28 GHz spectrum to transmit voice, video, and data signals within small cells 3-10 miles in diameter. LMDS allows license holders to control up to 1.3 GHz of wireless spectrum in the 28 GHz Ka-band. The 1.3 GHz can be used to carry digital data at speeds in excess of one gigabit per second. The extremely high frequency used and the need for point to multipoint transmissions limits the distance that a receiver can be from a transmitter. This means that LMDS will be a "cellular" technology, based on multiple, contiguous, or overlapping cells. LMDS is expected to provide customers with multichannel video programming, telephony, video communications, and two-way data services. ILECs and cable companies may not obtain the in-region 1150 MHz license for three years following the date of the license grant. Within 10 years following the date of the license grant, licensees will be required to provide 'substantial service' in their service regions.

Local Exchange -- A geographic area generally determined by a PUC, in which calls generally are transmitted without toll charges to the calling or called party.

Local Number Portability -- The ability of an end user to change Local Exchange Carriers while retaining the same telephone number.

Lower 48 States or Lower 48 -- Refers to the 48 contiguous states south of or below Alaska.

Lower 49 States or Lower 49 -- Refers to Hawaii and the Lower 48 States.

MAN -- Metropolitan Area Network -- LANs interconnected within roughly a 50-mile radius. MANs typically use fiber optic cable to connect various wire LANs. Transmission speeds may vary from 2 to 100 Mbps.

Mat-Su Valley -- The Matanuska and Susitna valleys are located in south-central Alaska, to the north of Anchorage, and include the communities of Palmer and Wasilla and the immediately surrounding areas.

MDU -- Multiple Dwelling Unit -- MDUs include multiple-family buildings, such as apartment and condominium complexes.

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MMDS -- Multichannel Multipoint Distribution Service -- Also known as wireless cable. The FCC established the Multipoint Distribution Service (MDS) in 1972. Originally, the FCC thought MDS would be used primarily to transmit business data. However, the service became increasingly popular in transmitting entertainment programming. Unlike conventional broadcast stations whose transmissions are received universally, MDS programming is designed to reach only a subscriber based audience. In 1983, the FCC reassigned eight channels from the Instructional Television Fixed Service (ITFS) to MDS. These eight channels make up the MMDS. Frequently, MDS and MMDS channels are used in combination with ITFS channels to provide video entertainment programming to subscribers.

MVPD -- Multi-channel Video Programming Distribution -- The distribution of video programming over multiple platforms, such as cable and satellite.

MWNS -- MCI WorldCom Network Services -- A subsidiary of WorldCom, which had previously entered into service agreements with the Company on behalf of WorldCom.

Notes -- \$250 million, 7.25% Senior Notes, due February 15, 2014 -- GCI, Inc. issued \$250 million in notes during the first quarter of 2004. The Notes are senior unsecured and unsubordinated obligations and rank equally with all of GCI's existing and future senior unsecured debts. The Notes pay interest on a semi-annual basis.

OCC -- Other Common Carrier -- A long-distance carrier other than the Company.

OC-n -- An optical communications circuit that optically signals at a data rate of n times 51.84 Mbps, where n can be 1, 3, 12, 24, 48, 96, or 192.

Pay-per-view -- Offering television broadcasts to viewers in a manner whereby they pay only for the programs they watch rather than having to subscribe to the whole channel or station on a full-time basis.

PCS -- Personal Communication Services -- PCS encompasses a range of advanced wireless mobile technologies and services. It promises to permit communications to anyone, anywhere and anytime while on the move. The Cellular Telecommunications Industry Association (CTIA) defines PCS as a "wide range of wireless mobile technologies, chiefly cellular, paging, cordless, voice, personal communications networks, mobile data, wireless PBX, specialized mobile radio, and satellite-based systems." The FCC defines PCS as a "family of mobile or portable radio communications services that encompasses mobile and ancillary fixed communications services to individuals and businesses and can be integrated with a variety of competing networks."

PBX -- Private Branch Exchange -- A customer premise communication switch used to connect customer telephones (and related equipment) to LEC central office lines (trunks), and to switch internal calls within the customer's telephone system. Modern PBXs offer numerous software-controlled features such as call forwarding and call pickup. A PBX uses technology similar to that used by a central office switch (on a smaller scale). (The acronym PBX originally stood for "Plug Board Exchange.")

POP -- Point of Presence -- The physical access location interface between a LEC and an IXC network. The point to which the telephone company terminates a subscriber's circuit for long-distance service or leased line communications.

PRI -- Primary Rate Interface -- An ISDN circuit transmitting at T-1 (DS-1) speed (equivalent to 24 voice-grade channels). One of the channels ("D") is used for signaling, leaving 23 ("B") channels for data and voice communication.

Private Line -- Uses dedicated circuits to connect customer's equipment at both ends of the line. Does not provide any switching capability (unless supported by customer premise equipment). Usually includes two local loops and an IXC circuit.

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Private Network -- A communications network with restricted (controlled) access usually made up of Private Lines (with some PBX switching).

RCA -- Regulatory Commission of Alaska -- A state regulatory body empowered to establish and enforce rules and regulations governing public utility companies and others, such as the Company, within the State of Alaska (sometimes referred to as Public Service Commissions, or PSCs, or Public Utility Commissions, or PUCs). Previously known as the Alaska Public Utilities Commission (APUC).

Reciprocal Compensation -- The same compensation of a CLEC for termination of a local call by the ILEC on its network, as the new competitor pays the ILEC for termination of local calls on the ILEC network.

Rogers -- Rogers American Cablesystems, Inc -- A cable television service provider in Palmer and Wasilla, Alaska, that we acquired in 2001.

SchoolAccess(TM) -- The Company's Internet and related services offering to schools in Alaska, and some sites in Arizona, Montana and New Mexico. The federal mandate through the 1996 Telecom Act to provide universal service resulted in schools across Alaska qualifying for varying levels of discounts to support the provision of Internet services. The Universal Service Administrative Company through its Schools and Libraries Division administers this federal program.

SDN -- Software Defined Network -- A switched long-distance service for very large users with multiple locations. Instead of putting together their own network, large users can get special usage rates for calls carried on regular switched long-distance lines.

Securities Reform Act -- The Private Securities Litigation Reform Act of 1995.

Senior Credit Facility -- Holding's \$220.0 million credit facility. On October 30, 2003 we closed a \$220.0 million bank facility to refinance the previously outstanding Holding's credit facility. The new Senior Credit Facility includes a term loan of \$170.0 million and a revolving credit facility of \$50.0 million. The new Senior Credit Facility matures on October 31, 2007 and bears interest at LIBOR plus 3.25%. You should see note 8 to the accompanying "Notes to Consolidated Financial Statements" included in Part II of this Report for more information.

SMATV -- Satellite Master Antenna Television -- (Also known as "private cable systems") are multichannel video programming distribution systems that serve residential, multiple-dwelling units ("MDUs"), and various other buildings and complexes. A SMATV system typically offers the same type of programming as a cable system, and the operation of a SMATV system largely resembles that of a cable system -- a satellite dish receives the programming signals, equipment processes the signals, and wires distribute the programming to individual dwelling units. The primary difference between the two is that a SMATV system typically is an unfranchised, stand-alone system that serves a single building or complex, or a small number of buildings or complexes in relatively close proximity to each other.

SONET -- Synchronous Optical Network -- A 1984 standard for optical fiber transmission on the public network. 51.84 Mbps to 9.95 Gigabits per second, effective for ISDN services including asynchronous transfer mode.

Sprint -- Sprint Corporation -- One of our significant customers.

T-1 -- A data communications circuit capable of transmitting data at 1.5 Mbps.

Tariff -- The schedule of rates and regulations set by communications common carriers and filed with the appropriate federal and state regulatory agencies; the published official list of charges, terms and conditions governing provision of a specific communications service or facility, which functions in lieu of a contract between the subscriber or user and the supplier or carrier.

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TCP/IP -- Transmission Control Protocol/Internet Protocol -- A suite of network protocols that allows computers with different architectures and operating system software to communicate with other computers on the Internet.

TDM -- Time Division Multiplex -- A means by which multiple signals are combined and carried on one transport medium by sequentially sharing the medium in slices of time (time slots) for each of the various signals.

UNE -- Unbundled Network Element -- A discrete piece part of a telephone network. Unbundled network elements are the basic network functions, i.e., the piece parts needed to provide a full range of communications services. They are physical facilities as well as all the features and capabilities provided by those facilities.

VSAT -- Very Small Aperture Terminal -- A small, sometimes portable satellite terminal that allows connection via a satellite link.

WAN -- Wide Area Network -- A remote computer communications system. WANs allow file sharing among geographically distributed workgroups (typically at higher cost and slower speed than LANs or MANs). WANs typically use common carriers' circuits and networks. WANs may serve as a customized communication backbone that interconnects all of an organization's local networks with communications trunks that are designed to be appropriate for anticipated communication rates and volumes between nodes.

World Wide Web or Web -- A collection of computer systems supporting a communications protocol that permits multi-media presentation of information over the Internet.

WorldCom -- WorldCom, Inc., d/b/a MCI ("MCI") -- Owns approximately 9% of our common stock, presently has one representative on our Board, and is a major customer. Prior to May 1, 2000, the company was named MCI WorldCom, Inc. See also MWNS. On July 21, 2002 WorldCom and substantially all of its active United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court. You should see note 15 to the accompanying "Notes to Consolidated Financial Statements" included in Part II of this Report for more information.

1984 Cable Act -- The Cable Communications Policy Act of 1984.

1992 Cable Act -- The Cable Television Consumer Protection and Competition Act of 1992.

1996 Telecom Act -- The Telecommunications Act of 1996 -- The 1996 Telecom Act was signed into law February 8, 1996. Under its provisions, BOCs were allowed to immediately begin manufacturing, research and development; GTE Corp. could begin providing interexchange services through its telephone companies nationwide; laws in 27 states that foreclosed competition were pre-empted; co-carrier status for CLECs was ratified; and the physical collocation of competitors' facilities in LECs central offices was allowed.

The purpose of the 1996 Telecom Act was to move from a regulated monopoly model of telecommunications to a deregulatory competitive markets model. The act breaks down the old barriers that prevented three groups of companies, the LECs, including the BOCs, the long-distance carriers, and the cable TV operators, from competing head-to-head with each other. The act requires LECs to let new competitors into their business. It also requires the LECs to open up their networks to ensure that new market entrants have a fair chance of competing. The bulk of the act is devoted to establishing the terms under which the LECs, and more specifically the BOCs, must open up their networks.

The 1996 Telecom Act substantially changed the competitive and regulatory environment for telecommunications providers by significantly amending the Communications Act of 1934 including certain of the rate regulation provisions previously imposed by the Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Cable Act"). The 1996 Telecom Act eliminated rate regulation of the

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cable programming service tier in 1999. Further, the regulatory environment will

continue to change pending, among other things, the outcome of legal challenges, legislative activity, and FCC rulemaking and enforcement activity in respect of the 1992 Cable Act and the completion of a significant number of continuing FCC rulemakings under the 1996 Telecom Act.

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Cautionary Statement Regarding Forward-Looking Statements

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

- o Material adverse changes in the economic conditions in the markets we serve and in general economic conditions, including the continuing impact of the current depressed communications industry due to high levels of competition in the long-distance market resulting in pressures to reduce prices, an oversupply of long-haul capacity, excessive debt loads; several high-profile company failures and potentially fraudulent accounting practices by some companies;
- o The efficacy of laws enacted by Congress and the State of Alaska legislature; rules and regulations to be adopted by the Federal Communications Commission ("FCC") and state public regulatory agencies to implement the provisions of the 1996 Telecom Act; the outcome of litigation relative thereto; and the impact of regulatory changes relating to access reform;
- o Our responses to competitive products, services and pricing, including pricing pressures, technological developments, alternative routing developments, and the ability to offer combined service packages that include long-distance, local, cable and Internet services;
- o The extent and pace at which different competitive environments develop for each segment of our business;
- o The extent and duration for which competitors from each segment of the communications industries are able to offer combined or full service packages prior to our being able to do so;
- o The degree to which we experience material competitive impacts to our traditional service offerings prior to achieving adequate local service entry;
- o Competitor responses to our products and services and overall market acceptance of such products and services;
- o The outcome of our negotiations with ILECs and state regulatory arbitrations and approvals with respect to interconnection agreements;
- o Our ability to purchase network elements or wholesale services from ILECs at a price sufficient to permit the profitable offering of local telephone service at competitive rates;
- o Success and market acceptance for new initiatives, many of which are untested;
- o The level and timing of the growth and profitability of existing and new initiatives, particularly yellow page directories, local telephone services expansion including deploying digital local telephone service, Internet services expansion and wireless services;
- o Start-up costs associated with entering new markets, including advertising and promotional efforts;
- o Risks relating to the operations of new systems and technologies and applications to support new initiatives;
- o Local conditions and obstacles;
- o The impact on our industry and indirectly on us of oversupply of capacity resulting from excessive deployment of network capacity in certain markets we do not serve;

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- o Uncertainties inherent in new business strategies, new product launches and development plans, including local telephone services, Internet services, wireless services, digital video services, cable modem services, digital subscriber line services, transmission services, and yellow page directories, and the offering of these services in geographic areas with which we are unfamiliar;
- o The risks associated with technological requirements, technology

- substitution and changes and other technological developments;
- o Prolonged service interruptions which could affect our business;
- o Development and financing of communications, local telephone, wireless, Internet and cable networks and services;
- o Future financial performance, including the availability, terms and deployment of capital; the impact of regulatory and competitive developments on capital outlays, and the ability to achieve cost savings and realize productivity improvements and the consequences of increased leverage;
- o Availability of qualified personnel;
- o Changes in, or failure, or inability, to comply with, government regulations, including, without limitation, regulations of the FCC, the RCA, and adverse outcomes from regulatory proceedings;
- o Changes in regulations governing UNEs;
- o Uncertainties in federal military spending levels and military base closures in markets in which we operate;
- o The ongoing global and domestic trend towards consolidation in the communications industry, which may result in our competitors being larger and better financed, and provide these competitors with extensive resources and greater geographic reach, allowing them to compete more effectively;
- o The financial, credit and economic impacts of the MCI bankruptcy filing on the industry in general and on us in particular;
- o A significant delay in MCI's emergence from bankruptcy or a migration of MCI's traffic off our network without it being replaced by other common carriers that interconnect with our network;
- o The effect on us of pricing pressures, new program offerings and market consolidation in the markets served by our significant customers, MCI and Sprint;
- o The effect on us of industry consolidation including the potential acquisition of one or more of our large wholesale customers by a company with commercial relationships with other providers;
- o Under Statement of Financial Accounting Standard ("SFAS") 142, we must test our intangibles for impairment at least annually, which may result in a material, non-cash write-down of goodwill and could have a material adverse impact on our financial position, results of operations or liquidity; and
- o Other risks detailed from time to time in our periodic reports filed with the SEC.

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

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Part I

Item 1. Business

General

In this Annual Report, "we," "us" and "our" refer to General Communication, Inc. and its direct and indirect subsidiaries.

GCI was incorporated in 1979 under the laws of the State of Alaska and has its principal executive offices at 2550 Denali Street, Suite 1000, Anchorage, AK 99503-2781 (telephone number 907-868-5600).

GCI is primarily a holding company and together with its direct and indirect subsidiaries, is a diversified communications provider with a leading position in facilities-based long-distance service in the State of Alaska and is Alaska's leading cable television and Internet services provider.

We are the leading integrated, facilities-based communications provider in Alaska, offering local and long-distance voice, cable video, data and Internet communications services to residential and business customers under our GCI brand. A substantial number of our customers subscribe to product bundles that include two or more of our services.

Since our founding, we have consistently expanded our product portfolio to satisfy our customers' needs. We have benefited from the attractive and unique demographic and economic characteristics of the Alaskan market. We are pioneers of bundled communications services offerings, and believe our integrated strategy of providing innovative bundles of voice, video and data services provides us with an advantage over our competitors and will allow us to continue to attract new customers, retain existing customers and expand our addressable

market. We hold leading market shares in long-distance, cable video and Internet services and have gained significant market share in local access against the incumbent provider.

Through our focus on long-term results and strategic capital investments, we have consistently grown our revenues and expanded our margins. Our integrated strategy provides us with competitive advantages in addressing the challenges of converging telephony, video and broadband markets and has been a key driver of our success. Using our extensive communications networks, we provide customers with integrated communications services packages that we believe are unmatched by any other competitor in Alaska.

Availability of Reports and Other Information

Internet users can access information about the Company and its services at <http://www.gci.com/>, <http://www.gcinetworksolutions.com/>, and <http://www.alaskaunited.com/>. The Company hosts Internet services at <http://www.gci.net/> and SchoolAccess(TM) services at <http://www.gcisa.net/>. We make available on the <http://www.gci.com/> website, free of charge, access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statement on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 as soon as reasonably practicable after we electronically submit such material to the SEC. In addition, the SEC's website is <http://www.sec.gov/>. The SEC makes available on this website, free of charge, reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the SEC. Information on our website or the SEC's website is not part of this document.

Financial Information About Industry Segments

We have four reportable segments: long-distance services, cable services, local access services and Internet services. For information required by this section, you should see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Also refer to Note 13 included in Part II, Item 8, Consolidated Financial Statements and Supplementary Data.

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Recent Developments

New Senior Notes -- In February 2004, our subsidiary, GCI, Inc. issued \$250 million principal amount of senior notes. These senior notes bear interest at 7.25% and are due in February 2014. GCI, Inc. intends to use the net proceeds from the issuance of these senior notes to retire or repay other indebtedness. In connection with the issuance of these senior notes, GCI, Inc. offered to purchase all of its outstanding 9.75% Senior Notes due 2007 (the "2007 Notes") for cash at 103.5% of the principal amount. Approximately \$114.6 million principal amount of the 2007 Notes were tendered and accepted pursuant to this offer. GCI, Inc. called for redemption of the remaining outstanding 2007 Notes at the redemption price of 103.25% of the principal amount. In addition to the purchase and redemption of the 2007 Notes, approximately \$53.8 million of proceeds received from the issuance of the new senior notes were used to repay indebtedness under our Senior Credit Facility.

Senior Credit Facility Waiver -- Compliance with the redemption notice requirements in the 2007 Notes Indenture has resulted in a delay of up to sixty days between the date the new senior notes were issued and the final redemption date of the 2007 Notes. As a result of such delay, our total debt will temporarily increase during the overlap period between the redemption of the outstanding 2007 Notes and the issuance of the new senior notes. This temporary increase does not comply with certain provisions of our Senior Credit Facility. We have received a waiver of these provisions from the lenders under our Senior Credit Facility until April 30, 2004.

Fiber System Taken out of Service -- We own a portion of the capacity of an undersea fiber optic cable system linking Alaska to the Lower 48 states known as the Alaska spur of the North Pacific Cable ("NPC"). The Alaska spur of the NPC was removed from service in January 2004 by PT Cable, Inc. due to a dispute over billings between PT Cable, Inc. and AT&T. We determined that the recorded value for our NPC fiber asset was impaired at December 31, 2003 and recorded a \$5.4 million charge in the fourth quarter in the financial statements included in Part II of this report.

Free Cable Modem Service -- On January 26, 2004, we began offering new and current customers free LiteSpeed cable modem Internet service when they sign up for certain of our other services. LiteSpeed uses cable modems and is designed for dial-up Internet access customers who want more Internet download speed and greater convenience. Cable modems transmit data reliably at a much faster rate than dial-up connections and do not tie up the telephone line. Our cable modem service is available to a high percentage of Alaska homes in Anchorage, Bethel, Cordova, Fairbanks, Homer, Juneau, Kenai, Ketchikan, Kodiak, Nome, Palmer, Petersburg, Seward, Sitka, Soldotna, Valdez, Wasilla, and Wrangell.

Alaska Supreme Court Decision -- ACS, through subsidiary companies, provides local telephone services in Fairbanks and Juneau, Alaska. The ACS subsidiaries

are classified as Rural Telephone Companies under the 1996 Telecom Act, which entitles them to an exemption of certain material interconnection terms of the 1996 Telecom Act, until and unless such "rural exemption" is examined and not continued by the RCA. On October 11, 1999, the RCA issued an order terminating rural exemptions for the ILECs operating in the Fairbanks and Juneau markets so that we could compete with these companies in the provision of local telephone service. Upon appeal by ACS, on December 12, 2003, the Alaska Supreme Court issued a decision in which it reversed the RCA's rural exemption decision on the procedural ground that the competitor, not the incumbent, must shoulder the burden of proof. The Court remanded the matter to the RCA for reconsideration with the burden of proof assigned to us. Additionally, the Court left it to the RCA to decide as a matter of discretion whether to change the state of competition during the remand period. In accordance with the Court's ruling, the RCA has re-opened the rural exemption dockets and scheduled a hearing to commence on April 19, 2004. Additionally, the RCA issued a ruling on January 16, 2004, in which the RCA determined that we can continue to rely on unbundled network elements from ACS to serve its existing customers in Juneau and Fairbanks but that we may not serve new customers through purchase of unbundled network elements pending the completion of the remand proceeding. Until this matter is resolved, we may serve new customers using wholesale resale. We believe it is unlikely that the rural exemptions will be restored in these markets; however, if they are restored, we could be forced to discontinue providing service to residential customers and perhaps to

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commercial customers in these locations. See "Part I -- Item 1 -- Business -- Regulation, Franchise Authorizations and Tariffs -- Communications Operations -- Rural Exemption" for more information.

Historical Development of our Business During the Past Fiscal Year

Rural Internet -- We began a program in 2001 to bring affordable Internet access service to 150 rural Alaska communities. In addition to deploying cable modem service in all regional centers, we deployed wireless Internet access service, including service at broadband data rates, to over 70 rural communities in 2003. We now provide Internet access service to 85 communities across Alaska and expect to provide service in the remaining communities in 2004.

Rural Health Program -- We completed service expansion and delivery of our Rural Health program in 2003 to several rural Alaska health corporations that included various service levels to villages in the Arctic Slope Native Association area, as well as in Chenega Bay, Kotzebue, Nanwalek, Platinum, Port Graham, Seward, and Tatitlek, and completed service expansion to Diomed Island in January 2004.

Directory Assistance -- During the fourth quarter of 2003, we began self-providing interstate directory assistance for our retail customers, certain wholesale customers, and for MCI, as an overflow Alaska directory assistance provider.

Cable Television Changes -- We made significant changes and additions to our cable television lineup in 2003, including new networks and, in Anchorage, we introduced our first HDTV programming.

Hotel Broadband -- We introduced a new hotel broadband product in 2003 which provides high-speed in-room cable modem Internet access to hotel customers.

State of Alaska Microwave System Contract -- On December 31, 2003, we were awarded a time-and-materials contract from the State of Alaska to operate and maintain their statewide private microwave system.

State of Alaska Communications Contract -- On December 17, 2003, we were awarded a contract from the State of Alaska to provide communications services for an initial term of 18 months, with two 12-month extensions possible thereafter. Communications services include long-distance, IP telephony, voice and data network management and maintenance, Internet, audio and video conferencing and help desk. The total value of the contract was approximately \$10 million. This contract award followed the termination of the State of Alaska's prior contract with an ILEC due to non-performance.

Pipeline Communications -- In December 2003, we successfully concluded a three-year effort to upgrade our GFCC network and prove the system reliable. The final stage of reliability testing and circuit conversion was completed, bringing voice, data, Internet and cable television traffic onto the fiber system serving the Alaskan oil industry. GFCC now carries a significant portion of all communications between Valdez, Anchorage and the North Slope oil fields.

New Phone Directory -- On November 24, 2003, we began distribution of the inaugural edition of the GCI Anchorage Directory and yellow pages to residential and business customers in Anchorage, and launched our on-line directory product. We worked with ALLTEL Publishing, a division of ALLTEL Corporation of Little Rock, Arkansas, to produce and distribute the official GCI Anchorage phone directory. ALLTEL Publishing produces approximately 408 directory titles in 38 states, including directories for its own telephone operations, and was formerly the sales agent for the incumbent directories provider.

New Retail Store -- On November 22, 2003, we opened a new retail store serving our south Anchorage market. The new store allows customers to pay their bills, sign up for new services and experience our full range of products including cable modem Internet access, digital cable television, local and long distance telephone service, and cellular phone services. The new store allows customers to purchase any of our services, pay bills and interact with customer service representatives.

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Senior Credit Facility -- On October 30, 2003, we refinanced our Senior Credit Facility. The new facility, among other things, reduced the interest rate from LIBOR plus 6.50% to LIBOR plus 3.25%. The new facility included a term loan of \$170.0 million and a revolving credit facility of \$50.0 million. In February, 2004, we repaid approximately \$43.8 million of the term loan, which cannot be reborrowed.

ConnectMD -- On September 16, 2003, we introduced ConnectMD, a private medical network that reaches clinics and hospitals in 110 rural Alaska communities and currently offers healthcare providers access to continuing education courses from two leading Seattle institutions. ConnectMD has partnered with Seattle-based Children's Hospital and Regional Medical Center (Children's) and Virginia Mason Medical Center. ConnectMD links primary healthcare providers in Alaska to specialists and sub-specialists allowing them to securely share information, such as confidential patient records and lab results, diagnose and prescribe treatment for patients located in remote communities, and obtain continuing medical education credits. Using Private Line and secure Internet, ConnectMD has created a private medical network that we believe is revolutionizing the way health care is provided in Alaska.

Airlines Mileage Program -- On September 2, 2003, we announced that we have become a mileage plan partner with Alaska Airlines, offering new and existing customers opportunities to earn frequent flyer miles. Our customers can earn Alaska Airlines mileage plan miles by using qualifying local or long distance telephone, Internet, cable television, cellular, GCI directories or cable advertising services. Our residential and small business customers can earn one mileage plan mile for every dollar spent on qualifying services. New customers enrolling in a combination of services can earn up to 10,000 miles and current customers are eligible for up to 7,500 bonus miles when adding or upgrading services. In addition customers can earn up to 500 anniversary miles every six months. The agreement requires the purchase of Alaska Airlines miles during the year ended December 31, 2003 and in future years. The agreement has a remaining commitment at December 31, 2003 totaling \$16.0 million.

New Communications Policy for Alaska Areas -- On August 6, 2003, the FCC issued a Report and Order eliminating a policy that prohibited the installation or operation of more than one satellite earth station in any Alaska rural community for competitive carriage of interstate message telephone service ("MTS") communications. The FCC found that through a series of regulatory steps, the environment that once called for restrictions on competitive facilities-based entry had changed. This policy change allows us to install facilities and provide competitive interstate MTS and other communications services over our own equipment and network in rural communities where we presently have no facilities.

Email Filter for Businesses -- On August 6, 2003, we introduced our eMail Guard for Business product. Email Guard is an email filter that puts business owners and employees in control of screening unwanted junk emails. We estimate that more than 75% of email delivered to businesses today is spam. Our eMail Guard product keeps unwanted messages off of the customer's network, Internet connection and mail servers. Our Email Guard residential and business products filtered approximately 31,000 messages containing suspected viruses and 1,991,000 messages containing suspected junk mail during a representative 24-hour period in February 2004.

MCI Settlement -- On July 24, 2003, following bankruptcy court approval, we signed a settlement and release agreement with MWNS. The agreement affirmed contractual terms and conditions between the two companies, settled MWNS' pre-petition liabilities, settled billing disputes between the two companies, and established a right to setoff our pre-petition payables. MWNS is a subsidiary of MCI, which had previously entered into service agreements with GCI on behalf of MCI.

Under terms of the agreement, MWNS settled its outstanding liability of \$12.9 million for \$12.1 million net of adjustments. In addition, the agreement reduced our pre-petition claim to \$12.1 million and further allowed us the right to setoff approximately \$1 million in prepetition payables owed by us to MWNS. MWNS agreed to pay the remaining \$11 million to us as a credit against our future purchase of services from MWNS. Further, we agreed to pay to MWNS, and did pay, the outstanding pre-petition payables balance of approximately \$649,000 in August 2003. Remaining credits available to us as of December 31, 2003 totaled approximately \$7.9 million.

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Extended Supply Contract -- On July 24, 2003 MCI extended its Contract of Alaska Access Services for five years to July 2008. This agreement sets the terms and

conditions under which we originate and terminate certain types of long distance and data services in Alaska on MCI's behalf. In exchange for extending the term of the contract, MCI receives a series of rate reductions implemented in phases over the life of the contract.

AULP West -- On June 30, 2003, we announced our plan to build a second undersea fiber optic cable system between Seward, Alaska and Warrenton, Oregon. The cable will complement our existing AULP East fiber optic cable system between Whittier, Alaska and Seattle, Washington. The two systems will provide physically diverse nearly instant backup to each other in the event of an outage. Fiber production was completed in January 2004 and began to be deployed in February 2004. We expect to complete construction and testing in April 2004. The 1,544-statute mile cable has a total design capacity of 640 Gigabits per second access speed and is expected to be operational by May 2004.

RCA Renewal -- On May 21, 2003, the Senate of the State of Alaska passed and the Governor later signed House Bill 111 which extended the life of the RCA until 2007. We believe that renewal of the RCA is important for consumers and competition alike. The Alaska Senate voted to renew the Agency for four-years without any statutory changes that affect the manner by which utilities in Alaska are regulated.

Narrative Description of our Business

General

We are the largest Alaska-based and operated integrated communications provider. A pioneer in bundled service offerings, we provide facilities-based local and long distance voice, cable video, Internet and data communications services, and resell wireless telephone services, to residential and business customers under our GCI brand.

We generated consolidated revenues of \$390.8 million in 2003. We ended the year with approximately 85,600 long-distance customers, 106,100 local access lines in service, 134,400 basic cable subscribers, and 95,700 total Internet subscribers, including 46,000 cable modem subscribers. A substantial number of our customers subscribe to product bundles that include two or more of our services.

Since our founding in 1979, we have consistently expanded our product portfolio to satisfy our customers' needs. We have benefited from the attractive and unique demographic and economic characteristics of the Alaskan market. We believe our integrated strategy of providing innovative bundles of voice, video and data services provides us with an advantage over our competitors and will allow us to continue to attract new customers, retain existing customers and expand our addressable market. We hold leading market shares in long-distance, cable video and Internet services and have gained significant market share in local access against an incumbent provider.

Through our focus on long-term results and strategic capital investments, we have consistently grown our revenues and expanded our margins. Our integrated strategy provides us with competitive advantages in addressing the challenges of converging telephony, video and broadband markets and has been a key driver of our success. Today, using our extensive communications networks, we provide customers with integrated communications services packages that are unmatched by any other competitor in Alaska.

We operate a broadband communications network that permits the delivery of a seamless integrated bundle of communications, entertainment and information services. We offer a wide array of consumer and business communications and entertainment services--including local telephone, long-distance and wireless communications, cable television, consulting services, network and desktop computing outsourced services, and dial-up, broadband (cable modem, wireless and DSL) and dedicated Internet access services at a wide range of speeds--all under the GCI brand name.

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We believe that the size and growth potential of the voice, video and data market, the increasing deregulation of communications services, and the increased convergence of telephony, wireless, and cable services offer us considerable opportunities to continue to integrate our communications, Internet and cable services and expand into communications markets both within and, longer-term, possibly outside of Alaska.

Considerable deregulation has already taken place in the United States because of the 1996 Telecom Act with the barriers to competition between long-distance, local exchange and cable providers being lowered. We believe our acquisition of cable television systems and our development of local exchange service, Internet services, broadband services, and wireless services leave us well positioned to take advantage of deregulated markets.

We are Alaska's leading provider of long-distance, cable television and data and Internet services, as measured by revenues, and we are the second largest local access provider, as measured by local access lines. We attribute our leadership position to our commitment to provide our customers with high-quality products in bundled offerings that maximize their satisfaction. We maintain a strong

competitive position, however there is active competition in the sale of substantially all products and services we offer.

Competition in the Communications Industry

There is substantial competition in the communications industry. The traditional dividing lines between providers offering long-distance telephone service, local telephone service, wireless telephone service, Internet services and video services are increasingly becoming blurred. Through mergers and various service integration and product bundling strategies, major providers, including us, are striving to provide integrated communications service offerings within and across geographic markets.

Competitive Strengths

Market Leader. We are Alaska's leading provider of long-distance, cable television and data and Internet services, as measured by revenues, and we are the second largest local access provider, as measured by local access lines. We attribute our leadership position to our commitment to provide our customers with high-quality products in bundled offerings that maximize their satisfaction.

Advanced Infrastructure and Robust Network Assets. We own and operate advanced networks that provide integrated end-to-end solutions. Our hybrid-fiber coax cable network enables us to offer last-mile broadband connectivity to our customers. Our interstate and undersea fiber optic cable systems connect our major markets in Alaska to the Lower 48 States. We employ satellite transmission for rural intrastate and interstate traffic in markets where terrestrial based network alternatives are not available. We have or expect to be able to obtain satellite transponders to meet our long-term satellite capacity requirements. In our local service markets, we offer services using our own facilities, unbundled network elements and wholesale/resale.

Bundled Service Offerings. Ownership and control of our network and communications assets have enabled us to effectively market bundled service offerings. Bundling facilitates the integration of operations and administrative support to meet the needs of our customers. Our product and service portfolio includes stand-alone offerings and bundled combinations of local and long-distance voice and data services, cable video, broadband (cable modem, fixed wireless and DSL), dedicated Internet access services and other services.

Well-Recognized Brand Name. Our GCI brand is the oldest brand among major communications providers in Alaska and positively differentiates our services from those of our competitors. We believe our customers associate our brand name with quality products. We continue to benefit from high name recognition and strong customer loyalty, and the majority of our customers purchase multiple services from us. We have been successful in selling new and enhanced products to our customers based on perceived quality of products and brand recognition.

Favorable Alaskan Market Dynamics. The Alaskan communications market is characterized by its large geographic size and isolated markets that include a combination of major metropolitan areas and small,

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dense population clusters, which create a deterrent to potential new entrants. Due to the remote nature of its communities, the state's residents and businesses rely extensively on our systems to meet their communications needs. We believe that, when compared to national averages, Alaskan households spend more on communications services. According to the United States Census Bureau, the median household income in Alaska was 28% higher than the three-year United States national average from 2000 to 2002, and according to the Alaska Department of Revenue, in 2002, federal spending in Alaska was up 18%, year over year. We believe there is a positive outlook for continued growth.

Experienced Management Team. Our experienced management team has a proven track record and has consistently expanded our business and improved our operations. Our senior management averages more than 23 years of experience in the communications industry and more than 18 years with our company.

Business Strategy

We intend to continue to increase revenues and cash flow using the following strategies:

Continue to Offer Bundled Products. We offer innovative service bundles to meet the needs of our residential and business customers. Bundling our services significantly improves customer retention, increases revenue per customer and reduces customer acquisition expenses. Our experience indicates that our bundled customers are significantly less likely to churn, and we experience less price erosion when we effectively combine our offerings. Bundling improves our top line growth, provides operating cost efficiencies that expand our margins and drives our overall business performance. As a measure of success to date, substantially all of our local customers subscribe to our long-distance service and approximately one-third of our cable video subscribers also purchase our high-speed Internet service.

Maximize Sales Opportunities. We successfully sell new and enhanced services and products between and within our business segments to our existing customer base to achieve increased revenues and penetration of our services. Through close coordination of our customer service and sales and marketing efforts, our customer service representatives cross sell and up sell our products. Many calls into our customer service centers result in sales of additional products and services. We actively seek to continue to encourage our existing customers to acquire higher value, enhanced services.

Deliver Industry Leading Customer Service. We have positioned ourselves as a customer service leader in the Alaska communications market. We operate our own customer service department within our marketing group and maintain and staff our own call centers. We have empowered our customer service representatives to handle most service issues and questions on a single call. We prioritize our customer services to expedite handling of our most valuable customers' issues, particularly for our largest business customers. We believe our integrated approach to customer service, including setting-up the service, programming various network databases with the customer's information, installation, and ongoing service, allows us to provide a customer experience that fosters customer loyalty.

Leverage Communications Operations. We continue to expand and evolve our integrated network for the delivery of our services. Our bundled strategy and integrated approach to serving our customers creates efficiencies of scale and maximizes network utilization. By offering multiple services, we are better able to leverage our network assets and increase returns on our invested capital. We periodically evaluate our network assets and continually monitor technological developments that we can potentially deploy to increase network efficiency and performance.

Expand Our Product Portfolio and Footprint in Alaska. Throughout our history, we have successfully added and will continue to add new products to our product portfolio. Management has a demonstrated history of evaluating potential new products for our customers, and we will continue to assess revenue-enhancing opportunities that create value for our customers. In addition to new services such as digital video recorders, HDTV and video-on-demand, we are also expanding the reach of our core products to new markets. Where feasible and where economic analysis supports geographic expansion of our network coverage, we will pursue

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opportunities to increase the scale of our facilities, enhance our ability to serve our existing customers' needs and attract new customers.

Alaska Voice, Video and Data Markets

We estimate that the aggregate communications, cable television, and Internet markets in Alaska generated revenues in 2003 of approximately \$1.1 billion. Of this amount, approximately \$480 million was attributable to interstate and intrastate long-distance service, \$348 million was attributable to local exchange services, \$102 million was attributable to wireless phone service, \$92 million was attributable to cable television, and \$78 million was attributable to all other services, including wireless and Internet services. We report revenues from certain services, such as cable modem Internet access services, in different reporting segments as compared to those used in this market data presentation.

The Alaskan voice, video and data markets are unique within the United States. Alaska is geographically distant from the rest of the United States and is generally characterized by large geographical size and relatively small, dense population clusters (with the exception of population centers such as Anchorage, Fairbanks and Juneau). It lacks a well-developed terrestrial transportation infrastructure, and the majority of Alaska's communities are accessible only by air or water. As a result, Alaska's communication networks are different from those found in the Lower 49 States.

Alaskans continue to rely extensively on satellite-based long-distance transmission for intrastate calling between remote communities where investment in a terrestrial network would be uneconomic or impractical. Also, given the geographic isolation of Alaska's communities and lack, in many cases, of major civic institutions such as hospitals, libraries and universities, Alaskans are dependent on communications services to access the resources and information of large metropolitan areas in Alaska, the rest of the United States and elsewhere. In addition to satellite-based communications, the communications services infrastructure in Alaska includes fiber optic cables between Anchorage, Valdez, Fairbanks, Prudhoe Bay, and Juneau, traditional copper wire, and digital microwave radio on the Kenai Peninsula and other locations. For interstate and international communications, Alaska is connected to the Lower 48 States by three fiber optic cables, one of which was taken out of service in January 2004. See "Part I -- Item 1 -- Business -- Historical Development of our Business During the Past Fiscal Year -- Fiber System Taken out of Service" for more information.

Fiber optics is the preferred method of carrying Internet, voice, video, and data communications over long-distances, eliminating the delay commonly found in

satellite connections. Widespread use of high capacity fiber optic facilities is expected to allow continued expansion of business, government, educational, and health care infrastructure in Alaska.

Long-Distance Services

Industry. Until the 1970s, AT&T had a virtual monopoly on long distance service in the United States. In the 1970s, competitors such as MCI and Sprint began to offer long distance service. With the gradual emergence of competition, basic rates dropped, calling surged, and AT&T's dominance declined. More than 1,000 companies now offer wire-line long distance service. AT&T's 1984 toll revenues were approximately 90% of those reported by all long distance carriers. The FCC's regulation of AT&T as a "dominant" carrier ended in 1995. By 2002, AT&T's revenues had declined to approximately 33% of all toll revenues. The two largest market entrants, MCI and Sprint, have obtained a 30% combined market share through 2002.

The FCC reports that approximately \$84 billion was derived from toll services in 2002. In 2001, residential customers generated over 45% of toll revenues, and 35% of residential toll phone calls were interstate as opposed to 47% of minutes. In 2001, approximately 30% of total toll services revenues was derived from intrastate, 51% was derived from domestic interstate, and 19% was derived from international toll services. Interstate long distance toll revenues increased approximately 92% from \$26 billion in 1984 to \$50 billion in 2001, and intrastate toll revenues increased approximately 38% from \$21 billion in 1984 to \$29 billion in 2001, despite significant rate reductions in both categories during this period.

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The FCC reports that average revenue per minute of long distance calling dropped from \$0.32 in 1984, when competitive discount and promotional long distance plans were introduced, to \$0.10 in 2001. This average price per minute represents a mix of international calling (an average of 35 cents per minute) and domestic interstate calling (an average of 8 cents per minute). The decline in prices since 1984 is more than 80% after adjusting for the impact of inflation. The average annual rate of change in the consumer price index for telephone services between 1990 and 2002 was reported to be 0.6% as compared to 3.6% for all services. The average revenue per minute for interstate and international calls in 1990 was \$0.27 (adjusted for inflation) as compared to \$0.10 in 2001.

The FCC reports that through July 2003 more than twenty-eight million households have been added to the nation's telephone system since November 1983. An estimated 3.6 million households were added between July 2002 and July 2003. As of July 2003, 106.8 million households had telephone service. The FCC reports that approximately 2% of all consumer expenditures are devoted to telephone service. This percentage has remained relatively constant over the past 15 years, despite major changes in the industry and in telephone usage. Average annual expenditures for telephone service increased from \$877 per household in 2000 to \$1,001 in 2002.

The FCC reports that approximately 104 million households had telephone services as of November 2002, an increase of 25 million households since 1983. An estimated 95.2% of households and virtually all businesses in the United States subscribed to telephone service in July 2003. Approximately 92.9% of households subscribed to telephone service in 1980.

The FCC reports that primary lines in service have grown over time, averaging approximately 3% per year, which has historically reflected growth in the population and the economy. The percentage of additional lines for households with telephone service has increased significantly, from approximately 3% in 1988 to approximately 25% in 2001. The total number of lines, however, has declined since 2000 because of the recession, because some consumers are substituting wireless service for wireline service, and because some households are eliminating second lines when they move from dial-up Internet service to broadband service.

International communications has become an increasingly important segment of the communications market. The FCC reports that the number of calls made from the United States to other countries increased from 200 million in 1980 to 6.3 billion in 2001, and that Americans spent approximately \$11.4 billion on international calls in 2001. Consistent with domestic toll rates per minute, international toll rates per minute have decreased significantly. On average, carriers billed 34 cents per minute for international calls in 2001, a decline of more than 74% since 1980. Five markets, Canada, Mexico, the United Kingdom, Germany, and Japan, accounted for approximately 41% of the international calls billed in the United States in 2001. AT&T, MCI, and Sprint combined accounted for 88% of the international service billed in the United States in 2001.

While the 1996 Telecom Act has facilitated competition and rapid growth in the communications market, the last three years have been a tumultuous time for that marketplace. Industry analysts believe that overly optimistic projections of data growth spurred companies to invest large amounts of capital to boost network capacity. While demand for communications services grew, it did not grow at a sufficient pace to justify the substantial build-out of fiber capacity. A

wide gap developed between the supply of network capacity and the demand for data transmission. Network owners refocused their efforts to demonstrate profitability over a much shorter time horizon than initially projected. A downward spiral ensued, as some communications carriers went out of business after failing to generate sufficient revenues to service their accelerating debt loads. The resultant slowdown in capital expenditures left equipment manufacturers with surplus inventory and personnel.

Industry analysts believe that the communications industry stabilized in 2003 and has begun to show signs of recovery. Growth in data is expected to continue to be a key component of industry revenue growth. We believe that the data communications business will eventually rival and perhaps become larger than the traditional voice telephony market. The continuing migration of voice and other traffic from analog to digital transmission and the growth in data attributed to broadband applications are expected to fuel the growth in data.

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The FCC issued a Report and Order (FCC 03-197) in 2003 eliminating a policy that prohibited the installation or operation of more than one satellite earth station in any Alaska rural community for competitive carriage of interstate MTS communications. The FCC found that through a series of regulatory steps, the environment that once called for restrictions on competitive facilities-based entry had changed. This policy change allows us to install facilities and provide competitive interstate MTS and other communications services over our own equipment and network in rural communities where we presently have no facilities.

We believe that federal and state legislators, courts and regulators will continue to influence the communications industry in 2004. Consummation of mergers between and spin-offs from long-distance companies, local access services companies, ISPs and cable television companies have occurred which blur the distinction between product lines and competitors.

Industry analysts believe companies will be successful in the long-term if they can achieve and maintain a superior operating cost position, minimize regulatory battles, offer a full suite of integrated services to their customers using a network that is largely under their control, and continue to offer new and enhanced services that customers wish to purchase.

See "Part I -- Item I -- Business -- Regulation, Franchise Authorizations and Tariffs -- Long-Distance Services" for more information.

General. We supply a full range of common carrier long-distance and other communications products and services. We operate a modern, competitive communications network employing the latest digital transmission technology based upon fiber optic facilities within and between Anchorage, Fairbanks and Juneau, Alaska. Our facilities include a self-constructed and financed digital fiber optic cable and additional owned capacity on another undersea fiber optic cable (which was taken out of service in January 2004, (see "Part I -- Item 1 -- Business -- Historical Development of our Business During the Past Fiscal Year - -- Fiber System Taken out of Service"), linking our Alaska terrestrial networks to the networks of other carriers in the Lower 49 States. We use satellite transponders to transmit voice and data traffic to remote areas of Alaska. We operate digital microwave systems to link Anchorage with the Kenai Peninsula, and our Prudhoe Bay Earth Station with Deadhorse. Digital microwave facilities also are used to backup our fiber facilities from Anchorage to our Eagle River earth station, and to our Fairbanks earth station from our Fairbanks distribution center. Virtually all switched services are computer controlled, digitally switched, and interconnected by a packet switched SS7 signaling network.

We provide interstate and intrastate long-distance services throughout Alaska using our own facilities or facilities leased from or swapped with other carriers. We also provide (or join in providing with other carriers) communications services to and from Alaska, Hawaii, the Lower 48 States, and many foreign nations and territories.

We offer cellular services by reselling another cellular provider's services. We offer wireless local access services over our own facilities, and have purchased PCS and LMDS wireless broadband licenses in FCC auctions covering markets in Alaska.

Products. Our long-distance services industry segment is engaged in the transmission of interstate and intrastate-switched message telephone service and Private Line and Private Network communications service between the major communities in Alaska, and the remaining United States and foreign countries. Our message toll services include intrastate, interstate and international direct dial, toll-free 800, 888, 877 and 866 services, GCI calling card, operator and enhanced conference calling, frame relay, SDN, ISDN technology based services, as well as terminating northbound MTS traffic for MCI, Sprint and several large resellers who do not have facilities of their own in Alaska. We also provide origination of southbound calling card and toll-free 800, 888, 877 and 866 toll services for MCI, Sprint, and other IXCs. We offer our message services to commercial, residential, and government subscribers. Subscribers generally may cancel service at any time. Toll, Private Line, broadband and

related services account for approximately 49.6%, 53.5% and 53.5% of our 2003, 2002 and 2001 revenues, respectively. Broadband services include our SchoolAccess(TM) and Rural

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Health initiatives. Private Line and Private Network services utilize voice and data transmission circuits, dedicated to particular subscribers, which link a device in one location to another in a different location.

We have positioned ourselves as a price, quality, and customer service leader in the Alaska communications market. The value of our long-distance services is generally designed to be equal to or greater than that for comparable services provided by our competitors.

In addition to providing communications services, we also 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 through our Network Solutions business. We also supply integrated voice and data communications systems incorporating interstate and intrastate digital Private Lines, point-to-point and multipoint Private Network and small earth station services. Our Network Solutions sales and services revenue totaled \$11.9 million, \$12.4 million, and \$16.3 million in the years ended December 31, 2003, 2002 and 2001, respectively, or approximately 3.0%, 3.4% and 4.6% of total revenues, respectively. Presently, there are a number of competing companies in Alaska that actively sell and maintain data and voice communications systems. Network Solutions' managed services and product sales results are reported in the All Other category in the Consolidated Financial Statements included in Part IV of this report.

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.

Facilities. Our communication facilities include an undersea fiber optic cable system connecting Whittier, Valdez and Juneau, Alaska and Seattle, Washington, which was placed into service in February 1999. As of the date of this report we are constructing a new undersea fiber optic cable system connecting Seward, Alaska to Warrenton, Oregon that we expect to be operational by May 2004. This fiber optic cable system is designated AULP West and the original undersea fiber optic cable system is now designated AULP East. The Seward cable landing station will connect to our network in Anchorage and the Warrenton cable landing station will connect to our network in Seattle via long-term leased capacity. The combination of AULP West and AULP East will provide us with the ability to provide fully protected geographically diverse routing of service between Alaska and the Lower 48 States.

We also own a portion of the capacity on a second undersea fiber optic cable system linking Alaska to the Lower 48 States known as the Alaska spur of the NPC, which was taken out of service in January 2004. See "Part I -- Item 1 -- Business -- Historical Development of our Business During the Past Fiscal Year - -- Fiber System Taken out of Service" for more information.

These undersea fiber optic cable systems allow us to carry our military base traffic and our Anchorage, Delta Junction, Eagle River, Fairbanks, Girdwood, Glenallen, Healy, Juneau, Kenai Peninsula, Ketchikan, Palmer, Prudhoe Bay, Sitka, Valdez, Wasilla, and Whittier, Alaska traffic to and from the contiguous Lower 48 States and between these instate locations over terrestrial circuits, eliminating the one-quarter second delay associated with satellite circuits.

Other facilities include major earth stations at Barrow, Bethel, Cordova, Dillingham, Dutch Harbor, Eagle River, Ketchikan, King Salmon, Kodiak, Kotzebue, Nome, Prudhoe Bay, and Sitka, all in Alaska, serving the communities in their vicinity, and at Issaquah, Washington, which provides interconnection to Seattle and the Lower 48 States for traffic to and from major Alaska earth stations. The Eagle River earth station is linked to the Anchorage distribution center by fiber optic facilities.

We use SONET as a service delivery method for our terrestrial metropolitan area networks as well as our long-haul terrestrial and undersea fiber optic cable networks. As of December 31, 2003 we have completed interconnection of approximately 70 businesses and co-location facilities within the Anchorage, Juneau and Fairbanks metropolitan areas, as well as the 800-mile long Alyeska pipeline right of way that connects Valdez

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to Prudhoe Bay, Alaska. We currently connect Anchorage, Whittier, Juneau and Seattle through our AULP East undersea fiber network. We use SONET-based next generation multi-service nodes for purposes of delivering traditional TDM services (at DS-0, DS-1 and DS-3 data rates) as well as next generation services, such as optical OC-n and Ethernet. We have expanded our digital cross-connect capacity through the addition of three large 3:1 cross connects located in Anchorage and Seattle.

We completed construction of a fiber optic cable system from the Anchorage distribution center to the Matanuska Telephone Association Eagle River central office and to our major hub earth station in Eagle River in the second quarter of 2000. The Issaquah earth station is connected with the Seattle distribution center by means of diversely routed leased fiber optic cable transmission systems, each having the capability to restore the other in the event of failure. The Juneau earth station and distribution centers are collocated. We have digital microwave facilities serving the Kenai Peninsula communities. We maintain earth stations in Fairbanks (linked by digital microwave to the Fairbanks distribution center), Juneau (collocated with the Juneau distribution center), Anchorage (Benson earth station), and in Prudhoe Bay as fiber network restoration earth stations. Our Benson earth station also uplinks our statewide video service; such service may be pre-empted if earth station capacity is needed to restore our fiber network between Anchorage and Prudhoe Bay.

In 2002, we constructed a 3.6-meter earth station at St. Paul, 6-meter earth stations at Unalakleet and Mountain Village, and a 9-meter earth station at Ft. Yukon, all in Alaska. These stations were constructed to support our SchoolAccess™ distance learning and telemedicine networks, and primarily serve surrounding villages.

We use our DAMA facilities to serve 57 additional locations throughout Alaska. DAMA is a digital satellite earth station technology that allows calls to be made between remote villages using only one satellite hop thereby reducing satellite delay and capacity requirements while improving quality. In 1996, we obtained the necessary RCA and FCC approvals waiving prohibitions against construction of competitive facilities in certain rural Alaska communities, allowing for deployment of DAMA technology in 56 sites in rural Alaska on a demonstration basis. These prohibitions were removed by the FCC on August 6, 2003 allowing us to begin deploying earth stations in more locations in Alaska (see "Part I -- Item 1 -- Business -- Historical Development of our Business During the Past Fiscal Year -- New Communications Policy for Alaska Areas" for more information). In addition, 69 (for a total of 126) C-band facilities provide dedicated Internet access, Telehealth and Private Network services to rural public schools, hospitals, health clinics, and natural resource development industries throughout Alaska and in several locations in the Lower 48 States.

Our Anchorage, Fairbanks, and Juneau distribution centers contain electronic switches to route calls to and from local exchange companies and, in Seattle, to obtain access to MCI, Sprint and other carriers to distribute our southbound traffic to the remaining 49 states and international destinations. In Anchorage, a Lucent Technologies Inc. ("Lucent") 5ESS digital host switch is connected by fiber to seven remote facilities that are co-located in the ILEC switching centers, to provide both local and long-distance service. Our extensive metropolitan area fiber network in Anchorage supports cable television, Internet and telephony services. The Anchorage, Fairbanks, and Juneau facilities also include digital access cross-connect systems, frame relay data switches, Internet platforms, and in Anchorage and Fairbanks, co-location facilities for interconnecting and hosting equipment for other carriers. We also maintain an operator and customer service center in Wasilla, Alaska.

In 2001 we constructed a new switching center in Fairbanks and installed a new Lucent switch to enable the provisioning of local telephone access services in the Fairbanks market. The existing Fairbanks long-distance toll switch was decommissioned in December 2001. Substantially all toll traffic originating in Fairbanks is now routed to Anchorage. The first ILEC collocation office was also constructed during 2001 to enable access to a portion of the Fairbanks ILEC UNE loop facilities. Fairbanks UNE loop provisioning began in early 2002. Construction of a second collocation office was completed in 2002.

We installed a new Lucent switch in our Juneau distribution center, also enabling local services to be launched in the Juneau market in 2002. This new switch also replaced the existing toll switch in Juneau, which we decommissioned in 2002. One collocation office and a second adjacent collocation facility were completed at

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two of the Juneau ILEC central offices. We placed these collocation facilities in service in 2002 enabling UNE loop access to a portion of the Juneau ILEC's loop facilities. Provisioning customers via UNE in Fairbanks and Juneau is presently subject to certain restrictions. See "Part I -- Item 1 -- Business -- Historical Development of our Business During the Past Fiscal Year -- Alaska Supreme Court Decision" for more information.

Our Alcatel DSC DEX toll switch in Seattle was also decommissioned in 2002 after its traffic was transitioned to our Lucent 5ESS switch in Seattle, which was placed into service in 2000. Our Alcatel DSC DEX toll switch in Anchorage was removed from service in the second quarter of 2003 and its traffic was moved to our existing Lucent 5ESS network. Installation of a second Lucent 5ESS in Anchorage began in the fourth quarter of 2003 to support network expansion and enable additional network efficiencies. This switch is expected to be integrated into our network by the second quarter of 2004.

Our operator services traffic was moved in early 2003 to our Lucent 5ESS switch

platform as an interim step to decommission our existing digital operator switch. Our operator services traffic was moved in the fourth quarter of 2003 to an integrated services platform that hosts operator services, answering services, directory assistance and internal conferencing services.

We employ satellite transmission for rural intrastate and interstate traffic and certain other major routes. We acquired satellite transponders on PanAmSat Corporation ("PanAmSat") Galaxy XR satellite in March 2000 to meet our long-term satellite capacity requirements. We further augmented capacity on Galaxy XR with the lease of a seventh C-band transponder in October, 2002.

As demand for redundant, geographically diverse capacity on our network increases, we will need to further augment our facilities between Alaska and the Lower 48 States. In June 2003 we began the construction of AULP West connecting Seward, Alaska and Warrenton, Oregon, with leased backhaul facilities to connect it to our switching and distribution centers in Anchorage, Alaska and Seattle, Washington. A consortium of companies has been selected to design, engineer, manufacture, and install the undersea fiber optic cable system and a contract has been signed at a total cost to us of \$35.2 million. We expect the total cost of the new fiber system to be approximately \$51 million. We expect to fund construction of the fiber optic cable system through our operating cash flows and, to the extent necessary, with draws on our new Senior Credit Agreement. Our capital expenditures for this project totaled approximately \$16.5 million in 2003, all of which has been funded through our operating cash flows.

In 2000 we began deploying a new packet data satellite transmission technology for the efficient transport of broadband data in support of our rural health and SchoolAccess™ initiatives. We continued to deploy and upgrade this network during 2003 and expect to further expand and upgrade this network during 2004. An upgrade of the packet data satellite transmission equipment to a more bandwidth efficient modulation scheme is expected to occur during the second half of 2004. In addition, our SchoolAccess™ and rural wireless Internet service is partially provisioned over a satellite based digital video broadcast carrier that is scheduled to convert to a more efficient modulation scheme during the second quarter of 2004. These projects reduce the requirement for new satellite transponder bandwidth to support expected growth in rural health, distance learning and rural Internet services.

Emerging technology that facilitates more efficient transport of fixed assigned point-to-point satellite transmissions may become available during the second quarter of 2004. This technology would allow fixed point-to-point transmissions between two earth stations to transmit at the same frequency. Successful development and implementation of this new technology may reduce the requirement for new satellite bandwidth to meet our needs as expected growth in demand for our services occurs. We are investigating the possible use of this new technology to further increase the bandwidth utilization for a portion of our satellite network.

We employ advanced digital transmission technologies to carry as many voice circuits as possible through a satellite transponder without sacrificing voice quality. Other technologies such as terrestrial microwave systems, metallic cable, and fiber optics tend to be favored more for point-to-point applications where the volume of traffic is substantial. With a sparse population spread over a large geographic area, neither

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terrestrial microwave nor fiber optic transmission technology is considered to be economically feasible in rural Alaska in the foreseeable future.

Customers. We had approximately 85,600, 88,200 and 87,900 active Alaska long-distance message telephone service subscribers at December 31, 2003, 2002 and 2001, respectively. Approximately 11,300, 11,600 and 12,200 of these were business and government users at December 31, 2003, 2002 and 2001, respectively, and the remainder were residential customers. Reductions in our business and government customer counts were primarily attributed to continuing competitive pressures in Anchorage and other markets we serve. Message telephone service revenues (excluding broadband, operator services and Private Line revenues) averaged approximately \$10.6 million per month during 2003.

Equal access conversions have been completed in all communities we serve with owned facilities. We estimate that we carry slightly over 50% of combined business and residential traffic as a statewide average for both originating interstate and intrastate message telephone service traffic.

<TABLE>

A summary of our switched long-distance message telephone service traffic (in minutes) follows:

<CAPTION>

Interstate Minutes

	South-	North-	Calling	Inter-	Combined	Intra-
Total				national	Interstate	state
					and Inter-	
					national	

For Quarter ended Minutes	bound (1)	bound	Card	Minutes	Minutes	Minutes
(Amounts in thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
March 31, 2001 243,207	126,681	74,252	2,087	1,424	204,444	38,763
June 30, 2001 261,210	141,091	76,256	1,926	1,530	220,803	40,407
September 30, 2001 290,780	160,600	87,230	1,961	1,634	251,425	39,355
December 31, 2001 264,004	130,638	90,812	1,946	1,362	224,758	39,246
Total 2001 1,059,201	559,010	328,550	7,920	5,950	901,430	157,771
March 31, 2002 268,393	133,455	91,061	1,683	1,413	227,612	40,781
June 30, 2002 296,716	144,143	105,001	1,582	1,462	252,188	44,528
September 30, 2002 300,253	159,564	90,839	1,463	1,527	253,393	46,860
December 31, 2002 263,660	138,735	78,483	1,341	1,506	220,065	43,595
Total 2002 1,129,022	575,897	365,384	6,069	5,908	953,258	175,764
March 31, 2003 259,072	132,172	78,882	1,186	1,487	213,727	45,345
June 30, 2003 281,186	142,333	83,749	1,107	1,508	228,697	52,489
September 30, 2003 314,438	159,439	96,512	1,055	1,514	258,520	55,918
December 31, 2003 304,561	144,829	107,620	1,013	1,546	255,008	49,553
Total 2003 1,159,257	578,773	366,763	4,361	6,055	955,952	203,305

<FN>

(1) The 2001 Interstate Southbound minutes include traffic that originates and terminates in Washington by us on behalf of an OCC customer.

All minutes data were taken from our internal billing statistics reports.

</FN>

</TABLE>

We entered into a significant business relationship with MCI in 1993 that included the following agreements, among others.

- o We agreed to terminate all Alaska-bound MCI long-distance traffic and MCI agreed to terminate all of our long-distance traffic terminating in the Lower 49 States excluding Washington, Oregon and Hawaii.
- o The parties agreed to share certain communications network resources and various marketing, engineering and operating resources. We also carry MCI's 800, 888, 877 and 866 traffic originating in

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Alaska and terminating in the Lower 49 States and handle traffic for MCI's calling card customers when they are traveling in Alaska.

Concurrently with these agreements, MCI purchased approximately 31% (which represented approximately 9% as of December 31, 2003) of GCI's Common Stock and presently one representative serves on the Board. In conjunction with our acquisition of cable television companies in 1996, MCI purchased an additional two million shares at a premium to the then current market price for \$13 million or \$6.50 per share. MCI sold 4.5 million shares of GCI Class A common stock in 2002.

Revenues attributed to MCI's message telephone traffic from these agreements (excluding Private Line and other revenues) in 2003, 2002 and 2001 totaled \$57.8 million, \$54.7 million and \$44.8 million, or 14.8%, 14.9% and 12.6% of total

revenues, respectively. The contract was amended in March 2001 extending its term five years to March 2006. The amendment reduced the rate to be charged by us for certain traffic over the extended term of the contract.

On July 21, 2002 MCI and substantially all of its active United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court. Chapter 11 allows a company to continue operating in the ordinary course of business in order to maximize recovery for the company's creditors and shareholders.

On July 24, 2003, our contract to provide interstate and intrastate long-distance services to MCI was extended for a minimum of five years to July 2008. The agreement sets the terms and conditions under which we originate and terminate certain types of long-distance and data services in Alaska on MCI's behalf. In exchange for extending the term of this exclusive contract, MCI will receive a series of rate reductions implemented in phases over the life of the contract.

On October 31, 2003, MCI's reorganization plan was approved by the United States Bankruptcy Court. MCI requested in February 2004 that the United States Bankruptcy Court for the Southern District of New York approve a 60-day extension to the February 28, 2004 deadline to emerge from bankruptcy. An extension to the deadline would give MCI time to complete financial filings with the SEC. The financial filings are reported to be the last major task left for MCI to emerge from bankruptcy.

See "Part I -- Item 1 -- Risks Relating to our Business and Operations -- Our significant customer, MCI, is in bankruptcy," and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Long-Distance Services Overview" for additional information.

In 1993 we entered into a long-term agreement with Sprint, pursuant to which we agreed to terminate all Alaska-bound Sprint long-distance traffic and Sprint agreed to handle substantially all of our international traffic. Services provided pursuant to the contract with Sprint resulted in message telephone service revenues (excluding Private Line and other revenues) in 2003, 2002 and 2001 of approximately \$18.3 million, \$23.5 million and \$29.7 million, or approximately 4.7%, 6.4% and 8.3% of total revenues, respectively. The contract was amended in March 2002 extending its term five years to March 2007, with two one-year automatic extensions thereafter. The amendment reduces the rate to be charged by us for certain traffic over the extended term of the contract.

With the contracts and amendment described above, we believe that MCI, subject to successful emergence from the bankruptcy process, and Sprint, our two largest customers, will continue to make use of our services during the extended term. MCI was a major customer of our long-distance services industry segment through 2003. Sprint met the threshold for classification as a major customer through 1998, and met the threshold again in 2001.

Other common carrier traffic routed to us for termination in Alaska is largely dependent on traffic routed to our carrier customers by their customers. Pricing pressures, new program offerings, revised business plans, and market consolidation continue to evolve in the markets served by our carrier customers. If, as a result, their traffic is reduced, or if their competitors' costs to terminate or originate traffic in Alaska are reduced, our traffic

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will also likely be reduced, and we may have to reduce our pricing to respond to competitive pressures. We are unable to predict the effect of such changes on our business; however the loss of one or both of MCI or Sprint as customers, a material adverse change in our relationships with them or a material loss of or reduction in their long-distance customers would have a material adverse effect on our financial position, results of operations or liquidity.

We provide various services to the State of Alaska, BP Alaska, Wells Fargo Bank Alaska, and Alyeska Pipeline Service Company. Although these customers do not meet the threshold for classification as major customers, we do derive significant revenues and gross profit from them. There are no other individual customers, the loss of which would have a material impact on our revenues or gross profit.

We provided broadband, Private Line and Private Network communications products and services, including SchoolAccessTM and rural health Private Line facilities, to 359 commercial and government customers at the end of 2003. These products and services generated approximately 15.9%, 14.8% and 14.1% of total revenues during the years ended December 31, 2003, 2002 and 2001, respectively.

Although we have several agreements to facilitate the origination and termination of international toll traffic, we have neither foreign operations nor export sales. See "Part I -- Item 1 -- Business -- Financial Information about our Foreign and Domestic Operations and Export Sales" for more information.

Competition. The long-distance industry is intensely competitive and subject to constant technological change. Competition is based upon price and pricing

plans, the type of services offered, customer service, billing services, performance, perceived quality, reliability and availability. AT&T Alascom, as a subsidiary of AT&T, has access to greater financial, technical and marketing resources than we have. Future competitors could also be substantially larger than we are, and have greater financial, technical and marketing resources than we have.

In the long-distance market, we compete against AT&T Alascom, ACS, the Matanuska Telephone Association, and certain smaller rural local telephone carrier affiliates. There is also the possibility that new competitors will enter the Alaska market. In addition, wireless services continue to grow as an alternative to wireline services as a means of reaching customers.

Historically, we have competed in the long-distance market by offering discounts from rates charged by our competitors and by providing desirable packages of services. Discounts have been eroded in recent years due to lowering of prices by AT&T Alascom and entry of other competitors into the long-distance markets we serve. In addition, our competitors have also begun to offer their own packages of services. If competitors lower their rates further or develop more attractive packages of services, we may be forced to reduce our rates or add additional services, which would have a material adverse effect on our financial position, results of operations or liquidity.

Under the terms of the acquisition of Alascom by AT&T Corp., AT&T Alascom rates and services must mirror those offered by AT&T Corp., so changes in AT&T Corp. prices indirectly affect our rates and services. AT&T Corp.'s and AT&T Alascom's interstate prices are regulated under a price cap plan whereby their rate of return is not regulated or restricted. Price increases by AT&T Corp. and AT&T Alascom generally improve our ability to raise prices while price decreases pressure us to follow. We believe we have, so far, successfully adjusted our pricing and marketing strategies to respond to AT&T Corp. and other competitors' pricing practices. However, if competitors significantly lower their rates, we may be forced to reduce our rates, which could have a material adverse effect on our financial position, results of operations or liquidity.

ACS and other LECs have entered the interstate and international long-distance market, and pursuant to RCA authorization, entered the intrastate long-distance market. ACS and other LECs generally lease or buy long-haul capacity on long-distance carriers' facilities to provide their interstate and intrastate long-distance services.

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Another carrier completed construction of fiber optic facilities connecting points in Alaska to the Lower 48 States in 1999. The additional fiber system provides direct competition to services we provide on our owned fiber optic facilities, however the fiber system provides an alternative routing path for us in case of a major fiber outage in our systems. This carrier filed for Chapter 11 bankruptcy in 2001 and its assets were sold in 2002. We are currently in the process of constructing the AULP West fiber optic cable system. If successfully completed, it will provide us with owned capacity for route diversity.

In the wireless communications services market, we expect our PCS business license in the future may be used to compete against Dobson Communications Corporation ("Dobson"), ACS, Alaska DigiTel LLC, and resellers of those services in Anchorage and other markets. The wireless communications industry continues to experience significant consolidation. In February 2004 Cingular Wireless was reported to have been successful in its bid to acquire AT&T Wireless for \$41 billion, subject to shareholder approval. Dobson acquired its Anchorage wireless properties in a 2003 asset exchange with AT&T Wireless. Dobson has acquired wireless companies and negotiated roaming arrangements that give it a national presence. Mergers and joint ventures in the industry have created large, well-capitalized competitors with substantial financial, technical, marketing and other resources. These competitors may be able to offer nationwide services and plans more quickly and more economically than we can, and obtain roaming rates that are more favorable than those that we obtain. We currently resell Dobson analog and digital cellular services and provide limited wireless local access and Internet services using our own facilities.

Our long-distance services sales efforts are primarily directed toward increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature up-sale opportunities. We sell our long-distance communications services through telemarketing, direct mail advertising, door-to-door selling, up-selling by our customer service personnel, and local media advertising.

We expect competition to increase as new technologies, products and services continue to develop. We cannot predict which of many possible future technologies, products or services will be important to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on marketing and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, economic conditions, market and competitor consolidation, and pricing strategies by competitors. To the extent we do not keep pace with technological advances or fail to timely respond to

changes in competitive factors in our industry and in our markets we could lose market share or experience a decline in our revenue and net income. Competitive conditions create a risk of market share loss and the risk that customers shift to less profitable lower margin services. Competitive pressures also create challenges to our ability to grow new business or introduce new services successfully and execute on our business plan. Each of our business segments also faces the risk of potential price cuts by our competitors that could materially adversely affect our long-distance segment market share and results of operations.

Cable Services

Industry. The programmed video services industry includes traditional broadcast television, cable television, satellite systems such as DBS, private cable operators, LEC entry, broadband service providers, wireless cable, open video systems, home video sales and rentals, Internet video, and electric and gas utilities. Cable television providers have added non-broadcast programming, utilized improved technology to digitize signals and increase channel capacity, and expanded service markets to include more densely populated areas and those communities in which off-air reception is not problematic. Broadcast television stations including network affiliates and independent stations generally serve the urban centers. One or more local television stations may serve smaller communities. Rural communities may not receive local broadcasting or have cable systems but may receive direct broadcast programming via a satellite dish. More rural communities are receiving local and regional station programming as satellite system providers obtain local and regional programming content.

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During the last 50 years, the cable television industry has experienced extensive growth and transformation. From initially offering clear reception of broadcast stations, cable has grown into a broadband provider of video, Internet and voice telephone services, expanding from analog technology to an increasingly digital platform. The National Cable and Telecommunications Association ("NCTA") reports that more than 30% of U.S. cable customers were reported to have subscribed to digital cable television service at the end of 2003.

The 1996 Telecom Act enabled cable television operators to undertake a multiyear upgrade of cable system infrastructure and lead in the transition from an analog platform to a broadband digital platform. Industry progress was made in 2003 to further deploy HDTV, video-on-demand, interactive and other new consumer-driven services that rely on the broadband digital platform.

Cable television operators and programmers began providing HDTV services in 2002. HDTV has been described by some analysts as the most dramatic change for viewers since the introduction of color television. Deployment of HDTV service was reported by the NCTA to have increased approximately 90% during the first 11 months of 2003, reaching 70 million households by December 1, 2003 as compared to 37 million at the end of 2002. In addition, the amount of cable HDTV programming increased steadily, and now comes from a broader programming services group.

The NCTA reported that in December 2002, the consumer electronics and cable industries reached agreement on standards for the creation of digital cable ready equipment for the home. The FCC approved those standards in September 2003 and new sets are becoming available in retail outlets.

The NCTA reported that at December 31, 2003, more than 90% of all cable homes were reported to have been passed by cable plant with a capacity of at least 550MHz, and approximately 90 million cable homes were passed by systems with a capacity of 750MHz or higher. The NCTA reported further that more than 95 million households were reported to have been passed by activated two-way plant at the end of 2003. These upgrades position cable companies to compete more effectively with their DBS competitors.

The growth of DBS is still, in part, attributable to the authority granted to DBS operators to distribute local broadcast television stations in their local markets by the Satellite Home Viewer Improvement Act of 1999 ("SHVIA"). Continued DBS subscriber growth is expected as local programming is offered in more markets. The North American cable TV market was reported by the FCC to have declined in 2003, as former cable subscribers either switched to satellite services or cancelled their cable service. The FCC reports that since the introduction of DBS service, its growth rate has exceeded the growth rate of cable service by double digits in every year except in the year ended June 30, 2003, when DBS growth exceeded cable growth by approximately 9.2%. The NCTA reports that while the number of basic cable TV subscribers decreased approximately 0.2% in 2003, digital cable TV subscriber growth reached 23% during the same period. Analysts believe that cable TV subscriber growth in the future may result from cable television operators' ability to attract new subscribers to their traditional analog video services, and from ongoing deployments of digital video, voice, and data services.

As a converged platform, cable is a viable competitive alternative outside its traditional video space, not only in the broadband space as a competitor with technology such as DSL, but also in traditional telephony services as voice

becomes another application that is carried on data centric networks.

The most significant convergence of service offerings over cable plant continues to be the pairing of Internet service with other service offerings. Cable operators continue to build-out the broadband infrastructure that permits them to offer high-speed Internet access. The most popular way to access the Internet over cable is still through the use of a cable modem and personal computer. Virtually all of the major multiple system operators offer Internet access via cable modems in portions of their service areas. Like cable, the DBS

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industry is developing ways to bring advanced services to their customers. Many MMDS and private cable operators also offer Internet access services. In addition, broadband services providers continue to build advanced systems specifically to offer a bundle of services, including video, voice, and high-speed Internet access. We currently offer high-speed cable modem access in Anchorage, Bethel, Cordova, Juneau, Eielson Air Force Base, Elmendorf Air Force Base, Fairbanks, Fort Richardson, Fort Wainwright, Homer, Kenai, Kodiak, Kotzebue, Nome, North Pole, Palmer, Petersburg, Seward, Sitka, Soldotna, Wasilla, Wrangell, and Valdez.

The cable industry has expanded its competitive offerings to include business and residential telephone services delivered over its fiber optic infrastructure. Cable-delivered telephone service is a natural extension of a network already capable of delivering digital and broadband services and products. Once upgraded to a two-way capability, a cable system can offer telephone service over the same cable line that already carries digital video, high speed Internet, and other advanced services to consumers. Cable operators are beginning to deploy IP telephony in addition to circuit-switched telephony offerings. Circuit-switched service requires large capital expenditures for switching equipment in addition to facility upgrades. Voice over IP is more modular and does not require the large upfront cost needed to deploy circuit-switched service. Voice over IP utilizes the data path already built, and is expected to allow for easy software changes and additions to service packages including innovative combinations of voice, data, and fax services. The NCTA reports that cable-delivered residential telephone service subscribers totaled an estimated 2.5 million through September 2003.

With digital transmissions and compression, cable operators are better able to offer a variety and quality of channels to rival DBS, with pay-per-view choices that can approximate video-on-demand. In 2000 we installed a commercial version of video-on-demand for the Anchorage hotel market and continue to evaluate the feasibility of deploying this technology in the residential market. With this service, customers can access a wide selection of movies and other programming at any time, with digital picture quality.

Kagan World Media reported that estimated 2003 total cable industry revenue reached \$51.3 billion, an estimated 3.8% increase over 2002. Operators face constant pressure to keep rate increases at a minimum. According to the FCC, the average monthly rate for cable services rose 8.2% over the 12-month period ending July 1, 2002. Over the past several years, the FCC reports that operators have averaged annual rate increases in the 5% range. While many public-interest groups and press reports note that cable rates have increased at factors in excess of the general rate of inflation, cable rates are reported to have lagged national inflation on a per channel basis.

The FCC reports that cable operators attributed rate increases to increased programming costs, an increase in the number of video and non-video services offered, system upgrades, and general inflationary pressures. The escalation of programming costs continues to adversely impact the economics of cable operators. Programming costs are reported to be the largest cost item for major system operators, and the fastest growing operating cost item for most. The NCTA reported that, on the basis of financial data supplied to them by nine cable operators, they found that these operators' yearly programming expenses, on a per-subscriber basis, increased from \$122 in 1999 to \$180 in 2002 -- a 48 percent increase.

The FCC reports that 63.7% of homes passed by cable television facilities were subscribers to cable television services at June 30, 2003. Our overall average penetration of homes passed was 66.4% at December 31, 2003 with individual systems ranging from 51.2% to 85.8%.

In Alaska, cable television was introduced in the 1970s to provide television signals to communities with few or no available off-air television signals and to communities with poor reception or other reception difficulties caused by terrain interference. Since that time, as on the national level, the cable television providers in Alaska have added non-broadcast programming, and DBS providers have added local broadcast programming.

The market for programmed video services in Alaska includes traditional broadcast television, cable television, wireless cable, and DBS systems. Broadcast television stations including network affiliates and independent stations serve the urban centers in Alaska. Eight, six and five broadcast stations serve Anchorage, Fairbanks and Juneau, respectively. In addition, several smaller communities such as Bethel are served by one local

television station that is typically a PBS affiliate. Other rural communities without cable systems receive a single state sponsored channel of television by a satellite dish and a low power transmitter.

Advancements in technology, facility upgrades and plant expansions to enable the ongoing migration to digital programming are expected to continue to have a significant impact on cable services in the future. We expect that changing federal, state and local regulations, intense competition, and developing technologies and standards will continue to challenge the industry.

See "Part I -- Item I -- Business, Regulation, Franchise Authorizations and Tariffs -- Cable Services" for more information.

General. We are the largest operator of cable systems in Alaska, serving approximately 134,400 residential, commercial and government basic subscribers at December 31, 2003. Our cable television systems serve 35 communities and areas in Alaska, including the state's four largest urban areas, Anchorage, Fairbanks, the Matanuska-Susitna Valley and Juneau. Our statewide cable systems consist of approximately 2,300 miles of installed cable plant having 330 to 625 MHz of channel capacity.

Products. Programming services offered to our cable television systems subscribers differ by system (all information as of December 31, 2003).

Anchorage and Mat-Su Valley system. The Anchorage and Mat-Su Valley system, which is located in the urban center for Alaska, is fully addressable and offers a basic analog service that includes approximately 18 channels and 2 additional analog tiers offering 39 and 4 channels. This system also carries digital service, offering enhanced picture and audio quality, over 25 digital special interest channels, 45 channels of digital music, 2 channels of HDTV, digital video recorders (beginning in 2004), and over 60 channels of premium and pay-per-view products. Premium services are available either individually or as part of a value package. Commercial subscribers such as hospitals, hotels and motels are charged negotiated monthly service fees. Apartment and other multi-unit dwelling complexes can receive basic service at a negotiated bulk rate with the opportunity for additional services on a tenant pay basis.

Fairbanks, Juneau, Kenai, Soldotna, and Ketchikan systems. These systems offer a basic analog service with 12 to 18 channels and an additional analog tier with 34 to 42 channels. These systems also carry digital service, over 17 special interest channels, 45 channels of digital music, and over 50 channels of premium and pay-per-view products.

Sitka System. This location offers an advanced analog service with a 15 channel basic service, a 37 channel expanded basic service, five channels of premium service, four channels of pay-per-view and 31 music channels.

Other systems. We own systems in the Alaska communities and areas of Bethel, Cordova, Homer, Kodiak, Kotzebue, Nome, Petersburg, Seward, Valdez, and Wrangell. These analog systems offer a basic service with 10 to 15 channels and an expanded basic service with 27 to 42 channels. Several channels of premium service are also available in all systems. Music service is available in Kodiak, Petersburg, Valdez and Wrangell. Pay-per-view is available in Homer, Kodiak, Kotzebue, Nome, Petersburg, Seward and Wrangell.

Facilities. Our cable television businesses are located in Anchorage, Bethel, Chugiak, Cordova, Douglas, Eagle River, Eielson AFB, Elmendorf AFB, Fairbanks, Fort Greely, Fort Richardson, Fort Wainwright, Homer, Juneau, Kachemak, Kenai, Ketchikan, Kodiak, Kodiak Coast Guard Air Station, Kotzebue, Mount Edgecombe, Nome, North Pole, Palmer, Petersburg, Peters Creek, Prudhoe Bay, Saxman, Seward, Sitka, Soldotna, Valdez, Ward Cove, Wasilla, and Wrangell, Alaska. Our facilities include cable plant and head-end distribution equipment. Certain of our head-end distribution centers are co-located with customer service, sales and administrative offices.

Customers. Our cable systems passed approximately 202,200, 196,900 and 192,200 homes at December 31, 2003, 2002 and 2001, respectively, and served approximately 134,400, 136,100 and 132,000 basic

subscribers at December 31, 2003, 2002 and 2001, respectively. Revenues derived from cable television services totaled \$96.0 million, \$88.7 million and \$76.6 million in 2003, 2002 and 2001, respectively.

Competition. The 1996 Telecom Act removed barriers to telephone company or LEC entry into the video marketplace to facilitate competition between incumbent cable operators and telephone companies. At the time of the 1996 Telecom Act, it was expected that LECs would compete in the video delivery market and that cable operators would provide local telephone exchange service. The FCC reports that the four largest ILECs have largely exited the video business. A few smaller LECs continue to offer, or are preparing to offer, multi-channel video programming distribution.

We believe our greatest source of competition comes from the DBS industry. Two major companies, DirecTV and Echostar are currently offering nationwide high-power DBS services. Due to the existing structure of satellite orbital slots, satellite transmission power and lack of local signals, competition from DBS providers has been limited.

In the past, the majority of Alaska DBS subscribers were required to install larger satellite dishes (generally three to six feet in diameter) because of the weaker satellite signals currently available in northern latitudes, particularly in communities surrounding, and north of, Fairbanks. In addition, the satellites had a relatively low altitude above the horizon when viewed from Alaska, making their signals subject to interference from mountains, buildings and other structures. Recent satellite placements provide Alaska and Hawaii residents with a DBS package that requires a smaller satellite dish (typically 18 inches); however, a second larger dish is required if the subscriber wants to receive a channel line-up similar to that provided by our cable systems. In addition to the dish size and cost deterrents, DBS signals are subject to degradation from atmospheric conditions such as rain and snow.

We expect the potential launch of new satellites, the addition of local stations in 2003, and the changing nature of technology and of the DBS business will result in greater satellite coverage and competition in Alaska.

Our cable television systems face competition from alternative methods of receiving and distributing television signals, including digital video service over telephone lines, wireless and SMATV systems, and from other sources of news, information and entertainment such as off-air television broadcast programming, newspapers, movie theaters, live sporting events, interactive computer services, Internet services and home video products, including videotape cassette and video disks. Our cable television systems also face competition from potential overbuilds of our existing cable systems by other cable television operators.

Several ILECs in the Lower 48 and the largest ILEC in Alaska have announced marketing arrangements to provide DBS services along with local telephone and other services. Similar arrangements could be extended to other ILECs in the markets we serve in Alaska. In August 2003 DBS service provider EchoStar launched Anchorage local network programming for an additional fee. We will continue to strive to compete effectively by providing, at reasonable prices, a greater variety of communication services than are available off-air or through other alternative delivery sources. Additionally, we believe we offer superior technical performance and responsive community-based customer service.

In November 2003, the ILEC in the Mat-Su Valley launched digital video service over telephone lines in limited areas. Their product offerings and price points are similar to our product offerings.

Competitive forces will be counteracted by offering expanded programming through digital services and by providing high-speed data services. By June 30, 2003, system upgrades were completed to make our systems reverse activated, thus creating the necessary infrastructure to offer cable modem service to greater than 99% of our homes passed. Over the succeeding two years, we expect to establish a digital platform in the majority of our systems. These plant upgrades combined with local broadcast programming are expected to provide an attractive product in comparison to competitive offerings. In 2002, seven-year retransmission agreements were signed with Anchorage broadcasters. These agreements provide for the uplink/downlink of their signals into all our systems, assuring local programming is available for the foreseeable future.

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High-speed data access competition takes two primary forms: cable modem access service and DSL service. DSL service allows Internet access to subscribers at data transmission speeds similar to cable modems over traditional telephone lines. Numerous companies, including telephone companies, have introduced DSL service and certain telephone companies are seeking to provide high-speed broadband services, including interactive online services, without regard to present service boundaries and other regulatory restrictions. Companies in the Lower 49 States, including telephone companies and ISPs, have asked local, state and federal governments to mandate that cable communications systems operators provide capacity on their cable infrastructure so that these companies and others may deliver Internet services directly to customers over cable facilities. The FCC determined in March 2002 that cable system operators will not be required to provide such "open access" to others. See "Part I -- Item 1 - -- Business, Regulation, Franchise Authorizations and Tariffs -- Cable Services" for more information.

Other new technologies may become competitive with non-entertainment services that cable television systems can offer. The FCC has authorized television broadcast stations to transmit textual and graphic information useful to both consumers and businesses. The FCC also permits commercial and non-commercial FM stations to use their subcarrier frequencies to provide non-broadcast services including data transmissions. The FCC established an over-the-air interactive video and data service that will permit two-way interaction with commercial and educational programming along with informational and data services. LECs and other common carriers also provide facilities for the transmission and

distribution to homes and businesses of interactive computer-based services, including the Internet, as well as data and other non-video services. The FCC has conducted spectrum auctions for licenses to provide PCS, as well as other services. PCS and other services will enable license holders, including cable operators, to provide voice and data services. We own a statewide license to provide PCS in Alaska.

Cable television systems generally operate pursuant to franchises granted on a non-exclusive basis. The 1992 Cable Act gives local franchising authorities jurisdiction over basic cable service rates and equipment in the absence of "effective competition," prohibits franchising authorities from unreasonably denying requests for additional franchises and permits franchising authorities to operate cable systems. Well-financed businesses from outside the cable industry (such as the public utilities that own certain of the poles on which cable is attached) may become competitors for franchises or providers of competing services.

Our cable services sales efforts are primarily directed toward increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature up-sale opportunities. We sell our cable services through telemarketing, direct mail advertising, door-to-door selling, up-selling by our customer service personnel, and local media advertising.

Advances in communications technology as well as changes in the marketplace are constantly occurring. We cannot predict the effect that ongoing or future developments might have on the communications and cable television industries or on us specifically.

Local Access Services

Industry. The FCC reported that end-user customers obtained local service at June 30, 2003 by means of 156 million ILEC switched access lines, 27 million CLEC switched access lines, and 148 million mobile wireless telephone service subscriptions.

The FCC reported that total CLEC end-user switched access lines increased by 9% during the first half of 2003, from 25 million to 27 million lines. By comparison, total CLEC lines increased by 14% during the preceding six months, from 22 to 25 million lines. For the full twelve month period ending June 30, 2003, CLEC end-user lines increased by 24%. Approximately 15% of the 183 million total end-user switched access lines were reported by CLECs, compared to 11% a year earlier.

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The FCC further reported that approximately 62% of reported CLEC switched access lines serve residential and small business customers, compared to approximately 78% of ILEC lines. CLECs reported 12% of total residential and small business switched access lines, compared to 8% a year earlier.

The FCC reported that CLECs reported providing about 18% (a decline from 43% in December 1999) of their switched access lines by reselling the services of other carriers, about 58% (an increase from 24% in December 1999) by means of UNE loops leased from other carriers, and about 23% of switched access lines over their own local loop facilities.

The FCC reports that since December 1999, the percentage of nationwide CLEC switched access lines reported to be provisioned by reselling services has declined steadily, to 18% at the end of June 2003, and the percentage provisioned over UNE loops has grown steadily, to 58% at June 30, 2003. The FCC reported that ILECs provided about 2.2 million switched access lines to unaffiliated carriers on a resale basis at the end of June 2003, down from 2.7 million six months earlier. The FCC reported that ILECs provided 17.2 million unbundled loops (with or without unbundled switching) to unaffiliated carriers at June 30, 2003, up from 14.5 million six months earlier.

UNE loops provided with ILEC switching (UNE-Platform) have increased faster than UNE loops provided without switching. The FCC reported that ILECs provided approximately 27% more UNE loops with switching to unaffiliated carriers at the end of June 2003 than they reported six months earlier (13.0 million compared to 10.2 million) and about 1% fewer UNE loops without switching (about 4.2 million compared to 4.3 million).

The FCC reports that during the first half of 2003, cable-telephony lines increased by 1% to 3 million lines, which constituted approximately 11% of switched access lines provided by CLECs and approximately 2% of total switched access lines. Cable telephony deployments in the U. S. continue to expand using proprietary, circuit switched technology. More hardware has become available that is DOCSIS 1.1 qualified, which provides quality of service necessary for voice services. Cable telephony services continue to expand as cable television operators expand their video, data, and voice service offerings. Industry analysts estimate that worldwide cable telephony subscribers reached 10 million in 2003 and are forecast to rise to over 19 million in 2007, with revenues estimated at \$4 billion in 2003 and to rise to over \$6 billion in 2007. A significant driver for cable telephony is the bundling of telephony services

with existing digital video and high speed data services. We expect to begin deploying a cable telephony solution in the second quarter of 2004 that meets our needs and the needs of our customers.

The communications industry has been weighed down by regulatory uncertainty as a result of successive court reversals of the FCC's core local competition rules. These court actions have left providers with little guidance about the network elements that will be available at regulated cost-based rates and have put at risk current plans of some businesses that were developed based on the challenged rules.

See "Part I -- Item I -- Business, Regulation, Franchise Authorizations and Tariffs -- Local Access Services" for more information.

General. Our local exchange and exchange access services ("local access services") segment entered the local services market in Anchorage in 1997, providing services to residential, commercial, and government users. At December 31, 2003 we could access approximately 92%, 71%, and 48% of Anchorage, Fairbanks, and Juneau area local loops, respectively, from our collocated remote facilities and DLC installations.

Products. Our collocated remote facilities access the ILEC's unbundled network element loops, allowing us to offer full featured, switched-based local service products to both residential and commercial customers, and provide Private Line service products to commercial customers. In areas where we do not have access to ILEC loop facilities, we offer service using total service resale of the ILEC's local service in Anchorage, and either total service resale or UNE platform in Fairbanks and Juneau.

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Our package offerings are competitively priced and include popular features, such as the following.

- o Enhanced call waiting
- o Caller ID on call waiting
- o Anonymous call rejection
- o Call forward busy
- o Enhanced call waiting
- o Follow me call
- o Multi-distinctive ring
- o Selective call forwarding
- o Selective call rejection
- o Speed calling
- o Voice mail
- o Non-listed number
- o Caller ID
- o Free caller ID box
- o Call forwarding
- o Call forward no answer
- o Fixed call forwarding
- o Intercom service forwarding
- o Per line blocking
- o Selective call acceptance
- o Selective distinctive alert
- o Three way calling
- o Inside wire repair plan
- o Non-published number

Facilities. In Anchorage we utilize a centrally located Lucent 5ESS host switching system, have collocated six remote facilities adjacent to or within the ILEC's local switching offices to access unbundled loop network elements, and have installed a DLC system adjacent to a smaller, seventh ILEC wire center for access to unbundled loop network elements. Remote and DLC facilities are interconnected to the host switch via our diversely routed fiber optic links. Additionally, we provided our own facilities-based services to many of Anchorage's larger business customers through further expansion and deployment of SONET fiber transmission facilities, DLC facilities, and leased HDSL and T-1 facilities.

In Fairbanks and Juneau we employ Lucent Distinctive Remote Module switching systems (5ESS) and have collocated DLC systems adjacent to the ILEC's local switching office and within the ILEC's wire center to access unbundled loop network elements.

Customers. We had approximately 106,100, 96,100 and 79,200 local lines in service from Anchorage, Fairbanks, and Juneau, Alaska subscribers at December 31, 2003, 2002 and 2001, respectively. We began providing local access services in Fairbanks in 2001 and in Juneau in 2002. The 2003 line count consists of approximately 61,900 residential access lines and 36,900 business access lines, including 7,300 Internet service provider access lines. We ended 2003 with market share gains in substantially all market segments.

Revenues derived from local access services in 2003, 2002 and 2001 totaled \$39.0 million, \$32.1 million and \$25.2 million, respectively, representing approximately 10.0%, 8.7% and 7.1% of our total revenues in 2003, 2002 and 2001, respectively.

Competition. In the local access services market the 1996 Telecom Act, judicial decisions, and state legislative and regulatory developments have increased the likelihood that barriers to local telephone competition will be reduced or removed. These initiatives include requirements that ILECs negotiate with entities, including us, to provide interconnection to the existing local telephone network, to allow the purchase, at cost-based rates, of access to unbundled network elements, to establish dialing parity, to obtain access to rights-of-way and to resell services offered by the ILEC.

The 1996 Telecom Act also provides ILECs with new competitive opportunities. We

believe that we have certain advantages over these companies in providing communications services, including awareness by Alaskan customers of the GCI brand-name, our facilities-based communications network, and our prior experience in, and knowledge of, the Alaskan market.

Data obtained from the RCA indicates that there are 23 ILECs and six CLECs certified to operate in the State of Alaska. We compete against ACS, the ILEC in Anchorage, Juneau and Fairbanks, and with AT&T Corp. in the Anchorage service area. AT&T Corp. offers local exchange service only to residential customers through total service resale. We also compete in the business market against TelAlaska Long Distance, Inc. ("TelAlaska") in the Anchorage service area.

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ACS, through subsidiary companies, provides local telephone services in Fairbanks and Juneau, Alaska. These ACS subsidiaries are classified as Rural Telephone Companies under the 1996 Telecom Act, which entitles them to an exemption of certain material interconnection terms of the 1996 Telecom Act, until and unless such "rural exemption" is examined and discontinued by the RCA. On October 11, 1999, the RCA issued an order terminating rural exemptions for the ACS subsidiaries operating in the Fairbanks and Juneau markets so that we could compete with these companies in the provision of local telephone service pursuant to the terms of Section 251(c) of the 1996 Telecom Act. These rural exemptions limited the obligation of the ILECs in these markets to provide us access to UNEs at rates under the pricing standard established by the FCC.

Upon appeal by ACS, on December 12, 2003, the Alaska Supreme Court issued a decision in which it reversed the RCA's rural exemption decision on the procedural ground that the competitor, not the incumbent, must shoulder the burden of proof. The Court remanded the matter to the RCA for reconsideration with the burden of proof assigned to us. Additionally, the Court left it to the RCA to decide as a matter of discretion whether to change the state of competition during the remand period. In accordance with the Court's ruling, the RCA has re-opened the rural exemption dockets and scheduled a hearing to commence on April 19, 2004. Additionally, the RCA issued a ruling on January 16, 2004, in which the Commission determined that we can continue to rely on UNEs from ACS to serve our existing customers in Juneau and Fairbanks but that we may not serve new customers through purchase of UNEs pending the completion of the remand proceeding. Until this matter is resolved, we may serve new customers using wholesale resale. The outcome of this proceeding could result in a change in our cost of serving these markets via the facilities of ACS or via wholesale offerings and could adversely impact our ability to offer local telephone service in these markets. We believe it is unlikely that the rural exemptions will be restored in these markets; however, if they are restored, we could be forced to discontinue providing service to residential customers and perhaps to commercial customers in these locations.

We expect further competition in the marketplaces we serve as other companies may receive certifications. The Company expects competition in business customer telephone access, Internet access, DSL and Private Line markets.

We continue to offer local exchange services to substantially all consumers in the Anchorage, Juneau and Fairbanks service areas, primarily through our own facilities and unbundled local loops leased from ACS.

Our local services sales efforts continue to focus on increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature up-sale opportunities. We sell our local services through telemarketing, direct mail advertising, up selling by our customer service personnel, and door-to-door selling.

You should see "Part I -- Item 1 -- Business, Regulation, Franchise Authorizations and Tariffs -- Communications Operations" for more information.

Internet Services

Industry. The Internet continues to expand at a significant rate. The Internet Systems Consortium reports that approximately 233 million web sites were hosted at the end of January 2004, an increase of 35% from 172 million at the end of January 2003. The FCC reports that the percent of U. S. households with a computer grew from 39% in 1997 to 56% in 2001, and that the percent of households with Internet access increased from 19% to 50% during the same period.

Dial-up Internet service continues to be the most widely used method to access the Internet. As of year-end 2003, an estimated 57% of U. S. Internet connected households were reported by Nielsen//NetRatings to access the Internet using dial-up modems. Growth in the proportion of households accessing the Internet with broadband connections has accelerated and is expected to exceed dial-up modem access within several years. We believe high-speed Internet access will likely become the dominant access method for residential Internet users as broadband becomes more widely available, more flexibly priced, and as new kinds of

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entertainment, content and services emerge. Jupiter Research estimate that 50%

of all United States Internet homes are forecast to use broadband connections by 2008.

The FCC reported that high-speed lines (those that provide services at speeds exceeding 200 kbps in at least one direction) connecting homes and businesses to the Internet increased by 23% during the second half of 2002, from 16.2 million to 19.9 million lines, compared to a 27% increase, from 12.8 million to 16.2 million lines, during the first half of 2002. Approximately 17.4 million of the 19.9 million total lines served residential and small business subscribers, a 24% increase from the 14.0 million lines reported six months earlier.

The FCC further reported that of the 19.9 million high-speed lines, 13.0 million provided advanced services, i.e., services at speeds exceeding 200 kbps in both directions. Advanced services lines increased 24% from 10.4 million lines to 13.0 million lines during the second half of 2002. Advanced services lines increased 41% from 7.4 million to 10.4 million lines during the first half of 2002. Approximately 10.8 million of the 13.0 million advanced services lines served residential and small business subscribers.

Cable modem Internet access continues to be the primary means of accessing the Internet in the United States over broadband networks. Industry analysts believe that a cable network upgrade is more efficient than is a DSL network upgrade, largely because of the individual local loops that must be provisioned for DSL, with central office proximity a severe mitigating factor. In contrast, cable networks are upgraded into smaller discrete nodes. Less costly and more efficient upgrades required for cable modem DSL usage lead to greater scalability. Analysts believe that cable operators have more incentive to upgrade networks and have potentially higher returns due to the potential for new sources of revenue from digital cable, telephony and other products that are made possible from such upgrades.

DSL is the most significant broadband competitor to cable modem service, with an estimated 7 million United States subscribers through June 2003 according to FCC reports. Despite intense competition from DSL service providers, cable's offering of high-speed Internet access was reported by the FCC to have experienced customer growth of almost 19% during the first six months of 2003. The FCC reports that United States cable modem subscribers totaled an estimated 13.8 million through June 2003 as compared to 3.7 million in 2000. The FCC reported that high-speed asymmetric DSL lines in service increased by 19% during the first half of 2003, from 6.5 million to 7.7 million lines, compared to a 27% increase, from nearly 5.1 million to 6.5 million lines, during the preceding six months.

Satellite technologies currently have less than one percent of the market and are not expected to appreciably increase market share over the next several years.

Industry analysts believe that broadband deployment will continue to bring valuable new services to consumers and advance many other objectives, such as improving education advancing economic opportunities. With an estimated 73 million cable households in the United States and an estimated 57 million households owning a computer, broadband cable Internet access growth is expected to continue as new advanced services are deployed.

As state and local governments attempt to increase funding sources for their programs, taxes on Internet access continue to be debated and proposed. The Internet Tax Freedom Act was enacted in 1998 but expired in October 2001. A similar bill extended the moratorium until November 2003. A new bill (H.R. 49) is under review by the House of Representatives to permanently extend the tax moratorium. A similar bill (S. 52) is under review by the Senate Committee on Commerce, Science, and Transportation. The bills would make permanent the moratorium on taxes on Internet access, regardless of the speed of that access, and on multiple or discriminatory taxes on electronic commerce. Analysts believe that keeping the Internet free of such taxes will create an environment for innovation and will ensure that electronic commerce will remain a vital and growing part of the economy of the United States.

See "Part I -- Item I -- Business, Regulation, Franchise Authorizations and Tariffs -- Internet Services" for more information.

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General. Our Internet services division entered the Internet services market in 1998, providing retail services to residential, commercial, and government users and providing wholesale carrier services to other ISPs. We were the first provider in Anchorage to offer commercially available DSL products.

Products. We primarily offer three types of Internet access for residential use: dial-up, fixed wireless and high-speed cable modem Internet access. Our residential high-speed cable modem Internet service offers up to 2.4 Mbps access speeds as compared with up to 56 kbps access through standard copper wire dial-up modem access. Our fixed wireless offers low speed 64 kbps and higher speed 256 kbps versions. We provide 24-hour customer service and technical support via telephone or online. The entry-level cable modem service also offers free data transfer up to one gigabyte per month at a rate of 64 Kbps and can be connected 24-hours-a-day, 365-days-a-year, allowing for real-time information

and e-mail access. This product acts as a dialup replacement and upgrade since it is always connected and provides more efficient data transfer. Cable modems use our coaxial cable plant that provides cable television service, instead of the traditional ILEC copper wire. Coaxial cable has a much greater carrying capacity than telephone wire and can be used to simultaneously deliver both cable television (analog or digital) and Internet access services.

At the end of 2003 we launched a plan to increase the speed of our entry level broadband cable modem level service from 384 kbps to 512 kbps for new and current customers. The project was completed in January 2004. We also adjusted the speed including data transfer for all of our cable modem packages to meet the demand for higher speed access. Additional cable modem service packages tailored to both heavy residential and commercial Internet users are also available.

We currently offer several Internet service packages for commercial use: dial-up access, DSL, T-1 and fractional T-1 leased line, frame relay, multi-megabit and high-speed cable modem Internet access. Our business high-speed cable modem Internet service offers access speeds ranging from 512 kbps to 2.4 Mbps, free monthly data transfers of up to 30 gigabytes and free 24-hour customer service and technical support. Our DSL offering can support speeds of up to 768 kbps over the same copper line used for phone service. Business services also include a personalized web page, domain name services, and e-mail addressing.

We also provide dedicated access Internet service to commercial and public organizations in Alaska. We offer a premium service and currently support many of the largest organizations in the state such as Conoco Phillips Alaska, the State of Alaska and the Anchorage School District. We have hundreds of other enterprise customers, both large and small, using this service.

Bandwidth is made available to our Internet segment through our AULP undersea fiber cable system and our Galaxy XR transponders. Our Internet offerings are coupled with our long-distance, cable television, and local services offerings and provide free basic Internet services (both dialup and cable modem access) if certain plans are selected. Value-added Internet features are available for additional charges.

We provide Internet access for schools and health organizations using a platform including many of the latest advancements in technology. Services are delivered through a locally available circuit, our existing lines, and/or satellite earth stations.

Facilities. The Internet is an interconnected global public computer network of tens of thousands of packet-switched networks using the Internet protocol. The Internet is effectively a network of networks routing data throughout the world. We provide access to the Internet using a platform that includes many of the latest advancements in technology. The physical platform is concentrated in Anchorage and is extended into many remote areas of the state. Our Internet platform includes the following:

- o Our Anchorage facilities are connected to multiple Internet access points in Seattle through multiple, diversely routed networks.
- o We use multiple routers on each end of the circuits to control the flow of data and to provide resiliency.
- o Our Anchorage facility consists of routers, a bank of servers that perform support and application functions, database servers providing authentication and user demographic data, layer 2 gigabit

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switch fabrics for intercommunications and broadband services (cable modem and DSL), and access servers for dial-in users.

- o SchoolAccess(TM) Internet service delivery to over 210 schools in rural Alaska and 30 schools in Montana, New Mexico and Arizona is accomplished by three variations on primary delivery systems:
 - o In communities where we have terrestrial interconnects or provide existing service over regional earth stations, we have configured intermediate distribution facilities. Schools that are within these service boundaries are connected locally to one of those facilities.
 - o In communities where we have extended communications services via our DAMA earth station program, SchoolAccess(TM) is provided via a satellite circuit to an intermediate distribution facility at the Eagle River Earth Station.
 - o In communities or remote locations where we have not extended communications services, SchoolAccess(TM) is provided via a dedicated (usually on premise) DAMA VSAT satellite station. The DAMA connects to an intermediate distribution facility located in Anchorage.

Dedicated Internet access is delivered to a router located at the service point. Our Internet management platform constantly monitors this router; continual communications are maintained with all of the routers in the network. The availability and quality of service, as well as statistical information on traffic loading, are continuously monitored for quality assurance. The management platform has the capability to remotely access routers, permitting

changes in router configuration without the need to physically be at the service point. This management platform allows us to offer outsourced network monitoring and management services to commercial businesses. Many of the largest commercial networks in the State of Alaska use this service, including the state government.

GCI.net offers a unique combination of innovative network design and aggressive performance management. Our Internet platform has received a certification that places it in the top one percent of all service providers worldwide and is the only ISP in Alaska with such a designation. We operate and maintain what we believe is the largest, most reliable, and highest performance Internet network in the State of Alaska.

Customers. We had approximately 95,700, 89,500 and 72,700 total active residential and commercial Internet subscribers at December 31, 2003, 2002 and 2001, respectively. Included in these totals were approximately 46,000, 36,200 and 26,500 active residential and commercial cable modem Internet subscribers at December 31, 2003, 2002 and 2001, respectively. Revenues derived from Internet services totaled \$19.8 million, \$15.6 million and \$12.0 million, in 2003, 2002 and 2001, respectively, representing approximately 5.1%, 4.2% and 3.4% of our total revenues in 2003, 2002 and 2001, respectively.

Our Internet services sales efforts are primarily directed toward increasing the number of subscribers we serve, selling bundled services, and generating incremental revenues through product and feature upsale opportunities. We sell our Internet services through telemarketing, direct mail advertising, door-to-door selling, up selling by our customer service and technical support personnel, and local media advertising.

Competition. The Internet industry is highly competitive, rapidly evolving and subject to constant technological change. Competition is based upon price and pricing plans, service packages, the types of services offered, the technologies used, customer service, billing services, perceived quality, reliability and availability. As of December 31, 2003, we competed with more than seven Alaska based Internet providers, and competed with other domestic, non-Alaska based providers that provide national service coverage. Several of the providers have substantially greater financial, technical and marketing resources than we do.

ACS and other Alaska telephone service providers are providing competitive high-speed DSL services over their telephone lines in direct competition with our high-speed cable modem service. DBS providers and others provide wireless high speed Internet service in competition with our high-speed cable modem services. Competitive local fixed wireless providers are providing service in certain of our markets.

Niche providers in the industry, both local and national, compete with certain of our Internet service products, such as web hosting, list services and email.

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Marketing and Sales

Our marketing and sales strategy hinges on our ability to leverage (i) our unique position as an integrated provider of multiple communications, Internet and cable services, (ii) our well-recognized and respected brand name in the Alaskan marketplace and (iii) our leading market positions in long-distance, Internet and cable television services. By continuing to pursue a marketing strategy that takes advantage of these characteristics, we believe we can increase our residential and commercial customer market penetration and retention rates, increase our share of our customers' aggregate voice, video and data services expenditures and achieve continued growth in revenues and operating cash flow.

Environmental Regulations

We may undertake activities that, under certain circumstances may affect the environment. Accordingly, they are subject to federal, state, and local regulations designed to preserve or protect the environment. The FCC, the Bureau of Land Management, the United States Forest Service, and the National Park Service are required by the National Environmental Policy Act of 1969 to consider the environmental impact before the commencement of facility construction.

We believe that compliance with such regulations has no material effect on our consolidated operations. The principal effect of our facilities on the environment would be in the form of construction of facilities and networks at various locations in Alaska and between Alaska, Seattle, Washington, and Warrenton, Oregon. Our facilities have been constructed in accordance with federal, state and local building codes and zoning regulations whenever and wherever applicable. Some facilities may be on lands that may be subject to state and federal wetland regulation.

Uncertainty as to the applicability of environmental regulations is caused in major part by the federal government's decision to consider a change in the definition of wetlands. Most of our facilities are on leased property, and, with respect to all of these facilities, we are unaware of any violations of lease

terms or federal, state or local regulations pertaining to preservation or protection of the environment.

Our Alaska United projects consist, in part, of deploying land-based and undersea fiber optic cable facilities between Anchorage, Juneau, Seward, Valdez, and Whittier, Alaska, Seattle, Washington, and Warrenton, Oregon. The engineered routes pass over wetlands and other environmentally sensitive areas. We believe our construction methods used for buried cable have a minimal impact on the environment. The agencies, among others, that are involved in permitting and oversight of our cable deployment efforts are the United States Army Corps of Engineers, The National Marine Fisheries Service, United States Fish & Wildlife, United States Coast Guard, National Oceanic and Atmospheric Administration, Alaska Department of Natural Resources, and the Alaska Office of the Governor-Governmental Coordination. We are unaware of any violations of federal, state or local regulations or permits pertaining to preservation or protection of the environment.

In the course of operating the cable television and communications systems, we have used various materials defined as hazardous by applicable governmental regulations. These materials have been used for insect repellent, locate paint and pole treatment, and as heating fuel, transformer oil, cable cleaner, batteries, diesel fuel, and in various other ways in the operation of those systems. We do not believe that these materials, when used in accordance with manufacturer instructions, pose an unreasonable hazard to those who use them or to the environment.

Patents, Trademarks and Licenses

We do not hold patents, franchises or concessions for communications services or local access services. We do hold registered service marks for the Digistar™ logo and letters GCITM, and for the term SchoolAccess™. The Communications Act of 1934 gives the FCC the authority to license and regulate the use of the electromagnetic spectrum for radio communications. We hold licenses through our long-distance services industry segment for our satellite and microwave transmission facilities for provision of long-distance services.

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We acquired a license for use of a 30-MHz block of spectrum for providing PCS services in Alaska. We are required by the FCC to provide adequate broadband PCS service to at least two-thirds of the population in our licensed areas within 10 years of being licensed. The PCS license has an initial duration of 10 years. At the end of the license period, a renewal application must be filed. We believe renewal will generally be granted on a routine basis upon showing of compliance with FCC regulations and continuing service to the public. Licenses may be revoked and license renewal applications may be denied for cause. We expect to renew the PCS license for an additional 10-year term under FCC rules.

We acquired a LMDS license in 1998 for use of a 150-MHz block of spectrum in the 28 GHz Ka-band for providing wireless services. The LMDS license has an initial duration of 10 years. Within 10 years, licensees will be required to provide "substantial service" in their service regions. Our operations may require additional licenses in the future.

Earth stations are licensed generally for 15 years. The FCC also issues a single blanket license for a large number of technically identical earth stations (e.g., VSATs).

Regulation, Franchise Authorizations and Tariffs

The following summary of regulatory developments and legislation does not purport to describe all present and proposed federal, state, and local regulation and legislation affecting our businesses. Other existing federal and state regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals that could change, in varying degrees, the manner in which these industries operate. We cannot predict at this time the outcome of these proceedings and legislation, their impact on the industries in which we operate, or their impact on us.

Communications Operations

General. We are subject to regulation by the FCC and by the RCA as a non-dominant provider of long-distance services. We file tariffs with the FCC for interstate access and operator services, and limited international long-distance services, subject to the FCC's mandatory detariffing policies, and with the RCA for intrastate service. Such tariffs routinely become effective without intervention by the FCC, RCA or other third parties since we are a non-dominant carrier. Military franchise requirements also affect our ability to provide communications and cable television services to military bases.

The 1996 Telecom Act preempts state statutes and regulations that restrict the provision of competitive local communications services. State commissions can, however, impose reasonable terms and conditions upon the provision of communications services within their respective states. Because we are authorized to offer local access services, we are regulated as a CLEC by the RCA. In addition, we are subject to other regulatory requirements, including

certain requirements imposed by the 1996 Telecom Act on all LECs, which requirements include permitting resale of LEC services, local number portability, dialing parity, and reciprocal compensation.

As a PCS and LMDS licensee, we are subject to regulation by the FCC, and must comply with certain build-out and other conditions of the license, as well as with the FCC's regulations governing the PCS and LMDS services (described above). On a more limited basis, we may be subject to certain regulatory oversight by the RCA (e.g., in the areas of consumer protection), although states are not permitted to regulate the rates or entry of PCS, LMDS and other commercial wireless service providers. PCS and LMDS licensees may also be subject to regulatory requirements of local jurisdictions pertaining to, among other things, the location of tower facilities.

Rural Exemption. ACS, through subsidiary companies, provides local telephone services in Fairbanks and Juneau, Alaska. These ACS subsidiaries are classified as Rural Telephone Companies under the 1996 Telecom Act, which entitles them to an exemption of certain material interconnection terms of the 1996 Telecom Act, until and unless such "rural exemption" is examined and discontinued by the RCA. On October 11, 1999, the RCA issued an order terminating rural exemptions for the ACS subsidiaries operating in the Fairbanks and

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Juneau markets so that we could compete with these companies in the provision of local telephone service pursuant to the terms of Section 251(c) of the 1996 Telecom Act. These rural exemptions limited the obligation of the ILECs in these markets to provide us with access to unbundled network elements at rates under the pricing standard established by the FCC. Upon appeal by ACS, on December 12, 2003, the Alaska Supreme Court issued a decision in which it reversed the RCA's rural exemption decision on the procedural ground that the competitor, not the incumbent, must shoulder the burden of proof. The Court remanded the matter to the RCA for reconsideration with the burden of proof assigned to us. Additionally, the Court left it to the RCA to decide as a matter of discretion whether to change the state of competition during the remand period. In accordance with the Court's ruling, the RCA has re-opened the rural exemption dockets and scheduled a hearing to commence on April 19, 2004. Additionally, the RCA issued a ruling on January 16, 2004, in which the Commission determined that we can continue to rely on unbundled network elements from ACS to serve our existing customers in Juneau and Fairbanks but that we may not serve new customers through purchase of unbundled network elements pending the completion of the remand proceeding. Until this matter is resolved, we may serve new customers using wholesale resale. The outcome of this proceeding could result in a change in our cost of serving these markets via the facilities of the ILEC or via wholesale offerings and could adversely impact our ability to offer local telephone service in these markets. We believe it is unlikely that the rural exemptions will be restored in these markets; however, if they are restored, we could be forced to discontinue providing service to residential customers and perhaps to commercial customers in these locations.

Access Fees. The FCC regulates the fees that local telephone companies charge long-distance companies for access to their local networks. In 2001, the FCC adopted a plan to restructure access charges for rate-of-return regulated carriers, which has the effect of shifting certain charges from IXC's to end users. The FCC is continuing to monitor the access charge regime and could consider other proposals that would restructure and could reduce access charges. Changes in the access charge structure or the introduction of new technologies that are not subject to the access charge structure could fundamentally change the economics of some aspects of our business.

Access to Unbundled Network Elements. The United States Court of Appeals for the Circuit of the District of Columbia heard argument on January 28, 2004 on appeal of the FCC's Triennial Review Order, in which the FCC reviewed its regulations governing access that ILECs must make available to competitors to unbundled network elements pursuant to Section 251(c) of the 1996 Telecom Act. On March 2, 2004, the Court issued a decision affirming in part, vacating in part, and remanding in part the FCC's Order. In addition, the RCA is in the process of reviewing in a separate proceeding the extent to which ACS may not be required to continue offering access to certain unbundled network elements, in accordance with guidelines established by the FCC in the Triennial Review Order. This RCA decision is expected by July 2, 2004. We cannot predict the extent to which further appeals of the March 2, 2004 decision or the decision itself will affect the pending RCA proceeding. In addition, the outcome of either further court appeals or the regulatory proceeding could result in a change in our cost of serving new and existing markets via the facilities of the ILEC or via wholesale offerings. The ability to obtain unbundled network elements is an important element of our local access services business, and we believe that the FCC's actions in this area have generally been positive. However, we cannot predict the extent to which the existing rules will be sustained in the face of additional legal action and the scope of the rules that are yet to be determined by the FCC.

The FCC has pending a notice of proposed rulemaking in which it is currently reviewing its pricing standard that governs the rates ILECs may charge competitors for access to unbundled network elements. The outcome of this regulatory proceeding could result in a change in our cost of serving new and

existing markets via the facilities of the ILEC or via wholesale offerings. Recurring and non-recurring charges for telephone lines and other unbundled network elements may increase based on the rates proposed by the ILECs and approved by the RCA from time to time, which could have an adverse effect on our financial position, results of operations or liquidity.

We are currently involved in arbitration to revise the rates, terms, and conditions that govern GCI's access to unbundled network elements in Anchorage, and a RCA decision is pending. In addition, the proceeding to arbitrate revised rates, terms, and conditions to govern GCI's access to unbundled network elements in

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Fairbanks and Juneau is being held in abeyance, pending the RCA's decision in the Anchorage arbitration. We have been largely successful in the prior arbitration proceedings as to the material terms, including prices and technical issues; however, the RCA's decisions in these proceedings could result in a change in our costs of serving new and existing markets via the facilities of the ILEC or via wholesale offerings.

Critics continue to ask Congress to modify, if not altogether rework, the 1996 Telecom Act, citing the level of competition in the local phone and broadband sectors. There is a lack of consensus on what changes are needed, however, or who is to blame for the 1996 Telecom Act's perceived failures. Loosened regulations on ILECs that control bottleneck facilities could diminish CLEC local phone competition.

Universal Service. We have qualified under FCC regulations as a competitive "eligible telecom carrier," or ETC, with respect to our provision of local telephone service in Anchorage, Fairbanks, and Juneau. ETCs are entitled to receive subsidies paid by the Universal Service Fund. If we do not continue to qualify for this status in Anchorage, Fairbanks and/or Juneau, or if we do not qualify for this status in other rural areas where we propose to offer new services, we would not receive this subsidy and our net cost of providing local telephone services in these areas would be materially adversely affected.

In addition, the FCC has referred issues concerning the designation of ETCs, portability of support, and the basis for calculating support to a Federal-State Joint Board on Universal Service. On February 27, 2004, the Joint Board issued a recommendation on which the FCC will have 12 months to act. The FCC's decision in this proceeding could affect the subsidy and result in a change in our net costs of providing local telephone services in new and existing markets.

Local Regulation. We may be required to obtain local permits for street opening and construction permits to install and expand our networks. Local zoning authorities often regulate our use of towers for microwave and other communications sites. We also are subject to general regulations concerning building codes and local licensing. The 1996 Telecom Act requires that fees charged to communications carriers be applied in a competitively neutral manner, but there can be no assurance that ILECs and others with whom we will be competing will bear costs similar to those we will bear in this regard.

Cable Services Operations

General. The FCC has adopted rules that will require cable operators to carry the digital signals of broadcast television stations. However, the FCC has decided that cable operators should not be required to carry both the analog and digital services of broadcast television stations while broadcasters are transitioning from analog to digital transmission. Carrying both the analog and digital services of broadcast television stations would consume additional cable capacity. As a result, a requirement to carry both analog and digital services of broadcast television stations could require the removal of popular programming services with materially adverse results for cable operators, including us. Should the FCC mandate dual carriage, we will carry the broadcast signals in both analog and digital formats.

Subscriber Rates. In Alaska, the RCA is the local franchising authority certified to regulate basic cable rates. Under state law, however, the cable television service is exempt from regulation unless subscribers petition the state commission for regulation under the procedures set forth in AS 42.05.712. At present, the only community where regulation of the basic rate occurs is in Juneau.

FCC regulations govern rates that may be charged to subscribers for regulated services. The FCC uses a benchmark methodology as the principal method of regulating rates. Cable operators are also permitted to justify rates using a cost-of-service methodology, which contains a rebuttable presumption of an industry-wide 11.25% rate of return on an operator's allowable rate base. Cost-of-service regulation is a traditional form of rate regulation, under which a company is allowed to recover its costs of providing the regulated service, plus a reasonable profit. Franchising authorities are empowered to regulate the rates charged for monthly basic service, for additional outlets and for the installation, lease and sale of equipment used by subscribers to receive the basic cable service tier, such as converter boxes and remote control units. The FCC's rules require franchising authorities to regulate these rates based on

actual cost plus a reasonable profit, as defined by the

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FCC. Cable operators required to reduce rates may also be required to refund overcharges with interest. The FCC has also adopted comprehensive and restrictive regulations allowing operators to modify their regulated rates on a quarterly or annual basis using various methodologies that account for changes in the number of regulated channels, inflation and increases in certain external costs, such as franchise and other governmental fees, copyright and retransmission consent fees, taxes, programming fees and franchise-related obligations. We cannot predict whether the FCC will modify these "going forward" regulations in the future.

Cable System Delivery of Internet Service. Although there is at present no significant federal regulation of cable system delivery of Internet services, and the FCC has issued several reports finding no immediate need to impose such regulation, this situation may change as cable systems expand their broadband delivery of Internet services and as a result of legislative, regulatory and judicial developments.

In particular, proposals have been advanced at the FCC and Congress that would require cable operators to provide access to unaffiliated Internet service providers and online service providers.

Recently, in an October 6, 2003 decision, the United States Court of Appeals for the Ninth Circuit reversed an FCC decision defining high-speed Internet over cable as an "information service" not subject to local cable-franchise fees, like cable service is, or any explicit requirements for "open access," as communications service is. Rehearing by the full panel has been requested. If Internet access requirements are imposed on cable operators, it could burden the capacity of cable systems and complicate our own plans for providing expanded Internet access services. These access obligations could adversely affect our financial position, results of operations or liquidity.

Must Carry/Retransmission Consent. The 1992 Cable Act contains broadcast signal carriage requirements that allow local commercial television broadcast stations to elect once every three years to require a cable system to carry the station, subject to certain exceptions, or to negotiate for "retransmission consent" to carry the station.

The FCC decided against imposition of dual digital and analog must carry in a January 2001 ruling. The ruling resolved a number of technical and legal matters, and clarified that a digital-only television station, commercial or non-commercial, can immediately assert its right to carriage on a local cable system. The FCC also said that a television station that returns its analog spectrum and converts to digital operations must be carried by local cable systems. At the same time, however, it initiated further fact gathering that ultimately could lead to a reconsideration of the conclusion.

Satellite Home Viewer Improvement Act of 1999. A major change introduced by the SHVIA was a "local into local" provision allowing satellite carriers, for the first time, to retransmit the signals of local television stations by satellite back to viewers in their local markets. The intent was to promote multichannel video competition by removing the prohibition on satellite retransmission of local signals, which cable operators already offered to their subscribers under the must-carry/retransmission consent scheme of regulation described above. Congress is considering reauthorization of this act, including possible changes to its requirements. We cannot predict at this time the outcome of this review, its impact on the industries in which we operate, or its impact on us.

Access to Programming. To spur the development of independent cable programmers and competition to incumbent cable operators, the 1992 Cable Act imposed restrictions on the dealings between cable operators and cable programmers. The Act precludes video programmers affiliated with cable companies from favoring their cable operators over new competitors and requires such programmers to sell their programming to other multichannel video distributors. The current prohibition extends until October 5, 2007.

Franchise Procedures. The 1984 Cable Act contains renewal procedures designed to protect incumbent franchisees against arbitrary denials of renewal. The 1992 Cable Act made several changes to the renewal process that could make it easier for a franchising authority to deny renewal. Moreover, even if the franchise is renewed, the franchising authority may seek to impose new and more onerous requirements such as significant upgrades in facilities and services or increased franchise fees as a condition of renewal. Similarly, if

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a franchising authority's consent is required for the purchase or sale of a cable system or franchise, such authority may attempt to impose more burdensome or onerous franchise requirements in connection with a request for such consent. Historically, franchises have been renewed for cable operators that have provided satisfactory services and have complied with the terms of their franchises. We believe that we have generally met the terms of our franchises and have provided quality levels of service. Furthermore, our franchises are issued by the state public utility commission (the RCA) and do not require

periodic renewal.

Various courts have considered whether franchising authorities have the legal right to limit the number of franchises awarded within a community and to impose certain substantive franchise requirements (e.g. access channels, universal service and other technical requirements). These decisions have been inconsistent and, until the United States Supreme Court rules definitively on the scope of cable operators' First Amendment protections, the legality of the franchising process generally and of various specific franchise requirements is likely to be in a state of flux.

Pole Attachment. The Communications Act requires the FCC to regulate the rates, terms and conditions imposed by public utilities for cable systems' use of utility pole and conduit space unless state authorities can demonstrate that they adequately regulate pole attachment rates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. This formula governs the maximum rate certain utilities may charge for attachments to their poles and conduit by companies providing communications services, including cable operators.

The RCA has largely retained the existing pole attachment formula that has been in state regulation since 1987. This formula could be subject to further revisions upon petition to the RCA. We cannot predict at this time the outcome of any such proceedings.

Copyright. Cable television systems are subject to federal copyright licensing covering carriage of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their revenues to a federal copyright royalty pool that varies depending on the size of the system, the number of distant broadcast television signals carried, and the location of the cable system, cable operators can obtain blanket permission to retransmit copyrighted material included in broadcast signals. The United States Copyright Office adopted an industry agreement providing for an increase in the copyright royalty rates. The possible modification or elimination of this compulsory copyright license is the subject of continuing legislative review and could adversely affect our ability to obtain desired broadcast programming. We cannot predict the outcome of this legislative activity. Copyright clearances for nonbroadcast programming services are arranged through private negotiations.

Cable operators distribute locally originated programming and advertising that use music controlled by the two principal major music performing rights organizations, the American Society of Composers, Authors and Publishers and Broadcast Music, Inc. The cable industry has had a long series of negotiations and adjudications with both organizations. A prior voluntarily negotiated agreement with Broadcast Music has now expired, and is subject to further proceedings. The governing rate court recently set retroactive and prospective cable industry rates for American Society of Composers music based on the previously negotiated Broadcast Music rate. Although we cannot predict the ultimate outcome of these industry proceedings or the amount of any license fees we may be required to pay for past and future use of association-controlled music, we do not believe such license fees will be significant to our business and operations.

Other Statutory and FCC Provisions. The Communications Act includes provisions, among others, concerning customer service, subscriber privacy, marketing practices, equal employment opportunity, regulation of technical standards and equipment compatibility.

The FCC has various rulemaking proceedings pending implementing the 1996 Telecom Act; it also has adopted regulations implementing various provisions of the 1992 Cable Act and the 1996 Telecom Act that are the subject of petitions requesting reconsideration of various aspects of its rulemaking proceedings. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of

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cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities often used in connection with cable operations.

Other Regulations of the FCC. The FCC has previously initiated an inquiry to determine whether the cable industry's future provision of interactive services should be subject to regulations ensuring equal access and competition among service vendors. The inquiry is another indication of regulatory concern regarding control over cable capacity. In addition, other bills and administrative proposals pertaining to cable communications are introduced in Congress from time to time or have been considered by other governmental bodies over the past several years. It is possible that Congress and other governmental bodies will make further attempts to regulate cable communications services.

State and Local Regulation. Because our cable communications systems use local streets and rights-of-way, our systems are subject to state and local regulation. Cable communications systems generally are operated pursuant to franchises, permits or licenses granted by a municipality or other state or local government entity. In Alaska, the RCA is the franchising authority for the

state. We provide cable television service throughout Alaska pursuant to various certificates of authority issued by the RCA. These certificates are not subject to terms of renewal and continue in effect until and unless the state commission were to seek to modify or revoke them for good cause.

Internet Operations

General. With significant growth in Internet activity and commerce over the past several years the FCC and other regulatory bodies have been challenged to develop new models that allow them to achieve the public policy goals of competition and universal service. Many aspects of regulation and coordination of Internet activities and traffic are evolving and are facing unclear regulatory futures. Changes in regulations and in the regulatory environment, including changes that affect communications costs or increase competition from ILECs or other communications services providers, could adversely affect the prices at which we sell ISP services.

Internet Governance and Standards. There is no one entity or organization that governs the Internet. Each facilities-based network provider that is interconnected with the global Internet controls operational aspects of their own network. Certain functions, such as domain name routing and the definition of the TCP/IP protocol, are coordinated by an array of quasi-governmental, intergovernmental, and non-governmental bodies.

The legal authority of any of these bodies is unclear. Most of the underlying architecture of the Internet was developed under the auspices, directly or indirectly, of the United States government. The government has not, however, defined whether it retains authority over Internet management functions, or whether these responsibilities have been delegated to the private sector.

1996 Telecom Act. The 1996 Telecom Act provides little direct guidance as to whether the FCC has authority to regulate Internet-based services.

Given the absence of clear statutory guidance, the FCC must determine whether it has the authority or the obligation to exercise regulatory jurisdiction over specific Internet-based activities, or to decline from doing so under the appropriate standards.

FCC Regulations. The FCC does not regulate the prices charged by ISPs or Internet backbone providers. However, the vast majority of users connect to the Internet over facilities of existing communications carriers. Those communications carriers are subject to varying levels of regulation at both the federal and the state level. Thus, regulatory decisions exercise a significant influence over the economics of the Internet market. There are pending complaints and proceedings at the FCC that may affect access charges, compensation and other aspects of Internet service, and we cannot predict the effect or outcome of such proceedings.

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Financial Information about our Foreign and Domestic Operations and Export Sales

Although we have several agreements to help originate and terminate international toll traffic, we do not have foreign operations or export sales. We conduct our operations throughout the western contiguous United States and Alaska and believe that any subdivision of our operations into distinct geographic areas would not be meaningful. Revenues associated with international toll traffic were \$2.9 million, \$3.5 million and \$4.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Seasonality

Our long-distance revenues have historically been highest in the summer months because of temporary population increases attributable to tourism and increased seasonal economic activity such as construction, commercial fishing, and oil and gas activities. Our cable television revenues, on the other hand, are higher in the winter months because consumers tend to watch more television, and spend more time at home, during these months. Our local service and Internet operations are not expected to exhibit significant seasonality, with the exception of SchoolAccess(TM) Internet services that are reduced during the summer months. Our ability to implement construction projects is also reduced during the winter months because of cold temperatures, snow and short daylight hours.

Customer-Sponsored Research

We have not expended material amounts during the last three fiscal years on customer-sponsored research activities.

Backlog of Orders and Inventory

As of December 31, 2003 and 2002, our long-distance services segment had a backlog of Private Line orders of approximately \$271,000 and \$318,000, respectively, which represents recurring monthly charges for Private Line and broadband services. As of December 31, 2003 and 2002, we had a backlog of equipment sales orders of approximately \$745,000 and \$601,000, respectively for

services included in the All Other category described in note 13 to the "Notes to Consolidated Financial Statements" included in Part II of this Report. The increase in backlog as of December 31, 2003 can be attributed to increased outstanding sales orders at December 31, 2003 as compared to 2002. We expect that all of the Private Line orders and equipment sales in backlog at the end of 2003 will be delivered during 2004.

Geographic Concentration and Alaska Economy

We offer voice and data communications and video services to customers primarily in the State of Alaska. Because of this geographic concentration, growth of our business and operations depend upon economic conditions in Alaska. The economy of the State of Alaska is dependent upon natural resource industries, in particular oil production, as well as investment earnings (including earnings from the State of Alaska Permanent Fund), tourism, government, and United States military spending. Any deterioration in these markets could have an adverse impact on us. Oil revenues are now the second largest source of state revenues, following funds from federal sources. The economic stagnation in the Lower 48 States appears to have dampened demand for services provided by our large common carrier customers. To the extent that these customers experience reduced demand for traffic destined for and originating in Alaska, it could adversely affect our common carrier traffic and associated revenues. See "Part I -- Item 1 -- Business -- Risks Relating to Our Business and Operations -- Our business is currently geographically concentrated in Alaska," and "Part II -- Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information about the effect of geographic concentration and the Alaska economy on us.

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Factors That May Affect Our Business and Future Results

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. Any of the following risks could materially and adversely affect our business, financial position, results of operations or liquidity.

Risks Relating to Our Business and Operations

We face competition that may reduce our market share and harm our financial performance.

There is substantial competition in the communications industry. The traditional dividing lines between long-distance telephone, local telephone, wireless telephone, Internet, and video services are increasingly becoming blurred. Through mergers and various service integration and product bundling strategies, major providers are striving to provide integrated communications services offerings within and across geographic markets.

We expect competition to increase as a result of the rapid development of new technologies, products and services. We cannot predict which of many possible future technologies, products or services will be important to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on marketing and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, economic conditions and pricing strategies by competitors. To the extent we do not keep pace with technological advances or fail to timely respond to changes in competitive factors in our industry and in our markets, we could lose market share or experience a decline in our revenue and net income. Competitive conditions create a risk of market share loss and the risk that customers shift to less profitable lower margin services. Competitive pressures also create challenges for our ability to grow new businesses or introduce new services successfully and execute our business plan. Each of our business segments also faces the risk of potential price cuts by our competitors that could materially adversely affect our market share and gross margins.

Long-distance services. The long-distance industry is intensely competitive and subject to constant technological change. Competition is based upon price and pricing plans, the type of services offered, customer service, billing services, performance, perceived quality, reliability and availability. Current or future competitors could be substantially larger than we are, or have greater financial, technical and marketing resources than we do.

In the long-distance market, we compete against AT&T Alascom, ACS, the Matanuska Telephone Association and certain smaller rural local telephone carrier affiliates. There is also the possibility that new competitors will enter the Alaska market. In addition, wireless services continue to grow as an alternative to wireline services as a means of reaching customers.

Historically, we have competed in the long-distance market by offering discounts from rates charged by our competitors and by providing desirable packages of services. Discounts have been eroded in recent years due to lowering of prices by AT&T Alascom and entry of other competitors into the long-distance markets we serve. In addition, our competitors offer their own packages of services. If

competitors lower their rates further or develop more attractive packages of services, we may be forced to reduce our rates or add additional services, which would have a material adverse effect on our financial position, results of operations or liquidity.

Cable Services. Our cable television systems face competition from alternative methods of receiving and distributing television signals, including DBS and digital video over telephone lines, and from other sources of news, information and entertainment such as off-air television broadcast programming, newspapers, movie theaters, live sporting events, interactive computer services, Internet services and home video products, including videotape cassettes and video disks. Our cable television systems also face competition from potential overbuilds of our existing cable systems by other cable television operators and alternative methods of receiving and distributing television signals. The extent to which our cable television systems are

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competitive depends, in part, upon our ability to provide quality programming and other services at competitive prices.

Our greatest source of competition for video services comes from the DBS industry. We also are subject to digital video over telephone line competition in the Mat-Su Valley. With the addition of Anchorage local broadcast stations, increased marketing, ILEC and DBS alliances, and emerging technologies creating new opportunities, competition from these sources has increased and will likely continue to increase. The resulting increase in competition may adversely affect our market share and results of operations from our cable television segment.

Local Telephone Services. In the local telephone market, we compete against ACS, the ILEC, in Anchorage, Juneau and Fairbanks. We also compete against AT&T Alascom and TelAlaska in Anchorage. We may provide local telephone service in other locations in the future where we would face other competitors. In the local telephone services market, the 1996 Telecom Act, judicial decisions and state legislative and regulatory developments have increased the likelihood that barriers to local telephone competition will be substantially reduced or removed. These initiatives include requirements that LECs negotiate with entities, including us, to provide interconnection to the existing local telephone network, to allow the purchase, at cost-based rates, of access to unbundled network elements, to establish dialing parity, to obtain access to rights-of-way and to resell services offered by the ILEC. We have been able to obtain interconnection, access and related services from the LECs at rates that allow us to offer competitive services. However, if we are unable to continue to obtain these services and access at acceptable rates, our ability to offer local telephone services, and our revenues and net income, could be materially adversely affected. To date, we have been successful in capturing a significant portion of the local telephone market in the locations where we are offering these services. However, there can be no assurance that we will continue to be successful in attracting or retaining these customers.

Internet Services. The Internet industry is highly competitive, rapidly evolving and subject to constant technological change. Competition is based upon price and pricing plans, service packages, the types of services offered, the technologies used, customer service, billing services, perceived quality, reliability and availability. We compete with several Alaska-based Internet providers and other domestic, non-Alaska based providers. Several of the providers have substantially greater financial, technical and marketing resources than we do.

ACS and other Alaska telephone service providers are providing competitive high-speed Internet access over their telephone lines in direct competition with our high-speed cable modem service. DBS providers and others also provide wireless high-speed Internet service in competition with our high-speed cable modem services. Competitive local fixed wireless providers are providing service in certain of our markets.

Niche providers in the industry, both local and national, compete with certain of our Internet service products, such as web hosting, list services and email.

The regulatory and legislative environment creates challenges for our business segments.

Local Telephone Services. Our success in the local telephone market depends on our continued ability to obtain interconnection, access and related services from ILECs on terms that are just and reasonable and that are based on the cost of providing these services. Our local telephone services business faces the risk of the impact of implementing current regulations and legislation, unfavorable changes in regulation or legislation or the introduction of new regulations. Our ability to enter into the local telephone market depends on our negotiation or arbitration with ILECs to allow interconnection to the carrier's existing local telephone network, to allow the purchase, at cost-based rates, of access to unbundled network elements, to establish dialing parity, to obtain access to rights-of-way and to resell services offered by the ILEC. In most Alaska markets, it also depends on our ability to have the rural exemption for certain carriers terminated, so these carriers are obligated to provide access to unbundled network elements at economic costs. Future arbitration and rural

exemption proceedings with respect to new or existing markets could result in a change in our cost of serving these markets through the facilities of the ILEC or via wholesale offerings.

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ACS, through subsidiary companies, provides local telephone services in Fairbanks and Juneau, Alaska. These ACS subsidiaries are classified as Rural Telephone Companies under the 1996 Telecom Act, which entitles them to an exemption of certain material interconnection terms of the 1996 Telecom Act, until and unless such rural exemption is examined and discontinued by the RCA. On October 11, 1999, the RCA issued an order terminating rural exemptions for the ACS subsidiaries operating in the Fairbanks and Juneau markets so that we could compete with these companies in the provision of local telephone service pursuant to the terms of Section 251(c) of the 1996 Telecom Act. These rural exemptions limited the obligation of the ILECs in these markets to provide us access to unbundled network elements at rates under the pricing standard established by the FCC. Upon appeal by ACS, on December 12, 2003, the Alaska Supreme Court issued a decision in which it reversed the RCA's rural exemption decision on the procedural ground that the competitor, not the incumbent, must shoulder the burden of proof. The Court remanded the matter to the RCA for reconsideration with the burden of proof assigned to us. Additionally, the Court left it to the RCA to decide as a matter of discretion whether to change the state of competition during the remand period. In accordance with the Court's ruling, the RCA has re-opened the rural exemption dockets and scheduled a hearing to commence on April 19, 2004. Additionally, the RCA issued a ruling on January 16, 2004, in which the Commission determined that we can continue to rely on unbundled network elements from ACS to serve our existing customers in Juneau and Fairbanks but that we may not serve new customers through purchase of unbundled network elements pending the completion of the remand proceeding. Until this matter is resolved, we may serve new customers using wholesale resale. The outcome of this proceeding could result in a change in our cost of serving these markets via the facilities of ACS or via wholesale offerings and could adversely impact our ability to offer local telephone service in these markets. We believe it is unlikely that the rural exemptions will be restored in these markets; however, if they are restored, we could be forced to discontinue providing service to residential customers and perhaps to commercial customers in these locations.

Cable Services. The cable television industry is subject to extensive regulation at various levels, and many aspects of such regulation are currently the subject of judicial proceedings and administrative or legislative proposals. The law permits certified local franchising authorities to order refunds of rates paid in the previous 12-month period determined to be in excess of the reasonable rates. It is possible that rate reductions or refunds of previously collected fees may be required of us in the future by state or federal regulators. Currently, pursuant to Alaska law, the basic cable rates in Juneau are the only rates in Alaska subject to regulation by the local franchising authority, and the rates in Juneau were reviewed and approved by the RCA in October 2000.

Other existing federal regulations, including copyright licensing rules, are currently the subject of judicial, legislative, and administrative review that could change, in varying degrees, the manner in which cable television systems operate. Neither the outcome of these proceedings nor their impact upon the cable television industry in general, or on our activities and prospects in the cable television business in particular, can be predicted at this time. There can be no assurance that future regulatory actions taken by Congress, the FCC or other federal, state or local government authorities will not have a material adverse effect on our business, financial position, results of operations or liquidity.

Proposals may be made before Congress and the FCC to mandate cable operators provide "open access" over their cable systems to Internet service providers. The FCC has declined to impose such requirements through the date of this report. If the FCC or other authorities mandate additional access to our cable systems, we cannot predict the effect that this would have on our Internet service offerings.

Internet Services. Changes in the regulatory environment relating to the Internet access market, including changes in legislation, FCC regulation, judicial action or local regulation that affect communications costs or increase competition from the ILEC or other communications services providers, could adversely affect the prices at which we sell Internet services.

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We depend on a small number of customers for a substantial portion of our revenue and business.

For the year ended December 31, 2003, we provided long-distance services (excluding Private Lines and other revenue) to MCI and to Sprint, which generated combined revenues of approximately 19.5% of our total revenues for that year. These two customers are free to seek out long-distance communications services from our competitors upon expiration of their contracts (in July 2008 in the case of MCI, and in March 2007 in the case of Sprint) or earlier upon a default or the occurrence of a force majeure event or a substantial change in applicable law or regulation under the applicable contract.

Mergers and acquisitions in the communications industry are relatively common. If a change in control of MCI or Sprint were to occur, it would not permit them to terminate their existing contracts with us, but could in the future result in the termination of or a material adverse change in our relationships with them. In addition, MCI's and Sprint's need for our long-distance services depends directly upon their ability to obtain and retain their own long-distance customers and upon the needs of those customers for long-distance services.

The loss of one or both of MCI or Sprint as customers, a material adverse change in our relationships with either of them, or a material loss of or reduction in their long-distance customers would have a material adverse effect on our financial position, results of operations or liquidity.

Our major customer, MCI, is in bankruptcy.

On July 21, 2002, MCI and substantially all of its active United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court. Chapter 11 allows a company to continue operating in the ordinary course of business in order to maximize recovery for the company's creditors and shareholders. On July 22, 2003, the Bankruptcy Court affirmed all of our existing contracts with MCI and allowed us the right to, in lieu of collecting our pre-petition claim of approximately \$12.9 million, set-off certain of our pre-petition accounts receivable from MCI against amounts payable for future services purchased by us from MCI. The amount of the set-off right was initially approximately \$11.1 million on July 22, 2003 and as of December 31, 2003, we have set-off rights remaining totaling approximately \$7.9 million.

On October 31, 2003, MCI's reorganization plan was approved by the United States Bankruptcy Court. MCI requested in February 2004 that the United States Bankruptcy Court for the Southern District of New York approve a 60-day extension to the February 28, 2004 deadline to emerge from bankruptcy. An extension to the deadline would give MCI time to complete financial filings with the SEC. The financial filings are reported to be the last major task left for MCI to emerge from bankruptcy. We cannot predict what effect MCI's bankruptcy and reorganization process may have on MCI's demand for our services.

Our businesses are currently geographically concentrated in Alaska.

We offer voice and data communication and video services to customers primarily in the State of Alaska. Because of this geographic concentration, our growth and operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon natural resource industries, in particular oil production, as well as tourism, government spending and United States military spending. Any deterioration in these markets could have an adverse impact on the demand for communication and cable television services and on our results of operations and financial condition. In addition, the customer base in Alaska is limited. Alaska has a population of approximately 644,000 people, approximately 42% of whom are located in the Anchorage area.

We have already achieved significant market penetration with respect to our service offerings in Anchorage and in other locations in Alaska. We may not be able to continue to increase our market share of the existing markets for our services and no assurance can be given that the Alaskan economy will continue to grow and increase the size of the markets we serve or increase the demand for the services we offer. As a result, the best opportunities for expanding our business may arise in other geographic areas such as the Lower 48 States. There can be no assurance that we will find attractive opportunities to grow our businesses outside the

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State of Alaska or that we will have the necessary expertise to take advantage of such opportunities. The markets in Alaska for voice and data communications and video services are unique and distinct within the United States due to Alaska's large geographical size and its distance from the rest of the United States. The expertise we have developed in operating our businesses in the State of Alaska may not provide us with the necessary expertise to successfully enter other geographic markets.

We may not develop our wireless services.

We offer wireless mobile services by reselling other providers' wireless mobile services. We offer wireless local telephone services over our own facilities, and have purchased PCS and LMDS wireless broadband licenses in FCC auctions covering markets in Alaska. We have fewer subscribers to our wireless services than to our other service offerings. The geographic coverage of our wireless services is also smaller than the geographic coverage of our other services. Some of our competitors offer or propose to offer an integrated bundle of communications, entertainment and information services, including wireless services. If we are unable to expand and further develop our wireless services, we may not be able to meet the needs of customers who desire packaged services, and our competitors who offer these services would have an advantage. This could result in the loss of market share for our other service offerings.

As a PCS and LMDS licensee, we are subject to regulation by the FCC, and must comply with certain build-out and other conditions of the licenses, as well as with the FCC's regulations governing the PCS and LMDS services. The conditions of our PCS licenses require us to meet certain build-out requirements on or before July, 2005. We may not meet these build-out requirements and, as a result, we could lose our PCS license.

Our efforts to deploy DLPS may be unsuccessful.

An element of our business strategy is to deploy voice telephone service utilizing our hybrid fiber coax cable facilities. If we are able to deploy this service, we will be able to utilize our own cable facilities to provide local access to our customers and avoid paying local loop charges to the ILEC. To successfully deploy this service, we must integrate new technology with our existing facilities. The viability of this service depends on the adoption of industry-wide standards for the sending and receiving of voice communications over cable facilities and the availability of the equipment necessary to provide the service at a cost-effective price. The deployment of this service may require additional substantial capital investment by us. If we are unable to successfully deploy DLPS, we will not be able to recover any capital investment we may make and the margins on our local telephone services business will not improve.

Prolonged service interruptions could affect our business.

We rely heavily on our network equipment, communications providers, data and software, to support all of our functions. We rely on our networks and the networks of others for substantially all of our revenues. We are able to deliver services only to the extent that we can protect our network systems against damage from power or communication failures, computer viruses, natural disasters, unauthorized access and other disruptions. While we endeavor to provide for failures in the network by providing back-up systems and procedures, we cannot guarantee that these back-up systems and procedures will operate satisfactorily in an emergency. Should we experience a prolonged failure, it could seriously jeopardize our ability to continue operations. In particular, should a significant service interruption occur, our ongoing customers may choose a different provider, and our reputation may be damaged, reducing our attractiveness to new customers.

To the extent that any disruption or security breach results in a loss or damage to our customers' data or applications, or inappropriate disclosure of confidential information, we may incur liability and suffer from adverse publicity. In addition, we may incur additional costs to remedy the damage caused by these disruptions or security breaches.

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If a failure occurs in our undersea fiber optic cable, our ability to immediately restore the entirety of our service may be limited.

Our communications facilities include an undersea fiber optic cable that carries a large portion of our Internet voice and data traffic to and from the Lower 48 States. We are currently constructing alternative communications facilities as backup facilities. If a failure of our undersea fiber optic facilities occurs before we are able to complete construction of backup facilities and we are not able to secure alternative facilities, some of the communications services we offer to our customers could be interrupted, which could have a material adverse effect on our business, financial position, results of operations or liquidity.

If a failure occurs in our satellite communications systems, our ability to immediately restore the entirety of our service may be limited.

We serve many rural and remote Alaska locations solely via satellite communications. Each of our C- and Ku-band satellite transponders is backed up on the same spacecraft with multiple backup transponders. Our primary spacecraft is PanAmSat's Galaxy 10R ("G-10R"), but we also lease capacity on two other spacecraft for services we provide, SES Americom's AMC-7 and AMC-8. On G-10R, we use 7 C-band transponders. We have arranged for backup C-band satellite capacity on another PanAmSat spacecraft, Galaxy 13 ("G-13"), for all of those satellite transponders in the unlikely event of a total primary spacecraft failure. If such a failure occurs, service may not be fully restored for up to a week or longer due to the time necessary to redirect earth station antennae. We also own one Ku-band satellite transponder on the same primary spacecraft (G-10R) that provides our C-band service. In the event of total primary spacecraft failure, we believe we would be able to restore our Ku-band transponder traffic on G-13, although no pre-arrangement for its backup is currently in place. We also lease approximately 11 MHz of protected and backed-up C-band capacity on SES Americom's AMC-8 spacecraft. SES Americom's AMC-7 is the backup spacecraft for AMC-8. We also lease certain C-band transponder capacity on AMC-7 that can be preempted in the case of a satellite failure. The services that are preempted would not be immediately restored should AMC-7 fail or be called up to provide restoration of another of SES Americom's spacecraft.

We depend on a limited number of third-party vendors to supply communications equipment.

We depend on a limited number of third-party vendors to supply cable, Internet, DLPS, and telephony-related equipment. If our providers of this equipment are unable to timely supply the equipment necessary to meet our needs or provide them at an acceptable cost, we may not be able to satisfy demand for our services and competitors may fulfill this demand.

We do not have insurance to cover certain risks to which we are subject.

We are self-insured for damage or loss to certain of our transmission facilities, including our buried, under sea, and above-ground transmission lines. If we become subject to substantial uninsured liabilities due to damage or loss to such facilities, our financial position, results of operations or liquidity may be adversely affected.

A significant percentage of our voting securities are owned by a small number of shareholders and these shareholders can control stockholder decisions on very important matters.

As of December 31, 2003, our executive officers and directors and their affiliates owned approximately 16.5% of our combined outstanding Class A and class B common stock, representing approximately 34.4% of the combined voting power of that stock (including outstanding Series B preferred stock voting with Class A common stock on an as-converted basis). These shareholders can significantly influence, if not control, our management policy and all fundamental corporate actions, including mergers, substantial acquisitions and dispositions, and election of directors to the Board.

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Terrorist attacks, such as the attacks that occurred on September 11, 2001, and other attacks or acts of war may adversely affect us.

The attacks of September 11, 2001, and subsequent events have caused instability in the local, national and international economies and markets and have led, and may continue to lead, to further armed hostilities or to further acts of terrorism in the United States or elsewhere, which could cause further instability in such economies and markets. In addition, armed hostilities and further acts of terrorism may directly impact our physical facilities and operations or those of our customers. Furthermore, terrorist attacks, subsequent events and future developments may adversely affect our customers or their facilities or otherwise result in reduced demand from our customers for our services. Any of the foregoing could subject our operations to increased risks and, depending on their magnitude, could have a material adverse effect on our financial position, results of operations or liquidity.

We have and will continue to have a significant amount of debt.

On December 31, 2003, we had total debt, including capital lease obligations, of approximately \$389.8 million. Our high level of debt could have important consequences, including the following:

- o Use of a large portion of our cash flow to pay principal and interest on the New Senior Notes, the Senior Credit Facility and our other debt, which will reduce the availability of our cash flow to fund working capital, capital expenditures, and other business activities;
- o Increase our vulnerability to general adverse economic and industry conditions;
- o Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- o Restrict us from making strategic acquisitions or exploiting business opportunities;
- o Make it more difficult for us to satisfy our obligations with respect to our debt;
- o Place us at a competitive disadvantage compared to our competitors that have less debt; and
- o Limit, along with the financial and other restrictive covenants in our debt, among other things, our ability to borrow additional funds, dispose of assets or pay cash dividends.

In addition, a substantial portion of our debt bears interest at variable rates. If market interest rates increase, variable-rate debt will create higher debt service requirements, which would adversely affect our financial position, results of operations or liquidity.

We will require a significant amount of cash to service our debt. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our debt, and to fund planned capital expenditures and business development efforts, will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond our control.

We cannot provide assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our Senior Credit Facility or otherwise in an amount sufficient to enable us to pay

our debt or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity. We cannot provide assurance that we will be able to refinance any of our debt on commercially reasonable terms or at all.

Despite our current significant level of debt, we may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial debt.

We may be able to incur substantial debt in the future. Although our debt agreements contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. If new debt is added to our current debt levels, the substantial risks described above would intensify.

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The terms of our debt impose, or will impose, restrictions on us that may affect our ability to successfully operate our business.

Our debt agreements contain covenants that, among other things, limit our ability to:

- o Incur additional debt and issue preferred stock;
- o Pay dividends or make other restricted payments;
- o Make certain investments;
- o Create liens;
- o Allow restrictions on the ability of certain of our subsidiaries to pay dividends or make other payments to us;
- o Sell assets;
- o Merge or consolidate with other entities; and
- o Enter into transactions with affiliates.

The Senior Credit Facility also requires us to comply with specified financial ratios and tests, including, but not limited to, minimum interest coverage ratio, maximum leverage ratio and maximum annual capital expenditures.

These covenants could materially and adversely affect our ability to finance our future operations or capital needs and to engage in other business activities that may be in our best interest.

All of these covenants may restrict our ability to expand or to pursue our business strategies. Our ability to comply with these covenants may be affected by events beyond our control, such as prevailing economic conditions and changes in regulations, and if such events occur, we cannot be sure that we will be able to comply. A breach of these covenants could result in a default under our debt agreements.

Employees

We employed 1,255 persons as of January 31, 2004, and are not parties to union contracts with our employees. We believe our future success will depend upon our continued ability to attract and retain highly skilled and qualified employees. We believe that relations with our employees are satisfactory.

Other

No material portion of our businesses is subject to renegotiation of profits or termination of contracts at the election of the federal government.

Item 2. Properties

General. Our properties do not lend themselves to description by character or location of principal units. Our investment in property, plant and equipment in our consolidated operations consisted of the following at December 31:

	2003	2002
Telephone distribution systems	53.5%	56.4%
Cable television distribution systems	24.9%	24.4%
Support equipment	7.1%	6.5%
Property and equipment under capital leases	7.9%	8.5%
Construction in progress	5.2%	2.8%
Transportation equipment	0.9%	0.9%
Land and buildings	0.5%	0.5%
Total	100.0%	100.0%

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These properties are divided among our operating segments at December 31, 2003 as follows: long-distance services, 48.7%; cable services, 26.2%; local access services, 7.8%; Internet services, 5.8%; and all other, 11.5%.

These properties consist primarily of switching equipment, satellite earth

stations, fiber-optic networks, microwave radio and cable and wire facilities, cable head-end equipment, coaxial distribution networks, routers, servers, transportation equipment, computer equipment and general office equipment. Substantially all of our properties secure our new Senior Credit Facility. You should see note 8 to the "Notes to Consolidated Financial Statements" included in Part II of this Report for more information.

Our construction in progress totaled \$33.6 million at December 31, 2003, consisting of \$16.5 million for AULP West with the remainder consisting of long-distance, cable, local and Internet services, and support systems projects that were incomplete at December 31, 2003. Our construction in progress totaled \$17.0 million at December 31, 2002, consisting of long-distance, cable and local services, and support systems projects that were incomplete at December 31, 2002.

Long-Distance Services. We operate a modern, competitive communications network employing the latest digital transmission technology based upon fiber optic and digital microwave facilities within and between Anchorage, Fairbanks and Juneau, Alaska. Our network includes digital fiber optic cables linking Alaska to the Lower 48 States and providing access to other carriers' networks for communications around the world. We use satellite transmission to remote areas of Alaska and for certain interstate and intrastate traffic, and to provide backup facilities for certain portions of our long-haul fiber networks.

Our long-distance services segment owns properties and facilities including satellite earth stations, and distribution, transportation and office equipment. Additionally, in December 1992 we acquired capacity on an undersea fiber optic cable from Seward, Alaska to Pacific City, Oregon which was taken out of service in January 2004. See "Part I -- Item 1 -- Business -- Historical Development of our Business During the Past Fiscal Year -- Fiber System Taken out of Service" for more information. We completed construction of AULP East linking Alaska to Seattle, Washington in February 1999. In June 2003, we began the construction of AULP West connecting Seward, Alaska and Warrenton, Oregon, with leased backhaul facilities to connect it to our switching and distribution centers in Anchorage, Alaska and Seattle, Washington. We expect to complete this project by May 2004.

We entered into a purchase and lease-purchase option agreement in August 1995 for the acquisition of satellite transponders on the PanAmSat Galaxy XR satellite to meet our long-term satellite capacity requirements. We use the satellite transponders pursuant to a long-term capital lease arrangement with a leasing company. The purchase and lease-purchase option agreement provided for the interim lease of transponder capacity on the PanAmSat Galaxy IX satellite through the delivery of the purchased transponders on Galaxy XR in March 2000.

Effective June 30, 2001, we acquired, through the issuance of preferred stock, a controlling interest in the corporation owning the 800-mile fiber optic cable system that extends from Prudhoe Bay, Alaska to Valdez, Alaska via Fairbanks.

We lease our long-distance services industry segment's executive, corporate and administrative facilities in Anchorage, Fairbanks and Juneau, Alaska. Our operating, executive, corporate and administrative properties are in good condition. We consider our properties suitable and adequate for our present needs and they are being fully utilized.

Cable Services. The cable systems serve 35 communities and areas in Alaska including Anchorage, Fairbanks, the Mat-Su Valley, and Juneau, the state's four largest urban areas. As of December 31, 2003, the Cable Systems consisted of approximately 2,300 miles of installed cable plant having between 330 to 625 MHz of channel capacity. Our principal physical assets consist of cable television distribution plant and equipment, including signal receiving, encoding and decoding devices, headend reception facilities, distribution systems and customer drop equipment for each of our cable television systems.

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Our cable television plant and related equipment are generally attached to utility poles under pole rental agreements with local public utilities and telephone companies, and in certain locations are buried in underground ducts or trenches. We own or lease real property for signal reception sites and business offices in many of the communities served by our systems and for our principal executive offices.

We own the receiving and distribution equipment of each system. In order to keep pace with technological advances, we are maintaining, periodically upgrading and rebuilding the physical components of our cable communications systems. Such properties are in good condition. We own all of our service vehicles. We consider our properties suitable and adequate for our present and anticipated future needs.

Local Access Services. We operate a modern, competitive local access communications network employing analog and the latest digital transmission technology based upon fiber optic facilities within Anchorage, Fairbanks and Juneau, Alaska. Our outside plant consists of connecting lines (aerial, underground and buried cable), the majority of which is on or under public roads, highways or streets, while the remainder is on or under private property. Central office equipment primarily consists of digital electronic switching

equipment and circuit carrier transmission equipment. Operating equipment consists of motor vehicles and other equipment.

Substantially all of our local access services' central office equipment, administrative and business offices, and customer service centers are in leased facilities. Such properties are in good condition. We consider our properties suitable and adequate for our present and anticipated future needs.

Internet Services. We operate a modern, competitive Internet network employing the latest available technology. We provide access to the Internet using a platform that includes many of the latest advancements in technology. The physical platform is concentrated in Anchorage and is extended into many remote areas of Alaska. Our Internet platform includes trunks connecting our Anchorage, Fairbanks, and Juneau facilities to Internet access points in Seattle through multiple, diversely routed upstream Internet networks, and various other routers, servers and support equipment.

We lease our Internet services industry segment's operating facilities, located primarily in Anchorage. Such properties are in good condition. We consider our properties suitable and adequate for our present and anticipated future needs.

Capital Expenditures

Capital expenditures consist primarily of (a) gross additions to property, plant and equipment having an estimated service life of one year or more, plus the incidental costs of preparing the asset for its intended use, and (b) gross additions to capitalized software.

The total investment in property, plant and equipment has increased from \$417.5 million at January 1, 1999 to \$646.7 million at December 31, 2003, including construction in progress and not including deductions of accumulated depreciation. Significant additions to property, plant and equipment will be required in the future to meet the growing demand for communications, Internet and entertainment services and to continually modernize and improve such services to meet competitive demands.

Our capital expenditures for 1999 through 2003 were as follows (in millions):

1999	\$ 36.6
2000	\$ 50.9
2001	\$ 65.6
2002	\$ 65.1
2003	\$ 62.5

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We project capital expenditures of \$90 million to \$100 million for 2004, including approximately \$34 million additional for AULP West. We have made purchase commitments totaling approximately \$40 million at December 31, 2003, including approximately \$25 million for AULP West. A majority of the expenditures are expected to expand, enhance and modernize our current networks, facilities and operating systems, to develop other businesses, and to complete the construction of AULP West. You should see note 16 to the accompanying "Notes to Consolidated Financial Statements" included in Part II of this Report for more information.

During 2003, we funded our normal business capital requirements substantially through internal sources and, to the extent necessary, from external financing sources. We expect expenditures for 2004, including amounts necessary to construct the AULP West undersea fiber optic cable system, to be financed in the same manner.

Insurance

We have insurance to cover risks incurred in the ordinary course of business, including general liability, property coverage, director and officers and employment practices liability, auto, crime, fiduciary, aviation, and business interruption insurance in amounts typical of similar operators in our industry and with reputable insurance providers. Central office equipment, buildings, furniture and fixtures and certain operating and other equipment are insured under a blanket property insurance program. This program provides substantial limits of coverage against "all risks" of loss including fire, windstorm, flood, earthquake and other perils not specifically excluded by the terms of the policies. As is typical in the communications industry, we are self-insured for damage or loss to certain of our transmission facilities, including our buried, under sea, and above-ground transmission lines. We self-insure with respect to employee health insurance and workers compensation, subject to stop-loss insurance with other parties that caps our liability at specified limits. We believe our insurance coverage is adequate, however if we become subject to substantial uninsured liabilities due to damage or loss to such facilities, our financial results may be adversely affected.

Item 3. 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, Department of Labor 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. Except as previously disclosed concerning rural exemption proceedings (see "Part I -- Item 1 -- Regulation, Franchise Authorizations and Tariffs"), even if resolved unfavorably to us, management believes these matters would not have a materially adverse affect on our business or financial position, results of operations or liquidity.

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

No matters were submitted during the fourth quarter of 2003 to a vote of security holders, through the solicitation of proxies or otherwise.

Part II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Market Information for Common Stock

Shares of GCI's Class A common stock are traded on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol GNCMA. Shares of GCI's Class B common stock are traded on the Over-the-Counter

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market. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock. The following table sets forth the high and low sales price for the above-mentioned common stock for the periods indicated. Market price data for Class A shares were obtained from the Nasdaq Stock Market quotation system. Market price data for Class B shares were obtained from reported Over-the-Counter market transactions. The prices represent prices between dealers, do not include retail markups, markdowns, or commissions, and do not necessarily represent actual transactions.

<TABLE>

<CAPTION>

	Class A		Class B	
	High	Low	High	Low
	----	---	----	---
<S>	<C>	<C>	<C>	<C>
2002:				
First Quarter	\$ 9.70	7.05	9.00	7.30
Second Quarter	\$ 10.26	6.40	12.00	7.00
Third Quarter	\$ 7.25	2.60	7.00	3.50
Fourth Quarter	\$ 7.80	2.99	7.00	3.10
2003:				
First Quarter	\$ 7.49	4.98	7.20	5.20
Second Quarter	\$ 8.85	5.44	8.70	5.70
Third Quarter	\$ 9.10	7.59	9.40	7.25
Fourth Quarter	\$ 10.44	8.32	10.01	8.60

</TABLE>

Holdings

As of December 31, 2003 there were 1,992 holders of record of GCI's Class A common stock and 443 holders of record of GCI's Class B common stock (amounts do not include the number of shareholders whose shares are held of record by brokers, but do include the brokerage house as one shareholder).

Dividends

GCI has never paid cash dividends on its common stock and has no present intention of doing so. Payment of cash dividends in the future, if any, will be determined by GCI's Board of Directors in light of our earnings, financial condition and other relevant considerations. Our existing bank loan agreements contain provisions that prohibit payment of dividends on common stock, other than stock dividends (you should see note 8 to the "Consolidated Financial Statements" included in Part II of this Report for more information).

Stock Transfer Agent and Registrar

Mellon is our stock transfer agent and registrar.

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Item 6. Selected Financial Data

<TABLE>

The following table presents selected historical information relating to financial condition and results of operations over the past five years.

<CAPTION>

Years ended December 31,

	2003	2002	2001	2000
1999	----	----	----	----
	(Amounts in thousands except per share			
amounts)				
<S>	<C>	<C>	<C>	<C>
<C>				
Revenues	\$ 390,797	367,842	357,258	292,605
279,179				
Net income (loss) before income taxes and cumulative effect of a change in accounting principle	\$ 26,160	12,322	8,659	(21,649)
(14,866)				
Cumulative effect of a change in accounting principal, net of income tax benefit of \$367 in 2003 and \$245 in 1999	\$ (544)	0	0	0
(344)				
Net income (loss)	\$ 15,542	6,663	4,589	(13,234)
(9,527)				
Basic and diluted net income (loss) per common share	\$ 0.24	0.08	0.05	(0.29)
(0.21)				
Total assets	\$ 763,020	738,782	734,679	679,007
643,151				
Long-term debt, including current portion	\$ 345,000	357,700	351,700	334,400
339,400				
Obligations under capital leases, including current portion	\$ 44,775	46,632	47,282	48,696
1,674				
Redeemable preferred stock:				
Series B	\$ 15,664	16,907	16,907	22,589
19,912				
Series C	\$ 10,000	10,000	10,000	0
0				
Total stockholders' equity	\$ 226,642	208,220	202,392	183,480
192,548				
Dividends declared per common share	\$ 0.00	0.00	0.00	0.00
0.00				

</TABLE>

The Selected Financial Data should be read in conjunction with "Part II -- Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations."

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Item 7. 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 accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to unbilled revenues, cost of sales and services accruals, allowance for doubtful accounts, depreciation, amortization and accretion periods, intangible assets, income taxes, and contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. See also our "Cautionary Statement Regarding Forward-Looking Statements."

General Overview

Through our focus on long-term results, acquisitions, and strategic capital investments, we have consistently grown our revenues and expanded our margins. We have historically met our cash needs for operations, regular capital expenditures 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. We are funding the construction of a new fiber optic cable system through our operating cash flows and, to the extent necessary, with draws on our new Senior Credit Facility, as further discussed in Liquidity and Capital Resources in this report.

Results of Operations

<TABLE>

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

<CAPTION>

	Year Ended December 31,			Percentage Change (1)	
	2003	2002	2001	2003 vs. 2002	2002 vs. 2001
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:					
Revenues:					
Long-distance services	52.3%	55.7%	56.2%	(0.2%)	2.1%
Cable services	24.6%	24.1%	21.4%	8.2%	15.9%
Local access services	10.0%	8.7%	7.1%	21.6%	27.1%
Internet services	5.1%	4.3%	3.3%	27.3%	29.9%
All other services	8.0%	7.2%	12.0%	18.1%	(37.9%)
Total revenues	100.0%	100.0%	100.0%	6.2%	3.0%

</TABLE>

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<TABLE>

<CAPTION>

	Year Ended December 31,			Percentage Change (1)	
	2003	2002	2001	2003 vs. 2002	2002 vs. 2001
<S>	<C>	<C>	<C>	<C>	<C>
Cost of sales and services	32.1%	33.6%	39.1%	1.5%	(11.6%)
Selling, general and administrative expenses	35.5%	35.1%	32.6%	7.5%	10.7%
Bad debt expense	0.0%	3.6%	1.2%	(101.4%)	206.7%
Impairment charge	1.4%	0.0%	0.0%	NA	0.0%
Depreciation and amortization	13.6%	15.3%	15.6%	(5.6%)	1.3%
Operating income	17.4%	12.4%	11.5%	49.2%	11.6%
Net income before income taxes and cumulative effect of a change in accounting principle	6.7%	3.3%	2.4%	112.3%	42.3%
Net income before cumulative effect of a change in accounting principle	4.1%	3.3%	2.4%	141.4%	42.3%
Net income	4.0%	1.8%	1.3%	133.3%	45.2%
Other Operating Data:					
Long-distance services operating income (2)	40.8%	38.6%	34.0%	9.6%	16.0%
Cable services operating income (3)	28.6%	28.8%	18.1%	7.5%	84.2%
Local access services operating income (loss) (4)	3.8%	(2.3%)	5.8%	301.5%	(150.2%)
Internet services operating loss (5)	(2.2%)	(117.2%)	(125.2%)	97.6%	(21.6%)

<FN>

(1) Percentage change in underlying data.

(2) Computed as a percentage of total external long-distance services revenues.

(3) Computed as a percentage of total external cable services revenues.

(4) Computed as a percentage of total external local access services revenues.

(5) Computed as a percentage of total external Internet services revenues.

NA - Not applicable

</FN>

</TABLE>

Year Ended December 31, 2003 ("2003") Compared To Year Ended December 31, 2002 ("2002")

Overview of Revenues and Cost of Sales and Services

Total revenues increased 6.2% from \$367.8 million in 2002 to \$390.8 million in 2003. The cable services, local access services and Internet services segments and All Other Services contributed to the increase in total revenues, partially off-set by decreased revenues in the long-distance services segment. See the discussion below for more information by segment.

Total cost of sales and services increased 1.5% to \$125.4 million in 2003. As a percentage of total revenues, total cost of sales and services decreased from 33.6% in 2002 to 32.1% in 2003. The cable services, local access services and Internet services segments and All Other Services contributed to the increase in total cost of sales and services, partially off-set by decreased cost of sales and services in the long-distance services segment. See the discussion below for more information by segment.

Long-Distance Services Overview

Long-distance services revenue in 2003 represented 52.3% of consolidated revenues. Our provision of interstate and intrastate long-distance services, Private Line and leased dedicated capacity services, and broadband services accounted for 94.7% of our total long-distance services revenues during 2003.

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

Due in large part to the favorable synergistic effects of our bundling strategy, the long-distance services segment continues to be a significant contributor to our overall performance, although the migration of traffic from voice to data and from fixed to mobile wireless continues.

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

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

On July 21, 2002 MCI and substantially all of its active United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court. Chapter 11 allows a company to continue operating in the ordinary course of business in order to maximize recovery for the company's creditors and shareholders. On July 22, 2003, the United States Bankruptcy Court approved a settlement agreement for pre-petition amounts owed to us by MCI and affirmed all of our existing contracts with MCI. On July 24, 2003, our contract to provide interstate and intrastate long-distance services to MCI was extended for a minimum of five years to July 2008. The agreement sets the terms and conditions under which we originate and terminate certain types of long distance and data services in Alaska on MCI's behalf. In exchange for extending the term of this exclusive contract, MCI will receive a series of rate reductions implemented in phases over the life of the contract.

Other common carrier traffic routed to us for termination in Alaska is largely dependent on traffic routed to MCI and Sprint by their customers. Pricing pressures, general economic deterioration, new program offerings, business failures, and market and business consolidations continue to evolve in the markets served by MCI and Sprint. If, as a result, their traffic is reduced, or if their competitors' costs to terminate or originate traffic in Alaska are reduced, our traffic will also likely be reduced, and our pricing may be reduced to respond to competitive pressures. Additionally, a protracted economic malaise in the Lower 48 States or a further 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 the time of MCI's petition for bankruptcy, we had approximately \$12.9 million in receivables outstanding from MCI. At December 31, 2002 the bad debt reserve for uncollected amounts due from MCI ("MCI reserve") totaled \$11.6 million and consisted of all billings for services rendered prior to July 21, 2002 that were not paid or deemed recoverable as of December 31, 2002.

The settlement agreement approved by the United States Bankruptcy Court on July 22, 2003 settled unpaid balances due from MCI for services rendered prior to their bankruptcy filing date, settled billing disputes between us, and established a right to set-off certain of our pre-petition accounts payable to MCI. Under the terms of the agreement, we reduced the pre-petition amounts receivable from MCI by \$800,000 and off-set our pre-petition accounts payable by \$1.0 million. The majority of the difference reduced the MCI reserve with the remainder recorded as bad debt expense.

The remaining pre-petition accounts receivable balance owed by MCI to us after this settlement was \$11.1 million ("MCI credit") which we have and will use as a credit against amounts payable for services purchased

from MCI. At settlement, all of the remaining pre-petition amounts receivable due from MCI, which were fully reserved, were removed from accounts receivable in our Consolidated Balance Sheets.

After settlement, we began reducing the MCI credit as we utilized it for services otherwise payable to MCI. The use of the credit is recorded as a reduction of bad debt expense. During 2003 we utilized approximately \$2.8 million of the MCI credit against amounts payable for services received from MCI.

The remaining unused MCI credit totaled \$7.9 million at December 31, 2003. The credit balance is not recorded on the Consolidated Balance Sheets as we are recognizing recovery of bad debt expense as the credit is utilized.

On October 31, 2003, MCI's reorganization plan was approved by the United States Bankruptcy Court. The court order provided for a February 28, 2004 deadline for MCI to emerge from bankruptcy. In February 2004 MCI asked the Court for a 60-day extension to the February 28 deadline to allow it to complete financial filings with the SEC. The financial filings are reported to be the last major task left for MCI to emerge from bankruptcy. We expect to evaluate the likelihood that we will receive full recovery of bad debt expense for our remaining credit balance when MCI exits bankruptcy proceedings and may change our recognition method at that time.

Long-distance Services Segment Revenues

Total long-distance services segment revenues decreased 0.2% to \$204.6 million in 2003. The components of long-distance services segment revenues are as follows (amounts in thousands):

Percentage	2003	2002	Change
<S>	<C>	<C>	<C>
Common carrier message telephone services	\$ 91,700	95,947	(4.4%)
Residential, commercial and governmental message telephone services	39,701	46,169	(14.0%)
Private line and Private Network services	37,123	36,157	2.7%
Broadband services	25,167	18,432	36.5%
Lease of fiber optic cable system capacity	10,876	8,225	32.2%
Total long-distance services segment revenue	\$ 204,567	204,930	(0.2%)

</TABLE>

Common Carrier Message Telephone Services Revenue

The 2003 decrease in message telephone service revenues from other common carriers (principally MCI and Sprint) results from the following:

- o A 10.0% decrease in the average rate per minute on minutes carried for other common carriers primarily due to the decreased average rate per minute as agreed to in the July 24, 2003 extension of our contract to provide interstate and intrastate long-distance services to MCI,
- o A discount given to a certain other common carrier customer starting in 2003, and
- o Revenue earned due to a 2002 increase in the rate per minute of certain other common carrier minutes retroactive to April 2002 which did not recur in 2003.

The decrease in message telephone service revenues from other common carriers in 2003 was off-set by a 6.7% increase in wholesale minutes carried to 875.0 million minutes.

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Residential, Commercial and Governmental Message Telephone Services Revenue

Selected key performance indicators for our offering of message telephone service to residential, commercial and governmental customers follow:

	2003	2002	Percentage Change
<S>	<C>	<C>	<C>
Retail minutes carried	284.3 million	309.2 million	(8.1%)
Average rate per minute	\$0.138	\$0.142	(2.8%)
Number of active residential, commercial and governmental customers (1)	85,600	88,200	(2.9%)

<FN>

(1) All current subscribers who have had calling activity during December of 2003 and 2002, respectively.

</FN>

</TABLE>

The decrease in message telephone service revenues from residential, commercial, and governmental customers in 2003 is primarily due to the following:

- o A decrease in minutes carried for these customers primarily due to the effect of customers substituting cellular phone, prepaid calling card and email usage for direct dial minutes,
- o A decrease in the average rate per minute primarily due to our promotion

of and customers' enrollment in calling plans offering a certain number of minutes for a flat monthly fee, and

- o A decrease in the number of active residential, commercial, and governmental customers billed primarily due to the effect of customers substituting cellular phone, prepaid calling card, and email usage for direct dial minutes.

Broadband Services Revenue

The increase in revenues from our packaged telecommunications offering to rural hospitals and health clinics and our SchoolAccess(TM) offering to rural school districts in 2003 is primarily due to the following:

- o Our new SchoolAccess(TM) offering called Distance Learning Service that started in late 2002. Distance Learning Service is a video-conference based service that enables eight school districts in Alaska to provide additional educational opportunities for their students, and
- o An increased number of circuits leased to rural hospitals and health clinics in Alaska.

Long-distance Services Segment Cost of Sales and Services

Long-distance services segment cost of sales and services decreased 11.1% to \$53.4 million in 2003. Long-distance services segment cost of sales and services as a percentage of long-distance services segment revenues decreased from 29.3% in 2002 to 26.1% in 2003 primarily due to the following:

- o Reductions in access costs due to distribution and termination of our traffic on our own local access services network instead of paying other carriers to distribute and terminate our traffic. The statewide average cost savings is approximately \$.011 and \$.061 per minute for interstate and intrastate traffic, respectively. We expect cost savings to continue to occur as long-distance traffic originated, carried, and terminated on our own facilities grows,
- o The FCC Multi-Association Group ("MAG") reform order reducing the interstate access rates paid by interexchange carriers to LECs beginning July 2002,
- o A \$2.3 million refund (\$1.9 million after deducting certain direct costs) in 2003 from a local exchange carrier in respect of its earnings that exceeded regulatory requirements, and
- o A \$1.7 million refund in 2003 from an intrastate access cost pool that previously overcharged us for access services.

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The decrease in the long-distance services segment cost of sales and services as a percentage of long-distance services segment revenues is partially off-set by the following:

- o Increased costs associated with additional transponder and network back-up capacity in 2003 as compared to 2002,
- o A discount given to a certain other common carrier customer starting in the third quarter of 2003 without a corresponding decrease in the cost of sales and services, and
- o The decreased average rate per minute on minutes carried for other common carriers as agreed to in the July 24, 2003 extension of our contract to provide interstate and intrastate long-distance services to MCI.

Cable Services Overview

Cable television revenues in 2003 represented 24.6% of consolidated revenues. Our cable systems serve 35 communities and areas in Alaska, including the state's four largest population centers, Anchorage, Fairbanks, the Matanuska-Susitna Valley and Juneau.

We generate cable services revenues from four primary sources: (1) digital and analog programming services, including monthly basic and premium subscriptions, pay-per-view movies and other one-time events, such as sporting events; (2) equipment rentals and installation; (3) cable modem services (shared with our Internet services segment); and (4) advertising sales. During 2003 programming services generated 76.3% of total cable services revenues, cable services' allocable share of cable modem services accounted for 11.4% of such revenues, equipment rental and installation fees accounted for 8.1% of such revenues, advertising sales accounted for 3.4% of such revenues, and other services accounted for the remaining 0.8% of total cable services revenues.

Effective February 2003, we increased rates charged for certain cable services and premium packages in six communities, including three of the state's four largest population centers, Anchorage, Fairbanks and Juneau. Rates increased approximately 4% for those customers who experienced an adjustment.

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

In the second quarter of 2002 we signed seven-year retransmission agreements with the five local Anchorage broadcasters and began up-linking and distributing

the local Anchorage programming to all of our cable systems. This local programming provides additional value to our cable subscribers that not all our DBS competitors can provide. In 2003 DBS service provider Dish Network (EchoStar Communications Corporation) began providing, for an additional fee, Anchorage based broadcaster programming in Anchorage and in other Alaska communities where there is not a similar local broadcast affiliate.

Cable Services Segment Revenues and Cost of Sales and Services

Selected key performance indicators for our cable services segment follow:

<TABLE>

<CAPTION>

	2003	2002	Percentage Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Basic subscribers	134,400	136,100	(1.2%)
Digital special interest subscribers	34,900	30,500	14.4%
Cable modem subscribers	46,000	36,200	27.1%
Homes passed	202,200	196,900	2.7%

</TABLE>

Total cable services segment revenues increased 8.2% to \$96.0 million and average gross revenue per average basic subscriber per month increased \$4.35 or 7.8% in 2003.

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Programming services revenues increased 7.4% to \$73.2 million in 2003 resulting from the following:

- o An increase in the number of digital subscribers, and
- o The February 2003 rate increase of approximately 4% for those customers who experienced an adjustment.

The increase in programming services revenue is partially off-set by a decrease in basic subscribers due to increased competition from DBS.

The cable services segment's share of cable modem revenue (offered through our Internet services segment) increased 37.2% to \$11.0 million in 2003 due to an increased number of cable modems deployed. Approximately 99% of our cable homes passed are able to subscribe to our cable modem service. In the second quarter of 2003 we completed our upgrade of the Ketchikan cable system. Customers in this system are now able to subscribe to cable modem service.

We now offer digital programming service in Anchorage, the Matanuska-Susitna Valley, Fairbanks, Juneau, Ketchikan, Kenai, and Soldotna, representing approximately 89% of our total homes passed at December 31, 2003. We launched digital programming services in the Matanuska-Susitna Valley and Ketchikan cable systems in 2003.

Cable services cost of sales and services increased 9.9% to \$26.0 million in 2003 due to programming cost increases for most of our cable programming services offerings. Cable services cost of sales and services as a percentage of cable services revenues increased from 26.7% in 2002 to 27.1% in 2003 primarily due to rate increases by programming vendors exceeding our rate adjustments. Cost of sales increases are partially off-set by increasing amounts of cable modem services sold that generally have higher margins than do cable programming services.

Multiple System Operator ("MSO") Operating Statistics

In October 2002 we, along with the other largest publicly traded MSOs, signed a pledge to support and adhere to new voluntary reporting guidelines on common operating statistics to provide investors and others with a better understanding of our operations. Our operating statistics include capital expenditures and customer information from our cable services segment and the components of our local access services and Internet services segments which offer services utilizing our cable services' facilities.

Our capital expenditures by standard reporting category for the year ending December 31, 2003 and 2002 follows (amounts in thousands):

	2003	2002
	-----	-----
Customer premise equipment	\$ 10,713	10,609
Commercial	705	597
Scalable infrastructure	2,221	3,082
Line extensions	1,270	866
Upgrade/rebuild	3,800	4,567
Support capital	503	5,413
	-----	-----
Sub-total	19,212	25,134
Remaining reportable segments and All Other capital expenditures	43,267	40,006
	-----	-----
	\$ 62,479	65,140
	=====	=====

The standardized definition of a customer relationship is the number of customers that receive at least one level of service, encompassing voice, video, and data services, without regard to which services customers purchase. At December 31, 2003 and 2002 we had 121,900 and 124,400 customer relationships, respectively.

The standardized definition of a revenue generating unit is the sum of all primary analog video, digital video, high-speed data, and telephony customers, not counting additional outlets. At December 31, 2003 and 2002 we had 180,400 and 172,200 revenue generating units, respectively.

Local Access Services Overview

We generate local access services revenues from three primary sources: (1) business and residential basic dial tone services; (2) business Private Line and special access services; and (3) business and residential features and other charges, including voice mail, caller ID, distinctive ring, inside wiring and subscriber line charges. During 2003 local access services revenues represented 10.0% of consolidated revenues.

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

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

We have been testing the deployment of voice telephone service utilizing our coaxial cable facilities. If we are able to deploy this service, we will be able to utilize our own cable facilities to provide local access to our customers and avoid paying local loop charges to the ILEC. To successfully deploy this service, we must integrate new technology with our existing facilities and the industry must adopt standards for the sending and receiving of voice communications over cable facilities. To ensure the necessary equipment is available to us we have committed to purchase a certain number of outdoor, network powered multi-media adapters, as further disclosed below in "Liquidity and Capital Resources." We expect to begin implementing this service delivery method in the second quarter of 2004.

At December 31, 2003, 106,100 lines were in service as compared to approximately 96,100 lines in service at December 31, 2002. At December 31, 2003 approximately 1,940 additional lines were awaiting connection. We estimate that our 2003 lines in service total represents a statewide market share of approximately 22%.

Our access line mix at December 31, 2003 follows:

- o Residential lines represent approximately 58% of our lines,
- o Business customers represent approximately 35% of our lines, and
- o Internet access customers represent approximately 7% of our lines.

Approximately 86% of our lines are provided on our own facilities and leased local loops. Approximately 5% of our lines are provided using UNE platform.

In December 2003 we distributed our new phone directory and began recognizing revenue and costs of sales and service in the local access services segment. We recognized one month of revenue and cost of sales and service in the fourth quarter of 2003 and we plan to recognize the remaining eleven months in 2004. Operating expenses incurred and recognized throughout 2003 to prepare our new phone directory are reported in the local access services segment.

Local Access Services Segment Revenues and Cost of Sales and Services

Local access services segment revenues increased 21.6% in 2003 to \$39.0 million primarily due to the following:

- o Growth in the average lines in service,
- o \$1.9 million of support from the Universal Service Program, and
- o A change in how we provision local access lines in Fairbanks and Juneau. In 2002 we primarily resold service purchased from ACS. In 2003 we are benefiting from our facilities build-out with an increased number of access lines provisioned on our own facilities using UNEs, allowing us to collect interstate and intrastate access revenues.

Local access services segment cost of sales and services increased 17.6% to \$23.8 million in 2003. Local access services segment cost of sales and services as a percentage of local access services segment revenues decreased from 63.0% in 2002 to 60.9% in 2003, primarily due to the \$1.9 million of support from the

Universal Service Program and reductions in access costs attributed to our conversion of service provided on a wholesale basis to service provided through our own facilities.

The local access services segment operating results are negatively affected by the allocation of the benefit of access cost savings to the long-distance services segment. If the local access services segment received credit for the access charge reductions recorded by the long distance services segment, the local access services segment operating results would have improved by approximately \$6.9 million and the long distance services segment operating results would have been reduced by an equal amount in 2003. Avoided access charges totaled approximately \$7.0 million in 2002.

The local access services segment operating results are affected by our continued evaluation and testing of digital local phone service and Internet protocol-based technology to deliver phone service through our cable facilities.

Internet Services Overview

We generate Internet services revenues from three primary sources: (1) access product services, including commercial, Internet service provider, and retail dial-up access; (2) network management services; and (3) Internet services' allocable share of cable modem revenue (a portion of cable modem revenue is also recognized by our cable services segment). During 2003 Internet services segment revenues represented 5.1% of consolidated revenues.

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 targeting residential and commercial customers featuring bundled products. Our Internet offerings are bundled with our long-distance and/or local access services offerings and provide free basic Internet services or discounted premium Internet services if certain long-distance and local access services plans are selected. In 2004 we have added cable service to our bundled offering. 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.

During 2003 we upgraded the download speeds of all of our cable modem Internet service offerings. These enhancements have proven to be popular with our customers which we believe is helping to further solidify our customer relationships.

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Internet Services Segment Revenues and Cost of Sales and Services

Selected key performance indicators for our Internet services segment follow:

<TABLE>

<CAPTION>

	2003	2002	Percentage Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Total Internet subscribers	95,700	89,500	6.9%
Cable modem subscribers	46,000	36,200	27.1%
Dial-up subscribers	49,600	53,300	(6.9%)

</TABLE>

Total Internet services segment revenues increased 27.3% to \$19.8 million in 2003 primarily due to the 39.1% increase in its allocable share of cable modem revenues to \$9.1 million in 2003 as compared to 2002. The increase in cable modem revenues is primarily due to growth in cable modem subscribers and the termination in the first quarter of 2003 of our offering in which customers received up to two months of free cable modem service. Additionally, the growth in cable modem revenues is affected by the level of service our subscribers select. In 2003 and 2002, 8.1% and 6.0%, respectively, of our subscribers selected our highest level of cable modem service resulting in increased revenue of approximately \$897,000 in 2003 as compared to 2002.

We previously reported a total of 71,700 Internet subscribers at December 31, 2002. This subscriber count was based upon the total number of active dial-up subscribers at December 31, 2002. Not all cable modem subscribers paying for a dial-up plan have activated their dial-up service. When we first started selling cable modem service it was packaged in a way that almost all cable modem subscribers were also dial up subscribers. As we introduced new packages and plans and started promoting our cable modem LiteSpeed service the number of cable modem subscribers without a dial up plan increased substantially. An internal review during the second quarter of 2003 revealed that these subscriber counts had risen substantially enough that they are now being reported separately.

Internet services cost of sales and services increased 22.3% to \$5.9 million in

2003, and as a percentage of Internet services revenues, totaled 29.6% and 30.8% in 2003 and 2002, respectively. The 2003 decrease as a percentage of Internet services revenues is primarily due to the increase in Internet's portion of cable modem revenue which generally has higher margins than do other Internet services products. As Internet services revenues increase, economies of scale and more efficient network utilization continue to result in reduced Internet cost of sales and services as a percentage of revenues.

All Other Services Overview

Revenues reported in the All Other category as described in note 13 in the accompanying Notes to Consolidated Financial Statements include our managed services, product sales, and cellular telephone services.

Revenues included in the All Other category represented 8.0% of total revenues in 2003.

All Other Revenues and Costs of Sales and Services

All Other revenues increased 18.1% to \$31.4 million in 2003. The increase in revenues is primarily due to the following:

- o Increased monthly revenue earned from our GCI Fiber system that transits the Trans Alaska oil pipeline corridor, and
- o \$2.0 million in special project revenue earned from our GCI Fiber system in 2003.

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All Other costs of sales and services increased 10.3% to \$16.4 million in 2003, and as a percentage of All Other revenues, totaled 52.2% and 56.0% in 2003 and 2002, respectively. The decrease in All Other costs of sales and services as a percentage of All Other revenues is primarily due to the following:

- o Increased monthly revenue earned from our recurring service contracts in 2003 which exceeds the corresponding increase in costs of sales or services, and
- o The recognition of \$2.0 million in special project revenue earned in 2003 which exceeds the corresponding increase in costs of sales or services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 7.5% to \$138.7 million in 2003 and, as a percentage of total revenues, increased to 35.5% in 2003 from 35.1% in 2002. The 2003 increase in selling, general and administrative expenses is primarily due to a \$4.9 million increase in labor and health insurance costs and a \$4.3 million increase in the accrual for company-wide success sharing bonus costs.

Marketing and advertising expenses as a percentage of total revenues decreased from 3.3% in 2002 to 2.5% in 2003.

Bad Debt Expense (Recovery)

Bad debt expense (recovery) decreased 101.4% to (\$178,000) in 2003. The 2003 decrease is primarily due to the following:

- o Utilization of approximately \$2.8 million of the MCI credit as a reduction to bad debt expense in 2003, as further discussed in the "Long Distance Service Overview" above, and
- o Provision in 2002 of a \$11.0 million bad debt reserve for uncollected amounts due from MCI, as further discussed in the "Long Distance Service Overview" above.

Impairment Charge

In 2003, we reported an impairment charge of \$5.4 million which equaled the remaining net book value recorded for our North Pacific Cable asset. In 1991 we purchased one DS-3 of capacity on a fiber optic cable system owned by AT&T. This fiber optic cable system is a spur off of a trans-Pacific fiber optic cable system owned by another group. We used our owned capacity to carry traffic to and from Alaska and the Lower 48 States. The section of the North Pacific Cable in which we own capacity was taken out of service in January 2004 due to a billing dispute between AT&T and the owner of the trans-Pacific cable system causing us to re-route certain of our traffic. We believe it is probable that we will not return our traffic to the North Pacific Cable even if it is placed back into service. We have requested in writing to be relieved of all future obligations required by our purchase agreement. Should our request be accepted, we expect to cease payment of maintenance and vessel standby costs totaling approximately \$324,000 per year that would otherwise be payable over the remaining life of the system. The fiber optic cable system we are building is scheduled for completion in May 2004 and will provide us with route diversity and redundancy far in excess of that previously provided by the North Pacific Cable.

Depreciation, Amortization and Accretion Expense

Depreciation, amortization and accretion expense decreased 5.6% to \$53.4 million in 2003. The decrease is primarily attributed to a reduction in the depreciable value of Property and Equipment due to a basis adjustment of \$18.5 million which was recorded in 2002 associated with the Kanas Telecom, Inc. acquisition, and a 2003 reduction of \$1.3 million in depreciation expense which was also associated

with the acquisition.

The decrease in depreciation, amortization and accretion expense described above was partially off-set by an increase in depreciation expense due to our \$59.2 million investment in equipment and facilities placed into service during 2002 for which a full year of depreciation was recorded in 2003, and the \$45.8 million investment in equipment and facilities placed into service during 2003 for which a partial year of depreciation was recorded in 2003.

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Other Expense, Net

Other expense, net of other income, increased 25.5% to \$41.9 million in 2003. The increase is primarily due to the following:

- o As described further in "Liquidity and Capital Resources" below, we recognized approximately \$5.0 million in Amortization of Loan and Senior Notes Fees in 2003 because a portion of the new Senior Credit Facility was a substantial modification of the April 22, 2003 amended Senior Credit Facility,
- o Increased interest expense due to increased interest rates on our amended Senior Credit Facility from October 2002 through October 2003, when the amended Senior Credit Facility was replaced with the new Senior Credit Facility,
- o Increased amortization of loan fees due to additional loan fees incurred to amend our Senior Credit Facility, and
- o A \$1.2 million interest benefit earned in 2002 from an interest rate swap agreement which was called at no cost by the counter party and terminated on August 1, 2002.

Partially offsetting these increases was a decrease in the average outstanding indebtedness in 2003 and decreased interest expense in November and December 2003 due to the decreased interest rate paid on our new Senior Credit Facility.

Income Tax Expense

Income tax expense was \$10.1 million in 2003 and \$5.7 million in 2002. The change was due to increased net income before income taxes and cumulative effect of a change in accounting principle in 2003 as compared to 2002. Our effective income tax rate decreased from 45.9% in 2002 to 38.5% in 2003 due to the effect of items that are nondeductible for income tax purposes and adjustments made to ending temporary difference balances in 2003.

At December 31, 2003, we have (1) tax net operating loss carryforwards of approximately \$188.6 million that will begin expiring in 2005 if not utilized, and (2) alternative minimum tax credit carryforwards of approximately \$1.9 million available to offset regular income taxes payable in future years. Our utilization of certain net operating loss carryforwards is subject to limitations pursuant to Internal Revenue Code section 382.

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through future reversals of existing taxable temporary differences and future taxable income exclusive of reversing temporary differences and carryforwards. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced which would result in additional income tax expense. We estimate that our effective income tax rate for financial statement purposes will be 40% to 43% in 2004.

Cumulative Effect of a Change in Accounting Principle

On January 1, 2003 we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," and recorded the cumulative effect of accretion and depreciation expense as a cumulative effect of a change in accounting principle of approximately \$544,000, net of income tax benefit of \$367,000.

Year Ended December 31, 2002 ("2002") Compared To Year Ended December 31, 2001 ("2001").

Overview of Revenues and Cost of Sales and Services

Total revenues increased 3.0% from \$357.3 million in 2001 to \$367.8 million in 2002. Excluding revenues from the fiber optic cable system capacity sale of \$19.5 million in 2001 as described in note 1(r) in the accompanying "Notes to Consolidated Financial Statements," total revenues increased 8.9% in 2002. The long-distance services, cable services, local access services and Internet services segments contributed to the increase in total revenues, partially off-set by decreased revenues from All Other Services. See the discussions below for more information by segment.

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Total cost of sales and services decreased 11.6% to \$123.6 million in 2002. As a percentage of total revenues, total cost of sales and services decreased from 39.1% in 2001 to 33.6% in 2002. Excluding the 2001 fiber optic cable system capacity sale, total cost of sales and services as a percentage of total revenues totaled 38.2% in 2001 as compared to 33.6% in 2002. The long-distance services segment and All Other Services contributed to the decrease in total cost of sales and services, partially off-set by increases in cost of sales and services in the cable services, local access services and Internet services

segments. See the discussions below for more information by segment.

Long-distance Services Segment Revenues

Long-distance services segment revenues increased 2.1% to \$204.9 million in 2002. The components of long-distance services segment revenues are as follows (amounts in thousands):

	2002	2001	Percentage Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Common carrier message telephone services	\$ 95,947	86,577	10.8%
Residential, commercial and governmental message telephone services	46,169	54,225	(14.9%)
Private line and Private Network services	36,157	34,694	4.2%
Broadband services	18,432	15,696	17.4%
Lease of fiber optic cable system capacity	8,225	9,502	(13.4%)
	-----	-----	-----
Total long-distance services segment revenue	\$ 204,930	200,694	2.1%
	=====	=====	=====

</TABLE>

Common Carrier Message Telephone Service Revenue

Message telephone service revenues from other common carriers (principally MCI and Sprint) increased 10.9% to \$88.8 million in 2002 resulting from a 14.7% increase in wholesale minutes carried to 819.8 million minutes. After excluding certain 2001 low-margin wholesale minutes no longer carried for other common carriers, comparable wholesale minutes carried for other common carriers increased 19.5% over the prior year. Revenue increases resulting from increased wholesale minutes carried for other common carriers was partially off-set by a 3.5% decrease in the average rate per minute on minutes carried for other common carriers. The increase is also due to the reclassification of approximately 12.0 million minutes of traffic generated by a certain customer from retail in 2001 to wholesale in 2002. The average rate per minute decrease is primarily due to a reduced rate charged by us for certain Sprint traffic due to a new contract commencing April 2002. After excluding certain 2001 low-margin wholesale minutes not carried in 2002 for other common carriers, the comparable average rate per minute decreased 6.5% from the prior year.

Residential, Commercial and Governmental Message Telephone Services Revenue

Selected key performance indicators for our offering of message telephone service to residential, commercial and governmental customers follow:

	2002	2001	Percentage Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Retail minutes carried	309.2 million	344.2 million	(10.2%)
Average rate per minute	\$0.142	\$0.151	(6.0%)
Number of active residential, commercial and governmental customers (1)	88,200	87,900	0.3%

<FN>

(1) All current subscribers who have had calling activity during December of 2002 and 2001, respectively.

</FN>

</TABLE>

Message telephone service revenues from residential, commercial, and governmental customers decreased 12.2% to \$53.3 million in 2002 primarily due to the following:

- o A decrease in retail minutes carried for these customers primarily due to the loss of approximately 8.0 million to 10.0 million minutes earned annually from a certain retail customer and the reclassification of approximately 12.0 million minutes of traffic generated by a certain customer from retail in 2001 to wholesale in 2002, and
- o A decrease in the average rate per minute paid by these customers due to our promotion of and customers' enrollment in calling plans offering a certain number of minutes for a flat monthly fee.

Through May 2001 discounts recognized on revenue from certain Private Line and Private Network customers totaling \$2.8 million off-set 2001 message telephone service revenue from residential, commercial and governmental customers. Beginning June 2001 these discounts off-set revenue earned from Private Line and Private Network customers. If these discounts had not been recognized in the 2001 message telephone service revenue from residential, commercial and governmental customers through May 2001, revenues would have decreased 16.1% to

\$53.3 million in 2002 as compared to 2001.

Private Line and Private Network Service Revenue

Private line and Private Network transmission services revenues increased 4.2% to \$36.2 million in 2002. The increase is partially off-set by the effect of a reclassification of discounts recognized on revenue from certain Private Line and Private Network customers, discussed above in "Residential, Commercial and Governmental Message Telephone Services Revenue". If the discounts had been recognized in revenue from Private Line and Private Network customers during all of 2001 the increase in revenue would be 13.4% to \$36.2 million. The increase in revenue from Private Line and Private Network customers in 2002 is primarily due to an increased number of circuits leased by governmental customers.

Broadband Services Revenue

Revenues from our packaged telecommunications offering to rural hospital and health clinic service and our SchoolAccess(TM) offering to rural school districts increased 17.4% in 2002 to \$18.4 million. The increase is primarily due to the addition in the second quarter of 2001 of two new subscribers to our rural hospital and health clinic service for which we recognized a full year of revenue in 2002, and our new SchoolAccess(TM) product offering called Distance Learning that started in late 2002. Distance Learning is a video-conference based service and is used by six school districts in Alaska in 2002.

Long-distances Services Segment Cost of Sales and Services

Long-distance services segment cost of sales and services decreased 18.0% to \$60.1 million in 2002. Long-distance services segment cost of sales and services as a percentage of long-distance services segment revenues decreased from 36.5% in 2001 to 29.3% in 2002 primarily due to the following:

- o Reductions in access costs due to distribution and termination of our traffic on our own local access services network instead of paying other carriers to distribute and terminate our traffic. The statewide average cost savings is approximately \$.010 and \$.056 per minute for interstate and intrastate traffic, respectively. We expect cost savings to continue to occur as long-distance traffic originated, carried, and terminated on our own facilities grows,
- o The FCC MAG reform order reducing the interstate access rates paid by interexchange carriers to LECs in January and again in July 2002, and
- o In the course of business we estimate unbilled long-distance services cost of sales and services based upon minutes of use processed through our network and established rates. Such estimates are revised when subsequent billings are received, payments are made, billing matters are researched and resolved, tariffed billing periods lapse, or when disputed charges are resolved. In 2002 and 2001, we had favorable and (unfavorable) adjustments of \$4.7 million and (\$2.8) million, respectively. Excluding the adjustments, long-distance services cost of sales and services as a percentage of long-distance services revenues was 35.1% and 31.6% in 2001 and 2002, respectively.

Long-distance services cost of sales and services in 2001 included a reversal of \$2.0 million in accrued costs upon the conclusion of a dispute with ACS and a \$450,000 non-recurring refund from ACS in respect of its earnings that exceeded regulatory requirements.

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Cable Services Segment Revenues and Cost of Sales and Services

Selected key performance indicators for our cable services segment follow:

<TABLE>

<CAPTION>

	2002	2001	Percentage Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Basic subscribers	136,100	132,000	3.1%
Digital special interest subscribers	30,500	24,600	24.0%
Cable modem subscribers	36,200	26,500	36.6%
Homes passed	196,900	192,200	2.4%

</TABLE>

Cable services segment revenues increased 15.9% to \$88.7 million and average gross revenue per average basic subscriber per month increased \$3.38 or 6.4% in 2002. The increases in revenues and rates per subscriber were accomplished without any meaningful rate increases during 2002 and are due primarily to continued deployment of our high value services including digital cable television and cable modems.

Programming services revenues increased 11.9% to \$68.2 million in 2002 due to an increase in basic and digital subscribers.

The cable services segment's share of cable modem revenue (offered through our Internet services segment) increased \$3.1 million to \$8.0 million in 2002 due to an increased number of cable modems deployed. Approximately 96% of our cable homes passed are able to subscribe to our cable modem service in 2002.

At December 31, 2002 we offered digital programming in Anchorage, Fairbanks, Juneau, Kenai, and Soldotna, which markets represented approximately 80% of our

homes passed.

Homes passed increased at December 31, 2002 as compared to December 31, 2001 due to new facility construction efforts.

In the second quarter of 2002 we signed new seven-year retransmission agreements with the five local Anchorage broadcasters and began up linking and distributing the local Anchorage programming to all of our cable systems. This was done to provide additional value to our cable subscribers and to allow us to differentiate our programming from that of our DBS competitors.

Cable services cost of sales and services increased 13.5% to \$23.6 million in 2002. Cable services cost of sales and services as a percentage of cable services revenues, which is less as a percentage of revenues than are long-distance, local access and Internet services cost of sales and services, decreased from 27.2% in 2001 to 26.7% in 2002.

Revenues earned from equipment rental and installation, cable services' allocable share of cable modem services and advertising sales do not have significant corresponding costs of sales and services. The decrease in cable services cost of sales and services as a percentage of cable services revenues is primarily due to an increase in the percentage of cable services revenues earned from equipment rental and installation, cable services' allocable share of cable modem services and advertising sales from 20.4% in 2001 to 23.1% in 2002.

The decrease in cable services cost of sales and services as a percentage of cable services revenues described above is off-set by an increase in cable programming services cost of sales and services as a percentage of cable programming services revenue from 34.2% in 2001 to 34.7% in 2002. Cable services rate increases did not keep pace with programming cost increases in 2002. Programming costs increased for most of our cable services offerings, and we incurred additional costs on new programming introduced in 2001 and 2002.

Local Access Services Segment Revenues and Cost of Sales and Services
Local access services segment revenues increased 27.1% in 2002 to \$32.1 million primarily due to growth in the average lines in service. At December 31, 2002 an estimated 96,100 lines were in service as compared

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to approximately 79,200 lines in service at December 31, 2001. At December 31, 2002 approximately 1,700 additional lines were awaiting connection. The increase in local access services revenues described above was partially off-set by the following:

- o The FCC MAG reform order reducing the interstate access rates paid by interexchange carriers to LECs in January and again in July 2002, and
- o A reduction in interstate access rates charged by us to interexchange carriers in response to an FCC order forcing a competitor to reduce their interstate access rates.

We estimate that our 2002 lines in service total represented a statewide market share of approximately 20%.

Our access line mix continued to hold steady in 2002, with residential lines representing approximately 55% of our lines, business customers representing approximately 37%, and Internet access customers representing approximately 8%. Approximately 86% of our lines are provided on our own facilities or using leased local loops.

Local access services cost of sales and services increased 43.9% to \$20.2 million in 2002. Local access services cost of sales and services as a percentage of local access services revenues increased from 55.6% in 2001 to 63.0% in 2002, primarily due to the following:

- o The effect of offering one to two months of free service to significant numbers of new local access services customers acquired in 2002 while continuing to incur cost of sales and services for such new customers,
- o The lease of wholesale circuits from ACS in Fairbanks and Juneau pending completion of our facilities enabling service transition to UNE facilities and pricing, and
- o An increase in the Anchorage loop lease rates. ACS requested and received permission for a 7.7% increase in the UNE loop rate to \$14.92 per month and a 24% increase in their retail residential rates, both effective in November 2001. The wholesale service rate we pay is tied to the retail residential rate and increased approximately \$2.25 per line per month. Additionally, the cost of most residential features increased 24.0% to approximately \$1.35 per line per month. The increased rates resulted in an approximately \$1.2 million increase in our local access services cost of sales and services in 2002 without a corresponding increase in our revenue.

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

the number of local access services subscribers and resulting revenues increase.

The size of the local access services segment operating loss is exacerbated by the allocation of the benefit of access cost savings to the long-distance services segment. If the local access services segment received credit for the access charge reductions recorded by the long distance services segment, the local access services segment operating loss would have decreased by approximately \$7.0 million and the long distance services segment would be reduced by an equal amount in 2002. Avoided access charges totaled approximately \$6.3 million in 2001.

The local access services segment operating loss was affected by the expected start-up losses we experienced in the new Fairbanks and Juneau markets and our continued evaluation and testing of DLPS technology.

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Internet Services Segment Revenues and Cost of Sales and Services

Selected key performance indicators for our Internet services segment follow:

<TABLE>

<CAPTION>

	2002	2001	Percentage Change
	-----	-----	-----
<S>	<C>	<C>	<C>
Total Internet subscribers	89,500	72,700	23.1%
Cable modem subscribers	36,200	26,500	36.6%
Dial-up subscribers	53,300	46,000	15.9%

</TABLE>

Internet services segment revenues increased 29.9% to \$15.6 million in 2002 primarily due to growth in the number of customers served and the 60.3% increase in its allocable share of cable modem revenues in 2002 as compared to 2001. The increase in cable modem revenue is primarily due to growth in the number of cable modem subscribers from 2001 to 2002 and our subscribers' more frequent selection of our highest level of cable modem service.

Internet services cost of sales and services increased 0.9% to \$4.8 million in 2002, and as a percentage of Internet services revenues, totaled 30.8% and 39.6% in 2002 and 2001, respectively. The decrease as a percentage of Internet services revenues is primarily due to the increase in Internet's portion of cable modem revenue which generally has higher margins than do other Internet services products. As Internet services revenues increase, economies of scale and more efficient network utilization continue to result in reduced Internet cost of sales and services as a percentage of revenues.

We enhanced the value of our Internet offerings in 2002 through the addition of electronic billing and presentment capabilities and the rollout of a product called e-mail guard, which filters out e-mail spam and viruses. In 2002 we upgraded the download speeds of all of our cable modem Internet service offerings. These new services and enhancements have proven to be very popular with our customers and are helping to further solidify our customer relationships.

All Other Revenues and Cost of Sales and Services

The 37.9% decrease in All Other revenues to \$26.6 million in 2002 is primarily due to the \$19.5 million fiber optic cable system capacity sale in 2001, as described in note 1(r) in the accompanying "Notes to Consolidated Financial Statements." The decrease in revenues is partially offset by a \$3.0 million increase in managed services revenue to \$22.0 million in 2002 primarily due to the provision of additional services to and increased revenues from a certain customer as performance criteria was met.

All Other costs of sales and services decreased 44.8% to \$14.9 million in 2002 primarily due to \$10.9 million in costs of sale for the fiber optic cable system capacity sale in 2001.

As a percentage of All Other revenues, All Other costs of sales and services totaled 56.0% and 62.9% in 2002 and 2001, respectively. Excluding revenues from the 2001 fiber optic cable system capacity sale, cost of sales and services as a percentage of revenues totaled 56.0% and 68.9% in 2002 and 2001, respectively. The decrease is primarily due to the provision of additional services to and increased revenues from a certain customer as performance criteria was met without a corresponding increase in cost of sales and services.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.7% to \$129.0 million in 2002 and, as a percentage of total revenues, increased to 35.1% in 2002 from 32.6% in 2001. Excluding the fiber optic cable system capacity sale in 2001, selling, general and administrative expenses, as a percentage of total revenues, increased from 34.1% in 2001 to 35.1% in 2002. The 2002 increase in selling, general and administrative expenses is primarily due to increased labor and health insurance costs, incremental new costs to operate GFCC and Rogers, and costs incurred for our unsuccessful bid to purchase certain of the assets of WCI Cable, Inc., partially offset by a decreased accrual for company-wide success sharing bonus costs.

Marketing and advertising expenses as a percentage of total revenues decreased from 3.4% in 2001 to 3.3% in 2002. Excluding revenues from the fiber optic cable system capacity sale in 2001, marketing and advertising expenses as a percentage of total revenues were 3.6% in 2001.

Bad Debt Expense

Bad debt expense increased 206.7% to \$13.1 million in 2002 and, as a percentage of total revenues, increased to 3.6% in 2002 from 1.2% in 2001. Excluding revenues from the fiber optic cable system capacity sale in 2001, bad debt expense as a percentage of total revenues was 1.3% in 2001. The 2002 increase is primarily due to the \$11.0 million bad debt expense for uncollected accounts due from MCI.

Depreciation and Amortization

Depreciation and amortization expense increased 1.3% to \$56.4 million in 2002. The increase is primarily attributable to an increase of 15.1% to \$55.6 million in depreciation expense due to our \$68.0 million investment in equipment and facilities placed into service during 2001 for which a full year of depreciation was recorded in 2002, and the \$59.2 million investment in equipment and facilities placed into service during 2002 for which a partial year of depreciation will be recorded in 2002.

Partially offsetting the depreciation expense increase described above is the discontinuation of amortization of Goodwill and Cable Certificates upon the adoption of SFAS 142, "Goodwill and Other Intangible Assets" on January 1, 2002, resulting in a decrease in 2002 amortization expense of approximately \$6.5 million as compared to 2001.

Other Expense, Net

Other expense, net of other income, increased 3.4% to \$33.4 million in 2002. The increase is primarily due to the following:

- o A \$3.2 million increase in deferred loan fee expense to \$4.6 million primarily due to the recognition of \$2.3 million in unamortized deferred loan fees upon refinancing our Senior Credit Facility and Fiber Facility, and
- o Increased interest expense in November and December 2002 due to the increased interest rate paid on our amended Senior Credit Facility starting November 1, 2002.

Partially offsetting these increases were decreased 2002 interest rates on our Senior Credit Facility and Fiber Facility through November 1, 2002.

Income Tax Expense

Income tax expense was \$5.7 million in 2002 and \$4.1 million in 2001. The increase was due to increased net income before income taxes in 2002 as compared to 2001. Our effective income tax rate decreased from 47.0% in 2001 to 45.9% in 2002 due to the effect of items that are nondeductible for income tax purposes.

Fluctuations in Fourth Quarter Results of Operations

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 2003 and 2002 (amounts in thousands, except per share amounts):

<TABLE>
<CAPTION>

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year

<S>	<C>	<C>	<C>	<C>	<C>
2003					

Total revenues	\$ 92,777	95,939	98,327	103,754	390,797
Gross profit	\$ 62,529	65,868	66,457	70,560	265,414
Net income before cumulative effect of a change in accounting principle	\$ 3,095	4,810	4,529	3,652	16,086
Net income	\$ 2,551	4,810	4,529	3,652	15,542

Basic and diluted net income per common share:					
Net income before cumulative effect of a change in accounting principle (1)	\$ 0.05	0.08	0.07	0.06	0.25
Cumulative effect of a change in accounting principle, net of income tax benefit of \$367	(0.01)	---	---	---	(0.01)

Net income (1)	\$ 0.04	0.08	0.07	0.06	0.24
=====					

Total revenues	\$	88,210	92,740	94,550	92,342	367,842
Gross profit	\$	56,973	61,879	64,175	61,251	244,278
Net income (loss)	\$	2,212	(1,103)	5,063	491	6,663
Basic and diluted net income (loss) per common share	\$	0.03	(0.03)	0.08	0.00	0.08

<FN>

(1) Due to rounding, the sum of quarterly net income per common share amounts does not agree to total year net income per common share.

</FN>

</TABLE>

The following describes unusual or infrequently occurring items recognized in the following quarters of 2002 and 2003:

- o In the fourth quarter of 2003 we reported an impairment charge of \$5.4 million which equaled the remaining net book value recorded for our North Pacific Cable asset, as discussed in "Impairment Charge" above,
- o In the fourth quarter of 2003 we recognized approximately \$5.0 million in Amortization of Loan and Senior Notes Fees due to classifying a portion of the new Senior Credit Facility described further in "Liquidity and Capital Resources" below as a substantial modification of the April 22, 2003 amended Senior Credit Facility, and
- o In the second and third quarters of 2002 we recognized \$9.7 million and \$1.2 million, respectively, in bad debt expense for uncollected accounts due from MCI. In the third and fourth quarters of 2003 we recognized approximately \$647,000 and \$2.2 million, respectively, in recoveries of bad debt expense for uncollected accounts due from MCI.

Liquidity and Capital Resources

Cash flows from operating activities totaled \$85.7 million in 2003 as compared to \$74.5 million in 2002. The 2003 increase is primarily due to increased cash flow from all of our reportable segments, a \$2.3 million refund from a local exchange carrier in respect of its earnings that exceeded regulatory requirements, receipt

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of \$2.0 million in payments of notes receivable from related parties issued upon stock option exercise, and a \$1.7 million refund from an intrastate access cost pool that previously overcharged us for access services. Uses of cash during 2003 included expenditures of \$62.5 million for property and equipment, including construction in progress, principal payments on long-term debt and capital lease obligations of \$14.6 million, payment of \$6.2 million to purchase other assets and intangible assets, payment of \$3.5 million in fees associated with the amended and new Senior Credit Facility, and payment of preferred stock dividends of \$2.0 million.

Net receivables increased \$15.7 million from December 31, 2002 to December 31, 2003 primarily due to increases in the following:

- o Trade receivables for broadband services provided to hospitals and health clinics,
- o Trade receivables for special project revenue earned from a certain customer,
- o Trade receivables for telecommunication services provided to a certain customer,
- o Trade receivable for estimated support from the Universal Service Program, and
- o Trade receivable for directory advertising services associated with our new phone directory.

Working capital totaled \$8.9 million at December 31, 2003, a \$4.7 million increase as compared to \$4.2 million at December 31, 2002. The increase is primarily attributed to the following:

- o \$13.7 million of the \$15.7 million increase in net receivables at December 31, 2003. The remaining increase in trade receivables does not result in a significant change in working capital due to an off-set reported in current liabilities,
- o A \$2.3 million decrease in accounts payable primarily due to the timing of payments for cost of sales and service and the bankruptcy settlement with MCI in July 2003 (as further discussed in Long Distance Services Overview above), partially off-set by increased accounts payable associated with the construction of our new fiber optic cable system, and
- o A \$2.0 million increase in the current portion of notes receivable from related parties at December 31, 2003 as compared to December 31, 2002.

The increase in working capital was partially off-set by the following:

- o A \$5.7 million increase in accrued payroll primarily due to an increased accrual for company-wide success sharing bonus costs, and
- o An increase of \$3.4 million in the current maturity of our satellite transponderlease obligation.

In February 2004 GCI's wholly owned subsidiary GCI, Inc. sold \$250 million in aggregate principal amount of senior debt securities due February 15, 2014 ("new Senior Notes"). The new Senior Notes are an unsecured senior obligation. We will pay interest of 7.25% on the new Senior Notes, which were sold at a discount of \$4.3 million. The new Senior Notes will be carried on our balance sheet net of the unamortized portion of the discount, which will be amortized to interest expense over the life of the new Senior Notes.

The net proceeds of the offering were primarily used to repay our existing \$180 million 9.75% Senior Notes ("old Senior Notes") and to repay approximately \$43.8 million of the term portion and \$10.0 million of the revolving portion of our new Senior Credit Facility. Semi-annual interest payments of approximately \$9.1 million will be due beginning August 15, 2004. In connection with the issuance, we paid fees and other expenses of approximately \$6.3 million which will be amortized over the life of the new Senior Notes.

The new Senior Notes were offered only to qualified institutional buyers pursuant to Rule 144A and non-United States persons pursuant to Regulation S. The new Senior Notes have not been registered under the Securities Act and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. We plan to register our new Senior Notes by June 16, 2004.

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The new Senior Notes are not redeemable prior to February 15, 2009. At any time on or after February 15, 2009, the new Senior Notes are redeemable at our option, in whole or in part, on not less than thirty days nor more than sixty days notice, at the following redemption prices, plus accrued and unpaid interest (if any) to the date of redemption:

If redeemed during the twelve month period commencing February 1 of the year indicated:	Redemption Price
2009	103.625%
2010	102.417%
2011	101.208%
2012 and thereafter	100.000%

We may, on or prior to February 17, 2007, at our option, use the net cash proceeds of one or more underwritten public offerings of our qualified stock to redeem up to a maximum of 35% of the initially outstanding aggregate principal amount of our new Senior Notes at a redemption price equal to 107.25% of the principal amount of the new Senior Notes, together with accrued and unpaid interest, if any, thereon to the date of redemption, provided that not less than 65% of the principal amount of the new Senior Notes originally issued remain outstanding following such a redemption.

The new Senior Notes restrict GCI, Inc. and certain of its subsidiaries from incurring debt in most circumstances unless the result of incurring debt does not cause our leverage ratio to exceed 6.0 to one. The new Senior Notes do not allow debt under the new Senior Credit Facility to exceed the greater of (and reduced by certain stated items):

- o \$250 million, reduced by the amount of any prepayments, or
- o 3.0 times earnings before interest, taxes, depreciation and amortization for the last four full fiscal quarters of GCI, Inc. and certain of its subsidiaries.

The new Senior Notes limit our ability to make cash dividend payments.

We are conducting a Consent Solicitation and Tender Offer for the old Senior Notes. Through February 13, 2004 we accepted for payment \$114.6 million principal amount of notes which were validly tendered. Such notes accepted for payment received additional consideration as follows:

- o \$4.0 million based upon a payment of \$1,035 per \$1,000 principal amount, consisting of the purchase price of \$1,025 per \$1,000 principal amount and the consent payment of \$10 per \$1,000 principal amount, and
- o \$497,000 in accrued and unpaid interest through February 16, 2004.

The remaining principal amount of \$65.4 million will be redeemed by March 18, 2004 for additional consideration as follows:

- o \$2.1 million based upon a payment of \$1032.50 per \$1,000 principal amount, and
- o \$815,000 in estimated accrued and unpaid interest through the expected date of redemption March 17, 2004.

The total estimated redemption cost is expected to be \$186.1 million. The premium to redeem our old Senior Notes is expected to be \$6.1 million (excluding estimated interest cost of \$1.3 million), which will be recognized as a component of Other Income (Expense) during the three months ended March 31, 2004.

Compliance with the redemption notice requirements in the Indenture will result in a delay of up to sixty days before final redemption of some of the old Senior Notes. As a result of such delay, our total debt will increase during the overlap period between the redemption of the outstanding old Senior Notes and the issuance of the new Senior Notes making us out of compliance with Section 6.11 of our Credit, Guaranty, Security and Pledge

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Agreement, dated as of October 30, 2003. We have received a waiver from compliance with Section 6.11 until April 30, 2004.

On April 22, 2003 we amended our \$225.0 million Senior Credit Facility. On October 30, 2003 we closed a new \$220.0 million Senior Credit Facility to replace the April 22, 2003 amended Senior Credit Facility. The new Senior Credit Facility reduced the interest rate from LIBOR plus 6.50% to LIBOR plus 3.25%. The new Senior Credit Facility includes a term loan of \$170.0 million and a revolving credit facility of \$50.0 million.

The repayment schedule for the term loan portion of the new Senior Credit Facility, after considering repayments from our new Senior Notes offering proceeds, is as follows (amounts in thousands):

Date	Amount
Quarter ended December 31, 2005	\$ 170
Quarterly from March 31, 2006 to December 31, 2006	\$ 8,000
Quarterly from March 31, 2007 to September 30, 2007	\$ 10,000

The remaining balance of the new Senior Credit Facility will be payable in full on October 31, 2007.

We are required to pay a commitment fee on the unused portion of the commitment. We may not permit the Total Leverage Ratio (as defined), the Senior Secured Leverage Ratio (as defined), and the Interest Coverage Ratio (as defined) to exceed certain amounts over the life of the new Senior Credit Facility.

Capital expenditures, excluding up to \$58.0 million incurred to build or acquire additional fiber optic cable system capacity between Alaska and the Lower 48 States, in any of the years ended December 31, 2004, 2005 and 2006 may not exceed:

- o \$25.0 million, plus
- o 100% of any Excess Cash Flow (as defined) during the applicable period less certain permitted investments during the applicable period.

If the revolving credit facility exceeds \$25.0 million, we may not incur capital expenditures, other than those incurred to build or acquire additional fiber optic cable system capacity, in excess of \$25.0 million.

The new Senior Credit Facility requirement that we must either have repaid in full or successfully refinanced our old Senior Notes by February 1, 2007 was met with the refinancing of our old Senior Notes, as previously discussed.

\$3.5 million of the new Senior Credit Facility has been used to provide a letter of credit to secure payment for our contract for the design, engineering, manufacture and installation of the new undersea fiber optic cable system. The letter of credit will be reduced to \$1.8 million after a contract payment estimated to be made in March 2004. The letter of credit will be cancelled after the final contract payment date estimated to be in April 2004.

In connection with the April 22, 2003 amended Senior Credit Facility, we paid bank fees and other expenses of approximately \$2.6 million during the year ended December 31, 2003. In connection with the new Senior Credit Facility, we paid bank fees and other expenses of \$912,000 during the three months ended December 31, 2003 which will be amortized over the life of the new Senior Credit Facility.

Because a portion of the new Senior Credit Facility was a substantial modification of the April 22, 2003 amended Senior Credit Facility, we recognized approximately \$5.0 million in Amortization of Loan and Senior Notes Fees during the three months ended December 31, 2003. The remaining \$2.2 million in amended Senior Credit Facility Deferred Loan Costs will continue to be amortized over the life of the new Senior Credit Facility.

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The term loan is fully drawn and we have letters of credit totaling \$6.5 million, which left \$43.5 million available at December 31, 2003 to draw under the revolving credit facility if needed. In January 2004 we drew \$10.0 million under the revolving credit facility. Our ability to draw down on the revolver portion of our new Senior Credit Facility could be diminished if we are not in compliance with all new Senior Credit Facility covenants or have a material adverse change at the date of the request for the draw. In September and December 2003 we made scheduled principal payments on our term loan totaling \$10.0 million. In April 2003, we made a \$2.7 million principal payment on the revolving credit facility. As described above, we issued new Senior Notes in

February 2004 and used a portion of the proceeds to repay approximately \$43.8 million of the term portion and \$10.0 million of the revolving portion of our new Senior Credit Facility.

We were in compliance with all loan covenants at December 31, 2003.

Our expenditures for property and equipment, including construction in progress, totaled \$62.5 million and \$65.1 million during 2003 and 2002, respectively. Our capital expenditures requirements in excess of approximately \$25 million per year are largely success driven and are a result of the progress we are making in the marketplace. We expect our 2004 expenditures for property and equipment for our core operations, including construction in progress and excluding the new fiber system construction costs and other special projects described below, to total \$45 million to \$55 million, depending on available opportunities and the amount of cash flow we generate during 2004.

We are constructing a fiber optic cable system connecting Seward, Alaska and Warrenton, Oregon, with leased backhaul facilities to connect it to our switching and distribution centers in Anchorage, Alaska and Seattle, Washington. The 1,544-statute mile cable system has a total design capacity of 960 Gigabits per second access speed and is planned to be operational by May 2004. The cable will complement our existing fiber optic cable system between Whittier, Alaska and Seattle, Washington. The two cables will provide physically diverse backup to each other in the event of an outage. We expect to fund construction costs that are expected to total \$50 million through our operating cash flows and, to the extent necessary, with draws on our new Senior Credit Facility. During 2003 our capital expenditures for this project have totaled approximately \$16.5 million, all of which has been funded through our operating cash flows.

Planned capital expenditures over the next five years include those necessary for continued expansion of our long-distance, local exchange and Internet facilities, supplementing our existing network backup facilities, continuing development of our PCS network to meet the requirements of our license, digital local phone service, and upgrades to our cable television plant.

We are testing the deployment of DLPS. We expect to begin implementing this service delivery method in the second quarter of 2004. To ensure the necessary equipment is available to us we have entered into an agreement to purchase a certain number of outdoor, network powered multi-media adapters. The agreement has a remaining outstanding commitment at December 31, 2003 of \$18.3 million.

We believe that payment for services provided to MCI subsequent to their bankruptcy filing date will continue to be made timely, consistent with our status in MCI's filing as a key service provider or utility to MCI. See "Long Distance Services Overview" for a discussion of the settlement of the uncollected amounts due from MCI.

A migration of MCI's traffic off our network without it being replaced by other common carriers that interconnect with our network could have a materially adverse impact on our financial position, results of operations and liquidity.

Dividends accrued on our Series B preferred stock are payable in cash at the semi-annual payment dates of April 30 and October 31 of each year. We paid dividends of \$722,000 and \$713,000 on April 30, 2003 and October 31, 2003, respectively. Redemption is required on April 30, 2011.

Our next Series B preferred stock dividend is due April 30, 2004. In October 2003, 1,250 shares of our Series B preferred stock was converted to approximately 225,000 shares of our Class A common stock at the stated

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conversion price of \$5.55 per share. In January 2004 an additional 3,108 shares of our Series B preferred stock was converted to 560,000 shares of our Class A common stock at the stated conversion price of \$5.55 per share. The conversions will reduce our future semi-annual cash dividends.

Dividends accrued on our Series C preferred stock are payable quarterly in cash. Our next Series C preferred stock dividend of approximately \$150,000 is due March 31, 2004. We may redeem the Series C preferred stock at any time in whole but not in part. Mandatory redemption is required at any time after June 30, 2005 at the option of holders of 80% of the outstanding shares of the Series C preferred stock. The redemption price is \$1,000 per share plus the amount of all accrued and unpaid dividends, whether earned or declared, through the redemption date.

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 financing.

The telecommunications industry in general has been depressed due to high levels

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

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

Critical Accounting Policies

Our accounting and reporting policies comply with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles 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 the Company's 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 accounting principles generally accepted in the United States of America. 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 the Company's Audit Committee.

Those policies considered to be critical accounting policies for the year ended December 31, 2003 are described below.

- o We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our estimates on the aging of our accounts receivable balances, financial health of specific customers, and our historical write-off experience, net of

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recoveries. If the financial condition of our customers were to deteriorate or if they are unable to emerge from reorganization proceedings, resulting in an impairment of their ability to make payments, additional allowances may be required. If their financial condition improves or they emerge successfully from reorganization proceedings, allowances may be reduced. Such allowance changes could have a material effect on our consolidated financial condition and results of operations.

- o We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required by SFAS 141. Goodwill and indefinite-lived assets such as our cable segment franchise agreements are no longer amortized but are subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using the straight-line method, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of the applicability of quoted market prices in active markets and, if quoted market prices are not available and/or are not applicable, how the acquired asset will perform in the future using a discounted cash flow analysis. Estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine over an extended timeframe. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates, performance compared to peers, material and ongoing negative economic trends, and specific industry or market sector conditions. In determining the reasonableness of cash flow estimates, we review historical performance of the underlying asset or similar assets in an effort to improve assumptions utilized in our estimates. In assessing the fair value of goodwill and other intangibles, we may consider other information to validate the reasonableness of our valuations including third-party assessments. These evaluations could result in a change in useful lives in future periods and could result in write-down of the value of intangible assets. Because of the significance

of the identified intangible assets and goodwill to our consolidated balance sheet, the annual impairment analysis will be critical. Any changes in key assumptions about the business and its prospects, or changes in market conditions or other externalities, could result in an impairment charge and such a charge could have a material adverse effect on our consolidated financial position, results of operations or liquidity. Refer to Note 6 in the accompanying "Notes to Consolidated Financial Statements" for additional information regarding intangible assets.

- o We estimate unbilled long-distance segment cost of sales and services based upon minutes of use carried through our network and established rates. We estimate unbilled costs for new circuits and services, and when network changes occur that result in traffic routing changes or a change in carriers. Carriers that provide service to us regularly change their networks which can lead to new, revised or corrected billings. Such estimates are revised or removed when subsequent billings are received, payments are made, billing matters are researched and resolved, tariffed billing periods lapse, or when disputed charges are resolved. Revisions to previous estimates could either increase or decrease costs in the year in which the estimate is revised which could have a material effect on our consolidated financial condition and results of operations.
- o Our income tax policy provides for deferred income taxes to show the effect of temporary differences between the recognition of revenue and expenses for financial and income tax reporting purposes and between the tax basis of assets and liabilities and their reported amounts in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." We have recorded deferred tax assets of approximately \$77.5 million associated with income tax net operating losses that were generated from 1990 to 2003, and that expire from 2005 to 2022. Pre-acquisition income tax net operating losses associated with acquired companies are subject to additional deductibility limits. We have recorded deferred tax assets of approximately \$1.9 million associated with alternative minimum tax credits that do not expire. Significant management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets and liabilities and any valuation allowances that may be required against the deferred tax assets. In conjunction with certain 1996 acquisitions, we determined that approximately \$20 million of the acquired net operating losses would

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not be utilized for income tax purposes, and elected with our December 31, 1996 income tax returns to forego utilization of such acquired losses. Deferred tax assets were not recorded associated with the foregone losses and, accordingly, no valuation allowance was provided. We have not recorded a valuation allowance on the deferred tax assets as of December 31, 2003 based on management's belief that future reversals of existing taxable temporary differences and estimated future taxable income exclusive of reversing temporary differences and carryforwards, will, more likely than not, be sufficient to realize the benefit of these assets over time. In the event that actual results differ from these estimates or if our historical trends change, we may be required to record a valuation allowance on deferred tax assets, which could have a material adverse effect on our consolidated financial position, results of operations or liquidity.

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 and financial instruments require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. Certain of these matters, including but not limited to the requirement to account for the market value of stock options as compensation expense, are among topics currently under reexamination by accounting standards setters and regulators. Although no specific conclusions reached by these standard setters appear likely to cause a material change in our accounting policies, outcomes cannot be predicted with confidence. A complete discussion of our significant accounting policies can be found in Note 1 in the accompanying "Notes to Consolidated Financial Statements."

New Accounting Standards

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FIN 46, Consolidation of Variable Interest Entities, which was issued in January 2003. We will be required to apply FIN 46R to variable interests in Variable Interest Entities ("VIEs") created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured

at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. At December 31, 2003, we do not have VIEs. We will adopt this statement January 1, 2004 and do not expect it to have a material effect on our results of operations, financial position and cash flows.

Geographic Concentration and the Alaska Economy

We offer voice and data telecommunication and video services to customers primarily throughout Alaska. Because of this geographic concentration, growth of our business and of our operations depends upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resource industries, and in particular oil production, as well as investment earnings, tourism, government, and United States military spending. Any deterioration in these markets could have an adverse impact on us. All of the federal funding and the majority of investment revenues are dedicated for specific purposes, leaving oil revenues as the primary source of general operating revenues. In fiscal 2003 the State's actual results indicate that Alaska's oil revenues, federal funding and investment revenues supplied 36%, 31% and 20%, respectively, of the state's total revenues. In fiscal 2004 state economists forecast that Alaska's oil revenues, federal funding and investment revenues will supply 28%, 32% and 30%, respectively, of the state's total projected revenues.

The volume of oil transported by the TransAlaska Oil Pipeline System over the past 20 years has been as high as 2.0 million barrels per day in fiscal 1988. Production has been declining over the last several years with

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an average of 0.990 million barrels produced per day in fiscal 2003. The state forecasts the production rate to decline from 0.996 million barrels produced per day in fiscal 2004 to 0.844 million barrels produced per day in fiscal 2015. The state reports that its forecast has been adjusted since the last forecast reported in April 2003 due to the reexamination of field reservoir performance and potential.

Market prices for North Slope oil averaged \$28.15 in fiscal 2003 and are forecasted to average \$27.70 in fiscal 2004. The closing price per barrel was \$31.53 on February 6, 2004. To the extent that actual oil prices vary materially from the state's projected prices the state's revenues and deficits will change. Every \$1 change in the price per barrel of oil is forecasted to result in a \$50.0 to \$60.0 million change in the state's fiscal 2004 revenue. The production policy of the Organization of Petroleum Exporting Countries and its ability to continue to act in concert represents a key uncertainty in the state's revenue forecast.

The State of Alaska maintains the Constitutional Budget Reserve Fund that is intended to fund budgetary shortfalls. If the state's current projections are realized, the Constitutional Budget Reserve Fund will be depleted in 2007. The date the Constitutional Budget Reserve Fund is depleted is highly influenced by the price of oil. If the fund is depleted, aggressive state action will be necessary to increase revenues and reduce spending in order to balance the budget. The governor of the State of Alaska and the Alaska legislature continue to pursue cost cutting and revenue enhancing measures.

Should new oil discoveries or developments not materialize or the price of oil become depressed, the long term trend of continued decline in oil production from the Prudhoe Bay area is inevitable with a corresponding adverse impact on the economy of the state, in general, and on demand for telecommunications and cable television services, and, therefore, on us, in particular. Periodically there are renewed efforts to allow exploration and development in the Arctic National Wildlife Refuge ("ANWR"). The United States Energy Information Agency estimates it could take nine years to begin oil field drilling after approval of ANWR exploration.

Deployment of a natural gas pipeline from the State of Alaska's North Slope to the Lower 48 States has been proposed to supplement natural gas supplies. A competing natural gas pipeline through Canada has also been proposed. The economic viability of a natural gas pipeline depends upon the price of and demand for natural gas. Either project could have a positive impact on the State of Alaska's revenues and the Alaska economy. In January 2004, two competing groups submitted applications to the State of Alaska to negotiate tax and other financial terms for the construction of a natural gas pipeline. The governor of the State of Alaska and certain natural gas transportation companies continue to support a natural gas pipeline from Alaska's North Slope by trying to reduce the project's costs and by advocating for federal tax incentives to further reduce the project's costs.

Development of the ballistic missile defense system project may have a significant impact on Alaskan telecommunication requirements and the Alaska economy. The proposed system would be a fixed, land-based, non-nuclear missile defense system with a land and space based detection system capable of responding to limited strategic ballistic missile threats to the United States.

The preferred alternative is deployment of a system with up to 100 ground-based interceptor silos and battle management command and control facilities at Fort Greely, Alaska.

The United States Army Corps of Engineers awarded a construction contract in 2002 for test bed facilities. The contract is reported to contain basic requirements and various options that could amount to \$250 million in construction, or possibly more, if all items are executed. Site preparation has been underway at Fort Greely since August of 2001 and construction began on the Fort Greely test bed shortly after the June 15, 2002 groundbreaking. The test bed is due to be operational by September 30, 2004, though it may be operational in the summer of 2004.

In 2003 the Alaska Legislature passed and the Governor signed legislation that extended the life of the RCA until 2007.

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Tourism, air cargo, and service sectors have helped offset the prevailing pattern of oil industry downsizing that has occurred during much of the last several years.

We have, since our entry into the telecommunication marketplace, aggressively marketed our services to seek a larger share of the available market. The customer base in Alaska is limited, however, with a population of approximately 644,000 people. The State of Alaska's population is distributed as follows:

- o 42% are located in the Municipality of Anchorage,
- o 13% are located in the Fairbanks North Star Borough,
- o 10% are located in the Matanuska-Susitna Borough,
- o 5% are located in the City and Borough of Juneau, and
- o The remaining 30% are located in other communities across the State of Alaska.

No assurance can be given that the driving forces in the Alaska economy, and in particular, oil production, will continue at appropriate levels to provide an environment for expanded economic activity.

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

Seasonality

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

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating parts of our business that are not consolidated into our financial statements. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of our capital resources.

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Schedule of Certain Known Contractual Obligations

The following table details future projected payments associated with our certain known contractual obligations as of December 31, 2003.

<TABLE>
<CAPTION>

Payments Due by Period

	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	More Than 5 Years
(Amounts in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Long-term debt	\$ 345,000	20,000	56,000	269,000	---
Interest on long-term debt	70,200	17,550	35,100	17,550	---
Capital lease obligations, including interest	61,902	8,448	19,201	15,775	18,478
Operating lease commitments	69,473	12,357	20,787	13,230	23,099

Redeemable preferred stock	25,664	---	10,000	---	15,664
Purchase obligations	71,038	45,024	20,303	5,711	---
	-----	-----	-----	-----	-----
Total contractual obligations	\$ 643,277	103,379	161,391	321,266	57,241
	=====	=====	=====	=====	=====

</TABLE>

For long-term debt included in the above table, we have included principal payments on our new Senior Credit Facility and on our old Senior Notes. Interest on amounts outstanding under our new Senior Credit Facility is based on variable rates and therefore the amount is not determinable. Our old Senior Notes require semi-annual interest payments of approximately \$8.8 million through August 2007. For a discussion of our long-term debt, including the redemption of our old Senior Notes, issuance of new Senior Notes and the use of proceeds from the issuance of new Senior Notes to pay down our new Senior Credit Facility, see notes 8 and 17 to the accompanying "Notes to Consolidated Financial Statements."

For a discussion of our capital and operating leases, see note 16 to the accompanying "Notes to Consolidated Financial Statements."

We have included only the maturity redemption amount on our Series B and C preferred stock (cash dividends are excluded). Our Series B preferred stock is convertible at \$5.55 per share into GCI Class A common stock. Dividends are payable semi-annually at the rate of 8.5%, plus accrued but unpaid dividends, in cash. Mandatory redemption is required 12 years from the date of closing. In January 2004, a Series B preferred stockholder converted 3,108 shares of Series B preferred stock to GCI Class A common stock. Our Series C preferred stock is convertible at \$12 per share into GCI Class A common stock, is non-voting, and pays a 6% per annum quarterly cash dividend. We may redeem the Series C preferred stock at any time in whole but not in part. Mandatory redemption is required at any time after the fourth anniversary date at the option of holders of 80% of the outstanding shares of the Series C preferred stock. For more information about our redeemable preferred stock, see notes 1(e) and 17 to the accompanying "Notes to Consolidated Financial Statements."

Purchase obligations include the remaining construction commitment for our fiber optic cable system of \$24.6 million, the remaining DLPS equipment purchase commitment of \$18.3 million and the remaining \$16.0 million commitment for our Alaska Airlines agreement as further described in note 16 to the accompanying "Notes to Consolidated Financial Statements." The contracts associated with these commitments are non-cancelable. Purchase obligations also include other commitments for goods and services for capital projects and normal operations which are not included in our Consolidated Balance Sheets at December 31, 2003, because the goods had not been received or the services had not been performed at December 31, 2003.

Regulatory Developments

You should see "Part I -- Item 1 -- Business, Regulation, Franchise Authorizations and Tariffs" for more information about regulatory developments affecting us.

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Inflation

We do not believe that inflation has a significant effect on our operations.

Audit Committee

The Audit Committee, composed entirely of independent directors, meets periodically with our independent auditors and management to review the Company's financial statements and the results of audit activities. The Audit Committee, in turn, reports to the Board of Directors on the results of its review and recommends the selection of independent auditors.

The Audit Committee has approved the independent auditor to provide the following services:

- o Audit (audit of financial statements filed with the SEC, quarterly reviews, comfort letters, consents, review of registration statements, accounting consultations); and
- o Audit-related (employee benefit plan audits and accounting consultation on proposed transactions).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Our new Senior Credit Facility carries interest rate risk. Amounts borrowed under this Agreement bear interest at Libor plus 3.25%. Should the Libor rate change, our interest expense will increase or decrease accordingly. On September 21, 2001, we entered into an interest rate swap agreement to convert \$25.0 million of variable interest rate debt to 3.98% fixed rate debt plus applicable margin. As of December 31, 2003, we have borrowed \$165.0 million of which \$140.0

million is subject to interest rate risk. On this amount, a 1% increase in the interest rate would result in \$1,400,000 in additional gross interest cost on an annualized basis.

Our Satellite Transponder Capital Lease carries interest rate risk. Amounts borrowed under this Agreement bear interest at Libor plus 3.25%. Should the Libor rate change, our interest expense will increase or decrease accordingly. As of December 31, 2003, we have borrowed \$43.5 million subject to interest rate risk. On this amount, a 1% increase in the interest rate would result in \$435,000 in additional gross interest cost on an annualized basis.

Item 8. Consolidated Financial Statements and Supplementary Data

Our consolidated financial statements are filed under this Item, beginning on Page 93. The financial statement schedules required under Regulation S-X are filed pursuant to Item 14 of this Report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K/A, we carried out an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 ("Exchange Act") Rules 13a-15(e)) under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective.

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

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the fourth quarter of 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

Part III

Items 10, 11, 12, 13 and 14 are incorporated herein by reference from our Proxy Statement for our 2004 Annual Shareholders' meeting.

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Part IV

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

<TABLE>
<CAPTION>

(a) (1) Consolidated Financial Statements

Page No.

<S>

<C>

Included in Part II of this Report:

Independent Auditors' Report.....	94
Consolidated Balance Sheets, December 31, 2003 and 2002.....	95 -- 96
Consolidated Statements of Operations, Years ended December 31, 2003, 2002 and 2001.....	97
Consolidated Statements of Stockholders' Equity, Years ended December 31, 2003, 2002 and 2001.....	98 -- 100
Consolidated Statements of Cash Flows,	

(a) (2) Consolidated Financial Statement Schedules

None

(b) Reports on Form 8-K.....141

(c) Exhibits.....141

</TABLE>

Other schedules are omitted, as they are not required or are not applicable, or the required information is shown in the applicable financial statements or notes thereto.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
General Communication, Inc.:

We have audited the accompanying consolidated balance sheets of General Communication, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Communication, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(p) to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards, No. 143, Accounting for Asset Retirement Obligations, effective January 1, 2003.

/s/

KPMG LLP

Anchorage, Alaska
February 20, 2004

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<CAPTION>

(Amounts in thousands)

	ASSETS	December 31, 2003
2002		

<S>		<C> <C>
Current assets:		
Cash and cash equivalents		\$ 10,435
11,940		

Receivables		70,235
66,595		
Less allowance for doubtful receivables		1,954
14,010		

Net receivables	68,281	
52,585		
-----	-----	
Prepaid and other current assets	12,159	
9,171		
Deferred income taxes, net	7,195	
8,509		
Notes receivable from related parties	2,723	
697		
Property held for sale	2,173	
1,037		
Inventories	1,513	
400		
-----	-----	
Total current assets	104,479	
84,339		
-----	-----	
Property and equipment in service, net of depreciation	369,039	381,394
Construction in progress	33,618	
16,958		
-----	-----	
Net property and equipment	402,657	
398,352		
-----	-----	
Cable certificates, net of amortization of \$26,775 and \$26,884 at December 31, 2003 and 2002, respectively	191,241	
191,132		
Goodwill	41,972	
41,972		
Other intangible assets, net of amortization of \$1,656 and \$1,848 at December 31, 2003 and 2002, respectively	3,895	
3,460		
Deferred loan and senior notes costs, net of amortization of \$5,308 and \$4,110 at December 31, 2003 and 2002, respectively	5,757	
9,961		
Notes receivable from related parties	3,443	
5,142		
Other assets	9,576	
4,424		
-----	-----	
Total other assets	255,884	
256,091		
-----	-----	
Total assets	\$ 763,020	
738,782		
=====	=====	

</TABLE>
See accompanying notes to consolidated financial statements.

95

(Continued)

<TABLE>

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

<CAPTION>

(Amounts in thousands)

LIABILITIES, REDEEMABLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY

December 31,
2003 2002

<S>

Current liabilities:

Current maturities of obligations under capital leases

1,857 \$ 5,139

Accounts payable 34,133

33,605

Deferred revenue 21,275

18,290

Accrued payroll and payroll related obligations 17,545

11,821

Accrued interest 8,645

7,938

Accrued liabilities 8,156

5,763

Subscriber deposits 651

-----	-----		
Total current liabilities	95,544		
80,163			
Long-term debt	345,000		
357,700			
Obligations under capital leases, excluding current maturities	38,959		
44,072			
Obligation under capital lease due to related party, excluding current maturities	677	703	
Deferred income taxes, net of deferred income tax benefit	24,168		
16,061			
Other liabilities	6,366		
4,956			
-----	-----		
Total liabilities	510,714		
503,655			
-----	-----		
Redeemable preferred stock	25,664		
26,907			
-----	-----		
Stockholders' equity:			
Common stock (no par):			
Class A. Authorized 100,000 shares; issued 52,589 and 51,795 shares at December 31, 2003 and 2002, respectively	202,362		
199,903			
Class B. Authorized 10,000 shares; issued 3,868 and 3,875 shares at December 31, 2003 and 2002, respectively; convertible on a share-per-share basis into Class A common stock	3,269		
3,274			
Less cost of 338 and 317 Class A common shares held in treasury at December 31, 2003 and 2002, respectively	(1,917)		
(1,836)			
Paid-in capital	12,836		
11,222			
Notes receivable with related parties issued upon stock option exercise	(4,971)		
(5,650)			
Retained earnings	15,371		
1,847			
Accumulated other comprehensive loss	(308)		
(540)			
-----	-----		
Total stockholders' equity	226,642		
208,220			
-----	-----		
Commitments and contingencies			
Total liabilities, redeemable preferred stock, and stockholders' equity	\$ 763,020	738,782	
	=====		

=====

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2003, 2002 and 2001

<CAPTION>

	2003	2002	
	-----	-----	-----
	(Amounts in thousands, except per share		
amounts)			
<S>	<C>	<C>	<C>
Revenues	\$ 390,797	367,842	
357,258			
Cost of sales and services	125,383	123,564	
139,793			
Selling, general and administrative expenses	138,693	129,029	
116,536			
Bad debt expense (recovery)	(178)	13,124	

4,279			
Impairment charge		5,434	---

Depreciation, amortization and accretion expense		53,388	56,400
55,675			

Operating income		68,077	45,725
40,975			

Other income (expense):			
Interest expense		(34,745)	(29,316)
(31,208)			
Amortization of loan and senior notes fees		(7,732)	(4,612)
(1,402)			
Interest income		560	525
294			

Other expense, net		(41,917)	(33,403)
(32,316)			

Net income before income taxes and cumulative effect of a change in accounting principle		26,160	12,322
8,659			
Income tax expense		10,074	5,659
4,070			

Net income before cumulative effect of a change in accounting principle		16,086	6,663
4,589			
Cumulative effect of a change in accounting principle, net of income tax benefit of \$367		(544)	---

Net income		\$ 15,542	6,663
4,589			
=====			
Basic and diluted net income per common share:			
Net income before cumulative effect of a change in accounting principle		\$ 0.25	0.08
0.05			
Cumulative effect of a change in accounting principle, net of income tax benefit of \$367		(0.01)	---

Net income		\$ 0.24	0.08
0.05			
=====			

</TABLE>

See accompanying notes to consolidated financial statements.

97

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

<CAPTION>

Accumulated			Class A		Notes		
	Class A	Class B	Shares	Paid-in	Issued to	Retained	
Other	Common	Common	Held in	Capital	Related	Earnings	
Comprehensive	Stock	Stock	Treasury		Parties	(Deficit)	
(Amounts in thousands)							
Income Total							

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>	<C>						
Balances at December 31, 2000	\$ 182,706	3,299	(1,659)	7,368	(2,976)	(5,258)	---

183,480								
Net income	---	---	---	---	---	4,589	-	
-- 4,589								
Change in fair value of cash flow hedge, net of income tax effect of \$5 8	---	---	---	---	---	---		

Comprehensive income								
4,597								
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	2,317	---	---	-	
-- 2,317								
Class B shares converted to Class A	18	(18)	---	---	---	---	-	
--								
Shares issued under stock option plan	4,182	---	---	---	(300)	---	-	
-- 3,882								
Amortization of the excess of GCI stock market value over stock option exercise cost on date of stock option grant	---	---	---	789	---	---	-	
-- 789								
Shares issued to Employee Stock Purchase Plan	688	---	---	---	---	---	-	
-- 688								
Acquisition of G.C. Cablevision, Inc. net assets and customer base	2,388	---	---	---	---	---	-	
-- 2,388								
Series B preferred stock converted to Class A common stock	5,665	---	---	---	---	---	-	
-- 5,665								
Payment received on note issued upon officer stock option exercise	---	---	---	---	688	---	-	
-- 688								
Preferred stock series B dividends	---	---	---	---	---	(1,801)	-	
-- (1,801)								
Preferred stock series C dividends	---	---	---	---	---	(301)	-	
-- (301)								

Balances at December 31, 2001	\$ 195,647	3,281	(1,659)	10,474	(2,588)	(2,771)	8	
202,392								

</TABLE>

See accompanying notes to consolidated financial statements.

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(Continued)

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001 (Continued)								
		Class A			Notes			
		Class A	Class B	Shares	Receivable			
Accumulated		Class A	Class B	Shares	Paid-in	Related	Retained	Income
Other		Common	Common	Held in	Capital	Parties	Earnings	
Comprehensive		Stock	Stock	Treasury	Capital	Parties	Earnings	Income
(Amounts in thousands)		Stock	Stock	Treasury	Capital	Parties	Earnings	Income
(Loss) Total		Stock	Stock	Treasury	Capital	Parties	Earnings	Income

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
<C>	<C>							
Balances at December 31, 2001		\$ 195,647	3,281	(1,659)	10,474	(2,588)	(2,771)	8
202,392								
Net income		---	---	---	---	---	6,663	-
-- 6,663								
Change in fair value of cash flow hedge, net of income tax effect of \$459		---	---	---	---	---	---	
(548)	(548)							

Comprehensive income								
6,115								
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes		---	---	---	319	---	---	-

--	319							
	Class B shares converted to Class A	7	(7)	---	---	---	---	-
--	---							
	Shares issued under stock option plan	3,372	---	---	---	(3,062)	---	--
-	310							
	Amortization of the excess of GCI stock market value over stock option exercise cost on date of stock option grant	---	---	---	429	---	---	-
--	429							
	Shares issued to Employee Stock Purchase Plan	791	---	---	---	---	---	-
--	791							
	Shares issued to acquire minority shareholders' interest in GFCC	86	---	---	---	---	---	-
--	86							
	Purchase of treasury stock	---	---	(177)	---	---	---	-
--	(177)							
	Preferred stock series B dividends	---	---	---	---	---	(1,445)	-
--	(1,445)							
	Preferred stock series C dividends	---	---	---	---	---	(600)	-
--	(600)							

	Balances at December 31, 2002	\$ 199,903	3,274	(1,836)	11,222	(5,650)	1,847	
(540)	208,220							

</TABLE>

See accompanying notes to consolidated financial statements.

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(Continued)

<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Continued)

<CAPTION>

Accumulated	Class A	Class B	Class A		Notes Receivable		Income
			Shares	Paid-in	Issued to	Retained	
Other	Common	Common	Held in	Capital	Related	Earnings	
Comprehensive	Stock	Stock	Treasury		Parties		
(Amounts in thousands)							
(Loss) Total							

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>	<C>						
Balances at December 31, 2002	\$ 199,903	3,274	(1,836)	11,222	(5,650)	1,847	
(540)	208,220						
Net income	---	---	---	---	---	15,542	-
--	15,542						
Change in fair value of cash flow hedge, net of change in income tax effect of \$252	---	---	---	---	---	---	-
232	232						

Comprehensive income							
15,774							
Tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes	---	---	---	538	---	---	-
--	538						
Class B shares converted to Class A	5	(5)	---	---	---	---	-
--	---						
Shares issued under stock option plan	1,836	---	---	---	---	---	-
--	1,836						
Shares issued upon exercise of warrants	125	---	---	---	---	---	--
-	125						
Payments received on notes receivable issued to related parties upon stock option exercise	---	---	---	---	679	---	-
--	679						
Amortization of the excess of GCI stock market value over stock option exercise cost on date of stock option grant	---	---	---	1,076	---	---	-
--	1,076						
Shares purchased and retired	(750)	---	---	---	---	---	-

--	(750)							
	Conversion of Series B preferred stock to Class A common stock	1,243	---	---	---	---	---	-
--	1,243							
	Purchase of treasury stock	---	---	(81)	---	---	---	-
--	(81)							
	Preferred stock series B dividends	---	---	---	---	---	(1,418)	-
--	(1,418)							
	Preferred stock series C dividends	---	---	---	---	---	(600)	-
--	(600)							

	Balances at December 31, 2003	\$ 202,362	3,269	(1,917)	12,836	(4,971)	15,371	
(308)	226,642							

</TABLE>

See accompanying notes to consolidated financial statements

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<TABLE>

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

<CAPTION>

(Amounts in thousands)

	2003	2002
2001		
	-----	-----
<S>	<C>	<C>
<C>		
Cash flows from operating activities:		
Net income	\$ 15,542	6,663
4,589		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion expense	53,388	56,400
55,675		
Deferred income tax expense	9,673	5,754
3,958		
Amortization of loan and senior notes fees	7,732	4,612
1,402		
Impairment charge	5,434	---

Compensatory stock options	1,076	548
404		
Bad debt expense (recovery), net of write-offs	(1,084)	9,844
1,294		
Deferred compensation	689	430
787		
Cumulative effect of a change in accounting principle, net	544	---

Non-cash cost of sales	---	---
10,877		
Employee Stock Purchase Plan expense funded with issuance of General Communication, Inc. Class A common stock	---	791

Write-off of capitalized interest	---	---
170		
Other noncash income and expense items	99	90
(44)		
Change in operating assets and liabilities	(7,395)	(10,654)
815		
	-----	-----
Net cash provided by operating activities	85,698	74,478
79,927		
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment, including construction period interest	(62,479)	(65,140)
(65,638)		
Purchases of other assets and intangible assets	(6,249)	(1,657)
(2,296)		
Payments received on notes receivable from related parties	74	946
1,065		
Notes receivable issued to related parties	(99)	(3,055)
(959)		
Purchases of and additions to property held for sale	(138)	(38)
(101)		
Acquisition of Rogers net of cash received	---	---
(18,533)		
Advances and billings to Kanas	---	---
(5,404)		

Net cash used in investing activities (91,866)	(68,891)	(68,944)

Cash flows from financing activities:		
Long-term borrowings - bank debt 29,000	---	14,766
Repayments of long-term borrowings and capital lease obligations (13,667)	(14,557)	(17,279)
Payment of debt issuance costs (629)	(3,528)	(352)
Payment of preferred stock dividends (2,200)	(2,036)	(2,045)
Proceeds from common stock issuance, net of notes receivable from related parties issued upon stock option exercise 3,882	1,961	396
Purchase and retirement of General Communication, Inc. Class A common stock ---	(750)	---
Payment received on note receivable from related parties issued upon stock option exercise 688	679	---
Purchase of treasury stock ---	(81)	(177)

Net cash provided by (used in) financing activities 17,074	(18,312)	(4,691)

Net increase (decrease) in cash and cash equivalents 5,135	(1,505)	843
Cash and cash equivalents at beginning of year 5,962	11,940	11,097

Cash and cash equivalents at end of year 11,097	\$ 10,435	11,940
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(1) Business and Summary of Significant Accounting Principles

In the following discussion, General Communication, Inc. ("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:

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

(b) Principles of Consolidation

The consolidated financial statements include the consolidated accounts of GCI and its wholly owned subsidiaries with all significant intercompany transactions eliminated.

(c) Earnings per Common Share

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

<TABLE>
<CAPTION>

	Year Ended December 31, 2003		
	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts
<S>	<C>	<C>	<C>
Net income before cumulative effect of a change in accounting principle, net of income tax benefit of \$367	\$16,086		
Less preferred stock dividends:			
Series B	1,418		
Series C	600		
Basic EPS:			
Net income before cumulative effect of a change in accounting principle, net of income tax benefit of \$367, available to common stockholders	14,068	55,675	\$ 0.25
Effect of Dilutive Securities:			
Unexercised stock options	---	765	---
Diluted EPS:			
Net income before cumulative effect of a change in accounting principle, net of income tax benefit of \$367, available to common stockholders	\$14,068	56,440	\$ 0.25

</TABLE>

102 (Continued)
GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

	Years Ended December 31,					
	2002			2001		
	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts	Income (Num- erator)	Shares (Denom- inator)	Per-share Amounts
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income	\$ 6,663			\$ 4,589		
Less preferred stock dividends:						
Series B	1,445			1,801		
Series C	600			301		
Basic EPS:						
Net income available to common stockholders	4,618	55,081	\$ 0.08	2,487	53,091	\$ 0.05
Effect of Dilutive Securities:						
Unexercised stock options	---	584	---	---	1,381	---
Diluted EPS:						
Net income available to common stockholders	\$ 4,618	55,665	\$ 0.08	\$ 2,487	54,472	\$ 0.05

</TABLE>

Common equivalent shares outstanding which are anti-dilutive for purposes of calculating EPS for the years ended December 31, 2003, 2002 and 2001, are not included in the diluted EPS calculations, and consist of the following (shares, in thousands):

<TABLE>
<CAPTION>

	2003	2002	2001
<S>	<C>	<C>	<C>
Series B redeemable preferred stock	2,837	3,062	3,832
Series C redeemable preferred stock	833	833	833
Anti-dilutive common shares outstanding	3,670	3,895	4,665

</TABLE>

Weighted average shares associated with outstanding stock options for the years ended December 31, 2003, 2002 and 2001 which have been excluded from the diluted EPS calculations because the options' exercise price was greater than the average market price of the common shares consist of the following (shares, in thousands):

<TABLE>
<CAPTION>

	2003	2002	2001
	-----	-----	-----
--			
<S>	<C>	<C>	<C>
Weighted average shares associated with outstanding stock options	380	2,545	36
	=====	=====	

=====
</TABLE>

103 (Continued)
GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

- (d) Common Stock
Following are the changes in common stock for the years ended December 31, 2003, 2002 and 2001 (shares, in thousands):

<TABLE>
<CAPTION>

	Class A	Class B
	-----	-----
<S>	<C>	<C>
Balances at December 31, 2000	48,643	3,904
Class B shares converted to Class A	21	(21)
Shares issued under stock option plan	1,044	---
Conversion of preferred stock Series B to Class A common stock	1,021	---
Shares issued upon acquisition of G.C. Cablevision, Inc. net assets and customer base	238	---
	-----	-----
Balances at December 31, 2001	50,967	3,883
Class B shares converted to Class A	8	(8)
Shares issued under stock option plan	584	---
Shares issued to GCI Employee Stock Purchase Plan	221	---
Shares issued to acquire minority shareholders' interests in GFCC	15	---
	-----	-----
Balances at December 31, 2002	51,795	3,875
Class B shares converted to Class A	7	(7)
Shares issued under stock option plan	416	---
Shares issued upon conversion of Series B preferred stock to Class A common stock	225	---
Shares issued per G.C. Cablevision, Inc. acquisition agreement	223	---
Shares purchased and retired	(77)	---
	-----	-----
Balances at December 31, 2003	52,589	3,868
	=====	=====

</TABLE>

- (e) Redeemable Preferred Stock
Redeemable preferred stock at December 31, 2003 and 2002 consist of (amounts in thousands):

<TABLE>
<CAPTION>

	2003	2002
	-----	-----
<S>	<C>	<C>
Series B	\$ 15,664	16,907
Series C	10,000	10,000
	-----	-----
	\$ 25,664	26,907
	=====	=====

</TABLE>

We have 1,000,000 shares of preferred stock authorized with the following shares issued at December 31, 2003, 2002 and 2001 (shares, in thousands):

<TABLE>
<CAPTION>

	Series B	Series C
	-----	-----
<S>	<C>	<C>
Balance at December 31, 2000	20	---
Shares issued in lieu of cash dividend payment	3	---
Shares converted to GCI Class A common stock	(6)	---

Shares issued upon acquisition of Kanaz	---	10
	-----	-----
Balances at December 31, 2001 and 2002	17	10
Shares converted to GCI Class A common stock	(1)	---
	-----	-----
Balance at December 31, 2003	16	10
	=====	=====

</TABLE>

104 (Continued)
GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

As of December 31, 2003, the combined aggregate amount of preferred stock mandatory redemption requirements, including dividends, follow (amounts in thousands):

Years ending December 31:	

2004	\$ ---
2005	10,150
2006	---
2007	---
2008	---

	\$ 10,150
	=====

Series B

We issued 20,000 shares of convertible redeemable accreting Series B preferred stock on April 30, 1999. The Series B preferred stock is convertible at \$5.55 per share into GCI Class A common stock. Through April 30, 2003, dividends were payable semi-annually at the rate of 8.5%, plus accrued but unpaid dividends, at our option, in cash or in additional fully-paid shares of Series B preferred stock. Dividends earned after April 30, 2003, are payable semi-annually in cash only. Mandatory redemption is required 12 years from the date of closing. The redemption amount of our convertible redeemable accreting Series B preferred stock at December 31, 2003 and 2002 was \$15,887,000 and \$17,148,000, respectively. The difference between the carrying and redemption amounts of approximately \$223,000 or approximately \$14 per share, is due to accrued dividends which are included in Accrued Liabilities until either paid in cash or through the issuance of additional Series B preferred stock.

Series C

We issued 10,000 shares of convertible redeemable accreting Series C preferred stock as of June 30, 2001 to acquire a controlling interest in Kanaz (see note 3). The Series C preferred stock is convertible at \$12 per share into GCI Class A common stock, is non-voting, and pays a 6% per annum quarterly cash dividend. We may redeem the Series C preferred stock at any time in whole but not in part. Mandatory redemption is required at any time after the fourth anniversary date at the option of holders of 80% of the outstanding shares of the Series C preferred stock. The redemption price is \$1,000 per share plus the amount of all accrued and unpaid dividends, whether earned or declared, through the redemption date. In the event of a liquidation of GCI, the holders of Series C preferred stock shall be entitled to be paid an amount equal to the redemption price before any distribution or payment is made upon our common stock and other shares of our capital stock hereafter issued which by its terms is junior to the Series C preferred stock. Series B preferred stock is senior to Series C preferred stock. The redemption amount of our convertible redeemable accreting Series C preferred stock on December 31, 2003 and 2002 was \$10,000,000. There were no accrued dividends at December 31, 2003 and 2002.

(f) Cash Equivalents

Cash equivalents consist of repurchase interest investments which are short-term and readily convertible into cash.

(g) Accounts Receivable and Allowance for Doubtful Receivables

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience by industry and regional economic data. We review our allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by type of receivable. Account

balances are charged off against the allowance when we feel it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers.

- (h) Inventories
Inventory of merchandise for resale and parts is stated at the lower of cost or market. Cost is determined using the average cost method.
- (i) Property and Equipment
Property and equipment is stated at cost. Construction costs of facilities are capitalized. Equipment financed under capital leases is recorded at the lower of fair market value or the present value of future minimum lease payments. Construction in progress represents distribution systems and support equipment not placed in service on December 31, 2003; management intends to place this equipment in service during 2004.

Depreciation is computed on a straight-line basis based upon the shorter of the estimated useful lives of the assets or the lease term, if applicable, in the following ranges:

Asset Category	Asset Lives
Telephony distribution and fiber optic cable systems	10-20 years
Cable television distribution systems	10 years
Support equipment	3-10 years
Transportation equipment	5-10 years
Property and equipment under capital leases	3-20 years

Repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments are capitalized. Gains or losses are recognized at the time of retirements, sales or other dispositions of property.

- (j) Intangible Assets
Effective January 1, 2002, we adopted Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Since our adoption of SFAS No. 142, goodwill and cable certificates (certificates of convenience and public necessity) are no longer amortized. Cable certificates represent certain perpetual operating rights to provide cable services and were amortized on a straight-line basis over 20 to 40 years in the year ended December 31, 2001. Goodwill represents the excess of cost over fair value of net assets acquired and was amortized on a straight-line basis over periods of 10 to 40 years in the year ended December 31, 2001. Cable certificates are allocated to our cable services reportable segment. Goodwill is primarily allocated to the cable services segment and the remaining amount is not allocated to a reportable segment, but is included in the All Other Category in note 13.

The cost of our Personal Communication Services license and related financing costs were capitalized as an amortizable intangible asset. The associated assets were placed into service during 2000 and the recorded cost of the license and related financing costs are being amortized over a 40-year period using the straight-line method. All other amortizable intangible assets are being amortized over 2-20 year periods using the straight-line method.

- (k) Impairment of Long-lived Assets, Intangibles and Goodwill
Cable certificates are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the cable certificates asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the asset is its new accounting basis.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to its carrying amount. Second, if

the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, "Business Combinations." The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

- (l) Amortization of Loan and Senior Notes Fees
Debt issuance costs are deferred and amortized using the straight-line method, which approximates the interest method, over the term of the related debt and notes. Amortization costs are reported as a component of Other Income (Expense) in the Consolidated Statements of Operations.
- (m) Other Assets
Other Assets primarily include long-term deposits and non-trade accounts receivable.
- (n) Accounting for Derivative Instruments and Hedging Activities
We record derivatives on the balance sheet as assets or liabilities, measured at fair value consistent with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

On July 1, 2003 we adopted SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Adoption of SFAS No. 149 did not have a material effect on our results of operations, financial position and cash flows.

- (o) Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity
On July 1, 2003 we adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Adoption of SFAS No. 150 did not have a material effect on our results of operations, financial position and cash flows.
- (p) Asset Retirement Obligations
On January 1, 2003 we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides accounting and reporting standards for costs associated with the

retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Upon adoption, we recorded the cumulative effect of accretion and depreciation expense as a cumulative effect of a change in accounting principle of approximately \$544,000, net of income tax benefit of \$367,000.

Following is a reconciliation of the beginning and ending aggregate carrying amount of our asset retirement obligations at December 31, 2003 (amounts in thousands):

<TABLE>
<CAPTION>

<S>	<C>
Balance at December 31, 2002	\$ ---
Liability recognized upon adoption of SFAS No. 143	1,565
Liability incurred during the year ended December 31, 2003	277
Accretion expense for the year ended December 31, 2003	163

Balance at December 31, 2003	\$ 2,005
	=====

</TABLE>

Following is the amount of the liability for asset retirement obligations as if SFAS No. 143 had been applied at December 31, 2001 (amounts in thousands):

<TABLE>
<CAPTION>

<S>	<C>
Balance at December 31, 2001	\$ 1,350
	=====
Balance at December 31, 2002	\$ 1,565
	=====

</TABLE>

At the date of adoption we recorded additional capitalized costs of \$654,000 in Property and Equipment in Service, Net of Depreciation. During the year ended December 31, 2003 we recorded additional capitalized costs of \$278,000 in Property and Equipment in Service, Net of Depreciation.

(q) Revenue Recognition

All revenues are recognized when the earnings process is complete in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletins No. 101 and No. 104, "Revenue Recognition." Revenues generated from long-distance and managed services are recognized when the services are provided. Cable television service, local access service, Internet service and private line telecommunication revenues are billed in advance, recorded as Deferred Revenue on the balance sheet, and are recognized as the associated service is provided. Revenues from the sale of equipment are recognized at the time the equipment is delivered or installed. Technical services revenues are derived primarily from maintenance contracts on equipment and are recognized on a prorated basis over the term of the contracts. Revenues from telephone and yellow-page directories are recognized ratably during the period following publication, which typically begins with distribution and is complete in the month prior to publication of the next directory. Other revenues are recognized when the service is provided. We recognize unbilled revenues when the service is provided based upon minutes of use processed or established rates, net of credits and adjustments.

(r) Sale of Fiber Optic Cable System Capacity

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

The fiber capacity sale was pursuant to a contract giving the purchaser an indefeasible right to use a certain amount of fiber system capacity expiring on February 4, 2024. The term may be extended if the actual useful life of the fiber system capacity extends beyond the estimated useful life of twenty-five years. The fiber system capacity sold is integral equipment because it is attached to real estate. Because all of the benefits and risks of ownership have been transferred to the purchaser upon full receipt of the purchase price and other terms of the contract meet the requirements of SFAS No. 66, "Accounting for Sales of Real Estate" we accounted for the fiber capacity sale as a sales-type lease. We recognized \$19.5 million in revenue from the fiber capacity sale. We recognized \$10.9 million as cost of sales during the year ended December 31, 2001.

The accounting for the sale of fiber system capacity is currently evolving and accounting guidance may become available in the future which could require us to change our policy. If we are required to

change our policy, it is likely the effect would be to recognize the gain from future sales of fiber capacity, if any, over the term the capacity is provided.

(s) Payments Received from Suppliers

On March 20, 2003 the Financial Accounting Standards Board issued Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor" ("EITF No. 02-16"). We have applied EITF No. 02-16 prospectively for arrangements entered into or modified after December 31, 2002. Our cable services segment occasionally receives reimbursements for costs to promote suppliers' services, called cooperative advertising arrangements. The supplier payment is classified as a reduction of selling, general and administrative expenses if it reimburses specific, incremental and identifiable costs incurred to resell the suppliers' services. Excess consideration, if any, is classified as a reduction of cost of sales and services.

Occasionally our cable services segment enters into a binding arrangement with a supplier in which we receive a rebate dependent upon us meeting a specified goal. We recognize the rebate as a reduction of cost of sales and services systematically as we make progress toward the specified goal, provided the amounts are probable and reasonably estimable. If earning the rebate is not probable and reasonably estimable, it is recognized only when the goal is met.

(t) Advertising Expense

We expense advertising costs in the fiscal year during which the first advertisement appears. Advertising expenses were approximately \$3,727,000, \$2,967,000 and \$3,168,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

(u) Interest Expense

Interest costs incurred during the construction period of significant capital projects, such as construction of an undersea fiber optic cable system, are capitalized. During the year ended December 31, 2003, \$403,000 in interest cost was capitalized during the construction of the fiber optic cable system discussed further in note 16. No interest was capitalized during the years ended December 31, 2002 and 2001.

(v) Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for their future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable earnings in the years in which those temporary differences are expected to be

recovered or settled. Deferred tax assets are recognized to the extent that the benefits are more likely to be realized than not.

(w) Costs Associated with Exit or Disposal Activities

On January 1, 2003 we adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Upon adoption of SFAS No. 146, enterprises may only record exit or disposal costs when they are incurred and can be measured at fair value. The recorded liability will be subsequently adjusted for changes in estimated cash flows. SFAS 146 revises accounting for specified employee and contract terminations that are part of restructuring activities. Adoption of SFAS No. 146 did not have a material effect on our results of operations, financial position and cash flows.

(x) Incumbent Local Exchange Carrier ("ILEC") Over-earnings Refunds

We receive refunds from time to time from ILECs with which we do business in respect of their earnings that exceed regulatory requirements. Telephone companies that are rate regulated by the Federal Communications Commission ("FCC") using the rate of return method are required by the FCC to refund earnings from interstate access charges assessed to long-distance carriers when their earnings exceed their authorized rate of return. Such refunds are computed based on the regulated carrier's earnings in several access categories. Uncertainties exist with respect to the amount of their earnings, the refunds (if any), their timing, and their realization. We account for such refundable amounts as gain contingencies, and, accordingly, do not recognize them until realization is a certainty upon receipt.

(y) Stock Option Plan

At December 31, 2003, we had one stock-based employee compensation plan, which is described more fully in note 12. We account for this plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. We use the intrinsic-value method and compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. We have adopted SFAS 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 also allows entities to continue to apply the provisions of APB Opinion No. 25.

We have adopted SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure as required by SFAS 148.

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GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

(Continued)

Stock-based employee compensation cost is reflected over the options' vesting period of generally five years and compensation cost for options granted prior to January 1, 1996 is not considered. The following table illustrates the effect on net income and EPS for the years ended December 31, 2003, 2002 and 2001, if we had applied the fair-value recognition provisions of SFAS 123 to stock-based employee compensation (amounts in thousands, except per share amounts):

<TABLE>
<CAPTION>

	2003	2002	2001
<S>	<C>	<C>	<C>
Net income, as reported	\$ 15,542	6,663	4,589
Total stock-based employee compensation expense included in reported net income, net of related tax effects	630	257	472
Total stock-based employee compensation expense under the fair-value based method for all awards, net of related tax effects	(1,981)	(2,504)	(3,483)
Pro forma net income	\$ 14,191	4,416	1,578
Basic and diluted EPS after cumulative effect of a change in accounting principle, as reported	\$ 0.24	0.08	0.05
Basic and diluted EPS after cumulative effect of a change in accounting principle, pro forma	\$ 0.22	0.04	(0.01)

</TABLE>

The calculation of total stock-based employee compensation expense under the fair-value based method includes weighted-average assumptions of a risk-free interest rate, volatility and an expected life.

(z) Stock Options and Stock Warrants Issued for Non-employee Services

We account for stock options and warrants issued in exchange for non-employee services pursuant to the provisions of SFAS 123, Emerging Issues Task Force ("EITF") 96-3 and EITF 96-18, wherein such transactions are accounted for at the fair value of the consideration or services received or the fair value of the equity instruments issued, whichever is more reliably measurable.

When a stock option or warrant is issued for non-employee services where the fair value of such services is not stated, we estimate the value of the stock option or warrant issued using the Black Scholes method.

The fair value determined using these principles is charged to operating expense over the shorter of the term for which non-employee services are provided, if stated, or the stock option

or warrant vesting period.

(aa) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 allowance for doubtful receivables, valuation allowances for deferred income tax assets, depreciable lives of assets, the carrying value of long-lived assets including goodwill, and the accrual of cost of sales and services. Actual results could differ from those estimates.

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(Continued)

GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(ab) Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash and cash equivalents and accounts receivable. Excess cash is invested in high quality short-term liquid money instruments issued by highly rated financial institutions. At December 31, 2003 and 2002, substantially all of our cash and cash equivalents were invested in short-term liquid money instruments at one highly rated financial institution.

We have one major customer, MCI (see note 15). Additionally, Sprint was a major customer during the year ended December 31, 2001 (see note 13). There is increased risk associated with these customers' accounts receivable balances. Our remaining customers are located primarily throughout Alaska. Because of this geographic concentration, our growth and operations depend upon economic conditions in Alaska. The economy of Alaska is dependent upon the natural resources industries, and in particular oil production, as well as tourism, government, and United States military spending. Though limited to one geographical area and except for MCI and Sprint, the concentration of credit risk with respect to our receivables is minimized due to the large number of customers, individually small balances, and short payment terms.

(ac) Software Capitalization Policy

Internally used software, whether purchased or developed, is capitalized and amortized using the straight-line method over an estimated useful life of five years. In accordance with Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," we capitalize certain costs associated with internally developed software such as payroll costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with internally developed software to be used internally are expensed until the point the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. The capitalization of software requires judgment in determining when a project has reached the development stage.

(ad) Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

Effective January 1, 2003, we adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Accordingly, unamortized bank fees and other expenses totaling approximately \$2.3 million associated with the November 2002 refinancing of debt instruments were not classified as an extraordinary item and were charged to Amortization of Loan and Senior Notes Fees during the year ended December 31, 2002.

(ae) Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

On January 1, 2003 we adopted FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring

the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FIN No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. Adoption of FIN No. 45 did not have a material effect on our results of operations, financial position and cash flows.

GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

(af) Reclassifications

Reclassifications have been made to the 2001 and 2002 financial statements to make them comparable with the 2003 presentation.

(2) Consolidated Statements of Cash Flows Supplemental Disclosures
Changes in operating assets and liabilities consist of (amounts in thousands):

<TABLE>
<CAPTION>

Year ended December 31,	2003	2002	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
(10,229) Increase in accounts receivable	\$ (16,549)	(5,476)	
(487) Increase in prepaid and other current assets	(2,988)	(6,005)	
(88) (Increase) decrease in inventories	(1,113)	446	
Increase (decrease) in accounts payable	2,465	(2,859)	5,701
Increase in deferred revenue	2,985	6,161	1,519
4,872 Increase (decrease) in accrued payroll and payroll related obligations	5,724	(3,468)	
(1,207) Increase (decrease) in accrued interest	707	(111)	
(253) Increase in accrued liabilities	1,909	825	1,091
Decrease in subscriber deposits	(238)	(232)	
(104) Increase (decrease) in components of other long-term liabilities	(297)	65	
	-----	-----	-----
815	\$ (7,395)	(10,654)	
	=====	=====	

</TABLE>

We paid interest totaling approximately \$34,441,000, \$29,427,000 and \$32,415,000 during the years ended December 31, 2003, 2002 and 2001, respectively.

We paid income taxes totaling \$112,000 during the year ended December 31, 2001. We paid no income taxes during the years ended December 31, 2003 and 2002. Net income tax refunds received totaled \$283,700 during the year ended December 31, 2002. We received no income tax refunds during the years ended December 31, 2003 and 2001.

We recorded \$538,000, \$319,000 and \$2,317,000 during the years ended December 31, 2003, 2002 and 2001, respectively, in paid-in capital in recognition of the income tax effect of excess stock compensation expense for tax purposes over amounts recognized for financial reporting purposes.

Effective March 31, 2001 we acquired the assets and customer base of G.C. Cablevision, Inc. Upon acquisition the seller received shares of GCI Class A common stock with a future payment in additional shares contingent upon the market price of our common stock on March 31, 2003. At March 31, 2003 the market price condition was not met and approximately 222,600 shares of GCI Class A common stock were issued.

During the year ended December 31, 2002 we funded the employer match portion of Employee Stock Purchase Plan contributions by issuing GCI Class A common stock valued at \$791,000 and by purchasing GCI Class A common stock on the open market. During the years ended December 31, 2003 and 2001 all employer match shares were purchased on the open market.

We financed the acquisition of approximately \$1.0 million of telephony distribution equipment pursuant to a long-term capital lease arrangement with a leasing company during the year ended December 31, 2002.

We acquired all minority shareholders' ownership interests in GFCC by issuing 15,000 shares of GCI Class A common stock in 2002.

GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Effective June 30, 2001 we issued \$10.0 million of Series C preferred stock in exchange for MCI's 85% controlling interest in Kanas (renamed GFCC, see note 3).

(3) Acquisitions

Effective March 31, 2001 we acquired the assets and customer base of G.C. Cablevision, Inc. of Fairbanks. The seller received 238,199 unregistered shares of GCI Class A common stock with a future payment in additional shares contingent upon certain conditions (see note 2). The property and equipment was valued at \$2,088,000 on the date of acquisition. The value of the remaining assets and liabilities acquired was not material.

Effective June 30, 2001 we completed the acquisition of MCI's 85 percent controlling interest in Kanas, which owns the 800-mile fiber optic cable system that extends from Prudhoe Bay to Valdez via Fairbanks. The corporation owning the fiber optic system was renamed and is now operated as GFCC. The fiber optic cable system was valued at approximately \$21,198,000 on the date of acquisition. On June 30, 2001 we issued to MCI, a related party, shares of Series C preferred stock (see note 1(e)) valued at \$10.0 million. The balance of the carrying value consisted of payments to and services performed on behalf of Kanas to maintain its operations prior to June 30, 2001. The value of the remaining assets and liabilities acquired was not material. We acquired the remaining 15 percent ownership interest of GFCC by issuing 15,000 shares of GCI Class A common stock in 2002.

Effective November 19, 2001 we acquired all of the stock of Rogers, a cable television service provider in Palmer and Wasilla, Alaska for \$18.5 million in cash. Per the acquisition agreement \$467,000 was withheld from the original payment to account for the amount by which Rogers' current liabilities exceeded current assets and for certain capital expenditures incurred by the previous owners of Rogers through May 2001. The final settlement of \$345,000 was paid in the first quarter of 2003. This acquisition was funded through a \$19.0 million draw on our then existing Senior Holdings Loan. The results of Roger's operations have been included in the consolidated financial statements in the cable services segment since the acquisition date. This acquisition added approximately 10,000 homes passed and approximately 7,000 subscribers to our cable services segment in 2001.

The following table, updated to reflect refinements of original estimates, summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the Rogers acquisition (amounts in thousands):

Current assets	\$ 556
Property and equipment, net of accumulated depreciation	5,160
Franchise agreement	10,976
Goodwill	3,324

Total assets	20,016
Current liabilities	642
Long-term deferred tax liability	374

Net assets acquired	\$ 19,000
	=====

(4) Receivables and Allowance for Doubtful Receivables

Receivables consist of the following at December 31, 2003 and 2002 (amounts in thousands):

	2003	2002
	-----	-----
Trade	\$ 67,186	63,111
Employee	284	391
Other	2,765	3,093
	-----	-----
Total receivables	\$ 70,235	66,595
	=====	=====

GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Following are the changes in the allowance for doubtful receivables during the years ended December 31, 2003, 2002 and 2001 (amounts in thousands):

<TABLE>
<CAPTION>

Description	Balance at beginning of year	Additions		Deductions	Balance at end of year
		Charged to costs and expenses	Charged to Other Accounts	Write-offs net of recoveries	
<S>	<C>	<C>	<C>	<C>	<C>
December 31, 2003	\$ 14,010	2,996	---	15,052	1,954
December 31, 2002	\$ 4,166	13,124	---	3,280	14,010
December 31, 2001	\$ 2,864	4,076	---	2,774	4,166

</TABLE>

As further described in note 15, during the year ended December 31, 2003 we reached a settlement agreement for pre-petition amounts owed to us by MCI. The remaining pre-petition accounts receivable balance owed by MCI after this settlement was removed from our Consolidated Balance Sheets in 2003. During the year ended December 31, 2003 we utilized approximately \$2.8 million of the MCI credit against amounts otherwise payable for services received from MCI.

As further described in note 15, the Allowance for Doubtful Receivables at December 31, 2002 includes the provision of \$11.6 million of bad debt expense for estimated uncollectible accounts due from MCI.

(5) Net Property and Equipment in Service

Net property and equipment in service consists of the following at December 31, 2003 and 2002 (amounts in thousands):

	2003	2002
Land and buildings	\$ 3,151	2,982
Telephony distribution systems	345,984	344,566
Cable television distribution systems	161,054	149,415
Support equipment	46,219	39,807
Transportation equipment	5,500	5,687
Property and equipment under capital leases	51,214	51,770
	613,122	594,227
Less accumulated depreciation and amortization	244,083	212,833
Net property and equipment in service	\$ 369,039	381,394

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(6) Intangible Assets

As of December 31, 2003 cable certificates and goodwill were tested for impairment and the fair values were greater than the carrying amounts, therefore these intangible assets were determined not to be impaired at December 31, 2003. The remaining useful lives of our cable certificates and goodwill were evaluated as of December 31, 2003 and events and circumstances continue to support an indefinite useful life. The following pro forma financial information reflects net income and basic and diluted EPS as if goodwill and cable certificates were not subject to amortization for the year ended December 31, 2001 (amounts in thousands, except per share amounts):

<TABLE>

<CAPTION>

	Net Income	Basic and Diluted EPS
<S>	<C>	<C>
Net income, as reported	\$ 4,589	0.05
Add cable certificate amortization, net of income taxes	3,113	0.06
Add goodwill amortization, net of income taxes	756	0.01
Adjusted net income	\$ 8,458	0.12

</TABLE>

Amortization expense for amortizable intangible assets for the years ended December 31, 2003, 2002 and 2001 follow:

<TABLE>

<CAPTION>

Years Ended December 31,

	2003	2002	2001
<S>	<C>	<C>	<C>
Amortization expense for amortizable intangible assets	\$ 660	790	7,372

</TABLE>

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,	
2004	\$ 646
2005	\$ 515
2006	\$ 510
2007	\$ 449
2008	\$ 198

No intangible assets have been impaired based upon impairment testing performed as of December 31, 2003 (see note 1(k)) and no indicators of impairment have occurred since the impairment testing was performed.

Following are the changes in Other Intangible Assets (amounts in thousands):

Balance, December 31, 2001	\$ 3,387
Asset additions	863
Less amortization expense	790

Balance, December 31, 2002	3,460
Asset additions	1,095
Less amortization expense	660

Balance, December 31, 2003	\$ 3,895
	=====

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(7) Notes Receivable from Related Parties
Notes receivable from related parties consist of the following (amounts in thousands):

<TABLE>
<CAPTION>

	December 31,	
	2003	2002
<S>	<C>	<C>
Notes receivable from officers bearing interest up to 6.5% or at the rate paid by us on our senior indebtedness, unsecured, due through February 8, 2007	\$ 7,480	8,068
Notes receivable from officers bearing interest up to 9.0% or at the rate paid by us on our senior indebtedness, secured by GCI common stock and a personal residence, due through August 26, 2004	919	919
Notes receivable from other related parties bearing interest up to 8.4% or at the rate paid by us on our senior indebtedness, unsecured and secured by property, due through December 31, 2007	1,126	1,271
Interest receivable	1,612	1,231
	-----	-----
Total notes receivable from related parties	11,137	11,489
Less notes receivable from related parties issued upon stock option exercise, classified as a component of stockholders' equity	4,971	5,650
Less current portion, including current interest receivable	2,723	697
	-----	-----
Long-term portion, including long-term interest receivable	\$ 3,443	5,142
	=====	=====

</TABLE>

(8) Long-term Debt
Long-term debt consists of the following (amounts in thousands):

<TABLE>
<CAPTION>

	December 31,	
	2003	2002
<S>	<C>	<C>
Senior Notes (a)	\$ 180,000	180,000
Senior Credit Facility (b)	165,000	177,700
	-----	-----
Long-term debt	\$ 345,000	357,700

</TABLE>

(a) On August 1, 1997 GCI, Inc. issued \$180.0 million of 9.75% senior notes due 2007 ("Senior Notes"). The Senior Notes were issued at face value. Net proceeds to GCI, Inc. after deducting underwriting discounts and commissions totaled \$174.6 million. Issuance costs of \$6.5 million were being charged to Amortization of Loan and Senior Notes Fees over the term of the Senior Notes. The unamortized portion of issuance costs at February 2004 totaled approximately \$2.3 million and will be charged to Amortization of Loan and Senior Notes Fees during the three months ended March 31, 2004.

GCI, Inc. was in compliance with all Senior Notes covenants during the year ending December 31, 2003.

(b) On April 22, 2003 we amended our \$225.0 million Senior Credit Facility ("amended Senior Credit Facility"). On October 30, 2003 we closed a \$220.0 million Senior Credit Facility ("new Senior Credit Facility") to replace the April 22, 2003 amended Senior Credit Facility. The new Senior

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Credit Facility reduced the interest rate from LIBOR plus 6.50% to LIBOR plus 3.25%. The new Senior Credit Facility includes a term loan of \$170.0 million and a revolving credit facility of \$50.0 million.

The repayment schedule for the term loan portion of the new Senior Credit Facility, after consideration of the \$43.8 million term loan prepayment from the new Senior Notes issuance proceeds as described in note 17, is as follows (amounts in thousands):

<TABLE>
<CAPTION>

Date	Amount
Quarter ended December 31, 2005	\$ 170
Quarterly from March 31, 2006 to December 31, 2006	\$ 8,000
Quarterly from March 31, 2007 to September 30, 2007	\$ 10,000

</TABLE>

The remaining balance of the new Senior Credit Facility will be payable in full on October 31, 2007.

We are required to pay a commitment fee on the unused portion of the commitment as follows:

<TABLE>
<CAPTION>

outstanding less than average by the	Commitment fee if the outstanding revolving credit facility is > 50% of the average revolving credit facility commitments by the lenders during such period	Commitment fee if the revolving credit facility is or equal to 50% of the revolving credit commitments lenders during such period
	Total Leverage Ratio (as defined)	
>3.75	1.00%	1.25%
-		
>3.25 but <3.75	0.75%	1.00%
-		
>2.75 but <3.25	0.50%	0.75%
-		
< 2.75	0.50%	0.75%

</TABLE>

We may not permit the Total Leverage Ratio (as defined) to exceed:

<TABLE>
<CAPTION>

Period	Total Leverage Ratio
October 30, 2003 through December 30, 2003	4.25:1
December 31, 2003 through December 30, 2004	4.00:1
December 31, 2004 through December 30, 2005	3.75:1
December 31, 2005 through June 29, 2006	3.50:1
June 30, 2006 through June 29, 2007	3.25:1
June 30, 2007 through September 29, 2007	3.00:1

</TABLE>

We may not permit the Senior Secured Leverage Ratio (as defined) to exceed:

<TABLE>

<CAPTION>

Period	Senior Secured Leverage Ratio
-----	-----
<S>	<C>
October 30, 2003 through December 30, 2004	2.00:1
December 31, 2004 through September 29, 2006	1.75:1
September 30, 2006 through June 29, 2007	1.50:1
June 30, 2007 through September 29, 2007	1.25:1
September 30, 2007 through October 31, 2007	1.00:1

</TABLE>

The Interest Coverage Ratio (as defined) may not be less than 2.50:1 at any time.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

Capital expenditures, excluding up to \$58.0 million incurred to build or acquire additional fiber optic cable system capacity between Alaska and the lower forty-eight states, in any of the years ended December 31, 2004, 2005 and 2006 may not exceed:

- o \$25.0 million, plus
- o 100% of any Excess Cash Flow (as defined) during the applicable period less certain permitted investments during the applicable period.

If the revolving credit facility exceeds \$25.0 million, we may not incur capital expenditures, other than those incurred to build or acquire additional fiber optic cable system capacity, in excess of \$25.0 million.

The new Senior Credit Facility requirement that we must either have repaid in full or successfully refinanced our Senior Notes by February 1, 2007 was met with the refinancing of our Senior Notes, as discussed in note 17.

We were in compliance with all new Senior Credit Facility covenants through December 31, 2003.

Our ability to draw down the revolver portion of our new Senior Credit Facility could be diminished if we are not in compliance with all new Senior Credit Facility covenants or have a material adverse change at the date of the request for the draw.

In connection with the new Senior Credit Facility, we paid bank fees and other expenses of \$912,000 during the year ended December 31, 2003 which will be amortized over the life of the new Senior Credit Facility.

In connection with the April 22, 2003 amended Senior Credit Facility, we paid bank fees and other expenses of approximately \$2.6 million during the year ended December 31, 2003. Because a portion of the new Senior Credit Facility was a substantial modification of the April 22, 2003 amended Senior Credit Facility we recognized approximately \$5.0 million in Amortization of Loan and Senior Notes Fees during the three months ended December 31, 2003. The remaining \$2.2 million in amended Senior Credit Facility deferred loan costs will continue to be amortized over the life of the new Senior Credit Facility.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

As of December 31, 2003 maturities of long-term debt, after considering a \$10.0 million draw on the revolving credit portion of our new Senior Credit Facility in January 2004 and the new Senior Notes issuance in February 2004, as discussed in note 17, were as follows (amounts in thousands):

Years ending December 31,	
2004	\$ ---
2005	170
2006	32,000
2007	89,000
2008	---
2009 and thereafter	250,000

	371,170
Additional principal portion after issuance of our new Senior Notes	(70,000)
Use of new Senior Notes proceeds to pay down new Senior Credit Facility	53,830
Draw on the revolving credit portion of our new Senior Credit Facility	(10,000)

Long-term debt, at December 31, 2003	\$ 345,000
	=====

(9) Impairment Charge

In 2003 we reported an impairment charge of \$5.4 million which equaled the remaining net book value recorded for our North Pacific Cable asset. In 1991 we purchased one DS-3 of capacity on a fiber optic cable system owned by AT&T. This fiber optic cable system is a spur off of a trans-Pacific fiber optic cable system owned by another group. We used our owned capacity to carry traffic to and from Alaska and the Lower 48 states. The section of the North Pacific Cable in which we own capacity was taken out of service in January 2004 due to a billing dispute between AT&T and the owner of the trans-Pacific cable system causing us to re-route certain of our traffic. We believe it is probable that we will not return our traffic to the North Pacific Cable even if it is placed back into service. We have requested in writing to be relieved of all future obligations required by our purchase agreement. Should our request be accepted, we expect to cease payment of maintenance and vessel standby costs totaling approximately \$324,000 per year that would otherwise be payable over the remaining life of the system. The fiber optic cable system we are building (see note 16) is scheduled for completion in May 2004 and will provide us with route diversity and redundancy far in excess of that previously provided by the North Pacific Cable.

(10) Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" requires us to report and display comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. During the years ended December 31, 2003, 2002 and 2001 we had other comprehensive income (loss) of approximately \$232,000, (\$548,000) and \$8,000, respectively. Total comprehensive income at December 31, 2003, 2002 and 2001 was \$15,774,000, \$6,115,000 and \$4,597,000, respectively.

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

(11) Income Taxes

Total income tax (expense) benefit was allocated as follows (amounts in thousands):

<TABLE>
<CAPTION>

	Years ended December 31,		
	2003	2002	2001

<S>	<C>	<C>	<C>
Net income before cumulative effect of a change in accounting principle	\$ (10,074)	(5,659)	(4,070)
Cumulative effect of a change in accounting principle	367	---	---

Net income from continuing operations	(9,707)	(5,659)	(4,070)
Stockholders' equity, for stock option compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	538	317	2,317

	\$ (9,169)	(5,342)	
(1,753)	=====		

</TABLE>

Income tax expense consists of the following (amounts in thousands):

<TABLE>
<CAPTION>

	Years ended December 31,		
	2003	2002	2001

<S>	<C>	<C>	<C>
Current tax expense:			
Federal taxes	\$ (297)	(1,754)	---
State taxes	(104)	(536)	---

		(401)	(2,290)	---
-----		-----	-----	-----
-----	Deferred tax expense:			
	Federal taxes	(7,169)	(2,580)	(3,115)
(955)	State taxes	(2,504)	(789)	
-----		-----	-----	-----
(4,070)		(9,673)	(3,369)	
-----		-----	-----	-----
(4,070)		\$ (10,074)	(5,659)	
=====		=====	=====	

</TABLE>

Total income tax expense differed from the "expected" income tax expense determined by applying the statutory federal income tax rate of 35% for 2003 and 34% for 2002 and 2001 as follows (amounts in thousands):

		Years ended December 31,		
		2003	2002	2001
-----		-----	-----	-----
-----	<S>	<C>	<C>	<C>
	"Expected" statutory tax expense	\$ (9,156)	(4,189)	(2,944)
	State income taxes, net of federal benefit	(1,695)	(873)	(630)
	Income tax effect of goodwill amortization, nondeductible expenditures and other items, net	(568)	(597)	(496)
	Adjustments to ending temporary difference balances, net	1,345	---	---
-----		-----	-----	-----
(4,070)		\$ (10,074)	(5,659)	
=====		=====	=====	

</TABLE>

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(Continued)

GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are presented below (amounts in thousands):

		December 31,	
		2003	2002
-----		-----	-----
-----	<S>	<C>	<C>
	Current deferred tax assets:		
	Accounts receivable, principally due to allowance for doubtful accounts	\$ 4,117	5,649
	Compensated absences, accrued for financial reporting purposes	2,062	1,914
	Workers compensation and self insurance health reserves, principally due to accrual for financial reporting purposes	801	805
	Other	215	141
		-----	-----
	Total current deferred tax assets	\$ 7,195	8,509
-----		-----	-----

</TABLE>

		December 31,	
		2003	2002
-----		-----	-----
-----	<S>	<C>	<C>
	Long-term deferred tax assets:		
	Net operating loss carryforwards	\$ 77,534	76,855
	Alternative minimum tax credits	1,892	1,892
	Deferred compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes	1,531	1,239
	Employee stock option compensation expense for financial reporting purposes in excess of amounts recognized for tax purposes	727	411
	Sweepstakes award in excess of amounts recognized for tax purposes	179	184
	State income taxes	---	1,555

</TABLE>

<CAPTION>

Charitable contributions expense for financial reporting in excess of amount recognized for tax purposes	672	586
Cost of sales and services for financial reporting in excess of amounts recognized for tax purposes	185	181
Cash flow hedge expense for financial reporting purposes in excess of amounts recognized for tax purposes	212	464
Asset retirement obligations in excess of amounts recognized for tax purposes	825	---
Other	---	360
	-----	-----
Total long-term deferred tax assets	83,757	83,727
	-----	-----

</TABLE>

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GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

	December 31,	
	2003	2002
	-----	-----
<S>	<C>	<C>
Long-term deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation	93,928	90,522
Amortizable assets	13,997	8,920
Other	---	346
	-----	-----
Total gross long-term deferred tax liabilities	107,925	99,788
	-----	-----
Net combined long-term deferred tax liabilities	\$ 24,168	16,061
	=====	=====

</TABLE>

We recorded net deferred tax assets of \$15.8 million in 2002 associated with the Rogers and Kanas acquisitions (see note 3), resulting in adjustments to the recorded financial statement cost basis of associated goodwill and property and equipment.

In conjunction with the 1996 Cable Companies acquisition, the Company incurred a net deferred income tax liability of \$24.4 million and acquired net operating losses totaling \$57.6 million. The Company determined that approximately \$20 million of the acquired net operating losses would not be utilized for income tax purposes, and elected with its December 31, 1996 income tax returns to forego utilization of such acquired losses under Internal Revenue Code section 1.1502-32(b)(4). Deferred tax assets were not recorded associated with the foregone losses and, accordingly, no valuation allowance was provided. At December 31, 2003, the Company has (1) tax net operating loss carryforwards of approximately \$188.6 million that will begin expiring in 2005 if not utilized, and (2) alternative minimum tax credit carryforwards of approximately \$1.9 million available to offset regular income taxes payable in future years.

The following schedule shows our tax net operating loss carryforwards by year of expiration (amounts in thousands):

<TABLE>
<CAPTION>

Years ending December 31,	Federal	State
	-----	-----
<S>	<C>	<C>
2005	\$ 292	---
2006	393	---
2007	4,017	3,006
2008	8,077	7,509
2009	11,767	11,482
2010	9,134	8,935
2011	6,919	6,685
2018	19,995	19,390
2019	27,910	27,905
2020	45,403	45,400
2021	30,973	31,922
2022	15,320	15,002
2023	8,361	8,187
	-----	-----
Total tax net operating loss carryforwards	\$ 188,561	185,423
	=====	=====

</TABLE>

Our utilization of remaining acquired net operating loss carryforwards is subject to annual limitations pursuant to Internal Revenue Code section 382 which could reduce or defer the utilization of these losses.

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through taxable income earned in

carry back years, future reversals of existing taxable temporary differences, and future taxable income exclusive of reversing temporary differences and

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GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

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carryforwards. The amount of deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Our United States income tax return for 2000 was selected for examination by the Internal Revenue Service during 2003. The examination began during the fourth quarter of 2003. We believe this examination will not have a material adverse effect on our financial position, results of operations or our liquidity.

(12) Stockholders' Equity

Common Stock

GCI's Class A common stock and Class B common stock are identical in all respects, except that each share of Class A common stock has one vote per share and each share of Class B common stock has ten votes per share. In addition, each share of Class B common stock outstanding is convertible, at the option of the holder, into one share of Class A common stock.

MCI owned 3,751,509 shares of GCI's Class A common stock that represented approximately 7 percent of the issued and outstanding Class A shares at December 31, 2003 and 2002. MCI owned 1,275,791 shares of GCI's Class B common stock that represented approximately 33 percent of the issued and outstanding Class B shares at December 31, 2003 and 2002.

In October 2003, a Series B preferred stockholder converted 1,250 shares of Series B preferred stock to GCI Class A common stock resulting in the issuance of approximately 225,000 shares of GCI Class A common stock.

Stock Option Plan

In December 1986, GCI adopted a Stock Option Plan (the "Option Plan") in order to provide a special incentive to our officers, non-employee directors, and employees by offering them an opportunity to acquire an equity interest in GCI. The Option Plan, as amended, provides for the grant of options for a maximum of 10.7 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 option expires or terminates, the shares subject to the option will be available for further grants of options under the Option Plan. The Option Committee of GCI's Board of Directors administers the Option Plan.

The Option Plan provides that all options granted under the Option Plan must expire not later than ten years after the date of grant. If at the time an option is granted the exercise price is less than the market value of the underlying common stock, the difference in these amounts at the time of grant is expensed ratably over the vesting period of the option. Options granted pursuant to the 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.

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GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

(Continued)

Information for the years 2001, 2002 and 2003 with respect to the Option Plan follows:

<TABLE>
<CAPTION>

	Shares	Weighted Average Exercise Price
<S>	<C>	<C>
Outstanding at December 31, 2000	5,413,565	\$5.54
Granted	755,277	\$7.34
Exercised	(1,044,511)	\$4.01
Forfeited	(24,200)	\$6.53
Outstanding at December 31, 2001	5,100,131	\$6.11
Granted	1,995,700	\$6.90
Exercised	(583,888)	\$5.78
Forfeited	(223,177)	\$7.42

Outstanding at December 31, 2002	6,288,766	\$6.34
Granted	963,200	\$6.24
Exercised	(377,487)	\$4.95
Forfeited	(98,200)	\$5.93

Outstanding at December 31, 2003	6,776,279	\$6.41
	=====	
Available for grant at December 31, 2003	22,757	
	=====	

</TABLE>

Stock Warrants Not Pursuant to a Plan

We entered into a stock warrant agreement in exchange for services in December 1998 with certain of our legal counsel which provides for the purchase of 16,667 shares of GCI Class A common stock, vesting in December 1999, with an exercise price of \$3.00 per share, and expiring December 2003. The fair value of the stock warrant when issued was approximately \$23,000. The warrant was exercised in November 2003 prior to its expiration.

We entered into a stock warrant agreement in exchange for services in June 1999 with certain of our legal counsel which provides for the purchase of 25,000 shares of GCI Class A common stock, vesting through December 2001, with an exercise price of \$3.00 per share, and expiring December 2003. The fair value of the stock warrant when issued was approximately \$94,000. The warrant was exercised in October 2003 prior to its expiration.

SFAS 123 Disclosures

Our stock options and warrants expire at various dates through December 2013. At December 31, 2003, 2002, and 2001, the weighted-average remaining contractual lives of options outstanding were 6.47, 6.93, and 6.95 years, respectively.

At December 31, 2003, 2002, and 2001, the number of exercisable shares under option was 3,495,361, 3,187,618, and 2,837,361, respectively, and the weighted-average exercise price of those options was \$6.11, \$5.87, and \$5.75, respectively.

The per share weighted-average fair value of stock options granted during 2003 was \$4.30 per share for compensatory and \$2.99 for non-compensatory options; for 2002 was \$3.05 per share for compensatory and \$0.61 for non-compensatory options; and for 2001 was \$6.99 per share for compensatory and \$10.58 for non-compensatory options. The amounts were determined as of the options' grant dates using a Black-Scholes option-pricing model with the following weighted-average

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

assumptions: 2003 - risk-free interest rate of 3.45%, volatility of 0.53 and an expected life of 5.26 years; 2002 - risk-free interest rate of 3.08%, volatility of 0.68 and an expected life of 6.18 years; and 2001 - risk-free interest rate of 4.67%, volatility of 0.62 and an expected life of 6.67 years.

Summary information about our stock options outstanding at December 31, 2003 follows:

<TABLE>

<CAPTION>

	Options Outstanding			Options Exercisable		
Average Price	Range of Exercise Prices	Number outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Exercise
	<S>	<C>	<C>	<C>	<C>	<C>
	\$3.11-\$5.00	902,198	5.12	\$4.20	736,908	\$4.06
	\$5.40-\$5.77	136,667	7.89	\$5.53	29,667	\$5.61
	\$6.00-\$6.00	1,321,449	7.29	\$6.00	554,969	\$6.00
	\$6.05-\$6.35	59,500	7.32	\$6.14	30,200	\$6.13
	\$6.50-\$6.50	2,035,550	6.31	\$6.50	1,218,530	\$6.50
	\$6.63-\$6.99	81,000	4.14	\$6.80	80,200	\$6.80
	\$7.00-\$7.00	732,022	4.62	\$7.00	506,522	\$7.00
	\$7.25-\$7.25	1,150,000	8.11	\$7.25	30,000	\$7.25
	\$7.40-\$10.98	568,893	6.21	\$7.99	292,365	\$7.77
	\$11.25-\$11.25	40,000	7.50	\$11.25	16,000	\$11.25

\$3.11-\$11.25

7,027,279

6.47

\$6.42

3,495,361

\$6.11

</TABLE>

Class A Common Shares Held in Treasury

In 2003 we acquired a total of 21,700 shares of GCI Class A common stock for approximately \$81,000 to fund a deferred compensation agreement for an employee. In 2002 we acquired a total of 20,000 shares of GCI Class A common stock for approximately \$177,000 to fund a deferred compensation agreement for an officer.

Employee Stock Purchase Plan

In December 1986, we adopted an Employee Stock Purchase Plan ("Plan") qualified under Section 401 of the Internal Revenue Code of 1986 ("Code"). The Plan provides for acquisition of GCI's Class A and Class B common stock at market value. The Plan permits each employee who has completed one year of service to elect to participate in the Plan. Through December 31, 2003, eligible employees could elect to reduce their compensation in any even dollar amount up to 50 percent of such compensation (subject to certain limitations) up to a maximum of \$12,000. Beginning January 1, 2004, eligible employees can elect to reduce their compensation in any even dollar amount up to 50 percent of such compensation (subject to certain limitations) up to a maximum of \$13,000. Eligible employees may contribute up to 10 percent of their compensation with after-tax dollars, or they may elect a combination of salary reductions and after-tax contributions.

Eligible employees were allowed to make catch-up contributions of no more than \$2,000 during the year ended December 31, 2003 and will be able to make such contributions limited to \$3,000 during the year ended December 31, 2004. We do not match employee catch-up contributions.

We may match employee salary reductions and after tax contributions in any amount, elected by our Board of Directors each year, but not more than 10 percent of any one employee's compensation will be matched in any year. Matching contributions vest over the initial six years of employment. For the years

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

ended December 31, 2002 and 2003 the combination of salary reductions, after tax contributions and matching contributions cannot exceed the lesser of 100 percent of an employee's compensation or \$40,000 (determined after salary reduction) for any year. For the year ended December 31, 2004, the combination of salary reductions, after tax contributions and matching contributions cannot exceed the lesser of 100 percent of an employee's compensation or \$41,000 (determined after salary reduction).

Employee contributions may be invested in GCI class A common stock, AT&T common stock, Comcast Corporation common stock, AT&T Wireless Services common stock, or various mutual funds.

Employee contributions invested in GCI common stock receive up to 100% matching, as determined by our Board of Directors each year, in GCI common stock. Employee contributions invested in other than GCI common stock receive up to 50% matching, as determined by our Board of Directors each year, in GCI common stock.

Our matching contributions allocated to participant accounts totaled approximately \$4,035,000, \$3,665,000, and \$3,194,000 for the years ended December 31, 2003, 2002, and 2001, respectively. The Plan may, at its discretion, purchase shares of GCI common stock from GCI at market value or may purchase GCI's common stock on the open market. In 2002 we funded a portion of our employer-matching contributions through the issuance of new shares of GCI common stock rather than market purchases. In 2003 and 2001 we funded all of our employer-matching contributions through market purchases.

Effective January 1, 2003 we allowed participating employees to diversify 100 percent of their holdings of GCI common stock at December 31, 2002 in other investments offered by the Plan.

The Plan was amended in the first quarter of 2004 resulting in the following changes beginning in the second quarter of 2004:

- o We will match up to 100% of all participants' contributions with GCI common stock, as determined by the Board of Directors each year, and
- o Participants will be able to reinvest up to 100% of their existing and future GCI common stock holdings into other investment choices offered by the Plan.

(13) Industry Segments Data
 Our reportable segments are business units that offer different products. The reportable segments are each managed separately and offer distinct products with different production and delivery processes.

We have four reportable segments as follows:

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

Cable services. We provide cable television services to residential, commercial and government users in the State of Alaska. Our cable systems serve 35 communities and areas in Alaska, including the state's four largest urban areas, Anchorage, Fairbanks, the Matanuska-Susitna Valley, and Juneau. We offer digital cable television services in Anchorage, the Matanuska-Susitna Valley, Fairbanks, Juneau, Ketchikan, Kenai and Soldotna and retail cable modem service (through our Internet services segment) in all of our locations in Alaska except Kotzebue.

GENERAL COMMUNICATION, INC.

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Local access services. We offer facilities based competitive local exchange services in Anchorage, Fairbanks and Juneau and plan to provide similar competitive local exchange services in other locations pending regulatory approval and subject to availability of capital. Revenue, costs of sales and service and operating expenses for our new phone directory are included in the local access services segment.

Internet services. We offer wholesale and retail Internet services to both consumer and commercial customers. We offer cable modem service as further described in Cable services above. Our undersea fiber optic cable system allows us to offer enhanced services with high-bandwidth requirements.

Included in the "All Other" category in the tables that follow are our managed services, product sales and cellular telephone services. None of these business units has ever met the quantitative thresholds for determining reportable segments. Also included in the All Other category are corporate related expenses including information technology, accounting, legal and regulatory, human resources and other general and administrative expenses.

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

We earn all revenues through sales of services and products within the United States. All of our long-lived assets are located within the United States of America, except approximately 72% of our undersea fiber optic cable system which transits international waters.

Summarized financial information for our reportable segments for the years ended December 31, 2003, 2002 and 2001 follows (amounts in thousands):

<TABLE>
 <CAPTION>

	Reportable Segments						
	Long-Distance Services	Cable Services	Local Access Services	Internet Services	Total Reportable Segments	All Other	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
2003							
Revenues:							
Intersegment	\$ 13,648	2,504	9,763	2,423	28,338	744	29,082
External	204,567	96,004	38,998	19,842	359,411	31,386	390,797
Total revenues	218,215	98,508	48,761	22,265	387,749	32,130	419,879

Cost of sales and services:							
Intersegment	19,242	1	2,121	4,484	25,848	860	26,708
External	53,377	25,988	23,761	5,862	108,988	16,395	125,383

Total cost of sales and services	72,619	25,989	25,882	10,346	134,836	17,255	152,091

Contribution:							
Intersegment	(5,594)	2,503	7,642	(2,061)	2,490	(116)	2,374
External	151,190	70,016	15,237	13,980	250,423	14,991	265,414

Total contribution	145,596	72,519	22,879	11,919	252,913	14,875	267,788

Selling, general and administrative expenses	37,692	27,101	17,718	8,589	91,100	47,593	138,693
Bad debt expense (recovery)	(1,104)	651	119	60	(274)	96	(178)
Impairment charge	5,434	---	---	---	5,434	---	5,434

</TABLE>

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(Continued)

GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

	Reportable Segments						
	Long-Distance Services	Cable Services	Local Access Services	Internet Services	Total Reportable Segments	All Other	Total

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Earnings (loss) from operations before depreciation, amortization, net interest expense and income taxes	103,574	44,767	5,042	3,270	156,653	(32,814)	123,839
Depreciation, amortization and accretion expense	20,209	17,296	3,553	3,708	44,766	8,622	53,388

Operating income (loss)	\$ 83,365	27,471	1,489	(438)	111,887	(41,436)	70,451
=====							
Total assets	\$ 274,519	326,435	40,763	26,262	667,979	95,041	763,020
=====							
Capital expenditures	\$ 30,331	15,223	3,608	2,993	52,155	10,324	62,479
=====							
2002							

Revenues:							
Intersegment	\$ 21,297	2,094	9,723	2,026	35,140	744	35,884
External	204,930	88,688	32,071	15,584	341,273	26,569	367,842

Total revenues	226,227	90,782	41,794	17,610	376,413	27,313	403,726

Cost of sales and services:							
Intersegment	16,942	---	2,100	14,988	34,030	752	34,782
External	60,053	23,649	20,205	4,792	108,699	14,865	123,564

Total cost of sales and services	76,995	23,649	22,305	19,780	142,729	15,617	158,346

Contribution:

Intersegment	4,355	2,094	7,623	(12,962)	1,110	(8)	1,102
External	144,877	65,039	11,866	10,792	232,574	11,704	244,278

Total contribution	149,232	67,133	19,489	(2,170)	233,684	11,696	245,380
Selling, general and administrative expenses	36,378	25,264	16,600	8,855	87,097	41,932	129,029
Bad debt expense	12,388	428	162	54	13,032	92	13,124

Earnings (loss) from operations before depreciation, amortization, net interest expense and income taxes	100,466	41,441	2,727	(11,079)	133,555	(30,328)	103,227
Depreciation and amortization	21,427	15,882	3,466	7,187	47,962	8,438	56,400

Operating income (loss)	\$ 79,039	25,559	(739)	(18,266)	85,593	(38,766)	46,827
=====							
Total assets	\$ 288,680	322,899	35,276	28,102	674,957	63,825	738,782
=====							
Capital expenditures	\$ 22,832	17,395	10,388	4,215	54,830	10,310	65,140
=====							
2001							

Revenues:							
Intersegment	\$ 18,539	1,650	8,716	1,203	30,108	355	30,463
External	200,694	76,554	25,229	11,996	314,473	42,785	357,258

Total revenues	219,233	78,204	33,945	13,199	344,581	43,140	387,721

</TABLE>

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(Continued)

GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

<TABLE>
<CAPTION>

	Reportable Segments						
	Long- Distance Services	Cable Services	Local Access Services	Internet Services	Total Reportable Segments	All Other	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cost of sales and services:							
Intersegment	15,039	---	1,586	12,438	29,063	461	29,524
External	73,257	20,829	14,037	4,749	112,872	26,921	139,793

Total cost of sales and services	88,296	20,829	15,623	17,187	141,935	27,382	169,317

Contribution:							
Intersegment	3,500	1,650	7,130	(11,235)	1,045	(106)	939
External	127,437	55,725	11,192	7,247	201,601	15,864	217,465

Total contribution	130,937	57,375	18,322	(3,988)	202,646	15,758	218,404
Selling, general and administrative expenses	38,102	21,740	13,138	8,066	81,046	35,490	116,536
Bad debt expense	2,790	1,053	181	86	4,110	169	4,279

Earnings (loss) from operations before depreciation, amortization,							

net interest expense and income taxes	90,045	34,582	5,003	(12,140)	117,490	(19,901)	97,589
Depreciation and amortization	21,899	20,704	3,530	2,879	49,012	6,663	55,675

Operating income (loss)	\$ 68,146	13,878	1,473	(15,019)	68,478	(26,564)	41,914
=====							
Total assets	\$ 294,175	321,722	30,040	27,363	673,300	61,379	734,679
=====							
Capital expenditures	\$ 24,497	16,433	8,085	6,516	55,531	10,107	65,638
=====							

</TABLE>

Long-distance services, local access services and Internet services are billed utilizing a unified accounts receivable system and are not reported separately by business segment. All such accounts receivable are included above in the long-distance services segment for all periods presented.

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

<TABLE>					
<CAPTION>					
2001	Years ended December 31,	2003		2002	

	<S>	<C>		<C>	<C>
344,581	Reportable segment revenues	\$ 387,749		376,413	
43,140	Plus All Other revenues	32,130		27,313	
30,463	Less intersegment revenues eliminated in consolidation	29,082		35,884	

357,258	Consolidated revenues	\$ 390,797		367,842	
=====					

</TABLE>

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GENERAL COMMUNICATION, INC.

Notes to Consolidated Financial Statements

A reconciliation of reportable segment earnings from operations before depreciation, amortization and accretion expense, net other expense and income taxes to consolidated net income before income taxes and cumulative effect of a change in accounting principle follows (amounts in thousands):

<TABLE>					
<CAPTION>					
2001	Years ended December 31,	2003		2002	

	<S>	<C>		<C>	<C>
117,490	Reportable segment earnings from operations before depreciation, amortization and accretion expense, net other expense and income taxes	\$ 156,653		133,555	
19,901	Less All Other loss from operations before depreciation, amortization and accretion expense, net other expense and income taxes	32,814		30,328	
939	Less intersegment contribution eliminated in consolidation	2,374		1,102	

96,650	Consolidated earnings from operations before depreciation, amortization and accretion expense, net other expense and income taxes	121,465		102,125	
55,675	Less depreciation, amortization and accretion expense	53,388		56,400	

40,975	Consolidated operating income	68,077		45,725	

32,316	Less other expense, net	41,917	33,403

8,659	Consolidated net income before income taxes and cumulative effect of a change in accounting principle	\$ 26,160	12,322
=====			
</TABLE>			
A reconciliation of reportable segment operating income to consolidated net income before income taxes and cumulative effect of a change in accounting principle follows (amounts in thousands):			
<TABLE>			
<CAPTION>			
2001	Years ended December 31,	2003	2002

68,478	<S> Reportable segment operating income	<C> \$ 111,887	<C> 85,593
26,564	Less All Other operating loss	41,436	38,766
939	Less intersegment contribution eliminated in consolidation	2,374	1,102

40,975	Consolidated operating income	68,077	45,725
32,316	Less other expense, net	41,917	33,403

8,659	Consolidated net income before income taxes and cumulative effect of a change in accounting principle	\$ 26,160	12,322
=====			

</TABLE>

We provide long-distance services to MCI (see note 15), a major customer, and to Sprint. We earned revenues from Sprint, net of discounts, included in the long-distance segment, totaling approximately \$36,899,000 during the year ended December 31, 2001. As a percentage of total revenues, Sprint revenues totaled 10.3% for the year ended December 31, 2001. Sprint was a major customer for segment disclosure purposes for the year ended December 31, 2001, but was not a major customer for the years ended December 31, 2003 and 2002.

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GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

(14) Financial Instruments

Fair Value of 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. The carrying amounts and estimated fair values of our financial instruments at December 31, 2003 and 2002 follows (amounts in thousands):

<TABLE>				
<CAPTION>				
		2003	2002	

		Carrying Amount	Fair Value	Carrying Amount

<S>	<C>	<C>	<C>	<C>
Short-term assets	\$ 81,439	81,439	65,715	65,715
Notes receivable with related parties	\$ 3,443	3,443	5,142	5,142
Short-term liabilities	\$ 72,144	72,144	61,632	61,632
Long-term debt and capital lease obligations	\$ 384,636	401,987	402,475	419,305
Cash flow hedge liability	\$ 515	515	999	999
Other liabilities	\$ 5,931	5,931	4,442	4,442
</TABLE>				

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

Short-term assets: The fair values of cash and cash equivalents, net receivables and current portion of notes receivable from related parties approximate their carrying values due to the short-term nature of these financial instruments.

Notes receivable from related parties: The carrying value of notes

receivable from related parties is estimated to approximate fair values. Although there are no quoted market prices available for these instruments, the fair value estimates were based on the change in interest rates and risk related interest rate spreads since the note origination dates.

Short-term liabilities: The fair values of current maturities of capital lease obligations, accounts payable, 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.

Long-term debt and capital lease obligations: The fair value of long-term debt is based primarily on discounting the future cash flows of each instrument at rates currently offered to us for similar debt instruments of comparable maturities by investment bankers.

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.

Derivative Instruments and Hedging Activities

Effective January 3, 2001, we entered into an interest rate swap agreement to convert \$50 million of 9.75% fixed rate debt to a variable interest rate equal to the 90 day LIBOR rate plus 334 basis points. This interest rate swap was cancelled by the counterparty on August 1, 2002. The differential paid to us was recorded as a decrease in Interest Expense in the Consolidated Statements of Operations in the period in which it was recognized. During the years ended December 31, 2002 and 2001 we recognized approximately \$1.2 million and \$1.1 million, respectively, as a reduction of interest expense.

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GENERAL COMMUNICATION, INC.

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Effective September 21, 2001, we entered into an interest rate swap agreement to convert \$25 million of variable interest rate debt equal to the 90 day LIBOR rate plus 334 basis points to 3.98% fixed rate debt plus applicable margins. Terms of the interest rate swap mirror the underlying variable rate debt, except the interest rate swap terminates on September 21, 2004. We entered into the transaction to help insulate us from future increases in interest rates. Under SFAS No. 133, the interest rate swap is accounted for as a cash flow hedge. The change in the fair value of the interest rate swap net of income taxes is recorded as an increase or decrease in Accumulated Other Comprehensive Loss in the Consolidated Statements of Stockholders' Equity. The associated cost is recognized in Interest Expense in the Consolidated Statements of Operations. During the years ended December 31, 2003, 2002 and 2001 we recognized approximately \$681,000, \$555,000 and \$112,000, respectively, in incremental interest expense resulting from this transaction.

(15) Related Party Transactions

MCI

We earned revenues from MCI, a major shareholder of GCI (see note 12), net of discounts, of approximately \$81,996,000, \$84,641,000 and \$68,863,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Revenues earned from MCI include approximately \$11,004,000 and \$10,638,000 for the years ended December 31, 2002 and 2001, respectively, earned from a certain MCI customer who considered itself to be a third party obligor that was ultimately liable for services provided by GCI to the third party under a contract that had been assigned to MCI. Beginning January 1, 2003 we have billed this customer directly for services provided. Revenues earned from MCI net of amounts earned from the third party obligor were approximately \$73,637,000 and \$58,225,000 for the years ended December 31, 2002 and 2001, respectively. As a percentage of total revenues, MCI revenues, net of amounts earned from the third party obligor, totaled 21.0%, 20.0% and 16.3% for the years ended December 31, 2003, 2002 and 2001, respectively.

Amounts receivable, net of accounts payable, from MCI totaled \$25,585,000 and \$21,677,000 at December 31, 2003 and 2002, respectively. We paid MCI to distribute our traffic in the contiguous 48 states and Hawaii approximately \$5,100,000, \$6,413,000 and \$7,289,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

On July 21, 2002 MCI and substantially all of its active United States subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court. Chapter 11 allows a company to continue operating in the ordinary course of business in order to maximize recovery for the company's creditors and shareholders.

At the time of the petition for bankruptcy, we had approximately \$12.9 million in receivables outstanding from MCI. At December 31, 2002 the bad debt reserve for uncollected amounts due from MCI ("MCI reserve") totaled \$11.6 million and consisted of all billings for services rendered prior to July 21, 2002 that were not paid or deemed recoverable as of December 31, 2002. During the year ended December 31, 2002 we recognized \$11.0 million in bad debt expense for uncollected amounts due from MCI.

On July 22, 2003, the United States Bankruptcy Court approved a settlement agreement for pre-petition amounts owed to us by MCI and affirmed all of our existing contracts with MCI. The agreement settled unpaid balances due from MCI for services rendered prior to their bankruptcy filing date, settled billing disputes between us, and established a right to set-off certain of our pre-petition accounts payable to MCI. Under the terms of the agreement, we reduced the pre-petition amounts receivable from MCI by \$800,000 and off-set our pre-petition accounts payable by \$1.0 million. The majority of the difference reduced the MCI reserve with the remainder recorded as bad debt expense.

The remaining pre-petition accounts receivable balance owed by MCI to us after this settlement was \$11.1 million ("MCI credit") which we have and will use as a credit against amounts payable for services purchased from MCI. At settlement, all of the remaining pre-petition amounts receivable due from MCI, which were fully reserved, were removed from accounts receivable in our Consolidated Balance Sheets.

After settlement, we began reducing the MCI credit as we utilized it for services otherwise payable to MCI. The use of the credit is recorded as a reduction of bad debt expense. During 2003 we utilized approximately \$2.8 million of the MCI credit against amounts payable for services received from MCI.

The remaining unused MCI credit totaled \$7.9 million at December 31, 2003. The credit balance is not recorded on the Consolidated Balance Sheet as we are recognizing recovery of bad debt expense as the credit is utilized.

On October 31, 2003, MCI's reorganization plan was approved by the United States Bankruptcy Court. The court order provided for a February 28, 2004 deadline for MCI to emerge from bankruptcy. In February 2004 MCI asked the Court for a 60-day extension to the February 28 deadline to allow it to complete financial filings with the SEC. The financial filings are reported to be the last major task left for MCI to emerge from bankruptcy. We expect to evaluate the likelihood that we will receive full recovery of bad debt expense for our remaining credit balance when MCI exits bankruptcy proceedings and may change our recognition method at that time.

Other

We entered into a long-term capital lease agreement in 1991 with the wife of our president for property occupied by us. The leased asset was capitalized in 1991 at the owner's cost of \$900,000 and the related obligation was recorded in the accompanying financial statements. The lease agreement was amended in September 2002. The amended lease terminates on September 30, 2011. Through September 30, 2003 our monthly payment was \$20,000, increasing to \$20,860 per month October 1, 2003 through September 30, 2006 and increasing to \$21,532 per month October 1, 2006 through September 30, 2011. Since the property was not sold prior to the tenth year of the lease, the owner was required to pay us the greater of one-half of the appreciated value of the property over \$900,000, or \$500,000. Accordingly, we received \$500,000 in the form of a note in 2002. The owner paid us \$135,000 in 2002 in the form of a note as additional consideration for the execution of the September 2002 amendment.

During the six-month period ended June 30, 2001 we provided management services to Kanas. Effective June 30, 2001 we completed the acquisition of MCI's 85% controlling interest in Kanas (see note 3). During the six-month period ended June 30, 2001 we earned revenues of approximately \$618,000 for management services and long-distance services provided to Kanas. We paid approximately \$372,000 to Kanas for the lease and maintenance of fiber optic cable capacity during the six-month period ended June 30, 2001. We advanced approximately \$4.9 million to Kanas to partially fund its operations during the six-month period ended June 30, 2001. During the year ended December 31, 2002, we acquired the remaining 15% interest in Kanas in exchange for a total of 15,000 shares of GCI Class A common stock.

In January 2001 we entered into an aircraft operating lease agreement

with a company owned by GCI's president. The lease was amended effective January 1, 2002. The lease is month-to-month and may be terminated at any time upon one hundred and twenty days written notice. The monthly lease rate is \$50,000. 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, all of which are exercisable. We paid a deposit of \$1.5 million in connection with the lease. The deposit will be repaid to us upon the earlier of six months after the agreement terminates, or nine months after the date of a termination notice. The lessor may sell to us the stock arising from the exercise of the stock option or surrender the right to purchase all or a

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portion of the stock option to repay the deposit, if allowed by our debt and preferred stock instruments in effect at such time.

(16) Commitments and Contingencies

Leases

Operating Leases as Lessee. We lease business offices, have entered into site lease agreements and use satellite transponder capacity and certain equipment pursuant to operating lease arrangements. Rental costs under such arrangements amounted to approximately \$14,788,000, \$13,445,000 and \$9,292,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Satellite Transponder Capacity Capital Lease

We lease satellite transponder capacity through a capital lease arrangement with a leasing company. The capital lease was entered into in March 2000. The effective term of the lease is nine years from the closing date. The capital lease includes certain covenants requiring maintenance of specific levels of operating cash flow to indebtedness and limitations on additional indebtedness. We were in compliance with all covenants during the year ending December 31, 2003.

We began operating the satellite transponders on April 1, 2000. The satellite transponders are recorded at a cost of \$48.0 million and are being depreciated over twelve years. We have financed \$43.5 million and \$44.9 million under this capital lease at December 31, 2003 and 2002, respectively.

A summary of future minimum lease payments for all leases follows (amounts in thousands):

<TABLE>
<CAPTION>

Years ending December 31:	Operating	Capital
<S>	<C>	<C>
2004	\$ 12,384	8,448
2005	11,253	9,923
2006	9,599	9,278
2007	6,998	8,385
2008	6,270	7,390
2009 and thereafter	23,351	18,478
	-----	-----
Total minimum lease payments	\$ 69,855	61,902
	=====	
Less amount representing interest		(17,127)
Less current maturities of obligations under capital leases		(5,139)

Subtotal - long-term obligations under capital leases		39,636
Less long-term obligations under capital leases due to related party, excluding current maturities		(677)

Long-term obligations under capital leases, excluding related party, excluding current maturities		\$ 38,959
		=====

</TABLE>

The leases generally provide that we pay the taxes, insurance and maintenance expenses related to the leased assets. We expect that in the normal course of business leases that expire will be renewed or replaced by leases on other properties.

Telecommunication Services Agreement

We lease a portion of our 800-mile fiber optic system capacity that extends from Prudhoe Bay to Valdez via Fairbanks, and provide management and maintenance services for this capacity to a customer. The

telecommunications service agreement is for fifteen years and may be extended for up to two successive three-year periods and, upon expiration of the extensions, one additional year.

A summary of minimum future service revenues, assuming the agreement is not terminated pursuant to contract provisions, follows (amounts in thousands):

Years ending December 31,	
2004	\$ 7,620
2005	7,620
2006	7,620
2007	7,620
2008	7,620
2009 and thereafter	56,847

Total minimum future service revenues	\$ 94,947
	=====

In December 2001 we signed a letter of agreement with our customer in which we agreed, amongst other things, to upgrade the 800-mile fiber optic system, install multiple earth stations, and potentially provide other services. We have completed the projects outlined in the letter of agreement and expect testing and acceptance to be completed in the first half of 2004. We expect the contract to be amended in 2004 consistent with the terms of the letter of agreement. We expect the following additional minimum future service revenues, assuming the agreement is amended and is not terminated pursuant to contract provisions (amounts in thousands):

Years ending December 31,	
2004	\$ 5,580
2005	5,580
2006	5,580
2007	5,580
2008	5,580
2009 and thereafter	41,628

Total minimum future service revenues	\$ 69,528
	=====

Letters of Credit

We have letters of credit totaling \$6.5 million as follows:

- o \$3.0 million of the Senior Credit Facility has been used to provide a letter of credit to secure payment of certain access charges associated with our provision of telecommunications services within the State of Alaska, and
- o \$3.5 million of the Senior Credit Facility has been used to provide a letter of credit to secure payment for our contract for the design, engineering, manufacture and installation of the new undersea fiber optic cable system. The letter of credit will be reduced to \$1.8 million after a contract payment estimated to be made in March 2004. The letter of credit will be cancelled after the final contract payment date estimated to be in April 2004.

Fiber Optic Cable System Construction Commitment

In June 2003 we began work on the construction of a fiber optic cable system connecting Seward, Alaska and Warrenton, Oregon, with leased backhaul facilities to connect it to our switching and distribution centers in Anchorage, Alaska and Seattle, Washington. A consortium of companies has been selected to design, engineer, manufacture and install the undersea fiber optic cable system and a contract has been signed at a total cost to us of \$35.2 million. We expect to fund construction of the fiber optic cable system through our operating cash flows and, to the extent necessary, with draws on our new Senior Credit Facility. During the year ended December 31, 2003 our capital expenditures for

this project have totaled approximately \$16.5 million, all of which has been funded through our operating cash flows and are classified as Construction in Progress in our Consolidated Balance Sheets.

Digital Local Phone Service ("DLPS") Equipment Purchase Commitment

We are testing the deployment of DLPS. We expect to begin implementing this service delivery method in the second quarter of 2004. To ensure the necessary equipment is available to us we have entered into an agreement to purchase a certain number of outdoor, network powered multi-media adapters. The agreement has a remaining commitment at December 31, 2003

totaling \$18.3 million.

Alaska Airline Miles Agreement

In August 2003 we entered into an agreement with Alaska Airlines, Inc. ("Alaska Airlines") to offer our residential and business customers who make qualifying purchases from us the opportunity to accrue mileage awards in the Alaska Airlines Mileage Plan. The agreement requires the purchase of Alaska Airlines miles during the year ended December 31, 2003 and in future years. The agreement has a remaining commitment at December 31, 2003 totaling \$16.0 million.

Deferred Compensation Plan

During 1995, we adopted a non-qualified, unfunded deferred compensation plan to provide a means by which certain employees may elect to defer receipt of designated percentages or amounts of their compensation and to provide a means for certain other deferrals of compensation. We may contribute matching deferrals at a rate selected by us. Participants immediately vest in all elective deferrals and all income and gain attributable thereto. Matching contributions and all income and gain attributable thereto vest over a six-year period. Participants may elect to be paid in either a single lump sum payment or annual installments over a period not to exceed 10 years. Vested balances are payable upon termination of employment, unforeseen emergencies, death and total disability. Participants are general creditors of us with respect to deferred compensation plan benefits. Compensation deferred pursuant to the plan totaled approximately \$0, \$82,000 and \$39,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Performance Based Incentive Compensation Plan

During 2002 we adopted a non-qualified, performance based incentive compensation plan. The incentive compensation plan provides additional compensation to certain officers and key employees based upon the Company's achievement of specified financial performance goals. The Compensation Committee of the Board of Directors establishes goals on which executive officers are compensated, and management establishes the goals for other covered employees. Awards may be payable in cash or GCI's Class A common stock. Under this plan we recognized expenses of \$672,000 and \$0 during the years ended December 31, 2003 and 2002, respectively.

Guaranteed Service Levels

Certain customers have guaranteed levels of service. In the event we are unable to provide the minimum service levels we may incur penalties or issue credits to customers.

Self-Insurance

We are self-insured for losses and liabilities related primarily to health and welfare claims up to predetermined amounts above which third party insurance applies. A reserve of \$1.7 million and \$1.6 million was recorded at December 31, 2003 and 2002, respectively, to cover estimated reported losses, estimated unreported losses based on past experience modified for current trends, and estimated expenses for investigating and settling claims. Beginning January 1, 2003, we were self-insured for losses and liabilities related to workers' compensation claims up to predetermined amounts above which third party insurance applies. A reserve of \$141,000 was recorded at December 31, 2003 to cover estimated reported losses and estimated expenses for investigating and settling claims. Actual losses will vary from the recorded reserves. While we use what we believe is pertinent information and

factors in determining the amount of reserves, future additions to the reserves may be necessary due to changes in the information and factors used.

We are self-insured for damage or loss to certain of our transmission facilities, including our buried, under sea, and above-ground transmission lines. If we become subject to substantial uninsured liabilities due to damage or loss to such facilities, our financial position, results of operations or liquidity may be adversely affected.

Litigation and Disputes

We are routinely involved in various lawsuits, billing disputes, legal proceedings and regulatory matters that have arisen in the normal course of business.

ACS, through subsidiary companies, provides local services in Fairbanks and Juneau, Alaska. These ACS subsidiaries are classified as Rural Telephone Companies under the 1996 Telecom Act, which entitles them to an exemption of certain material interconnection terms of the 1996 Telecom Act, until and unless such "rural exemption" is examined and discontinued by the RCA. On October 11, 1999, the RCA issued an order terminating rural exemptions for the ACS subsidiaries operating in the Fairbanks and

Juneau markets so that we could compete with the companies in the provision of local services pursuant to the 1996 Telecom Act. These rural exemptions limited the obligation of the ILECs in these markets to provide us access to unbundled network elements at rates under the pricing standard established by the Federal Communication Commission. Upon appeal by ACS on December 12, 2003, the Alaska Supreme Court issued a decision in which it reversed the RCA's rural exemption decision on the procedural ground that the competitor, not the incumbent, must shoulder the burden of proof. The Court remanded the matter to the RCA for reconsideration with the burden of proof assigned to us. Additionally, the Court left it to the RCA to decide as a matter of discretion whether to change the state of competition during the remand period. In accordance with the Court's ruling, the RCA has re-opened the rural exemption dockets and scheduled a hearing to take place on April 19, 2004. Additionally, the RCA issued a ruling on January 16, 2004, in which they determined that we can continue to rely on unbundled network elements from ACS to serve our existing customers in Juneau and Fairbanks but that we may not serve new customers through purchase of unbundled network elements pending the completion of the remand proceeding. Until this matter is resolved, we may serve new customers using wholesale resale. The outcome of this proceeding could result in a change in our cost of serving these markets via the facilities of ACS or via wholesale offerings and could adversely impact our ability to offer local service in these markets. We believe it is unlikely that the rural exemptions will be restored in these markets; however, if they are restored, we could be forced to discontinue providing service to residential customers and perhaps to commercial customers in these locations.

While the ultimate results of these items cannot be predicted with certainty, except for the rural exemption proceedings described above, 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.

Cable Service Rate Reregulation

Federal law permits regulation of basic cable programming services rates. However, Alaska law provides that cable television service is exempt from regulation by the RCA unless 25% of a system's subscribers request such regulation by filing a petition with the RCA. At December 31, 2002, only the Juneau system is subject to RCA regulation of its basic service rates. No petition requesting regulation has been filed for any other system. (The Juneau system serves 7.1% of our total basic service subscribers at December 31, 2003.) A cable rate increase in the Juneau system effective February 1, 2003, did not affect basic programming service and therefore did not require RCA approval.

(17) Subsequent Events

Conversion of Series B Preferred Stock

In January 2004, a Series B preferred stockholder converted 3,108 shares of Series B preferred stock to GCI Class A common stock resulting in the issuance of 560,000 shares of GCI Class A common stock.

Draw on New Senior Credit Facility

In January 2004 we drew \$10.0 million under the revolving credit portion of our new Senior Credit Facility. The draw was re-paid in February 2004 from our new Senior Notes offering proceeds.

Senior Notes Refinancing

In February 2004 GCI's wholly owned subsidiary GCI, Inc. sold \$250 million in aggregate principal amount of senior debt securities due in 2014 ("new Senior Notes"). The new Senior Notes are an unsecured senior obligation. We will pay interest of 7.25% on the new Senior Notes. The new Senior Notes were sold at a discount of \$4.3 million. The Senior Notes will be carried on our balance sheet net of the unamortized portion of the discount, which will be amortized to Interest Expense over the life of the new Senior Notes.

The net proceeds of the offering were primarily used to repay our existing \$180.0 million 9.75% Senior Notes and to repay approximately \$43.8 million of the term portion and \$10.0 million of the revolving portion of our new Senior Credit Facility. Semi-annual interest payments of approximately \$9.1 million will be due beginning August 15, 2004. In connection with the issuance, we paid fees and other expenses of approximately \$6.3 million which will be amortized over the life of the new Senior Notes.

The new Senior Notes were offered only to qualified institutional buyers pursuant to Rule 144A and non- United States persons pursuant to Regulation S. The new Senior Notes have not been registered under the Securities Act and, unless so registered, may not be offered or sold

except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. We plan to register our new Senior Notes by May 14, 2004.

The new Senior Notes are not redeemable prior to February 15, 2009. At any time on or after February 15, 2009, the new Senior Notes are redeemable at our option, in whole or in part, on not less than thirty days nor more than sixty days notice, at the following redemption prices, plus accrued and unpaid interest (if any) to the date of redemption:

If redeemed during the twelve month period commencing February 1 of the year indicated:	Redemption Price
2009	103.625%
2010	102.417%
2011	101.208%
2012 and thereafter	100.000%

We may, on or prior to February 17, 2007, at our option, use the net cash proceeds of one or more underwritten public offerings of our qualified stock to redeem up to a maximum of 35% of the initially outstanding aggregate principal amount of our new Senior Notes at a redemption price equal to 107.25% of the principal amount of the new Senior Notes, together with accrued and unpaid interest, if any, thereon to the date of redemption, provided that not less than 65% of the principal amount of the new Senior Notes originally issued remain outstanding following such a redemption.

139 (Continued)
GENERAL COMMUNICATION, INC.
Notes to Consolidated Financial Statements

The new Senior Notes restrict GCI, Inc. and certain of its subsidiaries from incurring debt in most circumstances unless the result of incurring debt does not cause our leverage ratio to exceed 6.0 to one. The new Senior Notes do not allow debt under the new Senior Credit Facility to exceed the greater of (and reduced by certain stated items):

- o \$250 million, reduced by the amount of any prepayments, or
- o 3.0 times earnings before interest, taxes, depreciation and amortization for the last four full fiscal quarters of GCI, Inc. and certain of its subsidiaries.

The new Senior Notes limit our ability to make cash dividend payments.

We are conducting a Consent Solicitation and Tender Offer for the Senior Notes. Through February 13, 2004 we accepted for payment \$114.6 million principal amount of notes which were validly tendered. Such notes accepted for payment received additional consideration as follows:

- o \$4.0 million based upon a payment of \$1,035 per \$1,000 principal amount, consisting of the purchase price of \$1,025 per \$1,000 principal amount and the consent payment of \$10 per \$1,000 principal amount, and
- o \$497,000 in accrued and unpaid interest through February 16, 2004.

The remaining principal amount of \$65.4 million will be redeemed by March 18, 2004 for additional consideration as follows:

- o \$2.1 million based upon a payment of \$1032.50 per \$1,000 principal amount, and
- o \$815,000 in estimated accrued and unpaid interest through the date of redemption and no later than March 17, 2004.

The total estimated redemption cost is expected to be \$186.1 million. The premium to redeem our Senior Notes is expected to be \$6.1 million (excluding estimated interest cost of \$1.3 million), which will be recognized as a component of Other Income (Expense) during the three months ended March 31, 2004.

Compliance with the redemption notice requirements in the Indenture will result in a delay of up to sixty days before final payment of some of the Senior Notes. As a result of such delay, our total debt will increase during the overlap period between the redemption of the outstanding Senior Notes and the issuance of the new Senior Notes making us out of compliance with Section 6.11 of our Credit, Guaranty, Security and Pledge Agreement, dated as of October 30, 2003. We have received a waiver from compliance with Section 6.11 until April 30, 2004.

The following Forms 8-K were filed or furnished during the quarter ended December 31, 2003:

- o On October 27, 2003, we furnished a report on Form 8-K dated October 24, 2003 under Item 12 and 7 which included a copy of our press release dated that same day reporting a summary description of our results of operations for the three and nine month periods ended September 30, 2003.
- o On November 6, 2003, we furnished a report on Form 8-K dated November 5, 2003 under Item 12 and 7 which included a copy of our press release dated that same day reporting a detailed description of our results of operations for the three and nine month periods ended September 30, 2003.
- o On December 15, 2003, we filed a report on Form 8-K dated December 12, 2003 under Item 5 and Item 7 which included a copy of our press release dated that same day reporting that the Alaska Supreme Court issued a decision that requires the Regulatory Commission of Alaska (RCA) to reexamine its order that allows full local telephone competition in Fairbanks and Juneau, Alaska.
- o On December 18, 2003, we filed a report on Form 8-K dated December 18, 2003 under Item 5 and Item 7 which included a copy of our press release dated that same day reporting that we had been awarded an agreement with the State of Alaska to provide a variety of telecommunication services for the next 18 months.

Item 15(c). Exhibits

Listed below are the exhibits that are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
3.1	Restated Articles of Incorporation of the Company dated December 18, 2000 (30)
3.2	Amended and Restated Bylaws of the Company dated January 28, 2000 (28)
10.3	Westin Building Lease (5)
10.4	Duncan and Hughes Deferred Bonus Agreements (6)
10.5	Compensation Agreement between General Communication, Inc. and William C. Behnke dated January 1, 1997 (19)
10.6	Order approving Application for a Certificate of Public Convenience and Necessity to operate as a Telecommunications (Intrastate Interexchange Carrier) Public Utility within Alaska (3)
10.7	1986 Stock Option Plan, as amended (21)
10.13	MCI Carrier Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated January 1, 1993 (8)
10.14	Contract for Alaska Access Services Agreement between MCI Telecommunications Corporation and General Communication, Inc. dated January 1, 1993 (8)
10.15	Promissory Note Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993 (9)
10.16	Deferred Compensation Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993 (9)
10.17	Pledge Agreement between General Communication, Inc. and Ronald A. Duncan, dated August 13, 1993 (9)
10.19	Summary Plan Description pertaining to Qualified Employee Stock Purchase Plan of General Communication, Inc., as amended and restated January 1, 2003 (37)

</TABLE>

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(Continued)

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
10.20	The GCI Special Non-Qualified Deferred Compensation Plan (11)
10.21	Transponder Purchase Agreement for Galaxy X between Hughes Communications Galaxy, Inc. and GCI Communication Corp. (11)
10.25	Licenses: (5)
10.25.1	214 Authorization
10.25.2	International Resale Authorization
10.25.3	Digital Electronic Message Service Authorization
10.25.4	Fairbanks Earth Station License
10.25.5	Fairbanks (Esro) Construction Permit for P-T-P Microwave Service
10.25.6	Fairbanks (Polaris) Construction Permit for P-T-P Microwave Service
10.25.7	Anchorage Earth Station Construction Permit
10.25.8	License for Eagle River P-T-P Microwave Service

10.25.9	License for Juneau Earth Station
10.25.10	Issaquah Earth Station Construction Permit
10.26	ATU Interconnection Agreement between GCI Communication Corp. and Municipality of Anchorage,
	executed January 15, 1997 (18)
10.29	Asset Purchase Agreement, dated April 15, 1996, among General Communication, Inc., ACNFI, ACNJI and ACNKSI (12)
10.30	Asset Purchase Agreement, dated May 10, 1996, among General Communication, Inc., and Alaska
	Cablevision, Inc. (12)
10.31	Asset Purchase Agreement, dated May 10, 1996, among General Communication, Inc., and McCaw/Rock Homer Cable System, J.V. (12)
10.32	Asset Purchase Agreement, dated May 10, 1996, between General Communication, Inc., and McCaw/Rock Seward Cable System, J.V. (12)
10.33	Amendment No. 1 to Securities Purchase and Sale Agreement, dated October 31, 1996, among General Communication, Inc., and the Prime Sellers Agent (13)
10.34	First Amendment to Asset Purchase Agreement, dated October 30, 1996, among General Communication, Inc., ACNFI, ACNJI and ACNKSI (13)
10.36	Order Approving Arbitrated Interconnection Agreement as Resolved and Modified by Order U-96-89(8) dated January 14, 1997 (18)
10.37	Amendment to the MCI Carrier Agreement executed April 20, 1994 (18)
10.38	Amendment No. 1 to MCI Carrier Agreement executed July 26, 1994 (16)
10.39	MCI Carrier Addendum--MCI 800 DAL Service effective February 1, 1994 (16)
10.40	Third Amendment to MCI Carrier Agreement dated as of October 1, 1994 (16)
10.41	Fourth Amendment to MCI Carrier Agreement dated as of September 25, 1995 (16)
10.42	Fifth Amendment to the MCI Carrier Agreement executed April 19, 1996 (18)
10.43	Sixth Amendment to MCI Carrier Agreement dated as of March 1, 1996 (16)
10.44	Seventh Amendment to MCI Carrier Agreement dated November 27, 1996 (20)
10.45	First Amendment to Contract for Alaska Access Services between General Communication, Inc. and MCI Telecommunications Corporation dated April 1, 1996 (20)
10.46	Service Mark License Agreement between MCI Communications Corporation and General Communication, Inc. dated April 13, 1994 (19)
10.47	Radio Station Authorization (Personal Communications Service License), Issue Date June 23, 1995 (19)
10.50	Contract No. 92MR067A Telecommunications Services between BP Exploration (Alaska), Inc. and GCI Network Systems dated April 1, 1992 (20)
10.51	Amendment No. 03 to BP Exploration (Alaska) Inc. Contract No. 92MRO67A effective August 1, 1996 (20)
10.52	Lease Agreement dated September 30, 1991 between RDB Company and General Communication, Inc. (3)
10.54	Order Approving Transfer Upon Closing, Subject to Conditions, and Requiring Filings dated September 23, 1996 (19)
10.55	Order Granting Extension of Time and Clarifying Order dated October 21, 1996 (19)

</TABLE>

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(Continued)

<TABLE>
<CAPTION>

Exhibit No.	Description

<S>	<C>
10.58	Employment and Deferred Compensation Agreement between General Communication, Inc. and John M. Lowber dated July 1992 (19)
10.59	Deferred Compensation Agreement between GCI Communication Corp. and Dana L. Tindall dated August 15, 1994 (19)
10.60	Transponder Lease Agreement between General Communication Incorporated and Hughes Communications Satellite Services, Inc., executed August 8, 1989 (9)
10.61	Addendum to Galaxy X Transponder Purchase Agreement between GCI Communication Corp. and Hughes Communications Galaxy, Inc. dated August 24, 1995 (19)
10.62	Order Approving Application, Subject to Conditions; Requiring Filing; and Approving Proposed Tariff on an Inception Basis, dated February 4, 1997 (19)
10.66	Supply Contract Between Submarine Systems International Ltd. And GCI Communication Corp. dated as of July 11, 1997. (23)
10.67	Supply Contract Between Tyco Submarine Systems Ltd. And Alaska United Fiber System Partnership Contract Variation No. 1 dated as of December 1, 1997. (23)
10.71	Third Amendment to Contract for Alaska Access Services between General Communication, Inc. and MCI Telecommunications Corporation dated February 27, 1998 (25)
10.77	General Communication, Inc. Preferred Stock Purchase Agreement (26)
10.78	Qualified Employee Stock Purchase Plan of General Communication, Inc., as amended and restated
	January 01, 2003 (37)
10.79	Statement of Stock Designation (Series B) (26)
10.80	Fourth Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and MCI WorldCom. (27)
10.82	Lease Intended for Security between GCI Satellite Co., Inc. and General Electric Capital Corporation (29)
10.89	Fifth Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and MCI WorldCom Network Services, Inc., formerly known as MCI Telecommunications Corporation dated August 7, 2000
	# (31)
10.90	Sixth Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and MCI WorldCom Network Services, Inc., formerly known as MCI Telecommunications Corporation dated February 14, 2001 # (31)

10.91	Seventh Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and MCI WorldCom Network Services, Inc., formerly known as MCI Telecommunications Corporation dated March 8,
2001	# (31)
10.99	Statement of Stock Designation (Series C) (34)
10.100	Contract for Alaska Access Services between Sprint Communications Company L.P. and General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp. dated March 12, 2002 # (35)
10.101	Credit, Guaranty, Security and Pledge Agreement between GCI Holdings, Inc. and Credit Lyonnais New York Branch as Administrative Agent, Issuing Bank, Co-Bookrunner and Co-Arranger, General Electric Capital Corporation as Documentation Agent, Co-Arranger and Co-Bookrunner and CIT Lending Services Corporation as Syndication Agent, dated as of November 1, 2002. (36)
10.102	First Amendment to Lease Agreement dated as of September 2002 between RDB Company and GCI Communication Corp. as successor in interest to General Communication, Inc. (37)
10.103	Agreement and plan of merger of GCI American Cablesystems, Inc. a Delaware

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(Continued)

<TABLE>
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Exhibit No.	Description
<S>	<C>
into GCI	corporation and GCI Cablesystems of Alaska, Inc. an Alaska corporation each with and
	Cable, Inc. an Alaska corporation, adopted as of December 10, 2002 (37)
10.104	Articles of merger between GCI Cablesystems of Alaska, Inc. and GCI Cable, Inc., adopted as of December 10, 2002 (37)
10.105	Aircraft lease agreement between GCI Communication Corp., and Alaska corporation and 560 Company, Inc., an Alaska corporation, dated as of January 22, 2001 (37)
10.106	First amendment to aircraft lease agreement between GCI Communication Corp., and Alaska corporation and 560 Company, Inc., an Alaska corporation, dated as of February 8, 2002 (37)
10.107	Amendment No. 1 to Credit, Guaranty, Security and Pledge Agreement between GCI Holdings, Inc. and Credit Lyonnais New York Branch as Administrative Agent, Issuing Bank, Co-Bookrunner and Co-Arranger, General Electric Capital Corporation as Documentation Agent, Co-Arranger and Co-Bookrunner and CIT Lending Services Corporation as Syndication Agent, dated as of November 1, 2002 (38)
10.108	Bonus Agreement between General Communication, Inc. and Wilson Hughes (39)
10.109	Eighth Amendment to Contract for Alaska Access Services between General Communication, Inc. and its wholly owned subsidiary GCI Communication Corp., and MCI WorldCom Network Services, Inc. # (39)
10.110	Settlement and Release Agreement between General Communication, Inc. and WorldCom, Inc. (39)
10.111	Credit, Guaranty, Security and Pledge Agreement between GCI Holdings, Inc. and Credit Lyonnais New York Branch as Administrative Agent, Issuing Bank, Co-Bookrunner and Co-Arranger, General Electric Capital Corporation as Documentation Agent, Co-Arranger and Co-Bookrunner and CIT Lending Services Corporation as Syndication Agent, dated as of October 30, 2003 (40)
10.112	Waiver letter agreement dated as of February 13, 2004 for Credit, Guaranty, Security and Pledge Agreement *
10.113	Indenture dated as of February 17, 2004 between GCI, Inc. and The Bank of New York, as trustee *
10.114	Registration Rights Agreement dated as of February 17, 2004, among GCI, Inc., and Deutsche Bank Securities Inc., Jefferies & Company, Inc., Credit Lyonnais Securities (USA), Inc., Blaylock & Partners, L.P., Ferris, Baker Watts, Incorporated, and TD Securities (USA), Inc., as Initial Purchasers *
21.1	Subsidiaries of the Registrant *
23.1	Consent of KPMG LLP (Accountant for Company) *
31	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
99	Additional Exhibits:
99.1	The Articles of Incorporation of GCI Communication Corp. (2)
99.2	The Bylaws of GCI Communication Corp. (2)
99.7	The Bylaws of GCI Cable, Inc. (14)
99.8	The Articles of Incorporation of GCI Cable, Inc. (14)
99.15	The Bylaws of GCI Holdings, Inc. (19)
99.16	The Articles of Incorporation of GCI Holdings, Inc. (19)
99.17	The Articles of Incorporation of GCI, Inc. (18)
99.18	The Bylaws of GCI, Inc. (18)
99.19	The Bylaws of GCI Transport, Inc. (23)
99.20	The Articles of Incorporation of GCI Transport, Inc. (23)

</TABLE>

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(Continued)

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
99.21	The Bylaws of Fiber Hold Co., Inc. (23)

99.22 The Articles of Incorporation of Fiber Hold Co., Inc. (23)
 99.23 The Bylaws of GCI Fiber Co., Inc. (23)
 99.24 The Articles of Incorporation of GCI Fiber Co., Inc. (23)
 99.25 The Bylaws of GCI Satellite Co., Inc. (23)
 99.26 The Articles of Incorporation of GCI Satellite Co., Inc. (23)
 99.27 The Partnership Agreement of Alaska United Fiber System (23)
 99.28 The Bylaws of Potter View Development Co., Inc. (32)
 99.29 The Articles of Incorporation of Potter View Development Co., Inc. (32)
 99.30 The Bylaws of GCI American Cablesystems, Inc. (34)
 99.31 The Articles of Incorporation of GCI American Cablesystems, Inc. (34)
 99.32 The Bylaws of GCI Cablesystems of Alaska, Inc. (34)
 99.33 The Articles of Incorporation of GCI Cablesystems of Alaska, Inc. (34)
 99.34 The Bylaws of GCI Fiber Communication, Co., Inc. (34)
 99.35 The Articles of Incorporation of GCI Fiber Communication, Co., Inc. (34)
 99.37 The Articles of Incorporation of Wok 1, Inc. (38)
 99.38 The Bylaws of Wok 1, Inc. (38)
 99.39 The Articles of Incorporation of Wok 2, Inc. (38)
 99.40 The Bylaws of Wok 2, Inc. (38)

<FN>

 # Certain information has been redacted from this
 document which we desire to keep undisclosed.
 * Filed herewith.

</FN>
 </TABLE>
 <TABLE>
 <CAPTION>

Exhibit Reference	Description
<S>	<C>
2	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1990
3	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1991
5	Incorporated by reference to The Company's Registration Statement on Form 10 (File No. 0-15279), mailed to the Securities and Exchange Commission on December 30, 1986
6	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1989.
8	Incorporated by reference to The Company's Current Report on Form 8-K dated June 4, 1993.
9	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1993.
10	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1994.
11	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1995.
12	Incorporated by reference to The Company's Form S-4 Registration Statement dated October 4, 1996.
13	Incorporated by reference to The Company's Current Report on Form 8-K dated November 13, 1996.
14	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1996.
16	Incorporated by reference to The Company's Current Report on Form 8-K dated March 14, 1996, filed March 28, 1996.
18	Incorporated by reference to The Company's Form S-3 Registration Statement

</TABLE>

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(Continued)

<TABLE>
 <CAPTION>

Exhibit Reference	Description
<S>	<C>
	(File No. 333-28001) dated May 29, 1997.
19	Incorporated by reference to The Company's Amendment No. 1 to Form S-3/A Registration Statement (File No. 333-28001) dated July 8, 1997.
20	Incorporated by reference to The Company's Amendment No. 2 to Form S-3/A Registration Statement (File No. 333-28001) dated July 21, 1997.
21	Incorporated by reference to The Company's Amendment No. 3 to Form S-3/A Registration Statement (File No. 333-28001) dated July 22, 1997.
23	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1997.
24	Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998.
25	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 1998.
26	Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended March 31, 1999.
27	Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 1999.
28	Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended

- December 31, 1999.
- 29 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2000.
- 30 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 2000.
- 31 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2001.
- 32 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001.
- 33 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001.
- 34 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 2001.
- 35 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002.
- 36 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002.
- 37 Incorporated by reference to The Company's Annual Report on Form 10-K for the year ended December 31, 2002.
- 38 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003.
- 39 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003.
- 40 Incorporated by reference to The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003.

</TABLE>

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/
 Ronald A. Duncan, President
 (Chief Executive Officer)

Date: February 16, 2005

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

<TABLE>

<CAPTION>

Signatures	Title	Date
<S>	<C>	<C>
/s/ Donne F. Fisher ----- Donne F. Fisher	Chairman of Board and Director	February 16, 2005 -----
/s/ Ronald A. Duncan ----- Ronald A. Duncan	President and Director (Principal Executive Officer)	February 16, 2005 -----
/s/ Stephen M. Brett ----- Stephen M. Brett	Director	February 16, 2005 -----
/s/ Jerry A. Edgerton ----- Jerry A. Edgerton	Director	February 16, 2005 -----
/s/ William P. Glasgow ----- William P. Glasgow	Director	February 16, 2005 -----
----- Stephen R. Mooney	Director	-----
/s/ James M. Schneider ----- James M. Schneider	Director	February 16, 2005 -----
/s/ Stephen A. Reinstadtler ----- Stephen A. Reinstadtler	Director	February 16, 2005 -----
/s/ John M. Lowber ----- John M. Lowber	Senior Vice President, Chief Financial Officer, Secretary and Treasurer	February 16, 2005 -----

(Principal Financial Officer)

/s/ Alfred J. Walker

Alfred J. Walker
</TABLE>

Vice President, Chief
Accounting Officer
(Principal Accounting Officer)

February 16, 2005

GCI Holdings, Inc.
2550 Denali Street
Suite 1000
Anchorage, Alaska 99503

Ladies and Gentlemen:

Reference is hereby made to that certain Credit, Guaranty, Security and Pledge Agreement, dated as of October 30, 2003 (as the same has been amended, supplemented or otherwise modified, renewed or replaced from time to time, the "Credit Agreement"), among GCI Holdings, Inc., an Alaska corporation (the "Borrower"), the guarantors referred to therein (the "Guarantors"), the lenders referred to therein (the "Lenders"), Credit Lyonnais New York Branch, as administrative agent for the Lenders, issuing bank, co-bookrunner and co-arranger (the "Administrative Agent"), General Electric Capital Corporation, as documentation agent, co-arranger and co-bookrunner, and CIT Lending Services Corporation, as syndication agent. Capitalized terms used herein and not otherwise defined are used herein as defined in the Credit Agreement.

In connection with the issuance of the 2004 Senior Notes, the Borrower is conducting a Consent Solicitation and Tender Offer for the 1997 Senior Notes. All 1997 Senior Notes that are tendered in accordance with such Tender Offer will be paid off concurrently with the closing of the 2004 Senior Notes offering. All of the 1997 Senior Notes that are not tendered will be called for redemption by the Borrower in accordance with the Indenture; however, compliance with the redemption notice requirements in the Indenture will result in a delay of up to sixty (60) days before final payment of some of the 1997 Senior Notes is made. As a result of such delay, the Borrower's Total Indebtedness will increase during the overlap period between the redemption of the outstanding 1997 Senior Notes and the issuance of the 2004 Senior Notes, and the Borrower is hereby requesting that the Required Lenders waive compliance with Section 6.11 during such overlap period.

At the request of the Borrower, the Required Lenders hereby waive any violation of Section 6.11 solely to the extent that such covenant is violated because the 1997 Senior Notes that have been called for redemption in accordance with the Indenture remain outstanding and for which cash or Cash Equivalents sufficient to pay the redemption price have been deposited with the Indenture trustee, in the Cash Collateral Account or otherwise set aside for such purpose in a manner satisfactory to the Administrative Agent. Such waiver shall be effective only for so long as (a) cash or Cash Equivalents sufficient to pay the redemption price have been deposited with the Indenture trustee, in the Cash Collateral Account or otherwise set aside for such purpose in a manner satisfactory to the Administrative Agent, and (b) such events are not prohibited by the Indenture or the indenture for the 2004 Senior Notes, and such waiver shall expire as of the close of business on April 30, 2004.

This waiver may be executed in counterparts, each of which shall constitute an original, but all of which when taken together, shall constitute one and the same instrument.

This waiver shall become effective when the Administrative Agent shall have received executed counterparts of this waiver that, when taken together, bear the signatures of the Borrower, the Guarantors, the Administrative Agent and the Required Lenders.

This waiver shall not be construed as extending to any other matter, similar or dissimilar, or entitling the Borrower to any future consents or waivers regarding similar matters or otherwise.

Except to the extent expressly set forth above, this letter does not constitute a waiver or modification of any provision of the Credit Agreement or a waiver of any Default or Event of Default, whether or not known to the Administrative Agent or the Lenders. Except as expressly modified herein, all terms of the Credit Agreement remain in full force and effect.

THIS CONSENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Very truly yours,

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver Letter to be duly executed as of the date first written.

BORROWER:

GCI HOLDINGS, INC.

By: /s/
Name: John M. Lowber
Title: Senior Vice President and Chief
Financial Officer

GUARANTORS:

FIBER HOLD CO., INC.
GCI CABLE, INC.
GCI COMMUNICATION CORP.
GCI FIBER CO., INC.
GCI FIBER COMMUNICATION CO., INC.
GCI, INC.
POTTER VIEW DEVELOPMENT CO., INC.
WOK 1, INC.
WOK 2, INC.

By: /s/
Name: John M. Lowber
Title: Secretary/Treasurer

ALASKA UNITED FIBER SYSTEM
PARTNERSHIP

By: GCI Fiber Co., Inc., its general
partner

By: /s/
Name: John M. Lowber
Title: Secretary/Treasurer

By: Fiber Hold Co., Inc., its general
partner

By: /s/
Name: John M. Lowber
Title: Secretary/Treasurer

Signature Page to Waiver Letter

LENDERS:
CREDIT LYONNAIS NEW YORK
BRANCH
individually and as
Administrative Agent,
Issuing Bank, Co-Bookrunner
and Co-Arranger

By: /s/
Name: Jeremy Horn
Title: Vice President

CIT LENDING SERVICES CORPORATION,
individually and as
Syndication Agent

By: /s/
Name: Michael V. Monahan
Title: Vice President

GENERAL ELECTRIC CAPITAL CORPORATION,
individually and as Documentation Agent,
Co-Arranger and Co-Bookrunner

By: /s/
Name: Bhupesh Gupta
Title: Duly Authorized Signatory

Signature Page to Waiver Letter

CANADIAN IMPERIAL BANK OF COMMERCE

By: /s/

Name: Marc Berg
Title: Authorized Signatory

Signature Page to Waiver Letter
COBANK, ACB

By: /s/
Name: Theodore Koerner
Title: VP

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CREDIT INDUSTRIEL ET COMMERCIAL

By: /s/
Name: Marcus Edward
Title: Vice President

By: /s/
Name: Anthony Rock
Title: Vice President

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FOOTHILL INCOME TRUST, L.P.,
By: FIT GP, LLC,
Its General Partner

By: /s/
Name: Mike Bohannon
Title: Managing Member

Signature Page to Waiver Letter
TORONTO DOMINION (TEXAS), INC.

By: /s/
Name: Jill Hall
Title: Vice President

Signature Page to Waiver Letter
WELLS FARGO BANK ALASKA, N.A.

By: /s/
Name: Brent Ulmer
Title: Vice President

Signature Page to Waiver Letter
AIM FLOATING RATE FUND
By: INVESCO Senior Secured Management,
Inc.,
As Sub Advisor

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

AVALON CAPITAL LTD.
By: INVESCO Senior Secured Management,
Inc.,
As Portfolio Advisor

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

AVALON CAPITAL LTD. 2
By: INVESCO Senior Secured Management,
Inc.,
As Portfolio Advisor

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

CHARTER VIEW PORTFOLIO
By: INVESCO Senior Secured Management,
Inc.,
As Investment Advisor

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

Signature Page to Waiver Letter
DIVERSIFIED CREDIT PORTFOLIO LTD.

By: INVESCO Senior Secured Management,
Inc.,
As Investment Advisor

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

INVESCO EUROPEAN CDO I.S.A.

By: INVESCO Senior Secured Management,
Inc.,
As Collateral Manager

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

SAGAMORE CLO LTD.

By: INVESCO Senior Secured Management,
Inc.,
As Collateral Manager

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

SEQUILS-LIBERTY, LTD.

By: INVESCO Senior Secured Management,
Inc.,
As Collateral Manager

By: /s/
Name: Scott Baskind
Title: Authorized Signatory

Signature Page to Waiver Letter
AMMC CDO I, Limited

By: American Money Management Corp.,
as Collateral Manager

By: /s/
Name: David P. Meyer
Title: Vice President

AMMC CDO II, Limited

By: American Money Management Corp.,
as Collateral Manager

By: /s/
Name: David P. Meyer
Title: Vice President

Signature Page to Waiver Letter
FRANKLIN CLO I, LIMITED

By: /s/
Name: Tyler Chan
Title: Vice President

FRANKLIN CLO II, LIMITED

By: /s/
Name: Tyler Chan
Title: Vice President

FRANKLIN CLO III, LIMITED

By: /s/
Name: Tyler Chan
Title: Vice President

FRANKLIN CLO IV, LIMITED

By: /s/
Name: Tyler Chan
Title: Vice President

Signature Page to Waiver Letter
FRANKLIN FLOATING RATE DAILY ACCESS FUND

By: /s/
Name: Tyler Chan
Title: Asst. Vice President

FRANKLIN FLOATING RATE MASTER SERIES

By: /s/
Name: Tyler Chan
Title: Asst. Vice President

FRANKLIN FLOATING RATE TRUST

By: /s/
Name: Tyler Chan
Title: Asst. Vice President

FRANKLIN TEMPLETON LIMITED DURATION
INCOME TRUST

By: /s/
Name: Tyler Chan
Title: Asst. Vice President

Signature Page to Waiver Letter
ING PRIME RATE TRUST

By: Aeltus Investment Management, Inc.,
as its Investment Manager

By: /s/
Name: Mohamed Basma
Title: Vice President

ING SENIOR INCOME FUND

By: Aeltus Investment Management, Inc.,
as its Investment Manager

By: /s/
Name: Mohamed Basma
Title: Vice President

ML CLO XV PILGRIM AMERICA (CAYMAN) LTD.

By: ING Investments, LLC,
as its Investment Manager

By: /s/
Name: Mohamed Basma
Title: Vice President

Signature Page to Waiver Letter
ML CLO XX PILGRIM AMERICA (CAYMAN) LTD.

By: ING Investments, LLC,
as its Investment Manager

By: /s/
Name: Mohamed Basma
Title: Vice President

PILGRIM AMERICA HIGH INCOME INVESTMENTS
LTD.

By: ING Investments, LLC,
as its Investment Manager

By: /s/
Name: Mohamed Basma
Title: Vice President

PILGRIM CLO 1999-I LTD.

By: ING Investments, LLC,
as its Investment Manager

By: /s/
Name: Mohamed Basma
Title: Vice President

Signature Page to Waiver Letter
LCM I Limited Partnership

By: Lyon Capital Management LLC,
as Collateral Manager

By: /s/
Name: LYON CAPITAL MANAGEMENT LLC
Title: Farboud Tavangar
Senior Portfolio Manager

LCM II Limited Partnership
By: Lyon Capital Management LLC,
as Attorney in Fact

By: /s/
Name: LYON CAPITAL MANAGEMENT LLC
Title: Farboud Tavangar
Senior Portfolio Manager

Signature Page to Waiver Letter
LONG LANE MASTER TRUST IV

By: Fleet National Bank
as Trust Administrator As Designee

By: /s/
Name: David Lundberg
Title: VP

Signature Page to Waiver Letter

SEABOARD CLO 2000 LTD.

By: David L. Babson & Company Inc.
as Collateral Manager

By: /s/
Name: David P. Wells, CFA
Title: Managing Director

GCI, Inc.,

as Issuer

7.25% Senior Notes due 2014

INDENTURE

Dated as of February 17, 2004

THE BANK OF NEW YORK,
as Trustee

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N.A. means not applicable.

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* This Cross-Reference Table shall not, for any purpose, be deemed a part of

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Exhibit B	Form of Series B Note
Exhibit C(1)	Form of Regulation S Certification
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Exhibit D	Form of Certificate To Be Delivered in Connection with Transfers to Non-QIB Accredited Investors
Exhibit E	Form of Certificate To Be Delivered in Connection with Transfers Pursuant to Regulation S

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INDENTURE

INDENTURE dated as of February 17, 2004 between GCI, Inc., an Alaska corporation (the "Issuer"), and The Bank of New York, a New York banking corporation, as trustee (the "Trustee").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders (as defined below) of the Issuer's 7.25% Senior Notes due 2014:

ARTICLE I

DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1. Definitions.

"Additional Assets" means (i) any Property (other than cash, cash equivalents or securities) to be owned by the Issuer or a Restricted Subsidiary and used in a Related Business, (ii) the costs of improving or developing any Property owned by the Issuer or a Restricted Subsidiary which is used in a Related Business and (iii) Investments in any other Person engaged primarily in a Related Business (including the acquisition from third parties of Capital Stock of such Person) as a result of which such other Person becomes a Restricted Subsidiary or is merged or consolidated with or into the Issuer or any Restricted Subsidiary.

"Additional Interest" means all additional interest then owing pursuant to Section 4 of the Registration Rights Agreement.

"Additional Notes" means Notes, in addition to, and having identical terms as, the \$250,000,000 aggregate principal amount of Series A Notes issued on the Issue Date (or the Series B Notes issued in exchange for the Series A Notes issued on the Issue Date), issued pursuant to Article II and in compliance with Section 4.11.

"Affiliate" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or executive officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in clause (i) above. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person,

directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. "Affiliate" shall also mean any beneficial owner of shares representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Issuer or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Per-

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son who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Agent" means any Registrar, Paying Agent or co-registrar.

"Asset Sale" means, with respect to any Person, any transfer, conveyance, sale, lease or other disposition (including, without limitation, dispositions pursuant to any consolidation or merger or a Sale and Leaseback Transaction) by such Person or any of its Subsidiaries (or, in the case of the Issuer, its Restricted Subsidiaries) in any single transaction or series of transactions of (a) shares of Capital Stock or other ownership interests in another Person (including, with respect to the Issuer and its Restricted Subsidiaries, Capital Stock of Unrestricted Subsidiaries) or (b) any other Property of such Person or any of its Restricted Subsidiaries; provided, however, that the term "Asset Sale" shall not include: (i) the sale or transfer of Temporary Cash Investments, inventory, accounts receivable or other Property (including, without limitation, the sale or lease of excess satellite transponder capacity and the sale or lease of excess fiber capacity) in the ordinary course of business; (ii) the liquidation of Property received in settlement of debts owing to such Person or any of its Restricted Subsidiaries as a result of foreclosure, perfection or enforcement of any Lien or debt, which debts were owing to such Person or any of its Restricted Subsidiaries in the ordinary course of business; (iii) when used with respect to the Issuer, any asset disposition permitted pursuant to Article V, which constitutes a disposition of all or substantially all of the Issuer's Property; (iv) the sale or transfer of any Property by such Person or any of its Restricted Subsidiaries to such Person or any of its Restricted Subsidiaries; (v) a disposition in the form of a Restricted Payment permitted to be made pursuant to Section 4.13; or (vi) a disposition (taken together with any other dispositions in a single transaction or series of related transactions) with a Fair Market Value and a sale price of less than \$5 million.

"Attributable Indebtedness" means Indebtedness deemed to be incurred in respect of a Sale and Leaseback Transaction and shall be, at the date of determination, the present value (discounted at the actual rate of interest implicit in such transaction, compounded annually), of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of the date of determination, with respect to any security, the quotient obtained by dividing (i) the sum of the products of the numbers of years (rounded to the nearest one-twelfth of one year) from the date of determination to the dates of each successive scheduled principal or other redemption payment of such security multiplied by the amount of such payment by (ii) the sum of all such payments.

"Bankruptcy Law" means Title 11, U.S. Code or any similar Federal or state law for the relief of debtors.

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"Board of Directors" of any Person means the Board of Directors of such Person or any committee thereof duly authorized to act on behalf of such Board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Issuer to have been duly adopted by the Board of Directors of the Issuer, to be in full force and effect on the date of such certification and delivered to the Trustee.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in the City of New York, in the city where the Corporate Trust Office is located, or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is not a Business Day at a place of payment, payment may be made at that place on the next succeeding day that is a Business Day, and no interest shall accrue for the intervening period.

"Capital Lease Obligations" means Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP and the amount of such Indebtedness shall be the capitalized amount of such obligations determined in accordance with GAAP.

"Capital Stock" means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

"Capital Stock Sale Proceeds" means the aggregate Net Cash Proceeds received by the Issuer from the issue or sale (other than to a Subsidiary of the Issuer or an employee stock ownership plan or trust established by the Issuer or any Subsidiary of the Issuer) by the Issuer of any class of its Capital Stock (other than Disqualified Stock) after the Issue Date.

"Change of Control" means the occurrence of one or more of the following events:

(1) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions), but other than by way of merger or consolidation, of all or substantially all of the assets of the Issuer or Parent to any Person or group of related Persons for purposes of Section 13(d) of the Exchange Act (a "Group"), together with any Affiliates thereof (whether or not otherwise in compliance with the provisions of this Indenture) other than to the Permitted Holders;

(2) the approval by the holders of Capital Stock of the Issuer or Parent, as the case may be, of any plan or proposal for the liquidation or dissolution of the Issuer

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or Parent, as the case may be (whether or not otherwise in compliance with the provisions of this Indenture);

(3) any Person or Group (other than the Permitted Holders, any entity formed for the purpose of owning Capital Stock of the Issuer or any direct or indirect Wholly Owned Subsidiary of Parent) shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 50% of the aggregate ordinary voting power represented by Voting Stock of the Issuer or Parent; or

(4) the replacement of a majority of the Board of Directors of the Issuer or Parent over a two-year period from the directors who constituted the Board of Directors of the Issuer or Parent, as the case may be, at the beginning of such period, and such replacement shall not have been approved by a vote of at least a majority of the Board of Directors of the Issuer or Parent, as the case may be, then still in office who either were members of such Board of Directors at the beginning of such period or whose election as a member of such Board of Directors was previously so approved.

"Clearstream" shall mean Clearstream Banking, Societe Anonyme, Luxembourg.

"Commission" means the Securities and Exchange Commission.

"Consolidated Interest Expense" means, for any Person, for any period, the amount of interest in respect of Indebtedness (including amortization of original issue discount, fees payable in connection with financings, including commitment, availability and similar fees, and amortization of debt issuance costs, non-cash interest payments on any Indebtedness and the interest portion of any deferred payment obligation and after taking into account the effect of elections made under, and the net costs associated with, any Interest Rate Agreement, however denominated, with respect to such Indebtedness), the amount of dividends in respect of Disqualified Stock paid by such person, the amount of Preferred Stock dividends in respect of all Preferred Stock of Subsidiaries of such Person held other than by such Person or a Subsidiary (other than any Unrestricted Subsidiary) of such Person, commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, and the interest component of rentals in respect of any Capital Lease Obligation or Sale and Leaseback Transaction paid, accrued or scheduled to be paid or accrued by such Person during such period, determined on a consolidated basis for such Person and its Subsidiaries (or, in the case of the Issuer, its Restricted Subsidiaries) in accordance with GAAP consistently applied. For purposes of this definition, interest on a Capital Lease Obligation or a Sale and Leaseback Transaction shall be deemed to accrue at an interest rate reasonably determined by such Person to be the rate of interest implicit in such Capital Lease Obligation or Sale and Leaseback Transaction in accordance with GAAP consistently applied.

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"Consolidated Net Income" of a Person means for any period, the net income (loss) of such Person and its Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income (i) with respect to the Issuer, any net income (loss) of any Person if such Person is not

a Restricted Subsidiary, except that (a) subject to the limitations contained in clause (iii) below, the Issuer's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in clause (ii) below) and (b) the Issuer's equity in a net loss of any such Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income, (ii) with respect to the Issuer, any net income (Loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer, except that (a) subject to the limitations contained in clause (iii) below, the Issuer's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause) and (b) the Issuer's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income, (iii) any gains or losses realized upon the sale or other disposition of any Property of such Person or its consolidated Subsidiaries (including pursuant to any Sale and Leaseback Transaction) which is not sold or otherwise disposed of in the ordinary course of business, (iv) any extraordinary gain or loss and (v) the cumulative effect of a change in accounting principles.

Notwithstanding the provisions of clause (ii) in the preceding paragraph, in the event that Consolidated Net Income is being calculated with respect to the Issuer or any Surviving Entity (a) for purposes of determining whether the Issuer or any Surviving Entity could incur at least \$1.00 of additional Indebtedness pursuant to clause (a) of the first paragraph of Section 4.11 for purposes of (i) clause (b) of the first sentence under Section 4.13, (ii) clause (3) under Section 5.1, (iii) the definition of "Unrestricted Subsidiary", or (iv) clause (4) of the second paragraph of Section 4.13, (b) for purposes of calculating Cumulative EBITDA for purposes of clause (c) of the first sentence of Section 4.13, (c) for purposes of calculating the Leverage Ratio for purposes of clause (6) of the second paragraph of Section 4.13, then such clause (ii) shall be disregarded.

Notwithstanding the provisions of clause (ii) in the first paragraph of this definition, in the event that Consolidated Net Income is being calculated with respect to the Issuer for purposes of determining whether the Incurrence of Indebtedness proposed to be Incurred is permissible under Section 4.11(a), clause (i) (b) of the definition of Permitted Indebtedness and clause (6) of the second paragraph of Section 4.13, then restrictions on the payment of

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dividends or the making of distributions to the Issuer by GCI Holdings referred to in clause (1)(iii) of Section 4.18 shall be disregarded.

"Corporate Trust Office" means the corporate trust office of the Trustee at which at any time this Indenture shall be administered, which office at the date hereto is located at 101 Barclay Street, Suite 8W, New York, NY 10286, Attention: Corporate Trust Services, or such other address as the Trustee may designate from time to time by notice to the Holders and the Issuer, or the principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Holders and the Issuer).

"Credit Facility" means the Credit, Guaranty, Security and Pledge Agreement dated as of October 30, 2003 and as amended to date, among GCI Holdings, Inc., the Guarantors referred to therein, the lenders thereunder, Credit Lyonnais New York Branch, as administration agent, and the other parties thereto, as agents, as amended or supplemented, including any agreement extending the maturity of or increasing the principal amount of loans thereunder, refinancing, replacing or otherwise restructuring all or any portion of the Indebtedness under such agreement or any successor replacement agreement and whether by the same or any other agent, lender or group of lenders.

"Cumulative EBITDA" means at any date of determination the cumulative EBITDA of the Issuer from and after the last day of the fiscal quarter of the Issuer immediately preceding August 1, 1997 to the end of the fiscal quarter immediately preceding the date of determination or, if such cumulative EBITDA for such period is negative, the amount (expressed as a negative number) by which such cumulative EBITDA is less than zero.

"Cumulative Interest Expense" means at any date of determination the aggregate amount of Consolidated Interest Expense paid, accrued or scheduled to be paid or accrued by the Issuer and its Restricted Subsidiaries from the last day of the fiscal quarter of the Issuer immediately preceding the August 1, 1997 to the end of the fiscal quarter immediately preceding the date of determination.

"Custodian" means any receiver, trustee, assignee, liquidator, custodian or similar official under Bankruptcy Law.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Depository" means, with respect to the Notes issuable in whole or in part in global form, the Person specified in Section 2.6 hereof as the Depository with respect to the Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and, thereafter, "Depository" shall mean or include such successor.

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"Disqualified Stock" means, with respect to any Person, any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for Indebtedness at the option of the holder thereof, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the final maturity date of the Notes.

"EBITDA" means, for any Person, for any period, an amount equal to (A) the sum of (i) Consolidated Net Income for such period, plus, to the extent deducted in arriving at Consolidated Net Income for such period, (ii) the provision for taxes for such period based on income or profits to the extent such income or profits were included in computing Consolidated Net Income and any provision for taxes utilized in computing net loss under clause (i) hereof, (iii) Consolidated Interest Expense for such period, (iv) depreciation for such period on a consolidated basis, (v) amortization of intangibles for such period on a consolidated basis, and (vi) any other non-cash items reducing Consolidated Net Income for such period, minus (B) all non-cash items increasing Consolidated Net Income for such period, all for such Person and its Subsidiaries determined in accordance with GAAP consistently applied, except that with respect to the Issuer each of the foregoing items shall be determined on a consolidated basis with respect to the Issuer and its Restricted Subsidiaries only.

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

"Exchange Offer" means the offer that shall be made by the Issuer pursuant to the Registration Rights Agreement to exchange Series A Notes for Series B Notes.

"Fair Market Value" means, with respect to any Property, the price which could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined, except as otherwise provided, (i) if such property or asset has a Fair Market Value of less than or equal to \$15 million, by any Officer of the Issuer or (ii) if such property or asset has a Fair Market Value in excess of \$15 million, by a majority of the Board of Directors of the Issuer and evidenced by a Board Resolution, dated within 30 days of the relevant transaction.

"GAAP" means accounting principles generally accepted in the United States of America as in effect on the Issue Date, unless stated otherwise.

"GCI" means General Communication, Inc., an Alaska corporation, and its successors.

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"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligation" of any Person means any obligation of such Person pursuant to any Interest Rate Agreement, foreign exchange contract, currency swap agreement, currency option or any other similar agreement or arrangement.

"Holder" means a Person in whose name a Note is registered.

"Incur" means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (by merger, conversion, exchange or otherwise), extend, assume, Guarantee or become liable in respect of such Indebtedness or other obligation or the recording, as required pursuant to GAAP or otherwise, of any such Indebtedness or obligation on the balance sheet of such Person (and "Incurrence," "Incurred," "Incurable" and "Incurring" shall have meanings correlative to the foregoing); provided, however, that a change in GAAP that results in an obligation of such Person that exists at such time, and is not theretofore classified as Indebtedness, becoming Indebtedness shall not be deemed an Incurrence of such Indebtedness; provided, further, that, solely for purposes of determining compliance with Section 4.11, amortization of debt discount shall not be deemed to be the Incurrence of Indebtedness, provided that in the case of Indebtedness sold at a discount, the amount of such Indebtedness Incurred shall at all times be the aggregate principal amount at Stated Maturity.

"Indebtedness" means (without duplication), with respect to any Person, any indebtedness, secured or unsecured, contingent or otherwise, which is for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof), or evidenced by bonds, notes, debentures or similar instruments or representing the balance deferred and unpaid of the purchase price of any property (excluding any balances that constitute customer advance payments and deposits, accounts payable or trade payables, and other accrued liabilities arising in the ordinary course of business) if and to the extent any of the foregoing indebtedness would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and shall also include, to the extent not otherwise included (i) any Capital Lease Obligations, (ii) Indebtedness of other Persons secured by a Lien to which the Property owned or held by such first Person is subject, whether or not the obligation or obligations secured thereby shall have been assumed (the amount of such

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Indebtedness being deemed to be the lesser of the value of such property or assets or the amount of the Indebtedness so secured), (iii) Guarantees of Indebtedness of other Persons, (iv) any Disqualified Stock, (v) any Attributable Indebtedness, (vi) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments or credit transactions issued for the account of such Person, (vii) in the case of the Issuer, Preferred Stock of its Restricted Subsidiaries, and (viii) to the extent not otherwise included in clauses (i) through (vii) of this paragraph, any payment obligations of any such Person at the time of determination under any Hedging Obligation. For purposes of this definition, the maximum fixed repurchase price of any Disqualified Stock that does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were repurchased on any date on which Indebtedness shall be required to be determined pursuant to this Indenture; provided, however, that if such Disqualified Stock is not then permitted to be repurchased, the repurchase price shall be the book value of such Disqualified Stock. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability of any contingent obligations in respect thereof at such date. For purposes of this definition, the amount of the payment obligation with respect to any Hedging Obligation shall be an amount equal to (i) zero, if such obligation is an Interest Rate Agreement permitted pursuant to clause (v) of the definition of "Permitted Indebtedness" or (ii) the notional amount of such Hedging Obligation, if such Hedging Obligation is not an Interest Rate Agreement so permitted.

"Indenture" means this Indenture, as amended or supplemented from time to time.

"Initial Purchasers" means Deutsche Bank Securities Inc., Jefferies & Company, Inc., Credit Lyonnais Securities (USA), Inc., Blaylock & Partners, L.P., Ferris, Baker Watts, Incorporated and TD Securities (USA), Inc.

"Interest Rate Agreement" means, for any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement.

"Investment" means, with respect to any Person, any direct or indirect loan or other extension of credit (including, without limitation, a guarantee) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person. "Investment" shall exclude extensions of trade credit by the Issuer and its Restricted Subsidiaries on commercially reasonable terms in accordance with normal trade practices of the Issuer or such Restricted Subsidiary, as the case may be.

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"Issue Date" means February 17, 2004, the date of original issuance of the Notes.

"Leverage Ratio" means the ratio of (i) the outstanding Indebtedness of a Person and its Subsidiaries (or in the case of the Issuer, the outstanding Indebtedness of the Issuer and its Restricted Subsidiaries) divided by (ii) the Trailing EBITDA of such Person (or in the case of the Issuer, the Trailing EBITDA of the Issuer and its Restricted Subsidiaries).

"Lien" means, with respect to any Property of any Person, any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, easement (other than any easement not materially impairing usefulness or marketability), encumbrance, preference, priority, or other security agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such Property (including any Capital Lease Obligation, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing or any Sale and Leaseback Transaction).

"Net Available Cash" from an Asset Sale means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to such Properties or assets or received in any other noncash form) in each case net of all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Sale, and in each case net of all payments made on any Indebtedness (a) which is secured by any assets subject to such Asset Sale, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or (b) which must (1) by its terms, or in order to obtain a necessary consent to such Asset Sale (except, in the case of this clause (b), Indebtedness that is pari passu with or subordinated to the Notes), or (2) by applicable law be repaid out of the proceeds from such Asset Sale, and net of all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale.

"Net Cash Proceeds" with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale, net of attorney's fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Note Custodian" means the Trustee, as custodian with respect to the Notes in global form, or any successor entity thereto.

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"Notes" means the Series A Notes and the Series B Notes, if any, that are issued under this Indenture, as amended or supplemented from time to time.

"Officer" means the Chief Executive Officer, the President, the Chief Financial Officer, the Chief Accounting Officer, any Vice President, the Treasurer or the Secretary of the Issuer.

"Officers' Certificate" means a certificate signed by two Officers of the Issuer, at least one of whom shall be the principal executive officer or principal financial officer of the Issuer, and delivered to the Trustee.

"Opinion of Counsel" means an opinion from legal counsel who is reasonably acceptable to the Trustee that meets the requirements of Sections 12.4 and 12.5 hereof. The counsel may be an employee of or counsel to the Issuer, any Subsidiary of the Issuer or the Trustee.

"Parent" means GCI so long as it owns, and any other Person which acquires or owns, directly or indirectly, 80% or more of the Voting Stock of the Issuer.

"Pari Passu Indebtedness" means any Indebtedness of the Issuer that ranks pari passu in right of payment with the Notes.

"Permitted Holders" means (i) Ronald Duncan and his estate, spouse, ancestors, lineal descendants and the trustee of any bona fide trust of which the foregoing are the sole beneficiaries, (ii) Worldcom, Inc., d/b/a MCI, and its Affiliates and (iii) the General Communication, Inc. Employee Stock Purchase Plan.

"Permitted Investment" means an Investment by the Issuer or any Restricted Subsidiary in (i) a Restricted Subsidiary or a Person which will, upon the making of such Investment, become a Restricted Subsidiary; (ii) another

Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to (after which such other Person shall cease to exist or shall remain a "shell" corporation), the Issuer or a Restricted Subsidiary; (iii) Temporary Cash Investments; (iv) accounts receivable owing to the Issuer or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; (v) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business; (vi) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary or in satisfaction of judgments; and (vii) loans and advances to employees of Parent, the Issuer or a Restricted Subsidiary made in the ordinary course of business consistent with past practice of Parent, the Issuer or such Restricted Subsidiary, as

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the case may be, provided that such loans and advances do not exceed in the aggregate \$6 million at any one time outstanding.

"Permitted Liens" means (i) Liens on the Property of the Issuer or any Restricted Subsidiary existing on the Issue Date; (ii) Liens under the Credit Facility relating to Indebtedness incurred pursuant to clause (i) of the definition of Permitted Indebtedness; (iii) Liens on the Property of the Issuer or any Restricted Subsidiary to secure any extension, renewal, refinancing, replacement or refunding (or successive extensions, renewals, refinancings, replacements or refundings), in whole or in part, of any Indebtedness secured by Liens referred to in any of clauses (i), (ii), (vii), (x) or (xii); provided, however, that any such Lien will be limited to all or part of the same Property that secured the original Lien (plus improvements on such Property) and the aggregate principal amount of Indebtedness that is secured by such Lien will not be increased to an amount greater than the sum of (A) the outstanding principal amount, or, if greater, the committed amount, of the Indebtedness secured by Liens described under clauses (i), (ii), (vii), (x) or (xii), as applicable, at the time the original Lien became a Permitted Lien under this Indenture and (B) an amount necessary to pay any premiums, fees and other expenses incurred by the Issuer in connection with such extension, renewal, refinancing, replacement or refunding; (iv) Liens for taxes, assessments or governmental charges or levies on the Property of the Issuer or any Restricted Subsidiary if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings; (v) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens and other similar Liens on the Property of the Issuer or any Restricted Subsidiary arising in the ordinary course of business and securing payment of obligations which are not more than 60 days past due or are being contested in good faith and by appropriate proceedings; (vi) Liens on the Property of the Issuer or any Restricted Subsidiary Incurred in the ordinary course of business to secure performance of obligations with respect to statutory or regulatory requirements, performance or return-of-money bonds, surety bonds or other obligations of a like nature and Incurred in a manner consistent with industry practice; (vii) Liens on Property at the time the Issuer or any Restricted Subsidiary acquired such Property, including any acquisition by means of a merger or consolidation with or into the Issuer or any Restricted Subsidiary; provided such Lien shall not have been Incurred in anticipation of or in connection with such transaction or series of related transactions pursuant to which such Property was acquired by the Issuer or any Restricted Subsidiary; (viii) other Liens on the Property of the Issuer or any Restricted Subsidiary incidental to the conduct of their respective businesses or the ownership of their respective Properties which were not created in anticipation of or in connection with the Incurrence of Indebtedness or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of their respective Properties or materially impair the use thereof in the operation of their respective businesses; (ix) pledges or deposits by the Issuer or any Restricted Subsidiary under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which the Issuer or any Restricted Subsidiary is party,

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or deposits to secure public or statutory obligations of the Issuer or any Restricted Subsidiary, or deposits for the payment of rent, in each case Incurred in the ordinary course of business; (x) Liens on the Property of a Person at the time such Person becomes a Restricted Subsidiary; provided any such Lien does not extend to any other Property of the Issuer any or any Restricted Subsidiary; and provided, further, that any such Lien was not Incurred in anticipation of or in connection with the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary; (xi) utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character; and (xii) Liens on Property securing Vendor Financing permitted to be Incurred under Section 4.11(a), provided, however, that any such Lien will be limited to all or any

part of the same Property purchased or acquired directly with such Vendor Financing and provided further, however, that, after giving effect to the Incurrence of Indebtedness that is secured by such Lien, the sum of (A) the outstanding principal amount of Indebtedness under the Credit Facility at that time and (B) the aggregate outstanding amount of Indebtedness secured by Liens permitted under this clause (xii) at such time, will not be greater than the amount of Indebtedness that could be Incurred under the Credit Facility pursuant to clause (i)(b) of the definition of Permitted Indebtedness at such time.

"Permitted Refinancing Indebtedness" means any extensions, renewals, refinancings, replacements or refundings of any Indebtedness, including any successive extensions, renewals, substitutions, refinancings, replacements or refundings so long as (i) the aggregate amount of Indebtedness represented thereby is not increased by such extension, renewal, refinancing, replacement or refunding (other than to finance fees and expenses, including any premium and defeasance costs, incurred in connection therewith), (ii) the Average Life of such Indebtedness is equal to or greater than the Average Life of the Indebtedness being extended, renewed, refinanced, replaced or refunded, (iii) the Stated Maturity of such Indebtedness is no earlier than the Stated Maturity of the Indebtedness being extended, renewed, refinanced, replaced or refunded and (iv) the new Indebtedness shall not be senior in right of payment to the Indebtedness that is being extended, renewed, refinanced, replaced or refunded; provided, that Permitted Refinancing Indebtedness shall not include (a) Indebtedness of a Subsidiary that extends, renews, refinances, replaces or refunds, Indebtedness of the Issuer or (b) Indebtedness of the Issuer or a Restricted Subsidiary that extends, renews, refinances, replaces or refunds Indebtedness of an Unrestricted Subsidiary.

"Person" means any individual, corporation, company (including any limited liability company), partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PORTAL Market" means the Portal Market operated by the National Association of Securities Dealers, Inc. or any successor thereto.

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"Preferred Stock" means any Capital Stock of a Person, however designated, which entitles the holder thereof to a preference with respect to dividends, distributions or liquidation proceeds of such Person over the holders of other Capital Stock issued by such Person.

"Pro Forma EBITDA" means for any Person, for any period, the EBITDA of such Person as determined on a consolidated basis in accordance with GAAP consistently applied after giving effect to the following: (i) if, during or after such period, such Person or any of its Subsidiaries shall have made any disposition of any Person or business, Pro Forma EBITDA of such Person and its Subsidiaries shall be computed so as to give pro forma effect to such disposition and (ii) if, during or after such period, such Person or any of its Subsidiaries completes an acquisition of any Person or business which immediately after such acquisition is a Subsidiary of such Person or whose assets are held directly by such Person or a Subsidiary of such Person, Pro Forma EBITDA shall be computed so as to give pro forma effect to the acquisition of such Person or business; provided, however, that, with respect to the Issuer, all of the foregoing references to "Subsidiary" or "Subsidiaries" shall be deemed to refer only to the "Restricted Subsidiaries" of the Issuer.

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including, without limitation, Capital Stock in, and other securities of, any other Person (but excluding Capital Stock or other securities issued by such first mentioned Person).

"Purchase Date" means, with respect to any Note to be repurchased, the date fixed for such repurchase by or pursuant to this Indenture.

"Purchase Price" means the amount payable for the repurchase of any Note on a Purchase Date, exclusive of accrued and unpaid interest and Additional Interest (if any) thereon to the Purchase Date.

"QIB" means a qualified institutional buyer as defined in Rule 144A under the Securities Act.

"Qualified Stock" means any Capital Stock that is not Disqualified Stock.

"Redemption Date" means, with respect to any Note to be redeemed, the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price" means the amount payable for the redemption of any Note on a Redemption Date, exclusive of accrued and unpaid interest and Additional Interest (if any) thereon to the Redemption Date.

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"Registration Rights Agreement" means the registration rights agreements dated as of the Issue Date among the Issuer and the Initial Purchasers.

"Regulation S" means Regulation S as promulgated under the Securities Act.

"Related Business" means the business of (i) transmitting, or providing services related to the transmission of voice, video or data through owned or leased wireline or wireless transmission facilities, (ii) creating, developing, constructing, installing, repairing, maintaining or marketing communications-related systems, network equipment and facilities, software and other products or (iii) pursuing any other business that is related to those identified in the foregoing clauses (i) or (ii).

"Responsible Officer" shall mean, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"Restricted Payment" means (i) any dividend or distribution (whether made in cash, Property or securities) declared or paid on or with respect to any shares of Capital Stock of the Issuer or Capital Stock of any Restricted Subsidiary except for any dividend or distribution which is made solely by a Restricted Subsidiary to the Issuer or another Restricted Subsidiary (and, if such Restricted Subsidiary is not wholly owned, to the other shareholders of such Restricted Subsidiary on a pro rata basis) or dividends or distributions payable solely in shares of Capital Stock (other than Disqualified Stock) of the Issuer; (ii) a payment made by the Issuer or any Restricted Subsidiary to purchase, redeem, acquire or retire any Capital Stock of the Issuer or Capital Stock of any Affiliate of the Issuer (other than a Restricted Subsidiary) or any warrants, rights or options to directly or indirectly purchase or acquire any such Capital Stock or any securities exchangeable for or convertible into any such Capital Stock; (iii) a payment made by the Issuer or any Restricted Subsidiary to redeem, repurchase, defease or otherwise acquire or retire for value, prior to any scheduled maturity, scheduled sinking fund or mandatory redemption payment (other than the purchase, repurchase, or other acquisition of any Indebtedness subordinate in right of payment to the Notes purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition), Indebtedness of the Issuer which is subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes; or (iv) an Investment (other than Permitted Investments) in any Person.

"Restricted Subsidiary" means (i) any Subsidiary of the Issuer on or after the Issue Date unless such Subsidiary shall have been designated an Unrestricted Subsidiary as permitted or required pursuant to the definition of "Unrestricted Subsidiary" and (ii) an Unre-

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stricted Subsidiary which is redesignated as a Restricted Subsidiary as permitted pursuant to the definition of "Unrestricted Subsidiary."

"Rule 144A" means Rule 144A promulgated under the Securities Act.

"Sale and Leaseback Transaction" means, with respect to any Person, any direct or indirect arrangement pursuant to which Property is sold or transferred by such Person or a Subsidiary of such Person (or, in the case of the Issuer, its Restricted Subsidiaries) and is thereafter leased back from the purchaser or transferee thereof by such Person or one of its Subsidiaries (or, in the case of the Issuer, its Restricted Subsidiaries).

"Securities Act" means the Securities Act of 1933, as amended, or any successor statute or statutes thereto.

"Series A Notes" means the Issuer's 7.25% Senior Notes due 2014.

"Series B Notes" means notes issued by the Issuer hereunder containing terms identical to the Series A Notes (except that (i) interest thereon shall accrue from the last date on which interest was paid on the Series A Notes or, if no such interest has been paid, from the date of original issuance, (ii) the Private Placement Legend shall be removed or appropriately altered, and (iii) as otherwise set forth herein) to be offered to Holders of Series A Notes in exchange for Series B Notes pursuant to the Exchange Offer or any exchange offer specified in any registration rights agreement relating to

the Additional Notes or to be offered in connection with any issuance of Additional Notes pursuant to a registration statement filed pursuant to the Securities Act.

"Significant Subsidiary" shall have the meaning set forth in Rule 1.02(w) of Regulation S-X under the Securities Act as in effect on the Issue Date; provided, however, that for purposes of this definition only, (i) subclause (3) of such Rule 1.02(w) shall be disregarded and (ii) "Significant Subsidiary" shall include any Subsidiary (and its Subsidiaries) whose EBITDA comprises more than 10% of the EBITDA of the Issuer for the most recently completed fiscal year.

"Stated Maturity" means, with respect to any Indebtedness, the date specified in such Indebtedness as the final date on which the payment of principal of such Indebtedness is due and payable.

"Subsidiary" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organized or acquired, (i) in the case of a corporation, of which at least a majority of the total voting power of the Voting Stock is held by such first-named Person or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (ii) in the case of a partnership, joint venture, association, or other busi-

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ness entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if in accordance with GAAP such entity is consolidated with the first-named Person for financial statement purposes.

"Temporary Cash Investments" means any of the following: (i) Investments in U.S. Government Obligations maturing within 90 days of the date of acquisition thereof, (ii) Investments in time deposit accounts, certificates of deposit and money market deposits maturing within 90 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America or any state thereof having capital, surplus and undivided profits aggregating in excess of \$500,000,000 and whose long-term debt is rated "A-3" or "A-" or higher according to Moody's Investors Service, Inc. or Standard & Poor's Ratings Group (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)) and shall, in any event, include National Bank of Alaska or First National Bank of Anchorage, (iii) repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (i) entered into with a bank meeting the qualifications described in clause (ii) above, and (iv) Investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than the Issuer or an Affiliate of the Issuer) organized and in existence under the laws of the United States of America with a rating at the time as of which any Investment therein is made of "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to Standard & Poor's Ratings Group (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)).

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. ss.ss. 77aaa-77bbb) as in effect on the Issue Date; provided that in the event the Trust Indenture Act of 1939 is amended after such date, "TIA" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trailing EBITDA" means, with respect to any Person, such Person's Pro Forma EBITDA for the four most recent full fiscal quarters for which financial statements are available.

"Transfer Restricted Security" means a Note that is a restricted security as defined in Rule 144(a)(3) under the Securities Act.

"Trustee" means the party named as such above until a successor replaces it in accordance with the applicable provisions of this Indenture, and thereafter means the successor serving hereunder.

"Unrestricted Subsidiary" means Subsidiaries of the Issuer designated as Unrestricted Subsidiaries pursuant to the procedures below. The Issuer's Board of Directors may

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designate any Person that becomes a Subsidiary of the Issuer or any Restricted Subsidiary to be an Unrestricted Subsidiary if (i) the Subsidiary to be so designated does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any Property of, the Issuer or any other Restricted Subsidiary, (ii) the Subsidiary to be so designated is not obligated under any Indebtedness or other

obligation that, if in default, would result (with the passage of time or notice or otherwise) in a default on any Indebtedness of the Issuer or any Restricted Subsidiary and (iii) either (A) the Subsidiary to be so designated has total assets of \$1,000 or less or (B) such designation is effective immediately upon such entity becoming a Subsidiary of the Issuer or any Restricted Subsidiary. Unless so designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of the Issuer or of any Restricted Subsidiary will be classified as a Restricted Subsidiary; provided, however, that such Subsidiary shall not be designated a Restricted Subsidiary and shall be automatically classified as an Unrestricted Subsidiary if the Issuer would be unable to Incur at least \$1.00 of additional Indebtedness pursuant to Section 4.11(a). Except as provided in the second sentence of this paragraph, no Restricted Subsidiary may be redesignated as an Unrestricted Subsidiary. The Issuer's Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if, immediately after giving pro forma effect to such designation, (x) the Issuer could Incur at least \$1.00 of additional indebtedness pursuant to Section 4.11(a) and (y) no Default or Event of Default shall have occurred and be continuing or would result therefrom. Any such designation by the Issuer's Board of Directors will be evidenced to the Trustee by filing with the Trustee a copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying (i) that such designation complies with the foregoing provisions and (ii) giving the effective date of such designation, such filing with the Trustee to occur within 75 days after the end of the fiscal quarter of the Issuer in which such designation is made (or in the case of a designation made during the last fiscal quarter of the Issuer's fiscal year, within 120 days after the end of such fiscal year).

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the Issuer's option.

"U.S. Person" means any U.S. person as defined in Regulation S.

"Vendor Financing" means the financing entered into with any vendor or supplier (or any financial institution acting on behalf of or for the purpose of directly financing purchases from such vendor or supplier) to the extent the Indebtedness thereunder is incurred for the purpose of financing the cost (including the cost of design, development, site acquisition, construction, integration, manufacture or acquisition) or maintenance of personal property (tangible or intangible) used, or to be used, in a Related Business.

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"Voting Stock" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

Section 1.2. Other Definitions.

<TABLE>
<CAPTION>

Term	Defined in Section
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<S>	<C>
"Affiliate Transaction".....	4.14
"Agent Members".....	2.6
"Certificated Notes".....	2.1
"Change of Control Offer".....	4.15
"Change of Control Payment".....	4.15
"Change of Control Payment Date".....	3.9
"Covenant Defeasance".....	8.3
"Event of Default".....	6.1
"Excess Proceeds".....	4.17
"Foreign Person".....	2.6
"Global Notes".....	2.1
"Institutional Accredited Investors".....	2.1
"Legal Defeasance".....	8.2
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"Private Placement Legend".....	2.6
"Registrar".....	2.3
"Regulation S Global Note".....	2.1
"Restricted Payment".....	4.13
"Rule 144A Global Note".....	2.1
"Special Redemption".....	3.8
"Surviving Entity".....	5.1
"Temporary Regulation S Global Note".....	2.1

</TABLE>

Section 1.3. Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the

provision is incorporated by reference in and made a part of this Indenture.

The following TIA terms used in this Indenture have the following meanings:

"indenture securities" means the Notes;

"indenture security holder" means a Holder;
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"indenture to be qualified" means this Indenture;

"indenture trustee" or "institutional trustee" means the Trustee;

"obligor" on the Notes means the Issuer and any successor obligor upon the Notes.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by Commission rule under the TIA have the meanings so assigned to them.

Section 1.4. Rules of Construction.

Unless the context otherwise requires:

- (a) a term has the meaning assigned to it;
- (b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (c) "or" is not exclusive;
- (d) words in the singular include the plural, and in the plural include the singular;
- (e) provisions apply to successive events and transactions;
and
- (f) references to sections of or rules under the Securities Act, the Exchange Act and the TIA shall be deemed to include substitute, replacement and successor sections or rules adopted by the Commission from time to time.

Section 1.5. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 7.1) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

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(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his or her authority.

(c) The ownership of Notes shall be proved by the register maintained by the Registrar.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

Section 2.1. Form and Dating.

The Series A Notes and the Trustee's certificate of authentication relating thereto shall be substantially in the form of Exhibit A hereto. The Series B Notes and the Trustee's certificate of authentication relating thereto shall be substantially in the form of Exhibit B hereto. The Notes may have notations, legends or endorsements in form reasonably acceptable to the Issuer required by law, stock exchange rule, agreements to which the Issuer is subject or usage in addition to those set forth in Exhibit A or Exhibit B hereto, as the case may be. Each Note shall be dated the date of its authentication. The Notes shall be in denominations of \$1,000 and integral multiples thereof.

The terms and provisions contained in the Notes shall constitute, and are hereby expressly made, a part of this Indenture and the Issuer and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Series A Notes offered and sold in reliance on Rule 144A shall be issued in the form of a single permanent global Note in registered form, substantially in the form set forth in Exhibit A (the "Rule 144A Global Note"), deposited with the Trustee, as custodian for the Depositary, duly executed by the Issuer and authenticated by the Trustee as hereinafter provided and shall bear the legends set forth in Section 2.6(h). The aggregate principal amount of the Rule 144A Global Note may from time to time be increased or decreased by adjustments

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made on the records of the Trustee, as custodian for the Depositary or its nominee, as hereinafter provided.

Series A Notes offered and sold in offshore transactions in reliance on Regulation S shall be issued initially in the form of a single temporary global Note in registered form, substantially in the form set forth in Exhibit A (the "Temporary Regulation S Global Note"), deposited with the Trustee, as custodian for the Depositary, duly executed by the Issuer and authenticated by the Trustee as hereinafter provided and shall bear the legends set forth in Section 2.6(h) and also the following legend: BY ITS ACQUISITION HEREOF, THE HOLDER AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE TO A U.S. PERSON OR FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON. At any time following 40 days after the later of the commencement of the offering of the Notes and the Issue Date, upon receipt by the Trustee and the Issuer of a duly executed certificate substantially in the form of Exhibit C(1) hereto, a single permanent Global Note in registered form substantially in the form set forth in Exhibit A (the "Permanent Regulation S Global Note," and together with the Temporary Regulation S Global Note, the "Regulation S Global Note") duly executed by the Issuer and authenticated by the Trustee as hereinafter provided bearing the legends set forth in Section 2.6(h) shall be deposited with the Trustee, as custodian for the Depositary in exchange for the Temporary Regulation S Global Note.

The Rule 144A Global Note and the Regulation S Global Note are sometimes referred to herein as the "Global Notes." All Series A Notes will be issued in the form of Global Notes.

Series B Notes offered and sold to institutional accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) ("Institutional Accredited Investors") that are not QIBs (other than Foreign Persons) and Series B Notes issued pursuant to Section 2.6 in exchange for interests in the Rule 144A Global Note or the Regulation S Global Note shall be in the form set forth in Exhibit B (collectively, the "Certificated Notes").

Section 2.2. Execution and Authentication.

Two Officers of the Issuer shall sign the Notes for the Issuer by manual or facsimile signature.

If an Officer whose signature is on a Note was an Officer at the time of such execution but no longer holds that office or position at the time a Note is authenticated, the Note shall nevertheless be valid.

A Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

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The Trustee, upon a written order of the Issuer signed by two Officers of the Issuer, shall authenticate (i) Series A Notes for original issue on the Issue Date in the aggregate principal amount not to exceed \$250,000,000 and (ii) subject to Section 4.11, Additional Notes. The Trustee, upon written order of the Issuer signed by two Officers of the Issuer, shall authenticate Series B Notes; provided that such Series B Notes shall be issuable only upon

the valid surrender for cancellation of Series A Notes of a like aggregate principal amount in accordance with the Exchange Offer or an exchange offer specified in any registration rights agreement relating to the Additional Notes or to be offered in connection with any issuance of Additional Notes pursuant to a registration statement filed pursuant to the Securities Act. Such written order of the Issuer shall specify the amount of Notes to be authenticated and the date on which the original issue of Notes is to be authenticated. Any Additional Notes shall be part of the same issue as the Notes being issued on the Issue Date and will vote on all matters as one class with the Notes being issued on the Issue Date, including, without limitation, waivers, amendments, redemptions, Change of Control Offers and Prepayment Offers. For the purposes of this Indenture, references to the Notes include Additional Notes, if any.

The Trustee may appoint an authenticating agent acceptable to the Issuer to authenticate Notes. Unless otherwise provided in the appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Issuer or with any Affiliate of the Issuer.

Section 2.3. Registrar and Paying Agent.

The Issuer shall maintain an office or agency in the Borough of Manhattan in the City of New York where Notes may be presented or surrendered for registration of transfer or for exchange ("Registrar") and an office or agency where Notes may be presented for payment ("Paying Agent"), which may be the same office or agency. The Registrar shall keep a register of the Notes and of their transfer and exchange. At the option of the Issuer, payment of interest and Additional Interest may be made by check mailed to the Holders at their addresses set forth in the register of Holders or by wire transfer of immediately available funds pursuant to wire transfer instructions provided to the Trustee or the Paying Agent. The Issuer may appoint one or more co-registrars and one or more additional paying agents. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional paying agent. The Issuer may change any Paying Agent or Registrar without notice to any Holder. The Issuer shall notify the Trustee in writing of the name and address of any Paying Agent not a party to this Indenture. If the Issuer fails to appoint or maintain another entity as Registrar or Paying Agent, the Trustee shall act as such. The Issuer may act as Paying Agent or Registrar. The Depositary shall, by acceptance of a Global Note, agree that transfers of beneficial interests in such Global Note may be effected only through a book-

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entry system maintained by the Depositary (or its agent), and that ownership of a beneficial interest in the Note shall be required to be reflected in a book entry.

The Issuer initially appoints the Trustee to act as the Registrar and Paying Agent and to act as Note Custodian with respect to the Global Notes, until such time as the Trustee has resigned or a successor has been appointed.

The Issuer may also from time to time designate one or more other offices or agencies (in or outside of The City of New York, State of New York) where the Notes may be presented or surrendered for any or all such purposes, and may from time to time rescind such designation; provided, however, that no such designation or rescission shall in any manner relieve the Issuer of its obligation to maintain an office or agency in The City of New York, State of New York for such purposes. The Issuer will give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency.

The Issuer hereby designates The Bank of New York, 101 Barclay Street, Floor 8W, New York, New York 10286, as one such office or agency of the Issuer. The Trustee may resign such agency at any time by giving written notice to the Issuer no later than 30 days prior to the effective date of such resignation.

Section 2.4. [Reserved].

Section 2.5. Holder Lists.

The Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders and shall otherwise comply with TIA ss. 312(a). If the Trustee is not the Registrar, the Issuer shall furnish or cause the Registrar to furnish to the Trustee at least five Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of the Holders of Notes, and the Issuer shall otherwise comply with TIA ss. 312(a).

Section 2.6. Transfer and Exchange.

(a) Transfer and Exchange Generally; Book Entry Provisions. Transfers of interests in Series A Notes may be made only to QIBs in accordance with Rule 144A or to Foreign Persons in accordance with Regulation S.

Upon surrender for registration of transfer of any Note to the Registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.6, the Issuer shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like

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aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency maintained by the Issuer pursuant to Section 4.2 hereof. Whenever any Notes are so surrendered for exchange, the Issuer shall execute, and the Trustee shall authenticate and deliver, the Notes which the Holder making the exchange is entitled to receive bearing registration numbers not contemporaneously outstanding.

All Notes presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Issuer and the Registrar, and the Notes shall be duly executed by the Holder thereof or his attorney duly authorized in writing. Except as otherwise provided in this Indenture, and in addition to the other requirements set forth in the legend referred to in Section 2.6(h)(i) below, in connection with any transfer of Transfer Restricted Securities any request for transfer shall be accompanied by a certification to the Trustee relating to the manner of such transfer substantially in the form of Exhibit C(2) hereto.

(b) Book-Entry Provisions for the Global Notes. The Global Notes initially shall (i) be registered in the name of the Depositary or the nominee of such Depositary, (ii) be delivered to the Trustee as custodian for the Depositary and (iii) bear legends as set forth in Section 2.6(h) and, in the case of the Temporary Regulation S Global Note, the legend set forth in Section 2.1.

Members of, or participants in, the Depositary ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Depositary, or the Trustee as its custodian, or under any Global Note and the Depositary may be treated by the Issuer, the Trustee and any agent of the Issuer or the Trustee as the absolute owner of each Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Issuer, the Trustee or any agent of the Issuer or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a holder of any Note.

Transfers of any Global Note shall be limited to transfers in whole, but not in part, to the Depositary, its successors or their respective nominees. Beneficial interests in the Global Notes may be transferred in accordance with the applicable rules and procedures of the Depositary and the provisions of this Section 2.6. The registration of transfer and exchange of beneficial interests in a Global Note, which does not involve the issuance of a Certificated Note, shall be effected through the Depositary, in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depositary therefor.

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The Trustee shall have no responsibility or liability for the accuracy of the books and records of the Depositary or any act or omission of the Depositary.

At any time after consummation of the Exchange Offer at the request of the beneficial holder of an interest in a Global Note to obtain a Certificated Note, such beneficial holder shall be entitled to obtain a Certificated Note upon written request to the Trustee and the Note Custodian in accordance with the standing instructions and procedures existing between the Note Custodian and Depositary for the issuance thereof. Upon receipt of any such request, the Trustee, or the Note Custodian at the direction of the Trustee, will cause, in accordance with the standing instructions and procedures existing between the Depositary and the Note Custodian, the aggregate principal amount of the Rule 144A Global Note or Permanent Regulation S Global Note, as appropriate, to be reduced by the principal amount of the Certificated Note issued upon such request to such beneficial holder and, following such reduction, the Issuer will execute and the Trustee will authenticate and deliver to such beneficial holder (or its nominee) a Certificated Note or Certificated Notes in the appropriate aggregate principal amount in the name of such beneficial holder (or its nominee) and bearing such restrictive legends as may be required by this

Indenture.

(c) Transfers to Non-QIB Institutional Accredited Investors.

The following provisions shall apply with respect to the registration of any proposed transfer of a Transfer Restricted Security to any Institutional Accredited Investor that is not a QIB (other than any Person that is not a U.S. Person as defined under Regulation S, a "Foreign Person"):

(i) the Registrar shall register the transfer of any Note, whether or not such Note bears the Private Placement Legend, if (x) (A) the requested transfer is at least two years after the Issue Date of the Notes and (B) the proposed transferee has certified to the Registrar that the requested transfer is at least two years after the last date on which such Note was held by an Affiliate of the Issuer, or (y) the proposed transferee has delivered to the Registrar (A) a certificate substantially in the form of Exhibit D hereto and (B) such certifications, legal opinions and other information as the Issuer (or the Trustee at the direction of the Issuer) may reasonably request to confirm that such transaction is in compliance with the Securities Act; and

(ii) if the proposed transferor is an Agent Member holding a beneficial interest in a Global Note, after consummation of the Exchange Offer and upon receipt by the Registrar of (x) the documents, if any, required by clause (i) and (y) instructions given in accordance with the Depositary's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and a decrease in the principal amount of such Global Note in an amount equal to the principal amount of the beneficial interest in such Global Note to be transferred, and the Issuer shall execute, and the Trustee shall authenticate and deliver, one or more Certificated Notes of like tenor and amount.

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(d) Transfers to QIBs. The following provisions shall apply with respect to the registration of any proposed transfer of a Transfer Restricted Security to a QIB (other than Foreign Persons):

(i) if the Note to be transferred consists of Certificated Notes or an interest in the Permanent Regulation S Global Note, the Registrar shall register the transfer if such transfer is being made by a proposed transferor who has checked the box provided for on a certificate substantially in the form of Exhibit C(2) stating, or has otherwise advised the Issuer and the Registrar in writing, that the sale has been made in compliance with the provisions of Rule 144A to a transferee who is a QIB within the meaning of Rule 144A and is aware that the sale to it is being made in reliance on Rule 144A; and

(ii) if the proposed transferee is an Agent Member, and the Note to be transferred consists of Certificated Notes or an interest in the Permanent Regulation S Global Note, upon receipt by the Registrar of the documents referred to in clause (i) and instructions given in accordance with the Depositary's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the Rule 144A Global Note in an amount equal to the principal amount of the Certificated Notes or the interest in the Permanent Regulation S Global Note, as the case may be, to be transferred, and the Trustee shall cancel the Certificated Notes or decrease the amount of the Permanent Regulation S Global Note so transferred.

(e) Transfers of Interests in the Temporary Regulation S Global Note. The following provisions shall apply with respect to the registration of any proposed transfer of interests in the Temporary Regulation S Global Note:

(i) the Registrar shall register the transfer of an interest in the Temporary Regulation S Global Note if (x) the proposed transferor has delivered to the Registrar a certificate substantially in the form of Exhibit E hereto stating, among other things, that the proposed transferee is a Foreign Person or (y) the proposed transferee is a QIB and the proposed transferor has checked the box provided for on a certificate substantially in the form of Exhibit C(2) stating, or has otherwise advised the Issuer and the Registrar in writing, that the sale has been made in compliance with the provisions of Rule 144A to a transferee who is a QIB within the meaning of Rule 144A, and is aware that the sale to it is being made in reliance on Rule 144A; and

(ii) if the proposed transferee is an Agent Member, upon receipt by the Registrar of the documents referred to in clause (i) above and instructions given in accordance with the Depositary's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the Rule 144A Global Note in an amount equal to the principal amount of the

Regulation S Global Note to be transferred, and the Trustee, as Note Custodian, shall decrease the amount of the Temporary Regulation S Global Note.

(f) Transfers to Foreign Persons. The following provisions shall apply with respect to any transfer of a Transfer Restricted Security to a Foreign Person:

(i) the Registrar shall register any proposed transfer of a Note to a Foreign Person upon receipt of a certificate substantially in the form of Exhibit E hereto from the proposed transferor and such certifications, legal opinions and other information as the Issuer (or the Trustee, at the instruction of the Issuer) may reasonably request; and

(ii) (a) if the proposed transferor is an Agent Member holding a beneficial interest in the Rule 144A Global Note or the Notes to be transferred consists of Certificated Notes, upon receipt by the Registrar of (x) the documents required by clause (i) and (y) instructions in accordance with the Depository's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Rule 144A Global Note in an amount equal to the principal amount of the beneficial interest in the Rule 144A Global Note or cancel the Certificated Notes, as the case may be, to be transferred, and (b) if the proposed transferee is an Agent Member, upon receipt by the Registrar of (x) the documents required by clause (i) and (y) instructions given in accordance with the Depository's and the Registrar's procedures, the Registrar shall reflect on its books and records the date and an increase in the principal amount of the Regulation S Global Note in an amount equal to the principal amount of the Notes to be transferred.

(g) The Depository. The Depository shall be a clearing agency registered under the Exchange Act. The Issuer initially appoints The Depository Trust Company to act as Depository with respect to the Global Notes. Initially, the Rule 144A Global Note and the Regulation S Global Note shall be issued to the Depository, registered in the name of Cede & Co., as the nominee of the Depository, and deposited with the Note Custodian for Cede & Co.

Certificated Notes issued in exchange for all or a part of a Global Note pursuant to this Section 2.6 shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Upon execution and authentication, the Trustee shall deliver such Certificated Notes in certificated form to the Persons in whose names such Notes in certificated form are so registered.

Certificated Notes shall be transferred to such beneficial owners in exchange for their beneficial interests in the Rule 144A Global Note or the Permanent Regulation S Global Note, as the case may be, if after consummation of the Exchange Offer:

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(i) the Depository for the Notes notifies the Issuer that the Depository is unwilling or unable to continue as Depository for the Rule 144A Global Note or the Permanent Regulation S Global Note, as the case may be, and a successor Depository is not appointed by the Issuer within 90 days after delivery of such notice; or

(ii) the Issuer, in its sole discretion, notifies the Trustee in writing that it elects to cause the issuance of Certificated Notes under this Indenture,

and the Issuer shall execute, and the Trustee shall, upon receipt of an authentication order in accordance with Section 2.2 hereof, authenticate and deliver Certificated Notes in an aggregate principal amount equal to the principal amount of the Rule 144A Global Note or the Permanent Regulation S Global Note, as the case may be, in exchange for such Global Note.

(h) Legends.

(i) Except as permitted by the following paragraphs (ii) and (iii), each certificate evidencing Global Notes and Certificated Notes (and all Notes issued in exchange therefor or substitution thereof) shall (x) be subject to the restrictions on transfer set forth in this Section 2.6 (including those set forth in the legend below) unless such restrictions on transfer shall be waived by written consent of the Issuer, and the Holder of each Transfer Restricted Security, by such Holder's acceptance thereof, agrees to be bound by all such restrictions on transfer and (y) bear the legend set forth below (the

"Private Placement Legend"):

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH BELOW. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT OR (C) IT IS AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a)(1), (2), (3), OR (7) UNDER THE SECURITIES ACT (AN "ACCREDITED INVESTOR"), (2) AGREES THAT IT WILL NOT WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS NOTE RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) INSIDE THE UNITED STATES TO AN ACCREDITED INVESTOR THAT, PRIOR TO SUCH TRANSFER,

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FURNISHES (OR HAS FURNISHED ON ITS BEHALF BY A U.S. BROKER-DEALER) TO THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS, DESCRIBED IN THE INDENTURE, RELATING TO THE RESTRICTIONS ON TRANSFER OF THIS NOTE (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE TRUSTEE FOR THIS NOTE), (D) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT (IF AVAILABLE), (E) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF THE ISSUER SO REQUESTS), OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS NOTE, IF THE PROPOSED TRANSFEREE IS AN ACCREDITED INVESTOR, THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE TRUSTEE AND THE ISSUER SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THE ISSUER (OR THE TRUSTEE AT THEIR INSTRUCTION) MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANING GIVEN TO THEM BY REGULATIONS UNDER THE SECURITIES ACT.

(ii) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Global Note) pursuant to Rule 144 under the Securities Act after consummation of the Exchange Offer or pursuant to an effective registration statement under the Securities Act:

(a) in the case of any Transfer Restricted Security that is a Certificated Note, the Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Certificated Note that does not bear the legend set forth in (i) above and rescind any restriction on the transfer of such Transfer Restricted Security; and

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(b) in the case of any Transfer Restricted Security represented by a Global Note, such Transfer Restricted Security shall not be required to bear the legend set forth in (i) above, but shall continue to be subject to the provisions of Section 2.6(b) hereof; provided, however, that with respect to any request for an exchange of a Transfer Restricted Security that is represented by a Global Note for a Certificated Note that does not bear the legend set forth in (i) above, which request is made in reliance upon Rule 144, the Holder thereof shall certify in writing to the Registrar that such request is being made pursuant to Rule 144 (such certifications to be substantially in the form of Exhibit C(2) hereto).

(iii) Notwithstanding the foregoing, upon consummation of the Exchange Offer, the Issuer shall issue and, upon receipt of an authentication order in accordance with Section 2.2 hereof, the Trustee shall authenticate Series B Notes in exchange for Series A Notes accepted for exchange in the Exchange Offer, which Series B Notes shall not bear the legend set forth in (i) above, and the Registrar shall rescind any restriction on the transfer of such Series A Notes, in each case unless the Holder of such Series A Notes is either (A) a broker-dealer, (B) a Person participating in the distribution of the Series A Notes or (C) a Person who is an affiliate (as defined in Rule

144A) of the Issuer.

(iv) Each Global Note, whether or not a Transfer Restricted Security, shall also bear the following legend on the face thereof:

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY OR A SUCCESSOR DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR NOTES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND

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ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

(v) Any Global Note may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Indenture as may be required by the Note Custodian, the Depositary or by the National Association of Securities Dealers, Inc. in order for the Notes to be tradable on the PORTAL Market or tradable on Euroclear or Clearstream or as may be required for the Notes to be tradable on any other market developed for trading of securities pursuant to Rule 144A or Regulation S under the Securities Act or required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange or automated quotation system upon which the Notes may be listed or traded or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Notes are subject.

(i) Cancellation and/or Adjustment of Global Notes. At such time as all beneficial interests in Global Notes have been exchanged for Certificated Notes, redeemed, repurchased or canceled, all Global Notes shall be returned to or retained and canceled by the Trustee in accordance with Section 2.11 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for Certificated Notes, redeemed, repurchased or canceled, the principal amount of Notes represented by such Global Notes shall be reduced accordingly and an endorsement shall be made on such Global Note by the Trustee or the Note Custodian, at the direction of the Trustee, to reflect such reduction. In the event of any transfer of any beneficial interest between the Rule 144A Global Note and the Regulation S Global Note in accordance with the standing procedures and instructions between the Depositary and the Note Custodian and the transfer restrictions set forth herein, the aggregate principal amount of each of the Rule 144A Global Note and the Regulation S Global Note shall be appropriately increased or decreased, as the case may be, and an endorsement shall be made on each of the Rule 144A Global Note and the Regulation S Global Note by the Trustee or the Note Custodian, at the direction of the Trustee, to reflect such reduction or increase.

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(j) General Provisions Relating to Transfers and Exchanges.

(i) To permit registrations of transfers and exchanges, the Issuer shall execute and the Trustee shall authenticate Certificated Notes and Global Notes at the Registrar's request.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchange or transfer pursuant to Sections 3.6 and 9.5 hereof).

(iii) The Registrar shall not be required to register the transfer of or exchange any Note selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

(iv) All Certificated Notes and Global Notes issued upon any

registration of transfer or exchange of Certificated Notes or Global Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Certificated Notes or Global Notes surrendered upon such registration of transfer or exchange.

(v) The Issuer shall not be required:

(a) to issue, to register the transfer of or to exchange Notes during a period beginning at the opening of business 15 days before the day of any selection of Notes for redemption under Section 3.2 hereof and ending at the close of business on the day of selection; or

(b) to register the transfer of or to exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part; or

(c) to register the transfer of or to exchange a Note between a record date and the next succeeding interest payment date.

(vi) Prior to due presentment of the registration of a transfer of any Note, the Trustee, any Agent and the Issuer may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of all payments with respect to such Notes, and neither the Trustee, any Agent nor the Issuer shall be affected by notice to the contrary.

(vii) The Trustee shall authenticate Certificated Notes and Global Notes in accordance with the provisions of Section 2.2 hereof.

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Section 2.7. Replacement Notes.

If any mutilated Note is surrendered to the Trustee or either the Issuer or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, the Issuer shall issue and the Trustee, upon receipt of an authentication order in accordance with Section 2.2 hereof, shall authenticate a replacement Note if the Trustee's requirements for replacement of Notes are met. If required by the Trustee or the Issuer, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Issuer to protect the Issuer, the Trustee, any Agent and any authenticating agent from any loss that any of them may suffer if a Note is replaced. The Trustee and the Issuer each may charge such Holder for their expenses in replacing such Note.

Every replacement Note is an additional obligation of the Issuer and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Notes duly issued hereunder.

Section 2.8. Outstanding Notes.

The Notes outstanding at any time are all the Notes that have been authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those reductions in the interest in a Global Note effected by the Trustee or the Note Custodian in accordance with the provisions hereof, and those described in this Section as not outstanding. Except as set forth in Section 2.9 hereof, a Note does not cease to be outstanding because the Issuer or any of its Affiliates holds the Note.

If a Note is replaced pursuant to Section 2.7 hereof, it shall cease to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser for value.

If the principal amount of any Note is considered paid under Section 4.1 hereof, it ceases to be outstanding and interest on it ceases to accrue.

If the Paying Agent (other than the Issuer, its Subsidiary or its Affiliate) holds, on a redemption date or maturity date, money sufficient to pay Notes payable on that date, then on and after that date such Notes shall be deemed to be no longer outstanding and shall cease to accrue interest.

Section 2.9. Treasury Notes.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Issuer or by any Affiliate thereof shall be considered as though not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver of

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consent, only Notes that a Responsible Officer of the Trustee knows are so owned or has been notified are so owned shall be so disregarded.

Section 2.10. Temporary Notes.

Until Certificated Notes are ready for delivery, the Issuer may prepare and the Trustee, upon receipt of an authentication order in accordance with Section 2.2 hereof, shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of Certificated Notes, but may have such variations as the Issuer considers appropriate for temporary Notes and as shall be reasonably acceptable to the Trustee. Without unreasonable delay, the Issuer shall prepare and the Trustee shall authenticate Certificated Notes in exchange for temporary Notes.

Holders of temporary Notes shall be entitled to all of the benefits of this Indenture.

Section 2.11. Cancellation.

The Issuer at any time may deliver Notes to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee, or at the direction of the Trustee, the Registrar or Paying Agent, and no one else shall cancel all Notes surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall dispose of all canceled Notes in accordance with the Trustee's usual procedures unless the Issuer requests such Notes be delivered to it. The Trustee shall maintain a record of all canceled Notes. All cancelled Notes shall be delivered to the Issuer upon the Issuer's written request. Subject to Section 2.7 hereof, the Issuer may not issue new Notes to replace Notes that have been paid or that have been delivered to the Trustee for cancellation.

Section 2.12. Defaulted Interest.

If the Issuer defaults in a payment of interest on the Notes, the Issuer shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders, in each case at the rate provided in the Notes and in Section 4.1 hereof. Such defaulted interest may be paid by the Issuer, at its election, as provided in clause (i) or (ii) below.

(i) The Issuer shall notify the Trustee in writing of the amount of defaulted interest proposed to be paid on each Note and the date of the proposed payment. The Issuer shall fix or cause to be fixed each such special record date and payment date, provided that no such special record date shall be less than 10 days prior to the related payment date for such defaulted interest. At least 15 days before the special record date, the Issuer (or, upon the written request of the Issuer, the Trustee in the name and at the expense of the Issuer) shall

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mail or cause to be mailed to Holders a notice that states the special record date, the related payment date and the amount of such interest to be paid.

(ii) The Issuer may make payment of the defaulted interest in any other manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice is given to the Trustee of the proposed payment pursuant to this clause (ii), such manner of payment shall be deemed practicable by the Trustee.

Section 2.13. Persons Deemed Owners.

Prior to due presentment of a Note for registration of transfer the Issuer, the Trustee, any Paying Agent, any co-registrar and any Registrar may deem and treat the person in whose name any Note shall be registered upon the register of Notes kept by the Registrar as the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of the ownership or other writing thereon made by anyone other than the Issuer, any co-registrar or any Registrar) for the purpose of receiving all payments with respect to such Note and for all other purposes, and none of the Issuer, the Trustee, any Paying Agent, any co-registrar or any Registrar shall be affected by any notice to the contrary.

Section 2.14. CUSIP Numbers.

The Issuer in issuing the Notes may use a "CUSIP" number, and if so, the Trustee shall use the CUSIP number in notices of redemption or exchange as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Notes, and that reliance may be placed only on the other identification numbers printed on the Notes. The Issuer shall

notify the Trustee of any change to the CUSIP numbers.

ARTICLE III

REDEMPTION AND REPURCHASE

Section 3.1. Notices to Trustee.

If the Issuer elects to redeem Notes pursuant to the provisions of Section 3.7 or 3.8 hereof, they shall furnish to the Trustee, at least 30 days but not more than 60 days before the Redemption Date (unless a shorter notice period shall be satisfactory to the Trustee), an Officers' Certificate setting forth the Section of this Indenture pursuant to which the redemption shall occur, the Redemption Date, the principal amount of Notes to be redeemed and the Redemption Price (provided, however, that in the case of a partial redemption, or if the Trustee is requested to give notice to Holders of Notes on behalf of the Issuer pursuant to Section

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3.3, the Officers' Certificate required hereunder shall be given to the Trustee not less than 40 days before the Redemption Date, unless a shorter period is satisfactory to the Trustee).

If the Issuer is required to offer to repurchase Notes pursuant to the provisions of Section 4.15 or 4.17 hereof, it shall notify the Trustee in writing, at least 45 days but not more than 60 days before the Purchase Date (unless a shorter period shall be satisfactory to the Trustee), of the Section of this Indenture pursuant to which the repurchase shall occur, the Purchase Date, the principal amount of Notes required to be repurchased and the Purchase Price and shall furnish to the Trustee an Officers' Certificate to the effect that the Issuer is required to make or have made a Prepayment Offer or a Change of Control Offer, as the case may be.

If the Registrar is not the Trustee, the Issuer shall, concurrently with each notice of redemption or repurchase, cause the Registrar to deliver to the Trustee a certificate (upon which the Trustee may rely) setting forth the principal amounts of Notes held by each Holder.

Section 3.2. Selection of Notes.

If less than all of the Notes are to be redeemed, the Trustee shall select the Notes or portions thereof to be redeemed either (1) in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed, or (2) if the Notes are not then listed on a national securities exchange, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate. In the event of partial redemption by lot, the particular Notes or portions thereof to be redeemed shall be selected, unless otherwise provided herein, not less than 30 nor more than 60 days prior to the Redemption Date by the Trustee from the outstanding Notes not previously called for redemption.

If less than all of the Notes tendered are to be repurchased pursuant to the provisions of Section 4.17 hereof, the Trustee shall select the Notes or portions thereof to be repurchased in compliance with Section 4.17. In the event of partial repurchase by lot, the particular Notes or portions thereof to be repurchased shall be selected at the close of business of the last Business Day prior to the Purchase Date. If less than all of the Notes tendered are to be repurchased pursuant to the provisions of Section 3.8 (a) hereof, the Trustee shall select the Notes only on a pro rata basis or on as nearly a pro rata basis as is practicable (subject to DTC procedures) unless such method is otherwise prohibited.

The Trustee shall promptly notify the Issuer in writing of the Notes or portions thereof selected for redemption or repurchase and, in the case of any Note selected for partial redemption or repurchase, the principal amount thereof to be redeemed or repurchased. Notes and portions thereof selected shall be in amounts of \$1,000 or integral multiples of \$1,000; except that if all of the Notes of a Holder are to be redeemed, the entire outstanding amount of

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Notes held by such Holder, even if not a multiple of \$1,000, shall be redeemed or repurchased. No Notes of a principal amount of \$1,000 or less shall be redeemed in part.

Section 3.3. Notice of Optional or Special Redemption.

In the event Notes are to be redeemed pursuant to Section 3.7 or 3.8 hereof, at least 30 days but not more than 60 days before the Redemption Date, the Issuer shall mail a notice of redemption to each Holder whose Notes are to be redeemed in whole or in part, with a copy to the Trustee; provided that redemption notices may be mailed more than 60 days prior to a Redemption Date if such notice is issued in connection with a Legal Defeasance or Covenant Defeasance pursuant to Article VIII hereof or a satisfaction and discharge of

this Indenture pursuant to Article XI hereof.

The notice shall identify the Notes or portions thereof to be redeemed (including the CUSIP number, if any) and shall state:

- (a) the Redemption Date;
- (b) the Redemption Price;
- (c) if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed and that, after the Redemption Date, upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion will be issued;
- (d) the name and address of the Paying Agent;
- (e) that Notes called for redemption must be surrendered to the Paying Agent to collect the Redemption Price;
- (f) that, unless the Issuer defaults in making the redemption payment, interest and any Additional Interest on Notes called for redemption will cease to accrue on and after the Redemption Date;
- (g) if fewer than all the Notes are to be redeemed, the identification of the particular Notes (or portions thereof) to be redeemed, as well as the aggregate principal amount of the Notes to be redeemed and the aggregate principal amount of Notes to be outstanding after such partial redemption;
- (h) the paragraph of the Notes pursuant to which the Notes called for redemption are being redeemed; and
- (i) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Notes and that reliance may be placed only on the other identification numbers printed on the Notes.

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At the Issuer's request, the Trustee shall give the notice of redemption in the Issuer's name and at its expense; provided that the Issuer shall deliver to the Trustee, at least 40 days prior to the Redemption Date, the Officer's Certificate required by Section 3.1 and an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph (unless a shorter period is acceptable to the Trustee).

Section 3.4. Effect of Notice of Redemption.

Once notice of redemption is mailed, Notes or portions thereof called for redemption become due and payable on the Redemption Date at the Redemption Price. Upon surrender to any Paying Agent, such Notes or portions thereof shall be paid at the Redemption Price, plus accrued and unpaid Additional Interest, if any, and accrued and unpaid interest to the Redemption Date; provided, however, that, if the Redemption Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest and Additional Interest shall be paid to the person in whose name a Note is registered at the close of business on the record date, and no Additional Interest shall be payable to Holders who surrendered Notes.

Section 3.5. Deposit of Redemption Price or Purchase Price.

On or before 10:00 a.m. Eastern Time on each Redemption Date or Purchase Date, the Issuer shall irrevocably deposit with the Trustee or with the Paying Agent money sufficient to pay the aggregate amount due on all Notes to be redeemed or repurchased on that date. The Trustee or the Paying Agent shall promptly return to the Issuer any money not required for that purpose.

Unless the Issuer defaults in making such payment, interest and any Additional Interest on the Notes to be redeemed or repurchased will cease to accrue on the applicable Redemption Date or Purchase Date, whether or not such Notes are presented for payment. If any Note called for redemption shall not be so paid upon surrender because of the failure of the Issuer to comply with the preceding paragraph, interest will be paid on the unpaid principal, from the applicable Redemption Date or Purchase Date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes and in Section 4.1 hereof.

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Section 3.6. Notes Redeemed or Repurchased in Part.

Upon surrender of a Note that is redeemed or repurchased in part, the Issuer shall issue and the Trustee shall authenticate for the Holder

at the expense of the Issuer a new Note equal in principal amount to the portion of the Note surrendered that is not to be redeemed or repurchased.

Section 3.7. Optional Redemption.

The Issuer may redeem any or all of the Notes at any time on or after February 15, 2009 at the Redemption Prices set forth in paragraph 5 of the Notes (an "Optional Redemption").

Any redemption pursuant to this Section 3.7 shall be made pursuant to the provisions of Sections 3.1 through 3.6 hereof.

Section 3.8. Optional Redemption Upon Public Equity Offerings.

(a) In the event the Issuer completes one or more Public Equity Offerings on or before February 17, 2007, the Issuer may, at its option, use the net cash proceeds from any such Public Equity Offering to redeem up to a maximum 35% of the initially outstanding aggregate principal amount of the Notes (a "Special Redemption") at a Redemption Price of 107.25% of the principal amount thereof, together with accrued and unpaid interest and Additional Interest, if any, to the date of redemption; provided, however, that at least 65% of the principal amount of the Notes will remain outstanding immediately after each such Special Redemption.

(b) As used in paragraph (a) above, "Public Equity Offering" means an underwritten public offering of Qualified Stock of Parent or the Issuer pursuant to a registration statement filed with the Commission in accordance with the Securities Act; provided that in the event of a Public Equity Offering by Parent, Parent contributes to the capital of the Issuer as common equity the portion of the net cash proceeds of such Public Equity Offering necessary to pay the aggregate redemption price (plus accrued and unpaid interest thereon to the redemption date) of the Notes to be redeemed pursuant to the preceding paragraph.

Any redemption pursuant to this Section 3.8 shall be made pursuant to the provisions of Sections 3.1 through 3.6 hereof.

Section 3.9. Repurchase upon Change of Control Offer.

In the event that, pursuant to Section 4.15 hereof, the Issuer shall be required to commence a Change of Control Offer, it shall follow the procedures specified below.

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The Change of Control Offer shall remain open for a period from the date of the mailing of the notice of the Change of Control Offer described in the next paragraph until three Business Days prior to the Purchase Date for the Change of Control, which shall be a date determined by the Issuer which is at least 30 but no more than 60 days from the date of mailing of such notice, except to the extent that a longer period is required by applicable law (the "Change of Control Payment Date"). On the Purchase Date, which shall be the Change of Control Payment Date, the Issuer shall purchase the principal amount of Notes properly tendered in response to the Change of Control Offer.

Within 30 days following any Change of Control, the Issuer shall send, by first class mail, a notice to (i) the Dow Jones News Service or similar business news service in the United States and (ii) to the Trustee and each of the Holders. The notice shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Change of Control Offer. The Change of Control Offer shall be made to all Holders. The notice, which shall govern the terms of the Change of Control Offer, shall state:

(a) that a Change of Control has occurred and a Change of Control Offer is being made pursuant to Sections 3.9 and 4.15 and that all Notes timely tendered will be accepted for payment;

(b) the Change of Control Payment and the Change of Control Payment Date, subject to any contrary requirements of applicable law;

(c) that any Note (or portions thereof) not properly tendered or otherwise not accepted for repurchase will continue to accrue interest and Additional Interest, if any;

(d) that, unless the Issuer defaults in the payment of the amount due on the Change of Control Payment Date, all Notes or portions thereof accepted for repurchase pursuant to the Change of Control Offer shall cease to accrue interest and Additional Interest, if any, on the Change of Control Payment Date;

(e) a description of the transaction or transactions constituting the Change of Control;

(f) that Holders electing to have any Notes purchased pursuant to the Change of Control Offer will be required to tender the Notes, with the form entitled Option of Holder To Elect Purchase on the reverse of the Notes completed, or transfer the Notes by book-entry transfer, to the Issuer, a Depository, if appointed by the Issuer, or a Paying Agent at the address specified in the notice not later than the close of business on the third Business Day preceding the Change of Control Payment Date;

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(g) that Holders will be entitled to withdraw their election if the Issuer, the Depository or the Paying Agent, as the case may be, receives, not later than the close of business on the third Business Day preceding the Change of Control Payment Date, a telegram, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes delivered for repurchase, and a statement that such Holder is withdrawing his election to have the Notes redeemed in whole or in part; and

(h) that Holders whose Notes are being repurchased only in part will be issued new Notes equal in principal amount to the portion of the Notes tendered (or transferred by book-entry transfer) that is not to be repurchased, which portion must be equal to \$1,000 in principal amount or an integral multiple thereof.

On or before the Change of Control Payment Date, the Issuer shall, to the extent lawful, (i) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer and (ii) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being repurchased by the Issuer. The Paying Agent shall promptly (but in any case not later than five days after the Change of Control Payment Date) mail to each Holder of Notes so repurchased the amount due in connection with such Notes, and the Issuer shall promptly issue a new Note, and the Trustee, upon written request from the Issuer shall authenticate and mail or deliver (or cause to transfer by book entry) to each relevant Holder a new Note, in a principal amount equal to any unpurchased portion of the Notes surrendered to the Holder thereof; provided that each such new Note shall be in a principal amount of \$1,000 or an integral multiple thereof. The Issuer shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

If the Change of Control Payment Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest and Additional Interest, if any, in each case to the Change of Control Payment Date, shall be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest shall be payable to Holders pursuant to the Change of Control Offer.

Section 3.10. Repurchase upon Application of Excess Proceeds.

In the event that, pursuant to Section 4.17 hereof, the Issuer shall be required to commence a Prepayment Offer, it shall follow the procedures specified below.

Each Prepayment Offer will be mailed to the record Holders as shown on the register of Holders within 5 Business Days following the date the Issuer is first required to commence a Prepayment Offer, with a copy to the Trustee, and shall be accompanied by such information regarding the Issuer and its Subsidiaries as the Issuer in good faith believes will enable the Holders to make an informed decision with respect to the Prepayment Offer. Upon

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receiving notice of the Prepayment Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of \$1,000 in exchange for cash. The Prepayment Offer shall remain open until three Business Days prior to the Purchase Date. The notice, which shall govern the terms of the Prepayment Offer, shall state:

(a) that a Prepayment Offer is being made pursuant to this Section 3.10 and Section 4.17 hereof;

(b) the purchase price and the Purchase Date (as defined below) subject to any contrary requirements of applicable law, no less than 30 days nor more than 60 days from the date the Prepayment Offer Notice is mailed (the "Purchase Date");

(c) that any Note not properly tendered or otherwise not accepted for repurchase shall continue to accrue interest and Additional Interest, if any;

(d) that, unless the Issuer defaults in the payment of the

amount due on the Purchase Date, all Notes or portions thereof accepted for repurchase pursuant to the Prepayment Offer shall cease to accrue interest and Additional Interest, if any, after the Purchase Date;

(e) the aggregate principal amount of the Notes (or portions thereof) to be purchased;

(f) that Holders electing to have any Notes repurchased pursuant to the Prepayment Offer shall be required to tender the Notes, with the form entitled Option of Holder To Elect Purchase on the reverse of the Notes completed, or transfer the Notes by book-entry transfer, to the Issuer, a Depositary, if appointed by the Issuer, or a Paying Agent at the address specified in the notice prior to the close of business on the third Business Day preceding the Purchase Date;

(g) that Holders will be entitled to withdraw their election if the Issuer, the Depositary or the Paying Agent, as the case may be, receives, not later than the close of business on the third Business Day preceding the Purchase Date, a telegram, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Notes delivered for repurchase and a statement that such Holder is withdrawing his election to have such Notes repurchased in whole or in part;

(h) that, to the extent Holders properly tender Notes and holders of Pari Passu Indebtedness properly tender such Indebtedness in an amount exceeding the Excess Proceeds, the tendered Notes and Pari Passu Indebtedness will be purchased on a pro rata basis based on the aggregate amounts of Notes and Pari Passu Indebtedness tendered (and the Trustee shall select the tendered Notes of tendering Holders on a pro rata basis based on the amount of Notes tendered); and

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(i) that Holders whose Notes are being repurchased only in part will be issued new Notes equal in principal amount to the portion of the Notes tendered (or transferred by book-entry transfer) that is not to be repurchased, which portion must be equal to \$1,000 in principal amount or an integral multiple thereof.

On or before the Purchase Date, the Issuer shall to the extent lawful, (i) accept for payment, on a pro rata basis in accordance with this Indenture to the extent necessary, the Excess Proceeds of Notes and Pari Passu Indebtedness or portions thereof properly tendered pursuant to the Prepayment Offer, or if less than the Excess Proceeds has been tendered, all Notes and Pari Passu Indebtedness properly tendered and (ii) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being repurchased by the Issuer. The Paying Agent shall promptly (but in any case not later than five days after the Purchase Date) mail to each Holder of Notes so repurchased the amount due in connection with such Notes, and the Issuer shall promptly issue a new Note, and the Trustee, upon written request from the Issuer shall authenticate and mail or deliver such new Note to such Holder, in a principal amount equal to any unpurchased portion to the Holder thereof; provided that each such new Note shall be in a principal amount of \$1,000 or an integral multiple thereof. The Issuer shall publicly announce the results of the Prepayment Offer on or as soon as practicable after the Purchase Date.

If the Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest and Additional Interest, if any, in each case to the Purchase Date, shall be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest shall be payable to Holders pursuant to the Prepayment Offer.

ARTICLE IV

COVENANTS

Section 4.1. Payment of Notes.

The Issuer shall promptly pay or cause to be paid the principal, Redemption Price and Purchase Price of, and interest on, the Notes on the dates, in the amounts and in the manner provided in the Notes and in this Indenture. Principal, Redemption Price, Purchase Price and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent holds in accordance with this Indenture money sufficient to pay all principal, Redemption Price, Purchase Price and interest then due.

Interest on the Notes will accrue from the most recent date to which interest has been paid or, of no interest has been paid, from and including the Issue Date to but excluding the date of payment.

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The Issuer shall pay interest (including post-petition interest in any proceeding under Bankruptcy Law) on overdue principal, Redemption Price and Purchase Price at the rate specified therefor in the Notes, and it shall pay interest (including post-petition interest in any proceeding under Bankruptcy Law) on overdue installments of interest at the same rate to the extent lawful.

Section 4.2. Maintenance of Office or Agency.

The Issuer will maintain in the Borough of Manhattan in The City of New York, State of New York, an office or agency in accordance with Section 2.3.

Section 4.3. Money for Note Payments to Be Held in Trust.

The Issuer will, on or before each due date of the principal of or interest on, any Notes, deposit with a Paying Agent a sum in same day funds sufficient to pay the principal or interest so becoming due, such sum to be held in trust for the benefit of the Holders entitled to such principal or interest, and (unless such Paying Agent is the Trustee) the Issuer will promptly notify the Trustee of such action or any failure so to act. The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent will agree with the Trustee, subject to the provisions of this Section 4.3, that such Paying Agent will:

(a) hold all sums held by it for the payment of the principal of or interest on Notes in trust for the benefit of the Holders entitled thereto until such sums shall be paid to such Holders or otherwise disposed of as herein provided;

(b) give the Trustee notice of any Default by the Issuer (or any other obligor upon the Notes) in the making of any payment of principal of or interest on the Notes;

(c) at any time during the continuance of any such Default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent; and

(d) acknowledge, accept and agree to comply in all aspects with the provisions of this Indenture relating to the duties, rights and liabilities of such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Issuer order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Issuer or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Issuer or such Paying Agent; and, upon such payment by any Paying Agent to the

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Trustee, such Paying Agent will be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Issuer, in trust for the payment of the principal of or interest on any Note and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid to the Issuer upon receipt of an Issuer request therefor, or (if then held by the Issuer) will be discharged from such trust; and the Holder of such Note will thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer as trustee thereof, will thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Issuer cause to be published once, in The New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining shall be repaid to the Issuer.

If the Issuer acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent. If the Issuer is acting as Paying Agent, upon any bankruptcy or reorganization proceedings relating to the Issuer, the Trustee shall serve as Paying Agent for the Notes.

Section 4.4. Corporate Existence.

Subject to Article 5, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect the corporate existence, rights (charter and statutory), licenses and franchises of the Issuer and each of the Restricted Subsidiaries; provided, however, that the Issuer will not be required to preserve any such right, license or franchise if the Board of

Directors of the Issuer shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Issuer and the Restricted Subsidiaries as a whole and that the loss thereof is not adverse in any material respect to the Holders; provided, further, that the foregoing will not prohibit a sale, transfer or conveyance of a Subsidiary of the Issuer or any of its assets in compliance with the terms of this Indenture.

Section 4.5. Payment of Taxes and Other Claims.

The Issuer will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (a) all material taxes, assessments and governmental charges levied or imposed (i) upon the Issuer or any of its Subsidiaries or (ii) upon the income, profits or property of the Issuer or any of the Subsidiaries and (b) all material lawful claims for labor, materials and supplies, which, if unpaid, could reasonably be expected to become a Lien upon the property of the Issuer or any of the Subsidiaries; provided, however, that the Issuer will not be required to pay or discharge or cause to be paid or discharged any such tax, assessment,

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charge or claim whose amount, applicability or validity is being contested in good faith and by appropriate proceedings properly instituted and diligently conducted, or where the failure to effect such payment is not adverse in any material respect to the Holders of the Notes.

Section 4.6. Maintenance of Properties.

The Issuer will cause all material properties owned by the Issuer or any of the Restricted Subsidiaries or used or held for use in the conduct of their respective businesses to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Issuer may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section 4.6 will prevent the Issuer from discontinuing the maintenance of any of such properties if such discontinuance is, in the judgment of the Issuer, desirable in the conduct of its business or the business of any of the Restricted Subsidiaries and is not disadvantageous in any material respect to the Holders.

Section 4.7. Insurance.

The Issuer shall provide or cause to be provided, for itself and the Restricted Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds that, in the reasonable, good faith opinion of the Issuer, are adequate and appropriate for the conduct of the business of the Issuer and the Restricted Subsidiaries in a prudent manner, with insurers believed by the Issuer in good faith to be financially sound and responsible or with the government of the United States of America or an agency or instrumentality thereof, in such amounts, with such deductibles, and by such methods as shall be either (i) consistent with past practices of the Issuer or the applicable Restricted Subsidiary or (ii) customary, in the reasonable, good faith opinion of the Issuer, for corporations similarly situated in the industry, unless the failure to provide such insurance (together with all other such failures) would not have a material adverse effect on the financial condition or results of operations of the Issuer and the Restricted Subsidiaries, taken as a whole.

Section 4.8. Books and Records.

The Issuer will, and will cause each of the Restricted Subsidiaries to, keep proper books of record and account, in which full and correct entries will be made of all financial transactions and the assets and business of the Issuer and each Restricted Subsidiary of the Issuer in accordance with GAAP, consistently applied.

Section 4.9. Compliance Certificate.

The Issuer shall deliver to the Trustee, within 120 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Issuer and the

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Restricted Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Issuer and the Restricted Subsidiaries have kept, observed, performed and fulfilled their respective obligations under this Indenture in all material respects, and further stating, as to each such Officer signing such certificate, that to the best of his or her knowledge the Issuer and the Restricted Subsidiaries have kept, observed, performed and fulfilled each and every covenant contained in this Indenture in all material respects and are not in Default in the performance or observance of any of the terms, provisions and

conditions of this Indenture (and, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default, and the actions being taken by the Issuer to address the matter) of which he or she may have knowledge, and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which, payments on account of the principal of or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event.

The Issuer shall, so long as any of the Notes are outstanding, deliver to the Trustee, forthwith (and in any event within five Business Days) upon any Officer of the Issuer becoming aware of any Default or Event of Default an Officers' Certificate specifying such Default or Event of Default.

Section 4.10. Commission Reports.

The Issuer shall file with the Trustee and provide Holders, within 15 days after it files them with the Commission, copies of its annual report and the information, documents and other reports which the Issuer is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that the Issuer may not be required to remain subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Issuer shall continue to file with the Commission and provide the Trustee and Holders with the annual reports and the information, documents and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a United States corporation subject to such sections at the times specified for the filing of such information. The Issuer also shall comply with the other provisions of TIA Section 314(a).

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 4.11. Limitation on Indebtedness.

The Issuer shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, Incur any Indebtedness; provided, however, that (a) if after giving pro forma effect to the application of the proceeds thereof, no Default or Event of Default would occur as

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a consequence of such Incurrence or be continuing following such Incurrence, the Issuer may Incur Indebtedness and Restricted Subsidiaries may borrow or Guarantee borrowings under the Credit Facility or Incur Indebtedness that is Vendor Financing if on the date of the Incurrence of such Indebtedness, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds thereof, the Leverage Ratio of the Issuer and the Restricted Subsidiaries (on a consolidated basis) would not exceed 6.0 and (b) Permitted Indebtedness may be Incurred.

"Permitted Indebtedness" is defined to include any and all of the following: (i) Indebtedness pursuant to the Credit Facility incurred under this clause (i) in an aggregate principal amount outstanding at any time not to exceed the greater of (a) \$250 million, reduced by the amount of any prepayments made on the Indebtedness incurred under the Credit Facility pursuant to Section 4.17 or (b) 3.0 times Trailing EBITDA of the Issuer and its Restricted Subsidiaries; provided, however, that the amount of Indebtedness permitted to be incurred pursuant to either clause (a) or (b) is reduced by the amount of then outstanding Vendor Financing, or refinancing thereof, secured by a Lien, incurred pursuant to clause (xii), or pursuant to clause (iii) in the case of a refinancing, of the definition of Permitted Liens; (ii) Indebtedness of the Issuer evidenced by the Notes issued on the Issue Date; (iii) Indebtedness of the Issuer owing to and held by a Restricted Subsidiary and Indebtedness of a Restricted Subsidiary owing to and held by the Issuer or any Restricted Subsidiary; provided, however, that any event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such Indebtedness (except to the Issuer or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the issuer thereof; provided, further, that any Indebtedness of the Issuer owing to and held by a Restricted Subsidiary shall be expressly subordinated to the Notes; (iv) Indebtedness (other than Indebtedness permitted by the immediately preceding paragraph or elsewhere in this paragraph) in an aggregate principal amount outstanding at any time not to exceed \$15 million; (v) Indebtedness under Interest Rate Agreements entered into for the purpose of limiting interest rate risks, provided, that the obligations under such agreements are related to payment obligations on Indebtedness otherwise permitted by the terms of this Section 4.11; (vi) Indebtedness in connection with one or more standby letters of credit or performance bonds issued in the ordinary course of business or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit; (vii) Indebtedness outstanding on the Issue Date other than under the Credit Facility (after giving effect to the application of the proceeds of the sale of

the Notes); and (viii) Permitted Refinancing Indebtedness Incurred in respect of Indebtedness Incurred pursuant to clause (a) of the immediately preceding paragraph and clauses (ii) and (vii) above.

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Section 4.12. Prohibition on Incurrence of Certain Indebtedness.

The Issuer shall not incur any Indebtedness that is subordinated to any other Indebtedness of the Issuer unless such Indebtedness is subordinated on the same basis to the Notes.

Section 4.13. Limitation on Restricted Payments.

The Issuer shall not make, and shall not permit any Restricted Subsidiary to make, directly or indirectly, any Restricted Payment if at any time of and after giving effect to, such proposed Restricted Payment: (a) a Default or an Event of Default shall have occurred and be continuing, (b) the Issuer could not incur at least \$1.00 of additional Indebtedness pursuant to Section 4.11(a), or (c) the aggregate amount of such Restricted Payment and all other Restricted Payments made since August 1, 1997 (the amount of any Restricted Payment, if made other than in cash, to be based upon Fair Market Value) would exceed an amount equal to the sum of: (i) the excess of (A) Cumulative EBITDA over (B) the product of 1.5 and Cumulative Interest Expense, (ii) Capital Stock Sale Proceeds, (iii) the amount by which Indebtedness of the Issuer or any Restricted Subsidiary is reduced on the Issuer's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Issuer) subsequent to the Issue Date of any Indebtedness of the Issuer or any Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Issuer (less the amount of any cash or other Property distributed by the Issuer or any Restricted Subsidiary upon conversion or exchange) and (iv) an amount equal to the net reduction in Investments made by the Issuer and its Restricted Subsidiaries subsequent to the Issue Date in any Person resulting from (A) dividends, repayment of loans or advances, or other transfers or distributions of Property (but only to the extent the Issuer excludes such transfers or distributions from the calculation of Cumulative EBITDA for purposes of clause (c)(i)(A) above), in each case to the Issuer or any Restricted Subsidiary from any Person or (B) the redesignation of any Unrestricted Subsidiary as a Restricted Subsidiary, not to exceed, in the case of (A) or (B) of this subclause (iv), the amount of such Investments previously made by the Issuer and its Restricted Subsidiaries in such Person or such Unrestricted Subsidiary, as the case may be, which were treated as Restricted Payments; provided, however, that in no event shall the amount available for Restricted Payments pursuant to this sentence with respect to the period from August 1, 1997 to the Issue Date exceed the correlative amount that would have been available with respect to such period under the indenture relating to the 9-3/4% Senior Notes due 2007 of the Issuer.

Notwithstanding the foregoing limitation, the Issuer and its Restricted Subsidiaries, may:

(1) pay dividends on its Capital Stock within 60 days of the declaration thereof if, on the declaration date, such dividends could have been paid in compliance with this Indenture,

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(2) redeem, repurchase, defease, acquire or retire for value, any Indebtedness subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes with the proceeds of any Indebtedness that is Permitted Refinancing Indebtedness in respect of such subordinated Indebtedness,

(3) acquire, redeem or retire Capital Stock of the Issuer or Indebtedness subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes in exchange for, or in connection with a substantially concurrent issuance of, Capital Stock of the Issuer (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Issuer or an employee stock ownership plan or other trust established by the Issuer or any Subsidiary of the Issuer),

(4) when the Issuer could incur at least one dollar of additional Indebtedness pursuant to Section 4.11(a), make Investments in Persons the primary businesses of which are Related Businesses (other than Investments in the Capital Stock of the Issuer) in an amount at any time outstanding not to exceed in the aggregate for all such Investments made in reliance upon this clause (4), the sum of (a) \$35 million and (b) an amount equal to the net reduction in Investments made by the Issuer and its Restricted Subsidiaries subsequent to the Issue Date in any Person resulting from payments of dividends, repayment of loans or advances, or other transfers or distributions of Property (to the extent not included in EBITDA) to the Issuer or any Restricted Subsidiary from any Person (but only to the extent such net reduction in Investments has not been utilized to permit a Restricted

Payment pursuant to clause (c) (i) or (c) (iv) in the first paragraph of this covenant) not to exceed, in the case of clause (4) (b), the amount of such Investments previously made by the Issuer and its Restricted Subsidiaries in such Person which were treated as Restricted Payments,

(5) purchase or redeem Capital Stock in connection with the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management employees of Parent, the Issuer or one of its Subsidiaries; provided, however, that the amount paid in connection with all such redemptions or repurchases pursuant to this clause (5) shall not exceed in any fiscal year \$2 million in the aggregate, and

(6) additional Restricted Payments up to an aggregate amount of \$65 million if at the time of making any such Restricted Payment, the Leverage Ratio of the Issuer and its Restricted Subsidiaries (on a consolidated basis) is less than 5.0 to 1.0.

Any payments made pursuant to clauses (2) and (3) of the immediately preceding paragraph shall be excluded from the calculation of the aggregate amount of Restricted Payments made after the Issue Date; provided, however, that the proceeds from the issuance of Capital Stock pursuant to clause (3) of the immediately preceding paragraph shall not constitute Capital Stock Sale Proceeds for purposes of clause (c) (ii) of the first paragraph of this Section 4.13. The Issuer may, at the time of any Restricted Payment, designate, by delivery to the Trustee of an Officers' Certificate referencing this Section 4.13 and such designation, whether such Restricted Payment is being made in accordance with the first paragraph of this

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Section 4.13 or, if applicable, the clause of the preceding paragraph pursuant to which such Restricted Payment is being made.

Section 4.14. Limitation on Transactions with Affiliates.

The Issuer shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, conduct any business or enter into or suffer to exist any transaction or series of transactions (including the purchase, sale, transfer, lease or exchange of any Property or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer (an "Affiliate Transaction") unless:

(a) the terms of such Affiliate Transaction are (i) set forth in writing, (ii) in the best interest of the Issuer or such Restricted Subsidiary, as the case may be, and (iii) no less favorable to the Issuer or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Issuer or such Restricted Subsidiary,

(b) with respect to an Affiliate Transaction involving aggregate payments or value in excess of \$15 million, the Board of Directors of the Issuer (including a majority of the disinterested members of the Board of Directors of the Issuer) approves such Affiliate Transaction and, in its good faith judgment, believes that such Affiliate Transaction complies with clauses (a) (ii) and (iii) of this paragraph as evidenced by a Board Resolution and

(c) with respect to an Affiliate Transaction involving aggregate payments or value in excess of \$25 million, the Issuer obtains a written opinion from an independent appraisal firm to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Issuer or such Restricted Subsidiary, as applicable.

Notwithstanding the foregoing limitation, the Issuer may enter into or suffer to exist the following:

(i) any transaction pursuant to any contract in existence on the Issue Date on the terms of such contract as in effect on the Issue Date;

(ii) any transaction or series of transactions between the Issuer and one or more of its Restricted Subsidiaries or between two or more of its Restricted Subsidiaries;

(iii) any Restricted Payment permitted to be made pursuant to Section 4.13;

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(iv) the payment of compensation (including, amounts paid pursuant to employee benefit plans) for the personal services of officers, directors and employees of Parent, Issuer or any of its Restricted Subsidiaries, so long as the Board of Directors of the

Issuer in good faith shall have approved the terms thereof and deemed the services theretofore or thereafter to be performed for such compensation or fees to be fair consideration therefore; and

(v) loans and advances to employees of Parent, the Issuer or such Restricted Subsidiary made in the ordinary course of business and consistent with past practice of Parent, Issuer or any Restricted Subsidiary, as the case may be, provided, that such loans and advances do not exceed in the aggregate \$6 million at any one time outstanding.

Section 4.15. Change of Control Offer.

(a) Upon the occurrence of a Change of Control, the Issuer shall notify the Trustee in writing of such occurrence and shall make an offer to purchase (the "Change of Control Offer") the Notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon, if any, to the Change of Control Payment Date (the "Change of Control Payment") in accordance with the procedures set forth in Section 3.9.

(b) The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

(c) The Issuer shall comply with the requirements of Rule 14(e)-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the purchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Section 4.15 and Section 3.9, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 4.15 or Section 3.9 by virtue thereof.

Section 4.16. Limitation on Liens.

The Issuer shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, incur or suffer to exist, any Lien (other than Permitted Liens) upon any of its Property, whether now owned or hereafter acquired, or any interest therein, or any income or profits therefrom, unless:

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(a) with respect to any Restricted Subsidiary, such Lien secures Indebtedness other than Guarantees of Indebtedness of the Issuer or

(b) effective provision has been or will be made whereby the Notes will be secured by such Lien equally and ratably with all other Indebtedness of the Issuer or any Restricted Subsidiary secured by such Lien;

provided, however, that no Lien may be granted with respect to Indebtedness of the Issuer that is subordinated to the Notes.

Section 4.17. Limitation on Asset Sales.

The Issuer shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale after the Issue Date unless:

(i) the Issuer or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the Property subject to such Asset Sale;

(ii) (A) at least 80% of the consideration paid to the Issuer or such Restricted Subsidiary in connection with such Asset Sale is in the form of cash or cash equivalents or (B) the consideration paid to the Issuer or such Restricted Subsidiary is determined in good faith by the Board of Directors of the Issuer, as evidenced by a Board Resolution, to be substantially comparable in type to the assets being sold; provided, however, this clause (ii) shall not apply to any sales of property or equipment that have become worn out, obsolete or damaged or otherwise unsuitable for use in connection with the business of the Issuer or any Restricted Subsidiary, as the case may be.

The Net Available Cash (or any portion thereof) from Asset Sales may be applied by the Issuer or a Restricted Subsidiary (A) to prepay, repay or purchase Indebtedness under the Credit Facility or Indebtedness of a Restricted Subsidiary (excluding Indebtedness owed to the Issuer or an Affiliate of the Issuer); or (B) to reinvest in Additional Assets (including by means of an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Issuer or another Restricted Subsidiary).

Any Net Available Cash from an Asset Sale not applied in accordance with the preceding paragraph within one year from the date of such Asset Sale or the receipt of such Net Available Cash shall constitute "Excess Proceeds". When the aggregate amount of Excess Proceeds exceeds \$10 million (taking into account income earned on such Excess Proceeds), the Issuer will be required to make an offer to purchase (the "Prepayment Offer") the Notes, and any other Indebtedness, if any, that ranks pari passu with the Notes and contains similar provisions requiring an Asset Sale prepayment offer, on a pro rata basis, at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon

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(if any) to the date of purchase in accordance with the procedures (including prorating in the event of oversubscription) set forth in this Indenture (or, in the event of Indebtedness that is discounted, at a price of the then accreted value thereof); provided, however, if any other such Indebtedness that ranks pari passu with the Notes does not contain similar Asset Sale prepayment offer provisions with regard to the pro rata repayment of such other Indebtedness and the Notes, the Issuer will be required to purchase the Notes before purchasing any other such Indebtedness from such Excess Proceeds. If the aggregate principal amount of Notes surrendered for purchase by holders thereof exceeds the amount of Excess Proceeds allocated to the Notes, then the Trustee shall select the Notes to be purchased pro rata according to principal amount or by lot with such adjustments as may be deemed appropriate by the Issuer so that only Notes in denominations of \$1,000, or integral multiples thereof, shall be purchased.

To the extent that any portion of the amount of Net Available Cash remains after compliance with this Section 4.17 and, provided that all holders of Notes have been given the opportunity to tender their Notes for purchase as described in Section 3.10, the Issuer or such Restricted Subsidiary may use such remaining amount for general corporate purposes and the amount of Excess Proceeds will be reset to zero.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws or regulations thereunder to the extent such laws and regulations are applicable in connection with the purchase of Notes as described above. To the extent that the provisions of any securities laws or regulations conflict with the provisions relating to the Prepayment Offer, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations in this Section 4.17 or Section 3.10 by virtue thereof.

Section 4.18. Limitation on Restrictions on Distributions From Restricted Subsidiaries.

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective, or enter into any agreement with any Person that would cause to become effective, any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock, or pay any Indebtedness or other obligation owed, to the Issuer or any other Restricted Subsidiary,

(b) make any loans or advances to the Issuer or any other Restricted Subsidiary or

(c) transfer any of its Property to the Issuer or any other Restricted Subsidiary,

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except such limitation will not apply (1) with respect to clauses (a), (b) and (c), to encumbrances and restrictions (i) in existence under or by reason of any agreements (not otherwise described in clause (iii)) in effect on the Issue Date, (ii) relating to Indebtedness of a Restricted Subsidiary and existing at such Restricted Subsidiary at the time it became a Restricted Subsidiary if such encumbrance or restriction was not created in connection with or in anticipation of the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Issuer, (iii) any encumbrance or restriction pursuant to (x) the Credit Facility as in effect on the Issue Date and (y) any agreement which amends, extends, renews, refinances, replaces or refunds the Credit Facility, provided, however, that in the case of this subclause (y), such restrictions or encumbrances are no less favorable to the holders of the Notes than those restrictions or encumbrances pursuant to the Credit Facility as in effect on the Issue Date except that provisions in the Credit Facility permitting excess cash flow to be used for up to \$15 million in restricted payments or investments may be deleted; provided, further, however, that in the case of subclauses (x) and (y), the provisions of the Credit Facility (A) permit (whether explicitly or as a result

of the relative maturities of the Credit Facility and the Notes) distributions to the Issuer for the purpose of, and in an amount sufficient to fund the payment of principal due at stated maturity and interest in respect of the Notes (provided, in either case, that such payment is due or to become due within 30 days from the date of such distribution) at a time when there does not exist an event which after notice or passage of time or both would permit the lenders under the Credit Facility to declare all amounts thereunder due and payable, and (B) provide that in no event shall any encumbrance or restriction pursuant to the Credit Facility prohibit distributions for Indebtedness on the Notes for more than 180 days in any consecutive 360 day period, unless (1) there exists a default under the Credit Facility resulting from any payment default under the Credit Facility when due or (2) the maturity of the Credit Facility has been accelerated, or (iv) which result from the extension, renewal, refinancing, replacement, refunding or amendment of an agreement referred to in the immediately preceding clauses (1)(i) and (ii) above and clauses (2)(i) and (ii) below, provided, such encumbrance or restriction is no more restrictive to such Restricted Subsidiary and is not materially less favorable to the holders of Notes than those under or pursuant to the agreement evidencing the Indebtedness so extended, renewed, refinanced, replaced, refunded or amended, and (2) with respect to clause (c) only, to (i) any encumbrance or restriction relating to Indebtedness that is permitted to be Incurred and secured pursuant to Sections 4.11 and 4.16 that limits the right of the debtor to dispose of the assets or Property securing such Indebtedness, (ii) any encumbrance or restriction in connection with an acquisition of Property, so long as such encumbrance or restriction relates solely to the Property so acquired and was not created in connection with or in anticipation of such acquisition, (iii) customary provisions restricting subletting or assignment of leases of the Issuer or any Restricted Subsidiary and customary provisions in other agreements that restrict assignment of such agreements or rights thereunder or (iv) customary restrictions contained in asset sale agreements limiting the transfer of such assets pending the closing of such sales.

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Section 4.19. Ownership of Significant Subsidiaries.

The Issuer will at all times maintain, either directly or indirectly, 100% ownership of the Capital Stock of any Person that is or becomes a Significant Subsidiary of the Issuer; provided, however, that:

(1) the Issuer may, directly or indirectly, acquire after the Issue Date and thereafter maintain ownership comprising less than 100% of the Capital Stock of such Person provided such acquisition is otherwise effected in accordance with the terms of this Indenture and

(2) the Issuer may transfer, convey, sell or otherwise dispose of all or substantially all of the assets of a Significant Subsidiary as permitted pursuant to Section 4.17.

Section 4.20. Operation of Unrestricted Subsidiaries.

The Issuer shall cause each of its Unrestricted Subsidiaries:

(1) to maintain continuously articles or a certificate of incorporation or, in the case of a partnership, a partnership agreement;

(2) to maintain separate books and records including, without limitation, separate financial statements;

(3) not to commingle any of its properties or assets with the properties or assets of the Issuer or any Restricted Subsidiary;

(4) to pay its liabilities, the salaries of its employees and all consultant and advisor fees and expenses directly out of funds that do not comprise in whole or in part the funds of the Issuer or any of its Restricted Subsidiaries; and

(5) otherwise to hold itself out as a separate entity.

Section 4.21. Conduct of Business.

The Issuer and its Restricted Subsidiaries will not engage in any businesses which are not the same, similar, ancillary or reasonably related to the businesses in which the Issuer and its Restricted Subsidiaries are engaged on the Issue Date.

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Section 4.22. Payments for Consent

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions

of this Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

ARTICLE V

SUCCESSORS

Section 5.1. Merger, Consolidation and Sale of Assets.

The Issuer will not merge or consolidate with or into any other entity (other than a merger of a wholly owned Restricted Subsidiary into the Issuer) or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of its Property in any one transaction or series of transactions unless:

(1) the entity formed by or surviving any such consolidation or merger (if the Issuer is not the surviving entity) or the Person to which such sale, transfer, assignment, lease, conveyance or other disposition is made (the "Surviving Entity"):

(x) shall be a corporation organized and existing under the laws of the United States of America or a State thereof or the District of Columbia; and

(y) such corporation expressly assumes, by supplemental indenture in form satisfactory to the Trustee, executed and delivered to the Trustee by such corporation, the due and punctual payment of the principal of, and interest on, all the Notes, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture to be performed by the Issuer;

(2) immediately before and after giving effect to such transaction or series of transactions, no Default or Event of Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction or series of transactions on a pro forma basis (including, without limitation, any Indebtedness Incurred or anticipated to be Incurred in connection with such transaction or series of transactions), the Issuer

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or the Surviving Entity, as the case may be, would be able to Incur at least \$1.00 of additional Indebtedness under Section 4.11(a); and

(4) in the case of a sale, transfer, assignment, lease, conveyance or other disposition of all or substantially all of the Issuer's Property, such Property shall have been transferred as an entirety or virtually as an entirety to one Person.

In connection with any consolidation, merger or transfer contemplated by this Section 5.1, the Issuer shall deliver, or cause to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, transfer, assignment, lease, conveyance or other disposition and the supplemental indenture in respect thereof comply with this Section 5.1 and that all conditions precedent herein provided for relating to such transaction or transactions have been complied with.

Section 5.2. Successor Corporation Substituted.

Upon any consolidation or merger, or any sale, lease, conveyance or other disposition of all or substantially all of the assets of the Issuer in accordance with Section 5.1 hereof, any Surviving Entity shall succeed to and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such Surviving Entity had been named as the Issuer herein.

ARTICLE VI

DEFAULTS AND REMEDIES

Section 6.1. Events of Default.

An "Event of Default" occurs if:

(1) the Issuer fails to make any payment of interest on any Note when the same becomes due and payable and such failure continues for a period of 30 days;

(2) the Issuer fails to make any payment of the principal of any of the Notes, when the same becomes due and payable at maturity,

upon acceleration, redemption, optional redemption, required purchase or otherwise;

(3) the Issuer fails to comply with any other covenant or agreement contained in the Notes or this Indenture and such failure continues for 30 days after written notice from the Trustee or the registered holders of not less than 25% in aggregate principal amount of the Notes then outstanding (except in the case of a default with

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respect to Section 5.1, which will constitute an Event of Default with such notice requirement but without such passage of time requirement);

(4) the Issuer or any Restricted Subsidiary defaults under any Indebtedness for borrowed money which results in acceleration of the maturity of such Indebtedness, or fails to pay any such Indebtedness when due within any applicable grace period, in a total amount greater than \$15,000,000;

(5) the Issuer or any Restricted Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) consents to the entry of an order for relief against it in an involuntary case;

(C) consents to the appointment of a Custodian of it or for any part of its property; or

(D) makes a general assignment for the benefits of its creditors;

or takes any comparable action under any foreign laws relating to insolvency;

(6) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Issuer or any Restricted Subsidiary in an involuntary case;

(B) appoints a Custodian of the Issuer or any Restricted Subsidiary or for any substantial part of its property; or

(C) orders the winding up or liquidation of the Issuer or any Restricted Subsidiary;

or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days; or

(7) any judgment or judgments for the payment of money in an uninsured aggregate amount in excess of \$15,000,000 is rendered against the Issuer or any Restricted Subsidiary and is not waived, satisfied or discharged for any period of 30 consecutive days during which a stay of enforcement shall not be in effect.

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The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

Section 6.2. Acceleration.

If an Event of Default with respect to the Notes (other than an Event of Default specified in clause (5) or (6) of Section 6.1 hereof with respect to the Issuer or any Restricted Subsidiary) shall have occurred and be continuing, the Trustee or the registered holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare to be immediately due and payable the principal amount of all the Notes then outstanding, plus accrued but unpaid interest to the date of acceleration; provided, however, that after such acceleration but before a judgment or decree based on acceleration is obtained by the Trustee, the registered holders of a majority in aggregate principal amount of the Notes then outstanding may rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal or interest, have been cured or waived as provided in this Indenture.

If an Event of Default specified in clause (5) or (6) of Section 6.1 hereof with respect to the Issuer or any Restricted Subsidiary

occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest on all of the outstanding Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

Section 6.3. Other Remedies.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal, premium, if any, interest or Additional Interest, if any, on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding, and any recovery or judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

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Section 6.4. Waiver of Past Defaults.

The Holders of a majority in principal amount of the Notes then outstanding may waive any existing Default or Event of Default under this Indenture, and its consequences, except a default in the payment of the principal of or interest on any Notes. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 6.5. Control by Majority.

Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with applicable law or this Indenture that the Trustee reasonably determines may be unduly prejudicial to the rights of other Holders of Notes or that may subject the Trustee to personal liability and shall be entitled to the benefit of Sections 7.1(c)(iii) and (e) hereof.

Section 6.6. Limitation on Suits.

No Holder may institute any proceeding with respect to this Indenture or the Notes or any remedy hereunder or thereunder unless:

(a) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default;

(b) the Holders of at least 25% in aggregate principal amount of the then outstanding Notes have made a written request and offered reasonable indemnity to the Trustee to institute such proceeding;

(c) the Trustee shall not have received from the Holders of a majority in principal amount of the then outstanding Notes a direction inconsistent with the request; and

(d) the Trustee shall have failed to institute such proceeding within 60 days.

provided, however, such limitations do not apply to a suit instituted by a Holder of any Note for enforcement of payment of the principal of, premium, if any, or interest on such Note on or after the respective due dates expressed in such Note.

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Section 6.7. Rights of Holders of Notes To Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal of or premium, if any, or interest or Additional Interest, if any, on the Notes held by such Holder, on or after the respective due dates expressed in the Notes (including in connection with an offer to repurchase), or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the written consent of such Holder.

Section 6.8. Collection Suit by Trustee.

If an Event of Default specified in Section 6.1(1) or (2)

occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Issuer for the whole amount of principal, premium and Additional Interest, if any, and interest remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and Additional Interest, if any, and such further amounts as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expense, disbursements and advances of the Trustee, its agents and counsel.

Section 6.9. Trustee May File Proofs of Claim.

The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including compensation, expenses, disbursement and expenses due the Trustee under Section 7.7) and the Holders allowed in any judicial proceedings relative to the Issuer (or any other obligor upon the Notes), their creditors or their property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims, and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent, to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for compensation, expenses, disbursements and advances due the Trustee under Section 7.7 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances due the Trustee under Section 7.7 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

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Section 6.10. Priorities.

If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

First: to the Trustee for amounts due under Section 7.7 hereof;

Second: to Holders for amounts due and unpaid on the Notes for principal, Purchase Price, Redemption Price and Additional Interest, if any, and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, Purchase Price, Redemption Price and Additional Interest, if any, and interest, respectively; and

Third: to the Issuer or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a special record date and payment date for any payment to Holders of Notes pursuant to this Section 6.10.

Section 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.7 hereof, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes.

ARTICLE VII

TRUSTEE

Section 7.1. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing and is known to the Trustee, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise thereof, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

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(b) Except during the continuance of an Event of Default:

(i) the duties of the Trustee shall be determined solely by the express provisions of this Indenture and the TIA and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture or the TIA against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, without investigation, as to the truth of the statements and the correctness of the opinions expressed therein, upon statements, certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform on their face to the requirements of this Indenture.

(c) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.5 hereof.

(d) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to this Section 7.1.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. The Trustee shall be under no obligation to exercise any of its rights and powers under this Indenture at the request of any Holders, pursuant to the provisions of this Indenture, including, without limitation, Section 6.5 hereof, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense which might be incurred by it in compliance with such request or direction.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Issuer. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

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Section 7.2. Rights of Trustee.

(a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officer's Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel of its own selection and the advice of such counsel and Opinions of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys, accountants, experts and such other professionals as the Trustee deems necessary, advisable or appropriate and shall not be responsible for the misconduct or negligence of any attorney, accountant, expert or other such professional appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture. A permissive right or power granted to the Trustee hereunder shall not be assumed to be a duty.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Issuer shall be sufficiently evidenced by a written order signed by two Officers of the Issuer.

(f) The Trustee shall not be charged with knowledge of any Default or Event of Default under Section 6.1 hereof (other than under Section

6.1(1) (subject to the following sentence) or Section 6.1(2) hereof) unless either (i) a Responsible Officer shall have actual knowledge thereof, or (ii) the Trustee shall have received notice thereof in accordance with Section 12.2 hereof from the Issuer or any Holder of the Notes. The Trustee shall not be charged with knowledge of the Issuer's obligation to pay Additional Interest, or the cessation of such obligation, unless the Trustee receives written notice thereof from the Issuer or any Holder.

(g) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

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(h) The Trustee may request that an Issuer deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person specified as so authorized in any such certificate previously delivered and not superseded or by any Officer.

Section 7.3. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Issuer or any Affiliate of the Issuer with the same rights it would have if it were not Trustee. However, in the event that the Trustee acquires any conflicting interest within the meaning of the TIA it must eliminate such conflict within 90 days, apply (subject to the consent of the Issuer) to the Commission for permission to continue as trustee or resign. Any Agent may do the same with like rights and duties. The Trustee is also subject to Sections 7.10 and 7.11 hereof.

Section 7.4. Trustee's Disclaimer.

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture, or the Notes, it shall not be accountable for the Issuer's use of the proceeds from the Notes or any money paid to the Issuer or upon the Issuer's direction under any provision of this Indenture, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement or recital herein or any statement in the Notes or any other document in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

Section 7.5. Notice of Defaults.

If a Default or Event of Default known to the Trustee occurs and is continuing, the Trustee shall mail to Holders of Notes a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default in payment on any Note (including the failure to make a mandatory repurchase pursuant hereto), the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders of the Notes.

Section 7.6. Reports by Trustee to Holder of the Notes.

Within 60 days after each February 15 beginning with the February 15 following the date of this Indenture, and for so long as Notes remain outstanding, the Trustee shall mail to the Holders of the Notes a brief report dated as of such reporting date that complies with TIA ss. 313(a) (but if no event described in TIA ss. 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall

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comply with TIA ss. 313(b). The Trustee shall also transmit by mail all reports as required by TIA ss. 313(c).

A copy of each report at the time of its mailing to the Holders of Notes shall be mailed to the Issuer and filed with the Commission and each stock exchange on which the Notes are listed in accordance with TIA ss. 313(d). The Issuer shall promptly notify the Trustee when the Notes are listed on any stock exchange.

Section 7.7. Compensation, Reimbursement and Indemnity.

The Issuer shall pay to the Trustee from time to time such compensation for its acceptance of this Indenture and the rendering by it of the services required hereunder as shall be agreed upon in writing by the Issuer and the Trustee. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the

Trustee promptly upon request for all reasonable disbursements, advances and out-of-pocket expenses incurred or made by or on behalf of it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's attorneys, accountants, experts and such other professionals as the Trustee deems necessary, advisable or appropriate.

The Issuer shall indemnify the Trustee and any predecessor Trustee against any and all losses, liabilities, claims, damages or expenses (including reasonable attorney's fees and expenses), including taxes (other than taxes based upon, measured by or determined by the income of the Trustee), incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture (including its duties under Section 9.6 hereof), including the costs and expenses of enforcing this Indenture against the Issuer (including this Section 7.7) and defending itself against or investigating any claim (whether asserted by the Issuer, any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence or willful misconduct. The Trustee shall notify the Issuer promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Issuer shall not relieve the Issuer of their obligations hereunder. The Issuer shall defend any claim or threatened claim asserted against the Trustee, and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Issuer shall pay the reasonable fees and expenses of such counsel. The Issuer need not pay for any settlement made without their consent, which consent shall not be unreasonably withheld.

The obligations of the Issuer under this Section 7.7 shall survive the resignation or removal of the Trustee, the satisfaction and discharge of this Indenture and the termination of this Indenture.

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To secure the Issuer's payment obligations in this Section 7.7, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal, Redemption Price or Purchase Price of or Additional Interest, if any, or interest on, particular Notes. Such Lien shall survive the resignation or removal of the Trustee, the satisfaction and discharge of this Indenture and the termination of this Indenture.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.1(5) or (6) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

Section 7.8. Replacement of Trustee.

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Issuer. The Holders of Notes of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Issuer in writing. The Issuer may remove the Trustee if:

- (a) the Trustee fails to comply with Section 7.10 hereof;
- (b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;
- (c) a custodian, receiver or public officer takes charge of the Trustee or its property for the purpose of rehabilitation, conversion or liquidation; or
- (d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Issuer shall promptly appoint a successor Trustee.

If a successor Trustee does not take office within 60 days after the retiring trustee resigns or is removed, the retiring Trustee, the Issuer, or the Holders of Notes of at least 25% in principal amount of the then outstanding Notes may petition any court of competent jurisdiction, in the case of the Trustee, at the expense of the Issuer, for the appointment of a successor Trustee.

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If the Trustee, after written request by any Holder of a Note who has been a bona fide holder of a Note or Notes for at least six months, fails to comply with Section 7.10, such Holder of a Note may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Issuer. Thereupon, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to the Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, provided all sums owing to the Trustee hereunder have been paid and subject to the Lien provided for in Section 7.7 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 7.8, the Issuer's obligations under Section 7.7 hereof shall continue for the benefit of the retiring Trustee.

Section 7.9. Successor Trustee by Merger, Etc.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation that is eligible under Section 7.10 hereof, the successor corporation without any further act shall be the successor Trustee.

Section 7.10. Eligibility; Disqualification.

There shall at all times be a Trustee hereunder that is a corporation organized and doing business under the laws of the United States of America or of any state thereof (including the District of Columbia) that is authorized under such laws to exercise corporate trust power, that is subject to supervision or examination by federal or state authorities and that has a combined capital and surplus of at least \$100 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA ss. 310(a)(1), (2) and (5). The Trustee is subject to TIA ss. 310(b).

Section 7.11. Preferential Collection of Claims Against Issuer.

The Trustee is subject to TIA ss. 311(a), excluding any creditor relationship listed in TIA ss. 311(b). A Trustee who has resigned or been removed shall be subject to TIA ss. 311(a) to the extent indicated therein.

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ARTICLE VIII

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

Section 8.1. Option to Effect Legal Defeasance or Covenant Defeasance.

The Issuer may, at the option of their Boards of Directors evidenced by a resolution set forth in an Officers' Certificate, at any time, elect to have either Section 8.2 or 8.3 hereof be applied to all outstanding Notes upon compliance with the conditions set forth below in this Article VIII.

Section 8.2. Legal Defeasance and Discharge.

Upon the Issuer's exercise under Section 8.1 hereof of the option applicable to this Section 8.2, the Issuer shall, subject to the satisfaction of the conditions set forth in Section 8.4 hereof, be deemed to have been discharged from its obligations with respect to all outstanding Notes on the date the conditions set forth below are satisfied (hereinafter, "Legal Defeasance"). For this purpose, Legal Defeasance means that the Issuer shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes, which shall thereafter be deemed to the "outstanding" only for the purposes of Section 8.5 hereof and the other Sections of this Indenture referred to in clauses (a) through (d) below, and to have satisfied all their other obligations under such Notes and this Indenture (and the Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder:

(a) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due;

(b) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;

(c) the rights, powers, trust, duties and immunities of the

Trustee and the Issuer's obligations in connection therewith; and

(d) the Legal Defeasance provisions of this Article VIII.

Subject to compliance with this Article VIII, the Issuer may exercise its option under this Section 8.2, notwithstanding the prior exercise of its option under Section 8.3 hereof.

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Section 8.3. Covenant Defeasance.

Upon the Issuer's exercise under Section 8.1 hereof of the option applicable to this Section 8.3, the Issuer shall, subject to the satisfaction of the conditions set forth in Section 8.4 hereof, be released from its obligations under Sections 3.9, 3.10, 4.5, 4.7, 4.8 and 4.10 through 4.22 hereof, inclusive, and Section 5.1(2) with respect to the outstanding Notes on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Notes shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for accounting purposes). For this purpose, Covenant Defeasance means that, with respect to the outstanding Notes, the Issuer may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document, and such omission to comply shall not constitute a Default or an Event of Default under Section 6.1 hereof, but, except as specified above the remainder of this Indenture and such Notes shall be unaffected thereby. In addition, upon the Issuer's exercise under Section 8.1 hereof of the option applicable to this Section 8.3, subject to the satisfaction of the conditions set forth in Section 8.4 hereof, Sections 6.1(3) through 6.1(4) and 6.1(7) hereof shall not constitute Events of Default.

Section 8.4. Conditions to Legal or Covenant Defeasance.

The following are the conditions precedent to the application of either Section 8.2 or 8.3 hereof to the outstanding Notes:

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, non-callable U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that:

(a) the Issuer have received from, or there has been published by, the Internal Revenue Service a ruling or

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(b) since the date of this Indenture, there has been a change in the applicable federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or an Event of Default resulting from the borrowing of funds to fund to such

deposit and the grant of any Lien securing such borrowings);

(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under this Indenture (other than a Default or an Event of Default resulting from the borrowing of funds to fund such deposit and the grant of any Lien securing such borrowings) or any other material agreement or instrument to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound;

(6) the Issuer shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying or defrauding any other creditors of the Issuer or others;

(7) the Issuer shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and

(8) the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that assuming no intervening bankruptcy of the Issuer between the date of deposit and the 91st day following the date of deposit and that no Holder is an insider of the Issuer, after the 91st day following the date of deposit, in the case of Legal Defeasance, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and in the case of

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Covenant Defeasance, the trust funds will be subject to a valid first priority Lien to secure the Notes which is not subject to avoidance under Section 547 of the Bankruptcy Code.

Notwithstanding the foregoing, the Opinion of Counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered if all Notes not theretofore delivered to the Trustee for cancellation (1) have become due and payable or (2) will become due and payable on the maturity date within one year, under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer.

Section 8.5. Deposited Money and U.S. Government Obligations To Be Held in Trust; Other Miscellaneous Provisions.

Subject to Section 8.6 hereof, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 8.5 only, the "Trustee") pursuant to Section 8.4 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (other than the Issuer) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal or Redemption Price of, and Additional Interest, if any, and interest on, the Notes, provided that such money need not be segregated from other funds except to the extent required by law.

The Issuer shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or U.S. Government Obligations deposited pursuant to Section 8.4 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Anything in this Article VIII to the contrary notwithstanding, the Trustee shall deliver or pay to the Issuer from time to time upon the request of the Issuer any money or U.S. Government Obligations held by it as provided in Section 8.4 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 8.4 hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

Section 8.6. Repayment to the Issuer.

Any money deposited with the Trustee or any Paying Agent, or then held by the Issuer, in trust for the payment of the principal, Redemption Price or Purchase Price of, or Additional Interest, if any, or interest on any Note and remaining unclaimed for two years after

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such amount has become due and payable shall be paid to the Issuer on its request or (if then held by the Issuer) shall be discharged from such trust; and

the Holder of such Note shall thereafter look only to the Issuer for payment thereof as a general creditor, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, at the expense of the Issuer, may cause to be published once, in The New York Times and The Wall Street Journal (national editions), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days after the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Issuer.

Section 8.7. Reinstatement.

If the Trustee or Paying Agent is unable to apply any United States dollars or U.S. Government Obligations in accordance with Section 8.2 or 8.3 hereof, as the case may be, by reason of any order of judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations of the Issuer under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.2 or 8.3 hereof until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 8.2 or 8.3 hereof, as the case may be; provided, however, that, if the Issuer makes any payment with respect to any Note following the reinstatement of its obligations, the Issuer shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE IX

AMENDMENT, SUPPLEMENT AND WAIVER

Section 9.1. Without Consent of Holders of Notes.

Notwithstanding Section 9.2 of this Indenture, the Issuer and the Trustee may amend or supplement this Indenture or the Notes without the consent of any Holder of a Note:

(a) to cure any ambiguity, omission, defect or inconsistency;

(b) to provide for uncertificated Notes in addition to or in place of Certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Internal Revenue Code of 1986, as amended (the "Code"), or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(c) to provide for the assumption by a successor corporation of the Issuer's obligations to the Holders of the Notes under this Indenture;

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(d) to comply with the requirements of the Commission in order to effect or maintain the qualification of this Indenture under the TIA;

(e) to secure the Notes; or

(f) to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights hereunder of any Holder of the Notes in any material respect.

Upon the request of the Issuer, accompanied by a resolution of the Board of Directors (evidenced by an Officers' Certificate) authorizing the execution of any such amended or supplemental indenture, and upon receipt by the Trustee of the documents described in Section 7.2 hereof, the Trustee shall join with the Issuer in the execution of any amended or supplemental Indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental indenture that affects its own rights, duties or immunities under this Indenture or otherwise. In formulating its opinion on such matters, the Trustee shall be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an Opinion of Counsel.

Section 9.2. With Consent of Holders of Notes.

Except as provided below in this Section 9.2, the Issuer and the Trustee may amend or supplement this Indenture and the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a tender offer or exchange offer for the Notes), and, subject to Sections 6.2, 6.4 and 6.7 hereof, any existing Default or Event of Default or compliance with any provision of this Indenture or the Notes may be waived with the consent of the Holders of a majority in principal

amount of the then outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for the Notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

(1) reduce the amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or change or have the effect of extending the time for payment of interest, including defaulted interest, on any Notes;

(3) reduce the principal of or change or have the effect of changing the Stated Maturity of any Notes, or change the date on which any Notes may be subject to redemption

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or reduce the redemption price therefor, other than provisions relating to the Issuer's obligation to make and consummate a Change of Control Offer in the event of a Change of Control or to make and consummate a Prepayment Offer with respect to any Asset Sale;

(4) make any Notes payable in money other than that stated in the Notes;

(5) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates thereof or to institute suit to enforce such payment;

(6) after the Issuer's obligation to purchase Notes arises under Section 4.15 or 4.17 and until such obligation is satisfied, amend, change, or modify in any material respect the obligation of the Issuer to make and consummate a Change of Control Offer in the event of a Change of Control or make and consummate a Prepayment Offer with respect to any Asset Sale that has been consummated or, after such Change of Control has occurred or such Asset Sale has been consummated, modify any of the provisions or definitions with respect thereto;

(7) modify or change any provision of this Indenture or the related definitions affecting the ranking of the Notes in a manner which adversely affects the Holders;

(8) make any change in the amendment provisions which require each Holder's consent or in the waiver provisions; or

(9) reduce the premium payable upon the redemption of any Note or change the time at which any Note may or shall be redeemed as described under "Optional Redemption."

Upon the written request of the Issuer accompanied by a resolution of the Board of Directors (evidenced by an Officers' Certificate) authorizing the execution of any such amended or supplemental indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders of Notes as aforesaid, and upon receipt by the Trustee of an Officers' Certificate and an Opinion of Counsel, the Trustee shall join with the Issuer in the execution of such amended or supplemental indenture unless such amended or supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental indenture.

It shall not be necessary for the consent of the Holders of Notes under this Section 9.2 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

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After an amendment, supplement or waiver under this Section 9.2 becomes effective, the Issuer shall mail to the Holders of Notes affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Issuer to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental Indenture or waiver.

Section 9.3. Compliance with Trust Indenture Act.

Every amendment or supplement to this Indenture or the Notes shall be set forth in a amended or supplemental indenture that complies with the TIA as then in effect.

Section 9.4. Revocation and Effect of Consents.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder of a Note is a continuing consent by the Holder of a Note and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder of a Note or subsequent Holder of a Note may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the waiver, supplement or amendment becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and therefore binds every Holder.

Section 9.5. Notation on or Exchange of Notes.

The Trustee may place an appropriate notation about an amendment, supplement or waiver on any Note thereafter authenticated. The Issuer in exchange for all Notes may issue and the Trustee shall authenticate new Notes that reflect the amendment, supplement or waiver.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment, supplement or waiver.

Section 9.6. Trustee To Sign Amendment, Etc.

The Trustee shall sign any amended or supplemental indenture authorized pursuant to this Article IX if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. The Issuer may not sign an amendment or supplemental Indenture until the Board of Directors approves such amendment or supplemental indenture. In executing any amended or supplemental indenture, the Trustee shall be entitled to receive, in addition to the documents required by Sections 12.4 and 12.5 hereof, and, subject to Section 7.1, shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that the execution of such amended or supplemental indenture is authorized or permitted by this Indenture.

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ARTICLE X

[RESERVED]

ARTICLE XI

SATISFACTION AND DISCHARGE

Section 11.1. Satisfaction and Discharge.

This Indenture will be discharged and will cease to be of further effect (except as set forth below) and the Trustee, at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture when:

(1) either:

(a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid as provided in Section 2.7 and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) all Notes not theretofore delivered to the Trustee for cancellation (1) have become due and payable or (2) will become due and payable within one year, or are to be called for redemption within one year, under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer, and the Issuer has irrevocably deposited or caused to be deposited with the Trustee cash in U.S. dollars, non-callable U.S. Government Obligations or a combination thereof in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable instructions from the Issuer directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Issuer has paid all other sums payable under this Indenture by the Issuer; and

(3) the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under this Indenture relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the Issuer's obligations in Sections 2.3, 2.4, 2.6, 2.7, 2.11, 7.7, 7.8, 12.2, 12.3 and 12.4, and the Trustee's and Paying Agent's obligations in Section 11.2 shall survive until the Notes are no longer outstanding. Thereafter, only the Issuer's obligations in Section 7.7 shall survive.

Section 11.2. Application of Trust.

All money deposited with the Trustee pursuant to Section 11.1 shall be held in trust and, at the written direction of the Issuer, be invested prior to maturity in U.S. Government Obligations, and applied by the Trustee in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for the payment of which money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

ARTICLE XII

MISCELLANEOUS

Section 12.1. Trust Indenture Act Controls.

If any provision hereof limits, qualifies or conflicts with a provision of the TIA or another provision that would be required or deemed under such Act to be part of and govern this Indenture if this Indenture were subject thereto, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the TIA that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 12.2. Notices.

Any notice or communication by the Issuer or the Trustee to others is duly given if in writing and delivered in Person or mailed by first class mail (registered or certified, return receipt requested), telex, telecopier or overnight air courier guaranteeing next day delivery, to the others' address:

If to the Issuer:

GCI, Inc.
2550 Denali Street, Suite 1000
Anchorage, Alaska 99503-2751
Attention: Chief Financial Officer
Fax: (907) 868-5676
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With a copy to:

Sherman & Howard L.L.C.
633 Seventeenth Street, Suite 3000
Denver, Colorado 80202-3624
Attention: Steven D. Miller, Esq.
Fax: (303) 298-0940

If to the Trustee:

The Bank of New York
101 Barclay Street, Floor 8W
New York, New York 10286
Attention: Corporate Trust Administration
Fax: 212-815-5704

The Issuer or the Trustee, by notice to the others may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Any notice or communication to a Holder shall be mailed by first class mail, or by overnight air courier guaranteeing next day delivery to its address shown on the register kept by the Registrar. Any notice or communication shall also be so mailed to any Person described in TIA ss. 313(c), to the extent required by the TIA. Failure to mail a notice or communication to

a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Issuer mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

Section 12.3. Communication by Holders of Notes with Other Holders of Notes.

Holders may communicate pursuant to TIA ss. 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Issuer, the Trustee, the Registrar and anyone else shall have the protection of TIA ss. 312(c).

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Section 12.4. Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Issuer to the Trustee to take any action under this Indenture, the Issuer shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent and covenants have been complied with.

Section 12.5. Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA ss. 314(a)(4)) shall comply with the provisions of TIA ss. 314(e) and shall include:

(a) a statement that the Person making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

Section 12.6. Rules by Trustee and Agents.

The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 12.7. No Personal Liability of Directors, Officers, Employees and Stockholders.

No past, present or future director, officer, employee, incorporator, agent, member, manager, partner or stockholder or Affiliate of the Issuer, as such, shall have any liability

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for any obligations of the Issuer under the Notes or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liabilities. The waiver and release are part of the consideration for issuance of the Notes.

Section 12.8. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

THIS INDENTURE AND THE NOTES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT

THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. THE ISSUER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT THAT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, TRIAL BY JURY AND ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE TRUSTEE OR ANY HOLDER OF THE NOTES TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE ISSUER IN ANY OTHER JURISDICTION.

Section 12.9. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret any other indenture, loan or debt agreement of the Issuer or its Subsidiaries or of any other Person. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 12.10. Successors.

All agreements of the Issuer in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

Section 12.11. Severability.

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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Section 12.12. Counterpart Originals.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 12.13. Table of Contents, Headings, Etc.

The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture, which have been inserted for convenience of reference only, are not to be considered a part of this Indenture and shall in no way modify or restrict any of the terms or provisions hereof.

[Signatures on following page]
SIGNATURES

GCI, INC.

By: /s/
Name: John M. Lowber
Title: Chief Financial Officer, Secretary,
Treasurer

By: /s/
Name: Wilson Hughes
Title: Vice President

THE BANK OF NEW YORK,
as Trustee

By: /s/
Name: Van K. Brown
Title: Vice President

REGISTRATION RIGHTS AGREEMENT

Dated as of February 17, 2004

Among

GCI, INC.

as Issuer,

and

DEUTSCHE BANK SECURITIES INC.,
JEFFERIES & COMPANY, INC.
CREDIT LYONNAIS SECURITIES (USA), INC.
BLAYLOCK & PARTNERS, L.P.
FERRIS, BAKER WATTS, INCORPORATED
TD SECURITIES (USA), INC.

as Initial Purchasers

7.25% Senior Notes due 2014
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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is dated as of February 17, 2004, among GCI, INC., an Alaska corporation (the "Company") and DEUTSCHE BANK SECURITIES INC., JEFFERIES & COMPANY, INC., CREDIT LYONNAIS SECURITIES (USA), INC., BLAYLOCK & PARTNERS, L.P., FERRIS, BAKER WATTS, INCORPORATED, and TD SECURITIES (USA), INC., as initial purchasers (the "Initial Purchasers").

This Agreement is entered into in connection with (i) the Purchase Agreement by and among the Company and the Initial Purchasers, dated as of February 5, 2004 (the "\$230.0 Million Purchase Agreement"), which provides for, among other things, the sale by the Company to the Initial Purchasers of \$230,000,000 aggregate principal amount of the Company's 7.25% Senior Notes due 2014 (the "\$230.0 Million Notes") and (ii) the Purchase Agreement between the Company and Deutsche Bank Securities Inc., dated as of February 11, 2003 (the "\$20.0 Million Purchase Agreement, and together with the \$230.0 Million Purchase Agreement", the "Purchase Agreements") which provides for, among other things, the sale by the Company to Deutsche Bank Securities Inc. of \$20,000,000 aggregate principal amount of the Company's 7.25% Senior Notes due 2014 (the

"\$20.0 Million Notes", and together with the \$230.0 Million Notes, the "Notes"). In order to induce the Initial Purchasers to enter into the Purchase Agreements, the Company has agreed to provide the registration rights set forth in this Agreement for the benefit of the Initial Purchasers and any subsequent holder or holders of the Notes. The execution and delivery of this Agreement is a condition to the Initial Purchasers' obligation to purchase the Notes under the Purchase Agreement.

The parties hereby agree as follows:

1. Definitions

As used in this Agreement, the following terms shall have the following meanings:

Additional Interest: See Section 4(a) hereof.

Advice: See the last paragraph of Section 5 hereof.

Agreement: See the introductory paragraphs hereto.

Applicable Period: See Section 2(b) hereof.

Business Day: Any day that is not a Saturday, Sunday or a day on which banking institutions in New York are authorized or required by law to be closed.

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Company: See the introductory paragraphs hereto.

Effectiveness Date: With respect to (i) the Exchange Offer Registration Statement, the 210th day after the Issue Date and (ii) any Shelf Registration Statement, the 210th day after the Filing Date with respect thereto; provided, however, that if the Effectiveness Date would otherwise fall on a day that is not a Business Day, then the Effectiveness Date shall be the next succeeding Business Day.

Effectiveness Period: See Section 3(a) hereof.

Event Date: See Section 4(b) hereof.

Exchange Act: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

Exchange Notes: See Section 2(a) hereof.

Exchange Offer: See Section 2(a) hereof.

Exchange Offer Registration Statement: See Section 2(a) hereof.

Filing Date: (A) If no Registration Statement has been filed by the Company pursuant to this Agreement, the 120th day after the Issue Date; and (B) in any other case (which may be applicable notwithstanding the consummation of the Exchange Offer), the 120th day after the delivery of a Shelf Notice as required pursuant to Section 2(c) hereof; provided, however, that if the Filing Date would otherwise fall on a day that is not a Business Day, then the Filing Date shall be the next succeeding Business Day.

Holder: Any holder of a Registrable Note or Registrable Notes.

Indenture: The Indenture, dated as of February 17, 2004, between the Company and The Bank of New York, as Trustee, pursuant to which the Notes are being issued, as amended or supplemented from time to time in accordance with the terms thereof.

Information: See Section 5(o) hereof.

Initial Purchasers: See the introductory paragraphs hereto.

Initial Shelf Registration: See Section 3(a) hereof.

Inspectors: See Section 5(o) hereof.

Issue Date: February 17, 2004, the date of original issuance of the Notes.

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NASD: See Section 5(s) hereof.

Notes: See the introductory paragraphs hereto.

Participant: See Section 7(a) hereof.

Participating Broker-Dealer: See Section 2(b) hereof.

Person: An individual, trustee, corporation, partnership, limited liability company, joint stock company, trust, unincorporated association, union, business association, firm or other legal entity.

Private Exchange: See Section 2(b) hereof.

Private Exchange Notes: See Section 2(b) hereof.

Prospectus: The prospectus included in any Registration Statement (including, without limitation, any prospectus subject to completion and a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A under the Securities Act and any term sheet filed pursuant to Rule 434 under the Securities Act), as amended or supplemented by any prospectus supplement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

Purchase Agreement: See the introductory paragraphs hereof.

Records: See Section 5(o) hereof.

Registrable Notes: Each Note upon its original issuance and at all times subsequent thereto, each Exchange Note as to which Section 2(c)(iv) hereof is applicable upon original issuance and at all times subsequent thereto and each Private Exchange Note upon original issuance thereof and at all times subsequent thereto, until, in each case, the earliest to occur of (i) a Registration Statement (other than, with respect to any Exchange Note as to which Section 2(c)(iv) hereof is applicable, the Exchange Offer Registration Statement) covering such Note, Exchange Note or Private Exchange Note has been declared effective by the SEC and such Note, Exchange Note or such Private Exchange Note, as the case may be, has been disposed of in accordance with such effective Registration Statement, (ii) such Note has been exchanged pursuant to the Exchange Offer for an Exchange Note or Exchange Notes that may be resold without restriction under state and federal securities laws, (iii) such Note, Exchange Note or Private Exchange Note, as the case may be, ceases to be outstanding for purposes of the Indenture or (iv) such Note, Exchange Note or Private Exchange Note, as the

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case may be, may be resold without restriction pursuant to Rule 144(k) (as amended or replaced) under the Securities Act.

Registration Statement: Any registration statement of the Company that covers any of the Notes, the Exchange Notes or the Private Exchange Notes filed with the SEC under the Securities Act, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

Rule 144: Rule 144 under the Securities Act.

Rule 144A: Rule 144A under the Securities Act.

Rule 405: Rule 405 under the Securities Act.

Rule 415: Rule 415 under the Securities Act.

Rule 424: Rule 424 under the Securities Act.

SEC: The U.S. Securities and Exchange Commission.

Securities Act: The Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

Shelf Notice: See Section 2(c) hereof.

Shelf Registration: See Section 3(b) hereof.

Shelf Registration Statement: Any Registration Statement relating to a Shelf Registration.

Shelf Suspension Period: See Section 3(a) hereof.

Subsequent Shelf Registration: See Section 3(b) hereof.

TIA: The Trust Indenture Act of 1939, as amended.

Trustee: The trustee under the Indenture and the trustee (if any) under any indenture governing the Exchange Notes and Private Exchange

Underwritten registration or underwritten offering: A registration in which securities of the Company are sold to an underwriter for reoffering to the public.

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Except as otherwise specifically provided, all references in this Agreement to acts, laws, statutes, rules, regulations, releases, forms, no-action letters and other regulatory requirements (collectively, "Regulatory Requirements") shall be deemed to refer also to any amendments thereto and all subsequent Regulatory Requirements adopted as a replacement thereto having substantially the same effect therewith; provided that Rule 144 shall not be deemed to amend or replace Rule 144A.

2. Exchange Offer

(a) Unless the Exchange Offer would violate applicable law or any applicable interpretation of the staff of the SEC, the Company shall use its reasonable best efforts to file with the SEC, no later than the Filing Date, a Registration Statement (the "Exchange Offer Registration Statement") on an appropriate registration form with respect to a registered offer (the "Exchange Offer") to exchange any and all of the Registrable Notes for a like aggregate principal amount of debt securities of the Company (the "Exchange Notes"), that are identical in all material respects to the Notes, except that (i) the Exchange Notes shall contain no restrictive legend thereon and (ii) interest thereon shall accrue from (A) the later of (1) the last date on which interest was paid on the Notes or (2) if a Note is surrendered for exchange on a date in a period which includes the record date for an interest payment date to occur on or after the date of such exchange and as to which interest will be paid, the date of such interest payment date, or (B) if no such interest has been paid, from the Issue Date, and which are entitled to the benefits of the Indenture or a trust indenture which is identical in all material respects to the Indenture (other than such changes to the Indenture or any such identical trust indenture as are necessary to comply with the TIA) and which, in either case, conforms to the requirements necessary for qualification under the TIA. The Exchange Offer shall comply with all applicable tender offer rules and regulations under the Exchange Act and other applicable laws. The Company shall (x) use its reasonable best efforts to cause the Exchange Offer Registration Statement to be declared effective under the Securities Act on or before the Effectiveness Date; (y) keep the Exchange Offer open for at least 30 days (or longer if required by applicable law) after the date that notice of the Exchange Offer is mailed to Holders; and (z) consummate the Exchange Offer on or prior to the 240th day following the Issue Date.

Each Holder (including, without limitation, each Participating Broker-Dealer) who participates in the Exchange Offer will be required to represent to the Company in writing (which may be contained in the applicable letter of transmittal) that: (i) any Exchange Notes acquired in exchange for Registrable Notes tendered are being acquired in the ordinary course of business of the Person receiving such Exchange Notes, whether or not such recipient is such Holder itself; (ii) at the time of the commencement or consummation of the Exchange Offer neither such Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder has an arrangement or understanding with any Person to participate in the distribution of the Exchange Notes in violation of the provisions of the Securities Act; (iii) neither the Holder nor, to the actual knowledge of such

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Holder, any other Person receiving Exchange Notes from such Holder is an "affiliate" (as defined in Rule 405) of the Company or, if it is an affiliate of the Company, it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable and will provide information to be included in the Shelf Registration Statement in accordance with Section 5 hereof in order to have their Notes included in the Shelf Registration Statement and benefit from the provisions regarding Additional Interest in Section 4 hereof; (iv) neither such Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder is engaging in or intends to engage in a distribution of the Exchange Notes; and (v) if such Holder is a Participating Broker-Dealer, such Holder has acquired the Registrable Notes as a result of market-making activities or other trading activities and that it will comply with the applicable provisions of the Securities Act (including, but not limited to, the prospectus delivery requirements thereunder).

Upon consummation of the Exchange Offer in accordance with this Section 2, the provisions of this Agreement shall continue to apply, mutatis mutandis, solely with respect to Registrable Notes that are Private Exchange Notes, Exchange Notes as to which Section 2(c)(iv) is applicable and Exchange Notes held by Participating Broker-Dealers, and the Company shall have no further obligation to register Registrable Notes (other than Private Exchange Notes and Exchange Notes as to which clause 2(c)(iv) hereof applies) pursuant to Section 3 hereof.

No securities other than the Exchange Notes shall be included in the Exchange Offer Registration Statement.

(b) The Company shall include within the Prospectus contained in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," reasonably acceptable to the Initial Purchasers, which shall contain a summary statement of the positions taken or policies made by the staff of the SEC with respect to the potential "underwriter" status of any broker-dealer that is the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of Exchange Notes received by such broker-dealer in the Exchange Offer (a "Participating Broker-Dealer"), whether such positions or policies have been publicly disseminated by the staff of the SEC or such positions or policies represent the prevailing views of the staff of the SEC. Such "Plan of Distribution" section shall also expressly permit, to the extent permitted by applicable policies and regulations of the SEC, the use of the Prospectus by all Persons subject to the prospectus delivery requirements of the Securities Act, including, to the extent permitted by applicable policies and regulations of the SEC, all Participating Broker-Dealers, and include a statement describing the means by which Participating Broker-Dealers may resell the Exchange Notes in compliance with the Securities Act.

The Company shall use its reasonable best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the Prospectus contained therein in order to permit such Prospectus to be lawfully delivered by all Persons subject to

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the prospectus delivery requirements of the Securities Act for such period of time as is necessary to comply with applicable law in connection with any resale of the Exchange Notes; provided, however, that such period shall not be required to exceed 90 days or such longer period if extended pursuant to the last paragraph of Section 5 hereof (the "Applicable Period").

If, prior to consummation of the Exchange Offer, the Initial Purchasers hold any Notes acquired by them that have the status of an unsold allotment in the initial distribution, the Company, upon the request of the Initial Purchasers, shall simultaneously with the delivery of the Exchange Notes issue and deliver to the Initial Purchasers, in exchange (the "Private Exchange") for such Notes held by any such Holder, a like principal amount of notes (the "Private Exchange Notes") of the Company, that are identical in all material respects to the Exchange Notes except for the placement of a restrictive legend on such Private Exchange Notes. The Private Exchange Notes shall be issued pursuant to the same indenture as the Exchange Notes and bear the same CUSIP number as the Exchange Notes if permitted by the CUSIP Service Bureau.

In connection with the Exchange Offer, the Company shall:

(1) mail, or cause to be mailed, to each Holder of record entitled to participate in the Exchange Offer a copy of the Prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(2) use its reasonable best efforts to keep the Exchange Offer open for not less than 30 days after the date that notice of the Exchange Offer is mailed to Holders (or longer if required by applicable law);

(3) utilize the services of a depository for the Exchange Offer with an address in the Borough of Manhattan, The City of New York;

(4) permit Holders to withdraw tendered Notes at any time prior to the close of business, New York time, on the last Business Day on which the Exchange Offer remains open; and

(5) otherwise comply in all material respects with all applicable laws, rules and regulations.

As soon as practicable after the close of the Exchange Offer and the Private Exchange, if any, the Company shall:

(1) accept for exchange all Registrable Notes validly tendered and not validly withdrawn pursuant to the Exchange Offer and the Private Exchange, if any;

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(2) deliver to the Trustee for cancellation all Registrable Notes so accepted for exchange; and

(3) cause the Trustee to authenticate and deliver promptly to each Holder of Notes, Exchange Notes or Private Exchange Notes, as the

case may be, equal in principal amount to the Notes of such Holder so accepted for exchange; provided that, in the case of any Notes held in global form by a depositary, authentication and delivery to such depositary of one or more replacement Notes in global form in an equivalent principal amount thereto for the account of such Holders in accordance with the Indenture shall satisfy such authentication and delivery requirement.

The Exchange Offer and the Private Exchange shall not be subject to any conditions, other than that (i) the Exchange Offer or Private Exchange, as the case may be, does not violate applicable law or any applicable interpretation of the staff of the SEC; (ii) no action or proceeding shall have been instituted or threatened in any court or by any governmental agency which might materially impair the ability of the Company to proceed with the Exchange Offer or the Private Exchange, and no material adverse development shall have occurred in any existing action or proceeding with respect to the Company; and (iii) all governmental approvals shall have been obtained, which approvals the Company deems necessary for the consummation of the Exchange Offer or Private Exchange.

The Exchange Notes and the Private Exchange Notes shall be issued under (i) the Indenture or (ii) an indenture identical in all material respects to the Indenture and which, in either case, conforms to the requirements necessary for qualification under the TIA or is exempt from such qualification and shall provide that the Exchange Notes shall not be subject to the transfer restrictions set forth in the Indenture. The Indenture or such indenture shall provide that the Exchange Notes, the Private Exchange Notes and the Notes shall vote and consent together on all matters as one class and that none of the Exchange Notes, the Private Exchange Notes or the Notes will have the right to vote or consent as a separate class on any matter.

(c) If, (i) because of any change in law or in currently prevailing interpretations of the staff of the SEC, the Company is not permitted to effect the Exchange Offer, (ii) the Exchange Offer is not consummated within 240 days of the Issue Date, (iii) any holder of Private Exchange Notes so requests in writing to the Company at any time after the consummation of the Exchange Offer, or (iv) in the case of any Holder that participates in the Exchange Offer, such Holder does not receive Exchange Notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of such Holder as an affiliate of the Company within the meaning of the Securities Act) and so notifies the Company within 30 days after such Holder first becomes aware of such restrictions, in the case of each of clauses (i) to and including (iv) of this

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sentence, then the Company shall promptly deliver to the Holders and the Trustee written notice thereof (the "Shelf Notice") and shall file a Shelf Registration pursuant to Section 3 hereof.

3. Shelf Registration

If at any time a Shelf Notice is delivered as contemplated by Section 2(c) hereof, then:

(a) Shelf Registration. The Company shall as promptly as practicable file with the SEC a Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 covering all of the Registrable Notes (the "Initial Shelf Registration"). The Company shall use its reasonable best efforts to file with the SEC the Initial Shelf Registration on or prior to the applicable Filing Date. The Initial Shelf Registration shall be on Form S-1 or another appropriate form permitting registration of such Registrable Notes for resale by Holders in the manner or manners designated by them (including, without limitation, one or more underwritten offerings). The Company shall not permit any securities other than the Registrable Notes to be included in the Initial Shelf Registration or any Subsequent Shelf Registration (as defined below).

The Company shall use its best efforts to cause the Shelf Registration to be declared effective under the Securities Act on or prior to the Effectiveness Date and to keep the Initial Shelf Registration continuously effective under the Securities Act until the date that is two years from the Issue Date or such shorter period ending when all Registrable Notes covered by the Initial Shelf Registration have been sold in the manner set forth and as contemplated in the Initial Shelf Registration or, if applicable, a Subsequent Shelf Registration (the "Effectiveness Period"); provided, however, that the Effectiveness Period in respect of the Initial Shelf Registration shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 under the Securities Act and as otherwise provided herein and shall be subject to reduction to the extent that the applicable provisions of Rule 144(k)

are amended or revised to reduce the two year holding period set forth therein. Notwithstanding anything to the contrary in this Agreement, at any time, the Company may delay the filing of any Initial Shelf Registration Statement or delay or suspend the effectiveness thereof, for a reasonable period of time, but not in excess of an aggregate of 60 days in any calendar year (a "Shelf Suspension Period"), if the Board of Directors of the Company determines reasonably and in good faith that the filing of any such Initial Shelf Registration Statement or the continuing effectiveness thereof would require the disclosure of non-public material information that, in the reasonable judgment of the Board of Directors of the Company, would be detrimental to the Company if so disclosed or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction.

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(b) Withdrawal of Stop Orders; Subsequent Shelf Registrations. If the Initial Shelf Registration or any Subsequent Shelf Registration ceases to be effective for any reason at any time during the Effectiveness Period (other than because of the sale of all of the Notes registered thereunder), the Company shall use its reasonable best efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within 30 days of such cessation of effectiveness amend such Shelf Registration Statement in a manner to obtain the withdrawal of the order suspending the effectiveness thereof, or file an additional Shelf Registration Statement pursuant to Rule 415 covering all of the Registrable Notes covered by and not sold under the Initial Shelf Registration or an earlier Subsequent Shelf Registration (each, a "Subsequent Shelf Registration"). If a Subsequent Shelf Registration is filed, the Company shall use its reasonable best efforts to cause the Subsequent Shelf Registration to be declared effective under the Securities Act as soon as practicable after such filing and to keep such subsequent Shelf Registration continuously effective for a period equal to the number of days in the Effectiveness Period less the aggregate number of days during which the Initial Shelf Registration or any Subsequent Shelf Registration was previously effective. As used herein the term "Shelf Registration" means the Initial Shelf Registration and any Subsequent Shelf Registration.

(c) Supplements and Amendments. The Company shall promptly supplement and amend the Shelf Registration if required by the rules, regulations or instructions applicable to the registration form used for such Shelf Registration, if required by the Securities Act, or if reasonably requested by the Holders of a majority in aggregate principal amount of the Registrable Notes (or their counsel) covered by such Registration Statement with respect to the information included therein with respect to one or more of such Holders, or by any underwriter of such Registrable Notes with respect to the information included therein with respect to such underwriter.

4. Additional Interest

(a) The Company and the Initial Purchasers agree that the Holders will suffer damages if the Company fails to fulfill its obligations under Section 2 or Section 3 hereof and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, the Company agrees to pay, as liquidated damages, additional interest on the Notes ("Additional Interest") under the circumstances and to the extent set forth below (each of which shall be given independent effect):

(i) if (A) neither the Exchange Offer Registration Statement nor the Initial Shelf Registration has been filed on or prior to the Filing Date applicable thereto or (B) notwithstanding that the Company has consummated or will consummate the Exchange Offer, the Company is required to file a Shelf Registration and such Shelf Registration is not filed on or prior to the Filing Date applicable thereto, then,

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commencing on the day after any such Filing Date, Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.50% per annum for the first 90 days immediately following such applicable Filing Date, and such Additional Interest rate shall increase by an additional 0.50% per annum at the beginning of each subsequent 90-day period; or

(ii) if (A) neither the Exchange Offer Registration Statement nor the Initial Shelf Registration is declared effective by the SEC on or prior to the Effectiveness Date applicable thereto or (B) notwithstanding that the Company has consummated or will consummate the Exchange Offer, the Company is required to file a Shelf Registration and such Shelf Registration is not declared effective by the SEC on or prior to the Effectiveness Date applicable to such Shelf Registration,

then, commencing on the day after such Effectiveness Date, Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.50% per annum for the first 90 days immediately following the day after such Effectiveness Date, and such Additional Interest rate shall increase by an additional 0.50% per annum at the beginning of each subsequent 90-day period; or

(iii) if (A) the Company has not exchanged Exchange Notes for all Notes validly tendered in accordance with the terms of the Exchange Offer on or prior to the 35th day after the date on which the Exchange Offer Registration Statement was declared effective or (B) if applicable, a Shelf Registration has been declared effective and such Shelf Registration ceases to be effective at any time during the Effectiveness Period, then Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.50% per annum for the first 90 days commencing on the (x) 36th day after such effective date, in the case of (A) above, or (y) the day such Shelf Registration ceases to be effective in the case of (B) above, and such Additional Interest rate shall increase by an additional 0.50% per annum at the beginning of each such subsequent 90-day period;

provided, however, that the Additional Interest rate on the Notes may not accrue under more than one of the foregoing clauses (i) - (iii) at any one time and at no time shall the aggregate amount of additional interest accruing exceed in the aggregate 2.0% per annum; provided, further, however, that (1) upon the filing of the applicable Exchange Offer Registration Statement or the applicable Shelf Registration as required hereunder (in the case of clause (i) above of this Section 4), (2) upon the effectiveness of the Exchange Offer Registration Statement or the applicable Shelf Registration Statement as required hereunder (in the case of clause (ii) of this Section 4), or (3) upon the exchange of the Exchange Notes for all Notes tendered (in the case of clause (iii)(A) of this Section 4), or upon the effectiveness of the applicable Shelf Registration Statement which had ceased to remain effective (in the case of (iii)(B) of this Section 4), Additional Interest on the Notes in respect of which such events relate as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue.

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Notwithstanding any other provision of this Section 4, the Company shall not be obligated to pay Additional Interest provided in Sections 4(a)(i)(B), 4(a)(ii)(B) or 4(a)(iii)(B) during a Shelf Suspension Period permitted by Section 3(a) hereof.

(b) The Company shall notify the Trustee within one Business Day after each and every date on which an event occurs in respect of which Additional Interest is required to be paid (an "Event Date"). Any amounts of Additional Interest due pursuant to (a)(i), (a)(ii) or (a)(iii) of this Section 4 will be payable in cash semiannually on each February 15 and August 15 (to the holders of record on the February 1 and August 1 immediately preceding such dates), commencing with the first such date occurring after any such Additional Interest commences to accrue. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest rate by the principal amount of the Registrable Notes, multiplied by a fraction, the numerator of which is the number of days such Additional Interest rate was applicable during such period (determined on the basis of a 360 day year comprised of twelve 30 day months and, in the case of a partial month, the actual number of days elapsed), and the denominator of which is 360.

5. Registration Procedures

In connection with the filing of any Registration Statement pursuant to Section 2 or 3 hereof, the Company shall effect such registration to permit the sale of the securities covered thereby in accordance with the intended method or methods of disposition thereof, and pursuant thereto and in connection with any Registration Statement filed by the Company hereunder, the Company shall:

(a) Prepare and file with the SEC on or prior to the applicable Filing Date a Registration Statement or Registration Statements as prescribed by Section 2 or 3 hereof, and use its reasonable best efforts to cause each such Registration Statement to become effective and remain effective as provided herein; provided, however, that if (1) such filing is pursuant to Section 3 hereof or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period relating thereto from whom the Company has received prior written notice that it will be a Participating Broker-Dealer in the Exchange Offer, before filing any Registration Statement or Prospectus or any amendments or supplements thereto, the Company shall furnish to and afford the Holders of the Registrable Notes covered by such Registration Statement (with respect to a Registration Statement filed pursuant to Section 3 hereof) or each such Participating Broker-Dealer (with respect to any such Registration

Statement), as the case may be, their counsel and the managing underwriters, if any, a reasonable opportunity to review copies of all such documents (including copies of any documents to be incorporated by reference therein and all exhibits thereto) proposed to be filed (in each case

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at least five Business Days prior to such filing). The Company shall not file any Registration Statement or Prospectus or any amendments or supplements thereto if the Holders of a majority in aggregate principal amount of the Registrable Notes covered by such Registration Statement, their counsel, or the managing underwriters, if any, shall reasonably object on a timely basis.

(b) Prepare and file with the SEC such amendments and post-effective amendments to each Shelf Registration Statement or Exchange Offer Registration Statement, as the case may be, as may be necessary to keep such Registration Statement continuously effective for the Effectiveness Period, the Applicable Period or until consummation of the Exchange Offer, as the case may be; cause the related Prospectus to be supplemented by any Prospectus supplement required by applicable law, and as so supplemented to be filed pursuant to Rule 424; and comply with the provisions of the Securities Act and the Exchange Act applicable to it with respect to the disposition of all securities covered by such Registration Statement as so amended or in such Prospectus as so supplemented and with respect to the subsequent resale of any securities being sold by an Participating Broker-Dealer covered by any such Prospectus. The Company shall be deemed not to have used its best efforts to keep a Registration Statement effective if the Company voluntarily takes any action that would result in selling Holders of the Registrable Notes covered thereby or Participating Broker-Dealers seeking to sell Exchange Notes not being able to sell such Registrable Notes or such Exchange Notes during that period unless such action is required by applicable law or permitted by this Agreement.

(c) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period relating thereto from whom the Company has received written notice that it will be a Participating Broker-Dealer in the Exchange Offer, notify the selling Holders of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, their counsel and the managing underwriters, if any, promptly (but in any event within one Business Day), and confirm such notice in writing, (i) when a Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective under the Securities Act (including in such notice a written statement that any Holder may, upon request, obtain, at the sole expense of the Company, one conformed copy of such Registration Statement or post-effective amendment including financial statements and schedules, documents incorporated or deemed to be incorporated by reference and exhibits), (ii) of the issuance by the SEC of any stop order suspending the effectiveness of a Registration

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Statement or of any order preventing or suspending the use of any preliminary prospectus or the initiation of any proceedings for that purpose, (iii) if at any time when a prospectus is required by the Securities Act to be delivered in connection with sales of the Registrable Notes or resales of Exchange Notes by Participating Broker-Dealers the representations and warranties of the Company contained in any agreement (including any underwriting agreement) contemplated by Section 5(n) hereof cease to be true and correct, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of a Registration Statement or any of the Registrable Notes or the Exchange Notes to be sold by any Participating Broker-Dealer for offer or sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose, (v) of the happening of any event, the existence of any condition or any information becoming known that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in or amendments or supplements to such Registration Statement, Prospectus or documents so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and

that in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (vi) of the Company's determination that a post-effective amendment to a Registration Statement would be appropriate.

(d) Use its reasonable best efforts to prevent the issuance of any order suspending the effectiveness of a Registration Statement or of any order preventing or suspending the use of a Prospectus or suspending the qualification (or exemption from qualification) of any of the Registrable Notes or the Exchange Notes to be sold by any Participating Broker-Dealer, for sale in any jurisdiction, and, if any such order is issued, to use its reasonable best efforts to obtain the withdrawal of any such order at the earliest practicable moment.

(e) If a Shelf Registration is filed pursuant to Section 3 and if requested during the Effectiveness Period by the managing underwriter or underwriters (if any), the Holders of a majority in aggregate principal amount of the Registrable Notes being sold in connection with an underwritten offering or any Participating Broker-Dealer, (i) as promptly as practicable incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter or underwriters (if any), such Holders, any Participating Broker-Dealer or counsel for any of them reasonably request to be included therein, (ii) make all required filings of such prospectus supplement or such post-effective amendment as soon as practicable after the Company

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has received notification of the matters to be incorporated in such prospectus supplement or post-effective amendment, and (iii) supplement or make amendments to such Registration Statement.

(f) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, furnish to each selling Holder of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof) and to each such Participating Broker-Dealer who so requests (with respect to any such Registration Statement) and to their respective counsel and each managing underwriter, if any, at the sole expense of the Company, one conformed copy of the Registration Statement or Registration Statements and each post-effective amendment thereto, including financial statements and schedules, and, if requested, all documents incorporated or deemed to be incorporated therein by reference and all exhibits.

(g) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, deliver to each selling Holder of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, their respective counsel, and the underwriters, if any, at the sole expense of the Company, as many copies of the Prospectus or Prospectuses (including each form of preliminary prospectus) and each amendment or supplement thereto and any documents incorporated by reference therein as such Persons may reasonably request; and, subject to the last paragraph of this Section 5, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders of Registrable Notes or each such Participating Broker-Dealer, as the case may be, and the underwriters or agents, if any, and dealers, if any, in connection with the offering and sale of the Registrable Notes covered by, or the sale by Participating Broker-Dealers of the Exchange Notes pursuant to, such Prospectus and any amendment or supplement thereto.

(h) Prior to any public offering of Registrable Notes or any delivery of a Prospectus contained in the Exchange Offer Registration Statement by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, use its reasonable best efforts to register or qualify, and to cooperate with the selling Holders of Registrable Notes or each such Participating Broker-Dealer, as the case may be, the managing underwriter or underwriters, if any, and their respective counsel

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in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Notes for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any selling Holder, Participating Broker-Dealer, or the managing underwriter or underwriters reasonably request in writing; provided, however, that where Exchange Notes held by Participating Broker-Dealers or Registrable Notes are offered other than through an underwritten offering, the Company agrees to cause their counsel to perform Blue Sky investigations and file registrations and qualifications required to be filed pursuant to this Section 5(h), keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Exchange Notes held by Participating Broker-Dealers or the Registrable Notes covered by the applicable Registration Statement; provided, however, that the Company shall not be required to (A) qualify generally to do business in any jurisdiction where it is not then so qualified, (B) take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or (C) subject itself to taxation in excess of a nominal dollar amount in any such jurisdiction where it is not then so subject.

(i) If a Shelf Registration is filed pursuant to Section 3 hereof, cooperate with the selling Holders of Registrable Notes and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Notes to be sold, which certificates shall not bear any restrictive legends and shall be in a form eligible for deposit with The Depository Trust Company; and enable such Registrable Notes to be in such denominations (subject to applicable requirements contained in the Indenture) and registered in such names as the managing underwriter or underwriters, if any, or Holders may request.

(j) Use its reasonable best efforts to cause the Registrable Notes covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof or the underwriter or underwriters, if any, to consummate the disposition of such Registrable Notes, except as may be required solely as a consequence of the nature of such selling Holder's business, in which case the Company will cooperate in all respects with the filing of such Registration Statement and the granting of such approvals.

(k) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, upon the occurrence of any event contemplated by paragraph 5(c) (v) or 5(c) (vi)

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hereof, as promptly as practicable prepare and (subject to Section 5(a) hereof) file with the SEC, at the sole expense of the Company, a supplement or post-effective amendment to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Notes being sold thereunder (with respect to a Registration Statement filed pursuant to Section 3 hereof) or to the purchasers of the Exchange Notes to whom such Prospectus will be delivered by a Participating Broker-Dealer (with respect to any such Registration Statement), any such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(l) Use its reasonable best efforts to cause the Registrable Notes covered by a Registration Statement or the Exchange Notes, as the case may be, to be rated with the appropriate rating agencies, if so requested by the Holders of a majority in aggregate principal amount of Registrable Notes covered by such Registration Statement or the Exchange Notes, as the case may be, or the managing underwriter or underwriters, if any.

(m) Prior to the effective date of the first Registration Statement relating to the Registrable Notes, (i) provide the Trustee with certificates for the Registrable Notes in a form eligible for deposit with The Depository Trust Company and (ii) provide a CUSIP number for the Registrable Notes.

(n) In connection with any underwritten offering of Registrable Notes pursuant to a Shelf Registration, enter into an underwriting agreement as is customary in underwritten offerings of debt securities similar to the Notes, and take all such other actions as are reasonably requested by the managing underwriter or underwriters in order to expedite or facilitate the registration or the disposition of such Registrable Notes and, in such connection, (i) make such representations and warranties to, and covenants with, the underwriters with respect to the business of the Company (including any acquired business, properties or entity, if applicable), and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, as are customarily made by the Company to underwriters in underwritten offerings of debt securities similar to the Notes, and confirm the same in writing if and when requested; (ii) obtain the written opinions of counsel to the Company, and written updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters, addressed to the underwriters covering the matters customarily covered in opinions reasonably requested in underwritten offerings; (iii) obtain "cold comfort" letters and updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or

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underwriters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of the Company, or of any business acquired by the Company, for which financial statements and financial data are, or are required to be, included or incorporated by reference in the Registration Statement), addressed to each of the underwriters, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with underwritten offerings of debt securities similar to the Notes; and (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to the sellers and underwriters, if any, than those set forth in Section 7 hereof (or such other less favorable provisions and procedures as are reasonably acceptable to Holders of a majority in aggregate principal amount of Registrable Notes covered by such Registration Statement and the managing underwriter or underwriters or agents, if any). The above shall be done at each closing under such underwriting agreement, or as and to the extent required thereunder.

(o) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, make available for inspection by any Initial Purchaser, any selling Holder of such Registrable Notes being sold (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer, as the case may be, any underwriter participating in any such disposition of Registrable Notes, if any, and any attorney, accountant or other agent retained by any such selling Holder or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, or underwriter (any such Initial Purchasers, Holders, Participating Broker-Dealers, underwriters, attorneys, accountants or agents, collectively, the "Inspectors"), upon written request, at the offices where normally kept, during reasonable business hours, all pertinent financial and other records, pertinent corporate documents and instruments of the Company and subsidiaries of the Company (collectively, the "Records"), as shall be reasonably necessary to enable them to exercise any applicable due diligence responsibilities, and cause the officers, directors and employees of the Company and any of its subsidiaries to supply all information ("Information") reasonably requested by any such Inspector in connection with such due diligence responsibilities. Each Inspector shall agree in writing that it will keep the Records and Information confidential and that it will not disclose any of the Records or Information that the Company determines, in good faith, to be confidential and notifies the Inspectors in writing are confidential unless (i) the disclosure of such Records or Information is necessary to avoid or correct a misstatement or omission in such Registration Statement or Prospectus, (ii) the release of such Records or Information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction,

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(iii) disclosure of such Records or Information is necessary or advisable, in the opinion of counsel for any Inspector, in connection with any action, claim, suit or proceeding, directly or indirectly, involving or potentially involving such Inspector and arising out of, based upon, relating to, or involving this Agreement or the Purchase Agreement, or any transactions contemplated hereby or thereby or

arising hereunder or thereunder, or (iv) the information in such Records or Information has been made generally available to the public other than by an Inspector or an "affiliate" (as defined in Rule 405) thereof; provided, however, that prior notice shall be provided as soon as practicable to the Company of the potential disclosure of any information by such Inspector pursuant to clauses (i), (ii) or (iii) of this sentence to permit the Company to obtain a protective order (or waive the provisions of this paragraph (o)) and that such Inspector shall take such actions as are reasonably necessary to protect the confidentiality of such information (if practicable) to the extent such action is otherwise not inconsistent with, an impairment of or in derogation of the rights and interests of the Holder or any Inspector.

(p) Provide an indenture trustee for the Registrable Notes or the Exchange Notes, as the case may be, and, unless exempt from qualification, cause the Indenture or the trust indenture provided for in Section 2(a) hereof, as the case may be, to be qualified under the TIA not later than the effective date of the first Registration Statement relating to the Registrable Notes; and in connection therewith, cooperate with the trustee under any such indenture and the Holders of the Registrable Notes, to effect such changes (if any) to such indenture as may be required for such indenture to be so qualified in accordance with the terms of the TIA; and execute, and use its reasonable best efforts to cause such trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable such indenture to be so qualified in a timely manner.

(q) Comply with all applicable rules and regulations of the SEC and make generally available to its securityholders with regard to any applicable Registration Statement, a consolidated earning statement satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any fiscal quarter (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Notes are sold to underwriters in a firm commitment or best efforts underwritten offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company, after the effective date of a Registration Statement, which statements shall cover said 12-month periods.

(r) Upon consummation of the Exchange Offer or a Private Exchange, obtain an opinion of counsel to the Company, in a form customary for underwritten

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transactions, addressed to the Trustee for the benefit of all Holders of Registrable Notes participating in the Exchange Offer or the Private Exchange, as the case may be, that the Exchange Notes or Private Exchange Notes, as the case may be, and the related indenture each constitute a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to customary exceptions and qualifications. If the Exchange Offer or a Private Exchange is to be consummated, upon delivery of the Registrable Notes by Holders to the Company (or to such other Person as directed by the Company), in exchange for the Exchange Notes or the Private Exchange Notes, as the case may be, the Company shall mark, or cause to be marked, on such Registrable Notes that such Registrable Notes are being cancelled in exchange for the Exchange Notes or the Private Exchange Notes, as the case may be; in no event shall such Registrable Notes be marked as paid or otherwise satisfied.

(s) Cooperate with each seller of Registrable Notes covered by any Registration Statement and each underwriter, if any, participating in the disposition of such Registrable Notes and their respective counsel in connection with any filings required to be made with the National Association of Securities Dealers, Inc. (the "NASD").

(t) Use their respective reasonable best efforts to take all other steps necessary to effect the registration of the Exchange Notes and/or Registrable Notes covered by a Registration Statement contemplated hereby.

The Company may require each seller of Registrable Notes as to which any registration is being effected to furnish to the Company such information regarding such seller and the distribution of such Registrable Notes as the Company may, from time to time, reasonably request. The Company may exclude from such registration the Registrable Notes of any seller so long as such seller fails to furnish such information within a reasonable time after receiving such request. Each seller as to which any Shelf Registration is being effected agrees to furnish promptly to the Company all information required to be disclosed in order to make the information previously furnished to the

Company by such seller not materially misleading.

If any such Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (i) the insertion therein of language, in form and substance reasonably satisfactory to such Holder, to the effect that the holding by such Holder of such securities is not to be construed as a recommendation by such Holder of the investment quality of the securities covered thereby and that such holding does not imply that such Holder will assist in meeting any future financial requirements of the Company, or (ii) in the event that such reference to such Holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force, the deletion of the reference to such Holder in any amendment or

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supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

Each Holder of Registrable Notes and each Participating Broker-Dealer agrees by its acquisition of such Registrable Notes or Exchange Notes to be sold by such Participating Broker-Dealer, as the case may be, that, upon actual receipt of any notice from the Company of the happening of any event of the kind described in Section 5(c)(ii), 5(c)(iv), 5(c)(v), or 5(c)(vi) hereof, such Holder will forthwith discontinue disposition of such Registrable Notes covered by such Registration Statement or Prospectus or Exchange Notes to be sold by such Holder or Participating Broker-Dealer, as the case may be, until such Holder's or Participating Broker-Dealer's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and has received copies of any amendments or supplements thereto. In the event that the Company shall give any such notice, each of the Applicable Period and the Effectiveness Period shall be extended by the number of days during such periods from and including the date of the giving of such notice to and including the date when each seller of Registrable Notes covered by such Registration Statement or Exchange Notes to be sold by such Participating Broker-Dealer, as the case may be, shall have received (x) the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof or (y) the Advice.

6. Registration Expenses

All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company, whether or not the Exchange Offer Registration Statement or any Shelf Registration Statement is filed or becomes effective or the Exchange Offer is consummated, including, without limitation, (i) all registration and filing fees (including, without limitation, (A) fees with respect to filings required to be made with the NASD in connection with an underwritten offering and (B) fees and expenses of compliance with state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel in connection with Blue Sky qualifications of the Registrable Notes or Exchange Notes and determination of the eligibility of the Registrable Notes or Exchange Notes for investment under the laws of such jurisdictions (x) where the holders of Registrable Notes are located, in the case of the Exchange Notes, or (y) as provided in Section 5(h) hereof, in the case of Registrable Notes or Exchange Notes to be sold by a Participating Broker-Dealer during the Applicable Period), (ii) printing expenses, including, without limitation, expenses of printing certificates for Registrable Notes or Exchange Notes in a form eligible for deposit with The Depository Trust Company and of printing prospectuses if the printing of prospectuses is requested by the managing underwriter or underwriters, if any, by the Holders of a majority in aggregate principal amount of the Registrable Notes included in any Registration Statement or in respect of Registrable Notes or Exchange Notes to be sold by any Participating Broker-Dealer during the Applicable Period, as the case may be,

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(iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company and, in the case of a Shelf Registration, reasonable fees and disbursements of one special counsel for all of the sellers of Registrable Notes selected by the Holder of a majority in aggregate principal amount of Registrable Notes covered by such Shelf Registration (exclusive of any counsel retained pursuant to Section 7 hereof), (v) fees and disbursements of all independent certified public accountants referred to in Section 5(n)(iii) hereof (including, without limitation, the expenses of any "cold comfort" letters required by or incident to such performance), (vi) Securities Act liability insurance, if the Company desires such insurance, (vii) fees and expenses of all other Persons retained by the Company, (viii) internal expenses of the Company (including, without limitation, all salaries and expenses of officers and employees of the Company performing legal or accounting duties), (ix) the expense of any annual audit of the Company, (x) any fees and expenses incurred in connection with the listing of the securities to be registered on any securities exchange, and the obtaining of a rating of the securities, in each case, if applicable and (xi) the expenses relating to printing, word

processing and distributing all Registration Statements, underwriting agreements, indentures and any other documents necessary in order to comply with this Agreement.

7. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless each Holder of Registrable Notes and each Participating Broker-Dealer selling Exchange Notes during the Applicable Period, and each Person, if any, who controls such Person or its affiliates within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (each, a "Participant") against any losses, claims, damages or liabilities to which any Participant may become subject under the Securities Act, the Exchange Act or otherwise, insofar as any such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

(i) any untrue statement or alleged untrue statement made by the Company contained in any application or any other document or any amendment or supplement thereto executed by the Company based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Notes under the securities or "Blue Sky" laws thereof or filed with the SEC or any securities association or securities exchange (each, an "Application");

(ii) any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus; or

(iii) the omission or alleged omission to state, in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus or any Application or any other document or any amendment or supplement

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thereto, a material fact required to be stated therein or necessary to make the statements therein not misleading;

and will reimburse, as incurred, the Participant for any legal or other expenses incurred by the Participant in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action; provided, however, the Company will not be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus or Application or any amendment or supplement thereto in reliance upon and in conformity with information relating to any Participant furnished to the Company by such Participant specifically for use therein. The indemnity provided for in this Section 7 will be in addition to any liability that the Company may otherwise have to the indemnified parties. The Company shall not be liable under this Section 7 for any settlement of any claim or action effected without their prior written consent, which shall not be unreasonably withheld.

(b) Each Participant, severally and not jointly, agrees to indemnify and hold harmless the Company, its directors, its officers and each person, if any, who controls the Company or its affiliates within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any losses, claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject under the Act, the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, Prospectus or Application, any amendment or supplement thereto, or any preliminary prospectus, or (ii) the omission or the alleged omission to state therein a material fact necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Participant, furnished to the Company by the Participant, specifically for use therein; and subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any reasonable legal or other expenses incurred by the Company or any such director, officer or controlling person in connection with investigating or defending against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action in respect thereof. The indemnity provided for in this Section 7 will be in addition to any liability that the Participants may otherwise have to the indemnified parties. The Participants shall not be liable under this Section 7 for any settlement of any claim or action effected without their consent, which shall not be unreasonably withheld. The Company shall not, without the prior written consent of such Participant, effect any settlement or compromise of any

pending or threatened proceeding in respect of which such Participant is or could have been a party, or indemnity could have been sought hereunder

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by such Participant, unless such settlement (A) includes an unconditional written release of such Participant, in form and substance reasonably satisfactory to such Participant, from all liability on claims that are the subject matter of such proceeding and (B) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of such Participant.

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action for which such indemnified party is entitled to indemnification under this Section 7, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 7, notify the indemnifying party of the commencement thereof in writing; but the omission to so notify the indemnifying party (i) will not relieve it from any liability under paragraph (a) or (b) above unless and to the extent such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraphs (a) and (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have been advised by counsel that there may be one or more legal defenses available to it and/or other indemnified parties that are different from or additional to those available to the indemnifying party, or (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after receipt by the indemnifying party of notice of the institution of such action, then, in each such case, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 7 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the immediately preceding sentence (it being understood, however, that in connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, designated by Participants who sold a majority in interest of the Registrable Notes and

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Exchange Notes sold by all such Participants in the case of paragraph (a) of this Section 7 or the Company in the case of paragraph (b) of this Section 7, representing the indemnified parties under such paragraph (a) or paragraph (b), as the case may be, who are parties to such action or actions) or (ii) the indemnifying party has authorized in writing the employment of counsel for the indemnified party at the expense of the indemnifying party. All fees and expenses reimbursed pursuant to this paragraph (c) shall be reimbursed as they are incurred. After such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses of any settlement of such action effected by such indemnified party without the prior written consent of the indemnifying party (which consent shall not be unreasonably withheld), unless such indemnified party waived in writing its rights under this Section 7, in which case the indemnified party may effect such a settlement without such consent.

(d) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this Section 7 is unavailable to, or insufficient to hold harmless, an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the offering of the Notes or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable

law, not only such relative benefits but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof). The relative benefits received by the Company on the one hand and such Participant on the other shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting expenses) of the Notes received by the Company bear to the total net profit received by such Participant in connection with the sale of the Notes. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand, or the Participants on the other, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or alleged statement or omission, and any other equitable considerations appropriate in the circumstances. The parties agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). Notwithstanding any other provision of this paragraph (d), no Participant shall be obligated to make contributions hereunder that in the aggregate exceed the total net profit received by such Participant in connection with the sale of the Notes, less the aggregate amount of any damages that such Participant has otherwise been required to pay by reason of

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the untrue or alleged untrue statements or the omissions or alleged omissions to state a material fact, and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls a Participant within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Participants, and each director of the Company, each officer of the Company and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company.

8. Rules 144 and 144A

The Company covenants and agrees that they will file the reports required to be filed by them under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder in a timely manner in accordance with the requirements of the Securities Act and the Exchange Act and, if at any time the Company is not required to file such reports, the Company will, upon the request of any Holder or beneficial owner of Registrable Notes, make available such information necessary to permit sales pursuant to Rule 144A. The Company further covenants and agrees, for so long as any Registrable Notes remain outstanding that they will take such further action as any Holder of Registrable Notes may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Notes without registration under the Securities Act within the limitation of the exemptions provided by Rule 144(k) under the Securities Act and Rule 144A.

9. Underwritten Registrations

If any of the Registrable Notes covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will manage the offering will be selected by the Holders of a majority in aggregate principal amount of such Registrable Notes included in such offering and shall be reasonably acceptable to the Company.

No Holder of Registrable Notes may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Notes on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

10. Miscellaneous

(a) No Inconsistent Agreements. The Company has not as of the date hereof, and the Company shall not after the date of this Agreement, enter into any agreement

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with respect to any of its securities that is inconsistent with the rights granted to the Holders of Registrable Notes in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's other issued and outstanding

securities under any such agreements. The Company will not enter into any agreement with respect to any of their securities which will grant to any Person piggy-back registration rights with respect to any Registration Statement.

(b) Adjustments Affecting Registrable Notes. The Company shall not, directly or indirectly, take any action with respect to the Registrable Notes as a class that would adversely affect the ability of the Holders of Registrable Notes to include such Registrable Notes in a registration undertaken pursuant to this Agreement.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, otherwise than with the prior written consent of (I) the Company, and (II) (A) the Holders of not less than a majority in aggregate principal amount of the then outstanding Registrable Notes and (B) in circumstances that would adversely affect the Participating Broker-Dealers, the Participating Broker-Dealers holding not less than a majority in aggregate principal amount of the Exchange Notes held by all Participating Broker-Dealers; provided, however, that Section 7 and this Section 10(c) may not be amended, modified or supplemented without the prior written consent of each Holder and each Participating Broker-Dealer (including any person who was a Holder or Participating Broker-Dealer of Registrable Notes or Exchange Notes, as the case may be, disposed of pursuant to any Registration Statement) affected by any such amendment, modification or supplement. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Notes whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect, impair, limit or compromise the rights of Holders of Registrable Notes not being sold pursuant to such Registration Statement may be given by Holders of at least a majority in aggregate principal amount of the Registrable Notes being sold pursuant to such Registration Statement.

(d) Notices. All notices and other communications (including, without limitation, any notices or other communications to the Trustee) provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, next-day air courier or facsimile:

(i) if to a Holder of the Registrable Notes or any Participating Broker-Dealer, at the most current address of such Holder or Participating Broker-Dealer, as the case may be, set forth on the records of the registrar under the Indenture, with a copy in like manner to the Initial Purchasers as follows:

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Deutsche Bank Securities Inc.
60 Wall Street
New York, New York 10005
Facsimile No.: (646) 324-7467
Attention: High Yield Capital Markets

Jefferies & Company, Inc.
520 Madison Avenue
New York, New York 10022

Credit Lyonnais Securities (USA), Inc.
1301 Avenue of the Americas
New York, New York 10019

TD Securities (USA), Inc.
31 West 52nd Street
New York, New York 10019

Ferris, Baker Watts, Incorporated
100 Light Street
Baltimore, Maryland 21202

Blaylock & Partners, L.P.
399 Park Avenue
New York, New York 10022

with a copy to:

Cahill Gordon & Reindel LLP
80 Pine Street
New York, New York 10005
Facsimile No.: (212) 269-5420
Attention: William Gannett, Esq.

(ii) if to the Initial Purchasers, at the address specified in Section 10(d)(i);

(iii) if to the Company, at the address as follows:

GCI, Inc.
2550 Denali Street, Suite 1000
Anchorage, Alaska 99503-2751
Facsimile No.: (907) 868-5676
Attention: John M. Lowber
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with a copy to:

Sherman & Howard, L.L.C.
633 Seventeenth Street, Suite 3000
Denver, CO 80202-3624
Facsimile No.: (303) 298-0940
Attention: Steven D. Miller, Esq.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; one Business Day after being timely delivered to a next-day air courier; and upon written confirmation, if sent by facsimile.

Copies of all such notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Trustee at the address and in the manner specified in such Indenture.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, the Holders and the Participating Broker-Dealers; provided, however, that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Notes in violation of the terms of the Purchase Agreement or the Indenture.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED ENTIRELY WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAW.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to

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achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) Notes Held by the Company or Its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Notes is required hereunder, Registrable Notes held by the Company or its affiliates (as such term is defined in Rule 405 under the Securities Act) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(k) Third-Party Beneficiaries. Holders of Registrable Notes and Participating Broker-Dealers are intended third-party beneficiaries of this Agreement, and this Agreement may be enforced by such Persons.

(l) Entire Agreement. This Agreement, together with the Purchase Agreement and the Indenture, is intended by the parties as a final and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein and any and all prior oral or written agreements, representations, or warranties, contracts, understandings, correspondence, conversations and memoranda between the Holders on the one hand and the Company on the other, or between or among any agents, representatives, parents, subsidiaries, affiliates, predecessors in interest or successors in interest with respect to the subject matter hereof and thereof are merged herein and replaced hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement
as of the date first written above.

GCI, INC.

By: /s/
Name: John M. Lowber
Title: Chief Financial Officer,
Secretary and Treasurer

By: /s/
Name: Wilson Hughes
Title: Vice President
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The foregoing Agreement is hereby
confirmed and accepted as of the date
first above written.

DEUTSCHE BANK SECURITIES INC.
JEFFERIES & COMPANY, INC.
CREDIT LYONNAIS SECURITIES (USA), INC. BLAYLOCK & PARTNERS, L.P.
FERRIS, BAKER WATTS, INCORPORATED
TD SECURITIES (USA), INC.

DEUTSCHE BANK SECURITIES INC.

By: /s/
Name: Prem Parameswaran
Title: Director

By: /s/
Name: Edward Dunn
Title: Director

<TABLE>

SUBSIDIARIES OF THE REGISTRANT

<CAPTION>

Business	Entity	Jurisdiction of Organization	Name Under Which Subsidiary Does
<S>		<C>	<C>
Alaska United Fiber System Partnership Alaska		Alaska	Alaska United Fiber System Partnership, United Fiber System, Alaska United
Fiber Hold Co., Inc.		Alaska	Fiber Hold Co., Inc., Fiber Hold Company
GCI Communication Corp.		Alaska	GCI, GCC, GCICC, GCI Communication Corp.
GCI, Inc.		Alaska	GCI, GCI, Inc.
GCI Cable, Inc.		Alaska	GCI Cable, GCI Cable, Inc.
GCI Fiber Co., Inc.		Alaska	GCI Fiber Co., Inc., GCI Fiber Company
GCI Holdings, Inc.		Alaska	GCI Holdings, Inc.
GCI Satellite Co., Inc. Company		Alaska	GCI Satellite Co., Inc., GCI Satellite
GCI Transport Co., Inc. Company		Alaska	GCI Transport Co., Inc., GCI Transport
Potter View Development Co., Inc.		Alaska	Potter View Development Co., Inc.
GCI Cablesystems of Alaska, Inc. Cable		Alaska	GCI Cablesystems of Alaska, Inc., Rogers
GCI American Cablesystems, Inc.		Delaware	GCI American Cablesystems, Inc.
GCI Fiber Communication, Co., Inc. Kanas		Alaska	GCI Fiber Communication, Co., Inc., GFCC,
WOK 1, Inc.		Alaska	WOK 1
WOK 2, Inc.		Alaska	WOK 2

</TABLE>

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
General Communication, Inc.:

We consent to the incorporation by reference in the registration statements (No. 33-60728 and No. 33-60222) on Forms S-8 of General Communication, Inc. of our report dated February 20, 2004, with respect to the consolidated balance sheets of General Communication, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003, which report appears in the December 31, 2003, annual report on Form 10-K of General Communication, Inc.

/s/

KPMG LLP

Anchorage, Alaska
March 10, 2004

SECTION 302 CERTIFICATION

I, Ronald A. Duncan, certify that:

1. I have reviewed this annual report on Form 10-K/A of General Communication, Inc. for the period ended December 31, 2003;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of December 31, 2003 based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 16, 2005

/s/
Ronald A. Duncan
President and Director

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SECTION 302 CERTIFICATION

I, John M. Lowber, certify that:

1. I have reviewed this annual report on Form 10-K/A of General Communication, Inc. for the period ended December 31, 2003;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we

have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of December 31, 2003 based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 16, 2005

/s/
John M. Lowber
Senior Vice President, Chief Financial
Officer, Secretary and Treasurer

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

In connection with the Annual Report of General Communication, Inc. (the "Company") on Form 10-K/A for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald A. Duncan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 16, 2005

/s/
Ronald A. Duncan
Chief Executive Officer
General Communication, Inc.

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

In connection with the Annual Report of General Communication, Inc. (the "Company") on Form 10-K/A for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Lowber, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: February 16, 2005

/s/
John M. Lowber
Chief Financial Officer
General Communication, Inc.

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