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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30,2013

OR

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

For the transition period from to

Commission File No. 0-15279

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

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

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

Not Applicable
Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) ☒ Yes ☐ No

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

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

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

The number of shares outstanding of the registrant's classes of common stock as of July 26, 2013, was:

37,525,137 shares of Class A common stock; and
3,166,314 shares of Class B common stock.

GENERAL COMMUNICATION, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2013

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Cautionary Statement Regarding Forward-Looking Statements

You should carefully review the information contained in this Quarterly Report, but should particularly consider any risk factors that we set forth in this Quarterly Report and in other reports or documents that we file from time to time with the Securities and Exchange Commission ("SEC"). In this Quarterly Report, in addition to historical information, we state our future strategies, plans, objectives or goals and our beliefs of future events and of our future operating results, financial position and cash flows. In some cases, you can identify these so-called "forward-looking statements" by words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "project," or "continue" or the negative of these words and other comparable words. All forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance, achievements, plans and objectives to differ materially from any future results, performance, achievements, plans and objectives expressed or implied by these forward-looking statements. In evaluating these statements, you should specifically consider various factors, including those identified under "Risk Factors" in Item 1A of our December 31, 2012 annual report on Form 10-K. Those factors may cause our actual results to differ materially from any of our forward-looking statements. For these forward looking statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

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

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

(Amounts in thousands)

ASSETS	June 30, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	$ 26,212	24,491
Receivables	167,465	150,436
Less allowance for doubtful receivables	2,810	3,215
Net receivables	164,655	147,221
Deferred income taxes	33,862	12,897
Prepaid expenses	10,929	8,441
Inventories	8,765	12,098
Other current assets	493	1,678
Total current assets	244,916	206,826
Property and equipment in service, net of depreciation	841,932	838,247
Construction in progress	104,897	94,418
Net property and equipment	946,829	932,665
Cable certificates	191,635	191,635
Goodwill	77,294	77,294
Wireless licenses	25,967	25,967
Restricted cash	20,151	30,933
Other intangible assets, net of amortization	15,721	16,560
Deferred loan and senior notes costs, net of amortization of $5,493 and $4,554 at June 30, 2013 and December 31, 2012, respectively	13,181	11,189
Other assets	14,293	13,453
Total other assets	358,242	367,031
Total assets	$ 1,549,987	1,506,522

See accompanying condensed notes to interim consolidated financial statements.

(Continued)

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

(Amounts in thousands)

LIABILITIES AND STOCKHOLDERS’ EQUITY	June 30, 2013	December 31, 2012
Current liabilities:		
Current maturities of obligations under long-term debt and capital leases	$ 8,120	7,923
Accounts payable	44,663	52,384
Deferred revenue	25,425	25,218
Accrued payroll and payroll related obligations	23,270	19,440
Accrued interest	6,761	6,786
Accrued liabilities	17,502	15,242
Subscriber deposits	1,499	1,366
Total current liabilities	127,240	128,359
Long-term debt, net	896,123	875,123
Obligations under capital leases, excluding current maturities	69,545	72,725
Obligation under capital lease due to related party, excluding current maturity	1,887	1,892
Deferred income taxes	151,814	123,661
Long-term deferred revenue	89,886	89,815
Other liabilities	25,899	25,511
Total liabilities	1,362,394	1,317,086
Commitments and contingencies		
Stockholders’ equity:		
Common stock (no par):		
Class A. Authorized 100,000 shares; issued 37,694 and 38,534 shares at June 30, 2013 and December 31, 2012, respectively; outstanding 37,604 and 38,357 shares at June 30, 2013 and December 31, 2012, respectively	10,832	22,703
Class B. Authorized 10,000 shares; issued and outstanding 3,167 and 3,169 shares at June 30, 2013 and December 31, 2012, respectively; convertible on a share-per-share basis into Class A common stock	2,674	2,676
Less cost of 90 and 177 Class A common shares held in treasury at June 30, 2013 and December 31, 2012, respectively	(866)	(1,617)
Paid-in capital	27,921	25,832
Retained earnings	115,008	107,584
Total General Communication, Inc. stockholders' equity	155,569	157,178
Non-controlling interests	32,024	32,258
Total stockholders’ equity	187,593	189,436
Total liabilities and stockholders’ equity	$ 1,549,987	1,506,522

See accompanying condensed notes to interim consolidated financial statements.

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

(Amounts in thousands, except per share amounts)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenues	$ 189,661	176,104	375,877	348,011
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	65,699	58,073	130,309	114,933
Selling, general and administrative expenses	63,871	60,048	128,418	123,030
Depreciation and amortization expense	34,396	33,350	68,395	65,730
Operating income	25,695	24,633	48,755	44,318
Other expense:				
Interest expense (including amortization of deferred loan fees)	(17,424)	(16,948)	(34,328)	(34,103)
Loss on extinguishment of debt	(103)	-	(103)	-
Other	53	88	53	(41)
Other expense	(17,474)	(16,860)	(34,378)	(34,144)
Income before income tax expense	8,221	7,773	14,377	10,174
Income tax expense	4,158	3,968	7,187	5,117
Net income	4,063	3,805	7,190	5,057
Net loss attributable to non-controlling interests	117	177	234	354
Net income attributable to General Communication, Inc.	$ 4,180	3,982	7,424	5,411
Basic net income attributable to General Communication, Inc. common stockholders per Class A common share	$ 0.10	0.10	0.18	0.13
Basic net income attributable to General Communication, Inc. common stockholders per Class B common share	$ 0.10	0.10	0.18	0.13
Diluted net income attributable to General Communication, Inc. common stockholders per Class A common share	$ 0.10	0.09	0.18	0.13
Diluted net income attributable to General Communication, Inc. common stockholders per Class B common share	$ 0.10	0.09	0.18	0.13

See accompanying condensed notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(Unaudited)

(Amounts in thousands)	Class A Common Stock	Class B Common Stock	Class A Shares Held in Treasury	Paid-in Capital	Retained Earnings	Non-controlling Interests	Total Stockholders' Equity
Balances at January 1, 2012	$ 26,179	2,679	(2,225)	32,795	97,911	16,308	173,647
Net income	-	-	-	-	5,411	(354)	5,057
Common stock repurchases and retirements	(12,184)	-	-	-	-	-	(12,184)
Shares issued under stock option plan	1,356	-	-	-	-	-	1,356
Issuance of restricted stock awards	10,557	-	-	(10,557)	-	-	-
Share-based compensation expense	-	-	-	2,831	-	-	2,831
Issuance of treasury shares related to deferred compensation payment	-	-	511	69	-	-	580
Other	1	(1)	7	-	-	-	7
Balances at June 30, 2012	$ 25,909	2,678	(1,707)	25,138	103,322	15,954	171,294
Balances at January 1, 2013	$ 22,703	2,676	(1,617)	25,832	107,584	32,258	189,436
Net income	-	-	-	-	7,424	(234)	7,190
Common stock repurchases and retirements	(13,192)	-	130	-	-	-	(13,062)
Shares issued under stock option plan	314	-	-	-	-	-	314
Issuance of restricted stock awards	1,005	-	-	(1,005)	-	-	-
Share-based compensation expense	-	-	-	3,094	-	-	3,094
Issuance of treasury shares related to deferred compensation payment	-	-	621	-	-	-	621
Other	2	(2)	-	-	-	-	-
Balances at June 30, 2013	$ 10,832	2,674	(866)	27,921	115,008	32,024	187,593

See accompanying condensed notes to interim consolidated financial statements.

GENERAL COMMUNICATION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(Unaudited)

(Amounts in thousands)

	2013	2012
Cash flows from operating activities:		
Net income	$ 7,190	5,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	68,395	65,730
Loss on extinguishment of debt	103	-
Deferred income tax expense	7,187	5,117
Share-based compensation expense	2,906	2,595
Other noncash income and expense items	2,939	3,695
Change in operating assets and liabilities	(12,404)	(29,054)
Net cash provided by operating activities	76,316	53,140
Cash flows from investing activities:		
Purchases of property and equipment	(87,355)	(59,950)
Restricted cash	10,782	1,106
Purchases of other assets and intangible assets	(2,306)	(3,274)
Grant proceeds	1,773	-
Other	390	-
Net cash used in investing activities	(76,716)	(62,118)
Cash flows from financing activities:		
Borrowing on Senior Credit Facility	110,000	30,000
Purchase of treasury stock to be retired	(13,062)	(12,184)
Repayment of debt and capital lease obligations	(93,921)	(20,790)
Borrowing of other long-term debt	1,780	3,249
Proceeds from stock option exercises	314	1,356
Payment of debt issuance costs	(2,990)	-
Other	-	76
Net cash provided by financing activities	2,121	1,707
Net increase (decrease) in cash and cash equivalents	1,721	(7,271)
Cash and cash equivalents at beginning of period	24,491	29,387
Cash and cash equivalents at end of period	$ 26,212	22,116

See accompanying condensed notes to interim consolidated financial statements.

The accompanying unaudited interim consolidated financial statements include the accounts of General Communication, Inc. ("GCI") and its direct and indirect subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. They should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2012, filed with the SEC on March 8, 2013, as part of our annual report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for an entire year or any other period.

(1) Business and Summary of Significant Accounting Principles

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

(a) Business

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

- Postpaid and prepaid wireless telephone services and sale of wireless telephone handsets and accessories,
- Video services,
- Internet access services,
- Wireless roaming for certain wireless carriers and origination and termination of wireline traffic for certain common carriers,
- Local and long-distance voice services,
- Data network services,
- Broadband services, including our SchoolAccess® offering to rural school districts, our ConnectMD® offering to rural hospitals and health clinics, and managed video conferencing,
- Managed services to certain commercial customers,
- Sales and service of dedicated communications systems and related equipment, and
- Lease, service arrangements and maintenance of capacity on our fiber optic cable systems used in the transmission of services within Alaska and between Alaska and the remaining United States and foreign countries.

(b) Principles of Consolidation

Our consolidated financial statements include the consolidated accounts of GCI and its wholly owned subsidiaries, as well as four variable interest entities ("VIEs") for which we are the primary beneficiary after providing certain loans and guarantees. These VIEs are Terra GCI Investment Fund, LLC ("TIF"), Terra GCI 2 Investment Fund, LLC ("TIF 2"), Terra GCI 2-USB Investment Fund, LLC ("TIF 2-USB") and Terra GCI 3 Investment Fund, LLC ("TIF 3"). TIF became a VIE on August 30, 2011. TIF 2 and TIF 2-USB became VIEs on October 3, 2012. TIF 3 became a VIE on December 11, 2012. We also include in our consolidated financial statements non-controlling interests in consolidated subsidiaries for which our ownership is less than 100 percent. All significant intercompany transactions between non-regulated affiliates of our company are eliminated. Intercompany transactions generated between regulated and non-regulated affiliates of our company are not eliminated in consolidation.

(c) Non-controlling Interests

Non-controlling interests represent the equity ownership interests in consolidated subsidiaries not owned by us. Non -controlling interests are adjusted for contributions, distributions, and loss attributable to the non-controlling interest partners of the consolidated entities. Income and loss is allocated to the non-controlling interests based on the respective governing documents.

(d) Recently Adopted Accounting Pronouncements

Accounting Standards Update ("ASU") 2012-02, "Intangibles – Goodwill and Other (Topic 350) : Testing Indefinite-Lived Intangible Assets for Impairment" allows an entity to assess qualitative factors (such as changes in management, key personnel, strategy, key technology or customers) to determine if it is more likely than not that an indefinite-lived intangible asset is impaired and thus whether it is necessary to perform the quantitative impairment test in accordance with GAAP. The adoption of ASU 2012-02 on January 1, 2013 did not have a material impact on our income statements, financial position or cash flows.

ASU 2012-04, "Technical Corrections and Improvements" includes amendments that cover a wide range of topics in the Accounting Standards Codification ("ASC"). These amendments include technical corrections and improvements to the ASC and conforming amendments related to fair value measurements. The adoption of ASU 2012-04 on January 1, 2013 did not have a material impact on our income statements, financial position or cash flows.

(e) Regulatory Accounting

We account for our regulated operations in accordance with the accounting principles for regulated enterprises. This accounting recognizes the economic effects of rate regulation by recording cost and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, plant and equipment is depreciated over lives approved by regulators and certain costs and obligations are deferred based upon approvals received from regulators to permit recovery of such amounts in future years. Our cost studies and depreciation rates for our regulated operations are subject to periodic audits that could result in a change to recorded revenues.

(f) Earnings per Common Share

We compute net income per share of Class A and Class B common stock using the "two class" method. Therefore, basic net income per share is computed by dividing net income applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common equivalent shares outstanding during the period. The computation of the dilutive net income per share of Class A common stock assumes the conversion of Class B common stock to Class A common stock, while the dilutive net income per share of Class B common stock does not assume the conversion of those shares. Additionally, in applying the "two-class" method, undistributed earnings are allocated to both common shares and participating securities. Our restricted stock grants are entitled to dividends and meet the criteria of a participating security.

Undistributed earnings for each year are allocated based on the contractual participation rights of Class A and Class B common shares as if the earnings for the year had been distributed. In accordance with our Articles of Incorporation, if and when dividends are declared on our common stock in accordance with Alaska corporate law, equivalent dividends shall be paid with respect to the shares of Class A and Class B common stock. Both classes of common stock have identical dividend rights and would therefore share equally in our net assets in the event of liquidation. As such, we have allocated undistributed earnings on a proportionate basis.

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):

	Three Months Ended June 30,			
	2013		2012	
	Class A	Class B	Class A	Class B
Basic net income per share:				
Numerator:				
Allocation of undistributed earnings	$ 3,862	318	$ 3,679	303
Denominator:				
Weighted average common shares outstanding	37,979	3,132	38,516	3,171
Basic net income attributable to GCI common stockholders per common share	$ 0.10	0.10	$ 0.10	0.10
Diluted net income per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 3,862	318	$ 3,679	303
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	318	-	303	-
Reallocation of undistributed earnings as a result of conversion of dilutive securities	-	(6)	-	(4)
Effect of share based compensation that may be settled in cash or shares	(60)	-	(33)	-
Net income adjusted for allocation of undistributed earnings and effect of share based compensation that may be settled in cash or shares	$ 4,120	312	$ 3,949	299
Denominator:				
Number of shares used in basic computation	37,979	3,132	38,516	3,171
Conversion of Class B to Class A common shares outstanding	3,132	-	3,171	-
Unexercised stock options	164	-	304	-
Effect of share based compensation that may be settled in cash or shares	90	-	158	-
Number of shares used in per share computation	41,365	3,132	42,149	3,171
Diluted net income attributable to GCI common stockholders per common share	$ 0.10	0.10	$ 0.09	0.09

	Six Months Ended June 30, 2013 Class A	2013 Class B	2012 Class A	2012 Class B
Basic net income per share:				
Numerator:				
Allocation of undistributed earnings	$ 6,855	569	$ 5,001	410
Denominator:				
Weighted average common shares outstanding	38,117	3,167	38,629	3,171
Basic net income attributable to GCI common stockholders per common share	$ 0.18	0.18	$ 0.13	0.13
Diluted net income per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 6,855	569	$ 5,001	410
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	569	-	410	-
Reallocation of undistributed earnings as a result of conversion of dilutive securities	-	(10)	-	(10)
Effect of share based compensation that may be settled in cash or shares	(94)	-	(118)	-
Net income adjusted for allocation of undistributed earnings and effect of share based compensation that may be settled in cash or shares	$ 7,330	559	$ 5,293	400
Denominator:				
Number of shares used in basic computation	38,117	3,167	38,629	3,171
Conversion of Class B to Class A common shares outstanding	3,167	-	3,171	-
Unexercised stock options	168	-	272	-
Effect of share based compensation that may be settled in cash or shares	90	-	158	-
Number of shares used in per share computation	41,542	3,167	42,230	3,171
Diluted net income attributable to GCI common stockholders per common share	$ 0.18	0.18	$ 0.13	0.13

Weighted average shares associated with outstanding share awards for the three and six months ended June 30, 2013 and 2012, which have been excluded from the computations of diluted EPS, because the effect of including these share awards would have been anti-dilutive, consist of the following (shares, in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares associated with anti-dilutive unexercised stock options	88	35	88	13

Shares associated with contingent awards for the three and six months ended June 30, 2013 and 2012, which have been excluded from the computations of diluted EPS because the contingencies of these awards have not been met at June 30, 2013 and 2012, consist of the following (shares, in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares associated with contingent awards	50	58	50	58

(g) Common Stock

Following are the changes in issued common stock for the six months ended June 30, 2013 and 2012 (shares, in thousands):

	Class A	Class B
Balances at December 31, 2011	39,296	3,171
Shares issued upon stock option exercises	188	-
Share awards issued	520	-
Shares retired	(869)	-
Shares acquired to settle minimum statutory tax withholding requirements	(291)	-
	(1)	-
Balances at June 30, 2012	38,843	3,171
Balances at December 31, 2012	38,534	3,169
Class B shares converted to Class A	2	(2)
Shares issued upon stock option exercises	51	-
Share awards issued	664	-
Shares retired	(1,538)	-
Shares acquired to settle minimum statutory tax withholding requirements	(17)	-
Other	(2)	-
Balances at June 30, 2013	37,694	3,167

GCI's Board of Directors has authorized a common stock buyback program for the repurchase of GCI's Class A and Class B common stock in order to reduce the outstanding shares of Class A and Class B common stock. We are authorized to increase our repurchase limit $5.0 million per quarter indefinitely and to use stock option exercise proceeds to repurchase additional shares. If stock repurchases are less than the total approved quarterly amount the difference may be carried forward and used to repurchase additional shares in future quarters. The cost of the repurchased common stock reduced Common Stock on our Consolidated Balance Sheets.

During the three months ended June 30, 2013 and 2012, we repurchased 735,000 and 6,000 shares, respectively, of our Class A common stock under the stock buyback program at a cost of $6.3 million and $0.1 million, respectively. During the six months ended June 30, 2013 and 2012, we repurchased 1.5 million, and 869,000 shares, respectively, of our Class A common stock under the stock buyback program at a cost of $12.9 million and $9.0 million, respectively. Under this program we are currently authorized to make up to $98.4 million of repurchases as of June 30, 2013. The repurchased stock was constructively retired as of June 30, 2013.

We expect to continue the repurchases for an indefinite period dependent on leverage, liquidity, company performance, and market conditions and subject to continued oversight by GCI's Board of Directors. The open market repurchases have complied and will continue to comply with the restrictions of Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

(h) Revenue Recognition

We recorded high cost support revenue under the Universal Service Fund ("USF") program of $10.5 million and $10.0 million for the three months ended June 30, 2013 and 2012, respectively, and $21.1 million for each of the six months ended June 30, 2013 and 2012. At June 30, 2013, we have $33.7 million in high cost accounts receivable.

(i) Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the allowance for doubtful receivables, unbilled revenues, accrual of the USF high cost remote area program support, share-based compensation, inventory at lower of cost or market, reserve for future customer credits, liability for incurred but not reported medical insurance claims, valuation allowances for deferred income tax assets, depreciable and amortizable lives of assets, the carrying value of long-lived assets including goodwill, cable certificates and wireless licenses, our effective tax rate, purchase price allocations, deferred lease expense, asset retirement obligations, the accrual of cost of goods sold (exclusive of depreciation and amortization expense) ("Cost of Goods Sold"), depreciation and the accrual of contingencies and litigation. Actual results could differ from those estimates.

(j) Classification of Taxes Collected from Customers

We report sales, use, excise, and value added taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between us and a customer on a net basis in our Consolidated Income Statements. The following are certain surcharges reported on a gross basis in our Consolidated Income Statements (amounts in thousands):

	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Surcharges reported gross	$ 1,205	1,399	2,432	2,880

(2) Consolidated Statements of Cash Flows Supplemental Disclosures

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

Six Months Ended June 30,	2013	2012
Increase in accounts receivable, net	$ (19,241)	(24,272)
Increase in prepaid expenses	(2,531)	(1,403)
(Increase) decrease in inventories	3,333	(8,501)
Decrease in other current assets	1,185	265
(Increase) decrease in other assets	(1,294)	2,768
Increase (decrease) in accounts payable	1,044	(7,084)
Increase in deferred revenues	207	3,015
Increase (decrease) in accrued payroll and payroll related obligations	3,732	(889)
Increase in accrued liabilities	2,881	4,304
Increase (decrease) in accrued interest	(25)	73
Increase in subscriber deposits	133	96
Increase (decrease) in long-term deferred revenue	(927)	4,274
Decrease in components of other long-term liabilities	(901)	(1,700)
Total change in operating assets and liabilities	$ (12,404)	(29,054)

The following items are for the six months ended June 30, 2013 and 2012 (amounts in thousands):

Net cash paid or received:	2013	2012
Interest paid, net of amounts capitalized	$ 35,139	34,671

The following items are non-cash investing and financing activities for the six months ended June 30, 2013 and 2012 (amounts in thousands):

	2013	2012
Non-cash additions for purchases of property and equipment	$ 13,740	12,680
Asset retirement obligation additions to property and equipment	$ 1,066	132
Deferred compensation distribution denominated in shares	$ 621	511

(3) Intangible Assets and Goodwill

In connection with our 2013 organizational realignment, it was necessary to reclassify goodwill to conform to the current period's segment presentation. See Note 7, "Segments" of this Form 10-Q for further discussion of our change in segments. Goodwill will be re-allocated to the segments using a relative fair value approach which is not yet final. Goodwill allocated to our Wireless and Wireline segments as of June 30, 2013 is preliminarily estimated at $15.7 million and $ 61.6 million, respectively. Goodwill allocated to our Wireless and Wireline segments as of June 30, 2012 is preliminarily estimated at $15.7 million and $ 59.2 million, respectively. Goodwill assigned to our Wireline segment increased in the fourth quarter of 2012 due to contingent payments to former shareholders of United Utilities, Inc., our wholly owned subsidiary. The amount recorded at December 31, 2012 was the final contingent payment.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Amortization expense	$ 1,431	1,324	2,887	2,625

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,	
2013	$ 5,478
2014	4,670
2015	3,347
2016	856
2017	146

(4) Long-Term Debt

On April 30, 2013, GCI Holdings, Inc. ("Holdings"), a wholly owned subsidiary of GCI, entered into a Third Amended and Restated Credit and Guarantee Agreement with Credit Agricole Corporate and Investment Bank, as administrative agent, Union Bank, N.A., as syndication agent, and Suntrust Bank, as documentation agent ("Amended Senior Credit Facility"). The Amended Senior Credit Facility provides up to $ 240.0 million in delayed draw term loans and a $150.0 million revolving credit facility. The Amended Senior Credit Facility replaced the Senior Credit Facility described in Note 6(c) of our December 31, 2012 annual report on Form 10-K. At closing Holdings borrowed $100.0 million of the delayed draw term loan and used the proceeds to pay down all of the outstanding debt under the previous Senior Credit Facility, pay loan fees and for general corporate purposes. The Amended Senior Credit Facility will mature on April 30, 2018.

The interest rate on our Amended Senior Credit Facility is London Interbank Offered Rate ("LIBOR") plus the following Applicable Margin set forth opposite each applicable Total Leverage Ratio below.

Total Leverage Ratio (as defined)	Applicable Margin
>=5.5	3.00%
>=5.0 but <5.5	2.75%
>=4.5 but <5.0	2.50%
>=4.0 but <4.5	2.25%
<4.0	2.00%

Borrowings under the Senior Credit Facility are subject to certain financial covenants and restrictions on indebtedness. Our Senior Credit Facility Total Leverage Ratio (as defined) may not exceed 6.5 to one through June 30, 2014 and shall not exceed 5.95 to one any time thereafter; the Senior Leverage Ratio (as defined) may not exceed 3.00 to one; and our Interest Coverage Ratio (as defined) must not be less than 2.50 to one at any time.

The terms of the Amended Senior Credit Facility include customary representations and warranties, customary affirmative and negative covenants and customary events of default. At any time after the occurrence of an event of default under the Amended Senior Credit Facility, the lenders may, among other options, declare any amounts outstanding under the Amended Senior Credit Facility immediately due and payable and terminate any commitment to make further loans under the Amended Senior Credit Facility. The obligations under the Amended Senior Credit Facility are secured by a security interest on substantially all of the assets of Holdings and the subsidiary guarantors, and on the stock of Holdings.

The amendment to our Senior Credit Facility in April 2013 was a partial substantial modification of our existing Senior Credit Facility resulting in a $0.1 million write-off of previously deferred loan fees on our Consolidated Income Statement for the three and six months ended June 30, 2013. Net deferred loan fees of $0.7 million associated with the portion of our previous Senior Credit Facility that was determined not to have been substantially modified are being amortized over the life of the Amended Senior Credit Facility.

In connection with the Amended Senior Credit Facility, we paid loan fees and other expenses of $0.4 million that were expensed immediately on our Consolidated Income Statement for the three and six months ended June 30, 2013 and $3.0 million that were deferred and are being amortized over the life of the Amended Senior Credit Facility.

In addition to the $100.0 million borrowed under the delayed draw term loan, we have borrowed $10.0 million under the revolving portion and have $0.5 million of letters of credit outstanding under the Amended Senior Credit Facility at June 30, 2013, which leaves $279.5 million available for borrowing as of June 30, 2013.

(5) 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. At June 30, 2013 and December 31, 2012, the fair values of cash and cash equivalents, net receivables, inventories, accounts payable, accrued payroll and payroll related obligations, accrued interest, accrued liabilities, and subscriber deposits approximate their carrying value due to the short-term nature of these financial instruments. The carrying amounts and approximate fair values of our financial instruments at June 30, 2013 and December 31, 2012 follow (amounts in thousands):

		June 30, 2013		December 31, 2012	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current and long-term debt and capital lease obligations	$	975,675	963,152	957,663	979,594
Other liabilities	$	25,899	25,069	25,511	24,766

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

Current and long-term debt and capital lease obligations: The fair values of the $325.0 million in aggregate principal amount of 6.75% Senior Notes due 2021 issued by GCI, Inc., our wholly owned subsidiary, the $425.0 million in aggregate principal amount of 8.63% Senior Notes due 2019 issued by GCI, Inc., Rural Utilities Service debt, CoBank mortgage note payable, and capital leases are based upon quoted market prices for the same or similar issues or on the current rates offered to us for the same remaining maturities. The fair value of our Amended Senior Credit Facility is estimated to approximate the carrying value because this instrument is subject to variable interest rates.

Other Liabilities: Lease escalation liabilities are valued at the discounted amount of future cash flows using quoted market prices on current rates offered to us. Deferred compensation liabilities are carried at fair value, which is the amount payable 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.

Fair Value Measurements
Assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 are as follows (amounts in thousands):

	Fair Value Measurement at Reporting Date Using			
June 30, 2013 Assets		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred compensation plan assets (mutual funds)	$	1,945	-	-
Total assets at fair value	$	1,945	-	-
December 31, 2012 Assets				
Deferred compensation plan assets (mutual funds)	$	1,758	-	-
Total assets at fair value	$	1,758	-	-

The valuation of our mutual funds is determined using quoted market prices in active markets utilizing market observable inputs.

(6) Stockholders’ Equity

Shared-Based Compensation

Our Amended and Restated 1986 Stock Option Plan ("Stock Option Plan"), provides for the grant of options and restricted stock awards (collectively "award") for a maximum of 15.7 million shares of GCI Class A common stock, subject to adjustment upon the occurrence of stock dividends, stock splits, mergers, consolidations or certain other changes in corporate structure or capitalization. If an award expires or terminates, the shares subject to the award will be available for further grants of awards under the Stock Option Plan. The Compensation Committee of GCI’s Board of Directors administers the Stock Option Plan. Substantially all restricted stock awards granted vest over periods of up to three years. There have been no options granted since 2010. The requisite service period of our awards is generally the same as the vesting period. Options granted pursuant to the Stock Option Plan are only exercisable if at the time of exercise the option holder is our employee, non-employee director, or a consultant or advisor working on our behalf. New shares are issued when restricted stock awards are granted or stock option agreements are exercised. We have 3.1 million shares available for grant under the Stock Option Plan at June 30, 2013.

The total fair value of options vesting during the six months ended June 30, 2013 and 2012, was $23,000 and $0.5 million, respectively. The total intrinsic values, determined as of the date of exercise, of options exercised in the six months ended June 30, 2013 and 2012, were $ 0.1 million and $0.8 million, respectively. We received $ 0.3 million and $1.4 million in cash from stock option exercises in the six months ended June 30, 2013 and 2012, respectively.

A summary of nonvested restricted stock award activity under the Stock Option Plan for the six months ended June 30, 2013, follows (share amounts in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2013	1,127	$ 9.59
Granted	664	$ 8.22
Vested	(119)	$ 7.87
Forfeited	(3)	$ 9.60
Nonvested at June 30, 2013	1,669	$ 9.15

The following is a summary of our share-based compensation expense for the six months ended June 30, 2013 and 2012 (amounts in thousands):

	2013	2012
Share-based compensation expense	$ 3,094	2,831
Adjustment to fair value of liability classified awards	(188)	(236)
Total share-based compensation expense	$ 2,906	2,595

Share-based compensation expense is classified as Selling, General and Administrative Expense in our Consolidated Income Statements. Unrecognized share-based compensation expense was $ 8.5 million relating to 1.7 million unvested restricted stock awards and $59,000 relating to 26,000 unvested stock options as of June 30, 2013. We expect to recognize share-based compensation expense over a weighted average period of 1 year for stock options and 2 years for restricted stock awards.

(7) Segments

Effective January 1, 2013, we refocused our business and now have two reportable segments, Wireless and Wireline. The Wireless segment’s revenue is derived from wholesale wireless services. The Wireline segment’s revenue includes all of our other revenue, specifically a full range of retail wireless, data, video and voice services to residential, local, national and global businesses, governmental entities and public and private educational institutions; wholesale data and voice services to other common carrier customers; Internet, data network and managed services to rural schools and health organizations and regulated voice services to residential and commercial customers in 61 rural communities primarily in Southwest Alaska. This change reflects our plan to strategically focus on our wireless network and is how our chief operating decision maker now measures performance and makes resource allocation decisions. Prior to 2013 we had operated our business under five reportable segments – Consumer, Network Access, Commercial, Managed Broadband and Regulated Operations. The historical segment data has been reclassified to conform to the revised reportable segments.

Wireless plan fee and excess usage revenues from external customers are allocated between our Wireless and Wireline segments. The Wireless segment records the Cost of Goods Sold related to wireless equipment sales up to an agreed-upon amount after which it is recorded in the Wireline segment. Selling, general and administrative expenses are charged to the Wireless segment based upon a shared services agreement. The remaining selling, general and administrative expenses are charged to the Wireline segment.

We evaluate performance and allocate resources based on earnings before depreciation and amortization expense, net interest expense, income taxes, share-based compensation expense, accretion expense, income or loss attributable to non-controlling interests, and non-cash contribution adjustment ("Adjusted EBITDA"). Management believes that this measure is useful to investors and other users of our financial information in evaluating operating profitability as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected earnings before depreciation and amortization, net interest expense, and income taxes ("EBITDA") are used to estimate current or prospective enterprise value. The accounting policies of the reportable segments are the same as those described in Note 1, "Business and Summary of Significant Accounting Policies" of this Form 10-Q. We have no intersegment sales.

We earn all revenues through sales of services and products within the United States. All of our long-lived assets are located within the United States of America, except approximately 82% of our undersea fiber optic cable systems which transit international waters and all of our satellite transponders.

Summarized financial information for our reportable segments for the three and six months ended June 30, 2013 and 2012 follows (amounts in thousands):

		Three Months Ended			Six Months Ended	
	Wireless	Wireline	Total Reportable Segments	Wireless	Wireline	Total Reportable Segments
June 30, 2013						
Revenues	$ 35,559	154,102	189,661	69,396	306,481	375,877
Adjusted EBITDA	$ 14,273	47,866	62,139	29,462	91,326	120,788
June 30, 2012						
Revenues	$ 30,360	145,744	176,104	59,804	288,207	348,011
Adjusted EBITDA	$ 12,590	46,831	59,421	25,663	88,587	114,250

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Reportable segment Adjusted EBITDA	$ 62,139	59,421	120,788	114,250
Less depreciation and amortization expense	(34,396)	(33,350)	(68,395)	(65,730)
Less share-based compensation expense	(1,647)	(865)	(2,906)	(2,595)
Less non-cash contribution expense	-	(160)	-	(960)
Less net loss attributable to non-controlling interests	(197)	(177)	(397)	(354)
Plus net loss (income) attributable to equity investment	(49)	(84)	(53)	47
Less accretion expense	(155)	(152)	(282)	(340)
Consolidated operating income	25,695	24,633	48,755	44,318
Less other expense	(17,474)	(16,860)	(34,378)	(34,144)
Consolidated income before income tax expense	$ 8,221	7,773	14,377	10,174

(8) Non-controlling Interests

We have entered into several arrangements under the New Markets Tax Credit (“NMTC”) program with US Bancorp to help fund a $59.3 million project to extend terrestrial broadband service for the first time to rural Northwestern Alaska communities via a high capacity hybrid fiber optic and microwave network. When completed, the project, called TERRA-Northwest (“TERRA-NW”), will connect to the TERRA-Southwest network and provide a high capacity backbone connection from the served communities to the Internet. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (“Act”) to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments. On August 30, 2011, we entered into the first arrangement (“NMTC #1”). On October 3, 2012, we entered into the second arrangement (“NMTC #2”). On December 11, 2012, we entered into the third arrangement (“NMTC #3”)

US Bancorp is the sole investor in TIF, TIF 2, TIF 2-USB and TIF 3, and as such, is entitled to substantially all of the benefits derived from the NMTCs. All of the loan proceeds to Unicom, Inc. (“Unicom”), our wholly owned subsidiary, net of syndication and arrangement fees, are restricted for use on TERRA-NW. Restricted cash of $20.2 million and $30.9 million was held by Unicom at June 30, 2013 and December 31, 2012, respectively, and is included in our Consolidated Balance Sheets. We began construction on TERRA-NW in 2012 and expect to complete all current phases of the project in 2014. We began offering service on Phase 1 of this new facility on January 3, 2013.

These transactions include put/call provisions whereby we may be obligated or entitled to repurchase US Bancorp’s interests in TIF, TIF 2, TIF 2-USB and/or TIF 3. We believe that US Bancorp will exercise the put options in August 2018, October 2019 and December 2019, at the end of the compliance periods for NMTC #1, NMTC #2 and NMTC #3, respectively. The NMTCs are subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. We are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangements. Non-compliance with applicable requirements could result in projected tax benefits not being realized by US Bancorp. We have agreed to indemnify US Bancorp for any loss or recapture of NMTCs until such time as our obligation to deliver tax benefits is relieved. There have been no credit recaptures as of June 30, 2013. The value attributed to the puts/calls is nominal.

We have determined that TIF, TIF 2, TIF 2-USB and TIF 3 are VIEs. The ongoing activities of the VIEs – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIEs. Management considered the contractual arrangements that obligate us to deliver tax benefits and provide various other guarantees to US Bancorp; US Bancorp’s lack of a material interest in the underlying economics of the project; and the fact that we are obligated to absorb losses of the VIEs. We concluded that we are the primary beneficiary of each and consolidated the VIEs in accordance with the accounting standard for consolidation.

US Bancorp's contributions, net of syndication fees and other direct costs incurred in structuring the NMTC arrangements, are included in Non-controlling Interests on the Consolidated Balance Sheets. Incremental costs to maintain the structure during the compliance period are recognized as incurred to selling, general and administrative expense.

The following table summarizes the impact of the VIEs consolidated as of June 30, 2013 and December 31, 2012 (amounts in thousands):

June 30, 2013

Assets			Equity		
Carrying Value		Classification	Carrying Value		Classification
$	11,566	Restricted cash[1]	$	32,024	Non-controlling interests
	21,389	Construction in progress		931	Retained earnings attributable to General Communication, Inc. common stockholders
$	32,955		$	32,955	

December 31, 2012

Assets			Equity		
Carrying Value		Classification	Carrying Value		Classification
$	22,348	Restricted cash[1]	$	32,258	Non-controlling interests
	10,607	Construction in progress		697	Retained earnings attributable to General Communication, Inc. common stockholders
$	32,955		$	32,955	

[1] An additional $8.6 million in restricted cash is held at Unicom for use only on TERRA-NW.

(9) Commitments and Contingencies

TERRA-NW
As a requirement of NMTC #1, NMTC #2 and NMTC #3, we have guaranteed completion of TERRA-NW by December 31, 2014. We plan to fund an additional $20.7 million for TERRA-NW. We began construction in 2012 and expect to complete all current phases of the project in 2014. We began offering service on Phase 1 of this new facility on January 3, 2013.

Denali Media Holdings
On November 9, 2012, we entered into asset purchase agreements, pursuant to which Denali Media Holdings Corp., a wholly owned subsidiary of GCI, through its wholly owned subsidiaries, Denali Media Anchorage, Corp. and Denali Media Southeast, Corp., agreed to purchase three Alaska broadcast stations: CBS affiliate KTVA-TV of Anchorage and NBC affiliates KATH-TV in Juneau and KSCT-TV of Sitka, for a total of $7.6 million ("Media Agreements"). The Media Agreements are subject to the satisfaction of customary closing conditions, including the receipt of required governmental approvals from the FCC. The transactions are expected to close in the second half of 2013.

(10) Subsequent Events

On July 22, 2013, we closed the transaction under the Asset Purchase and Contribution Agreement (“Wireless Agreement”) entered into on June 4, 2012 by and among Alaska Communications Systems Group, Inc. (“ACS”), GCI, ACS Wireless, Inc., a wholly owned subsidiary of ACS (“ACS Member”), GCI Wireless Holdings, LLC, a wholly owned subsidiary of GCI, and The Alaska Wireless Network, LLC (“AWN”), pursuant to which the parties agreed to contribute the respective wireless network assets of GCI, ACS and their affiliates to AWN. This transaction provides a robust, statewide network with the spectrum mix, scale, advanced technology and cost structure necessary to compete with Verizon Wireless and AT&T Mobility, LLC in Alaska. AWN will provide wholesale services to GCI and ACS. GCI and ACS will use the AWN network in order to continue to sell services to their respective retail customers. GCI and ACS will continue to compete against each other and other wireless providers in the retail market.

Under the terms of the Wireless Agreement, we purchased certain wireless network assets from ACS and its affiliates for $100.0 million and we contributed the purchased assets, our wireless network assets and certain rights to use capacity to AWN. ACS contributed its remaining wireless network assets and certain rights to use capacity to AWN. Upon the contribution of assets to AWN, the ACS Member owns one-third of AWN and we own two-thirds of AWN. The ACS Member will be entitled to receive preferential cash distributions totaling $190.0 million over the first four years of AWN’s operations and we will be entitled to all remaining cash distributions during that period. Following the initial four year period, we and the ACS Member will receive distributions proportional to our ownership interests. We are evaluating the accounting treatment for this transaction.

Upon closing the AWN transaction our wireless network assets contributed to AWN were released from the lien under our Amended Senior Credit Facility.

We funded the purchase of wireless network assets from ACS and its affiliates by borrowing $100.0 million on our Amended Senior Credit Facility delayed draw term loan on July 17, 2013.

Part I

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In the following discussion, General Communication, Inc. ("GCI") 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 ("GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to the allowance for doubtful receivables, unbilled revenues, accrual of the Universal Service Fund ("USF") high cost remote area program support, share-based compensation, inventory at lower of cost or market, reserve for future customer credits, liability for incurred but not reported medical insurance claims, valuation allowances for deferred income tax assets, depreciable and amortizable lives of assets, the carrying value of long-lived assets including goodwill, cable certificates and wireless licenses, our effective tax rate, purchase price allocations, deferred lease expense, asset retirement obligations, the accrual of cost of goods sold (exclusive of depreciation and amortization expense) ("Cost of Goods Sold"), depreciation, and accrual of contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. See also our "Cautionary Statement Regarding Forward-Looking Statements."

General Overview

Through our focus on long-term results, acquisitions, and strategic capital investments, we strive to consistently grow our revenues and expand our margins. We have historically met our cash needs for operations, 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.

As it has been for the last several years the national economy continues to see persistent unemployment and slow economic growth and even once stabilized is not expected to return quickly to a period of strong growth. In addition, the automatic spending cuts enacted by Congress known as "sequestration" went into effect beginning March 1, 2013. We are not able to predict the effect that sequestration or any form of additional federal spending cuts or tax reform will have on the national or Alaska economy or on us. Should the national economy deteriorate further, it could lead to reductions in consumer spending which could impact our revenue growth.

We believe the Alaska economy continues to perform well compared to most other states at the current time. On April 14, 2013, the Alaska Legislature approved a reduction to the state's oil production taxes as a strategy to increase output from existing oil fields, which have been on the decline since 1988. The State of Alaska has large cash reserves that should enable it to maintain its budget for at least the short-term. This cash reserve is important for Alaska's economy as the State is the largest employer and second largest source of gross state product. The majority of our revenue is driven by the strength of the Alaska economy which appears to have weathered the economic pressures relatively well to date. Nonetheless we cannot predict the impact the nation's or the state's future economic situation may have on us in the future.

Effective January 1, 2013, we refocused our business and now have two reportable segments, Wireless and Wireline. The Wireless segment's revenue is derived from wholesale wireless services. The Wireline segment's revenue includes all of our other revenue. This change reflects our plan to strategically focus on our wireless network and is how our chief operating decision maker now measures performance and makes resource allocation decisions. Prior to 2013, we had operated our business under five reportable segments – Consumer, Network Access, Commercial, Managed Broadband and Regulated Operations. The historical segment data has been reclassified to conform to the revised reportable segments.

On June 4, 2012, we entered into an Asset Purchase and Contribution Agreement ("Wireless Agreement") by and among Alaska Communications Systems Group, Inc. ("ACS"), GCI, ACS Wireless, Inc., a wholly owned subsidiary of ACS ("ACS Member"), GCI Wireless Holdings, LLC, a wholly owned subsidiary of GCI, and The Alaska Wireless Network, LLC ("AWN"), pursuant to which the parties agreed to contribute the respective wireless network assets of GCI, ACS and their affiliates to AWN. We closed the AWN transaction on July 22, 2013. This transaction provides a robust, statewide network with the spectrum mix, scale, advanced technology and cost structure necessary to compete with Verizon Wireless ("Verizon") and AT&T Mobility, LLC in Alaska. AWN will provide wholesale services to GCI and ACS. GCI and ACS will use the AWN network in order to continue to sell services to their respective retail customers. GCI and ACS will continue to compete against each other and other wireless providers in the retail market.

Under the terms of the Wireless Agreement, we purchased certain wireless network assets from ACS and its affiliates for $100.0 million and we contributed the purchased assets, our wireless network assets and certain rights to use capacity to AWN. ACS also contributed its remaining wireless network assets and certain rights to use capacity to AWN. The ACS Member owns one-third of AWN and we own two-thirds of AWN. The ACS Member is entitled to receive preferential cash distributions totaling $190.0 million over the first four years of AWN's operations and we are entitled to all remaining cash distributions during that period. Following the initial four year period, we and the ACS Member will receive distributions proportional to our ownership interests. As part of closing, we borrowed $100.0 million under our Amended Senior Credit Facility to fund the purchase of wireless network assets from ACS. We are finalizing the accounting treatment for this transaction.

In November 2010, Verizon acquired a license for 700 MHz wireless spectrum covering Alaska. In June 2013, Verizon began providing service on its Long Term Evolution ("LTE") network in Anchorage, Fairbanks, Juneau and the Matanuska-Susitna Borough. The service provided by Verizon's LTE network is limited to data only and we expect Verizon voice roaming to continue with its existing Alaska roaming providers. We cannot predict the potential impact this new competition may have on us in the future.

Results of Operations

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Percentage Change[1] 2013 vs. 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Percentage Change[1] 2013 vs. 2012
Statements of Operations Data:						
Revenues:						
Wireless segment	19%	17%	17%	18%	17%	16%
Wireline segment	81%	83%	6%	82%	83%	6%
Total revenues	100%	100%	8%	100%	100%	8%
Selling, general and administrative expenses	34%	34%	6%	34%	35%	4%
Depreciation and amortization expense	18%	19%	3%	18%	19%	4%
Operating income	14%	14%	4%	13%	13%	10%
Other expense, net	9%	10%	4%	9%	10%	1%
Income before income taxes	4%	4%	6%	4%	3%	41%
Net income	2%	2%	7%	2%	1%	42%
Net loss attributable to the non-controlling interest	0%	0%	(34%)	0%	0%	(34%)
Net income attributable to GCI	2%	2%	5%	2%	2%	37%

[1] Percentage change in underlying data

We evaluate performance and allocate resources based on earnings before depreciation and amortization expense, net interest expense, income taxes, share-based compensation expense, accretion expense, income or loss attributable to non-controlling interest and non-cash contribution adjustment ("Adjusted EBITDA"). Management believes that this measure is useful to investors and other users of our financial information in evaluating operating profitability as an analytical indicator of income generated to service debt and fund capital expenditures. In addition, multiples of current or projected earnings before depreciation and amortization expense, net interest expense and income taxes ("EBITDA") are used to estimate current or prospective enterprise value. See note 7 in the "Condensed Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated Adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Overview of Revenues and Cost of Goods Sold

Total revenues increased 8% from $176.1 million in the three months ended June 30, 2012 to $189.7 million in the same period of 2013. Total revenues increased 8% from $348.0 million in the six months ended June 30, 2012 to $375.9 million in the same period of 2013. Revenue increased in both of our segments for the three and six months ended June 30, 2013 compared to the same periods in 2012. See the discussion below for more information by segment.

Total Cost of Goods Sold increased 13% from $58.1 million in the three months ended June 30, 2012 to $65.7 million in the same period of 2013. Total Cost of Goods Sold increased 13% from $114.9 million in the six months ended June 30, 2012 to $130.3 million in the same period of 2013. Cost of Goods Sold increased in both of our segments for the three and six months ended June 30, 2013 compared to the same periods in 2012. See the discussion below for more information by segment.

Wireless Segment Overview

Wireless segment revenue, representing 19% and 18% of consolidated revenues; Wireless segment Cost of Goods Sold, representing 25% and 24% of consolidated Cost of Goods Sold; and, Wireless segment Adjusted EBITDA, representing 23% and 24% of consolidated Adjusted EBITDA for the three and six months ended June 30, 2013, respectively, is as follows (amounts in thousands):

	Three Months Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
	2013	2012	Change	2013	2012	Change
Revenue	$ 35,559	30,360	17%	69,396	59,804	16%
Cost of Goods Sold	$ 16,573	13,970	19%	30,985	26,541	17%
Adjusted EBITDA	$ 14,273	12,590	13%	29,462	25,663	15%

See note 7 in the "Condensed Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated Adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Wireless Segment Revenues

The increase in revenue is primarily due to the following:

- A $3.2 million or 49% and a $6.1 million or 51% increase in roaming revenue for the three and six months ended June 30, 2013 when compared to the same periods in 2012, respectively, is primarily due to an increase in data usage by our roaming partners' customers, and
- A $1.4 million or 13% and a $3.4 million or 17% increase in non-Lifeline retail revenue for the three and six months ended June 30, 2013 when compared to the same periods in 2012, respectively, is primarily due to our retail wireless subscribers' selection of plans that offer more data and an increase in our retail non-Lifeline wireless subscribers. The Wireless segment recognizes 70% of retail wireless plan fee revenue with the remaining 30% recognized in Wireline segment – Consumer or Wireline segment – Business Services depending on whether the revenue is generated by a residential or commercial subscriber.

Wireless Segment Cost of Goods Sold

The Cost of Goods Sold increase for the three and six months ended June 30, 2013 compared to the same periods in 2012 is primarily due to an increase in wireless handset equipment costs and costs of operating the wireless network. The Wireless segment provides a subsidy to Wireline segment – Consumer and Wireline segment – Business Services to offset the cost of handsets sold to retail wireless subscribers. Our wireless handset equipment costs have increased because a higher percentage of our handsets sold have been premium smartphones which have a higher cost.

Wireless Segment Adjusted EBITDA

The increase in Adjusted EBITDA for the three and six months ended June 30, 2013 when compared to the same periods in 2012 is primarily due to increased revenue as described above in "Wireless Segment Revenues." This increase was partially offset by increased Cost of Goods Sold as described above in "Wireless Segment Cost of Goods Sold."

Wireline Segment Overview

Our Wireline segment offers services and products under three major customer groups as follows:

	Customer Group		
Wireline Segment Services and Products	Consumer	Business Services	Managed Broadband
Retail wireless	X	X	
Data:			
Internet	X	X	X
Data networks		X	X
Managed services		X	X
Video	X	X	
Voice:			
Long-distance	X	X	X
Local access	X	X	X

- Consumer – we offer a full range of retail wireless, data, video and voice services to residential customers.
- Business Services - we offer a full range of retail wireless, data, video and voice services to local, national and global businesses, governmental entities and public and private educational institutions and wholesale data and voice services to other common carrier customers.
- Managed Broadband – we offer Internet, data network and managed services to rural schools and health organizations and regulated voice services to residential and commercial customers in 61 rural communities primarily in Southwest Alaska.

Wireline segment revenue represented 81% and 82% of consolidated revenues for the three and six months ended June 30, 2013, respectively. The components of Wireline segment revenue are as follows (amounts in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Percentage Change	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Percentage Change
Consumer						
Wireless	$ 7,180	6,847	5%	13,726	12,893	6%
Data	24,413	21,523	13%	48,469	41,972	15%
Video	27,740	29,235	(5%)	55,701	58,257	(4%)
Voice	9,141	10,399	(12%)	18,671	21,659	(14%)
Business Services						
Wireless	764	791	(3%)	1,443	1,454	(1%)
Data	39,394	34,308	15%	79,530	69,441	15%
Video	3,467	3,236	7%	6,592	6,356	4%
Voice	13,253	12,279	8%	25,580	24,483	4%
Managed Broadband						
Data	23,370	21,717	8%	46,050	40,746	13%
Voice	5,380	5,409	(1%)	10,719	10,946	(2%)
Total Wireline segment revenue	$ 154,102	145,744	6%	306,481	288,207	6%

Wireline segment Cost of Goods Sold represented 75% and 76% of consolidated Cost of Goods Sold for the three and six months ended June 30, 2013, respectively. The components of Wireline segment Cost of Goods Sold are as follows (amounts in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Percentage Change	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Percentage Change
Consumer	$ 19,437	19,309	1%	39,627	37,799	5%
Business Services	23,541	18,996	24%	48,077	38,276	26%
Managed Broadband	6,148	5,798	6%	11,620	12,317	(6%)
Total Wireline segment Cost of Goods Sold	$ 49,126	44,103	11%	99,324	88,392	12%

Wireline segment Adjusted EBITDA, which represented 77% and 76% of consolidated Adjusted EBITDA for the three and six months ended June 30, 2013, respectively, is as follows (amounts in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Percentage Change	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Percentage Change
Wireline segment Adjusted EBITDA	$ 47,866	46,831	2%	$ 91,326	88,587	3%

See note 7 in the "Condensed Notes to Interim Consolidated Financial Statements" included in Part I of this quarterly report on Form 10-Q for a reconciliation of consolidated Adjusted EBITDA, a non-GAAP financial measure, to consolidated income before income taxes.

Selected key performance indicators for our Wireline segment follow:

	June 30, 2013	June 30, 2012	Percentage Change
Consumer			
Data:			
Cable modem subscribers[1]	115,600	111,700	3%
Video:			
Basic subscribers[2]	119,600	122,500	(2%)
Digital programming tier subscribers[3]	69,500	72,200	(4%)
HD/DVR converter boxes[4]	89,900	88,400	2%
Homes passed	245,100	242,400	1%
Average monthly gross revenue per subscriber - quarter-to-date[5]	$ 76.47	$ 78.89	(3%)
Average monthly gross revenue per subscriber - year-to-date[6]	$ 76.51	$ 78.32	(2%)
Voice:			
Total local access lines in service[7]	65,200	74,400	(12%)
Local access lines in service on GCI facilities[7]	60,800	69,300	(12%)
Business Services			
Data:			
Cable modem subscribers[1]	14,100	11,800	19%
Voice:			
Total local access lines in service[7]	50,500	51,800	(3%)
Local access lines in service on GCI facilities[7]	35,600	30,200	18%
Combined Consumer and Business Services			
Wireless			
Consumer Lifeline wireless lines in service[8]	32,600	39,900	(18%)
Consumer Non-Lifeline wireless lines in service[9]	92,800	84,900	9%
Business Services Non-Lifeline wireless lines in service[9]	17,500	16,200	8%
Total wireless lines in service	142,900	141,000	1%
Average monthly gross revenue per subscriber - quarter-to-date[10]	$ 49.99	$ 47.29	6%
Average monthly gross revenue per subscriber - year-to-date[11]	$ 49.63	$ 46.90	6%

[1] A cable modem subscriber is defined by the purchase of cable modem service regardless of the level of service purchased. If one entity purchases multiple cable modem service access points, each access point is counted as a subscriber. Cable modem subscribers may also be video basic subscribers though basic video service is not required to receive cable modem service.
[2] A basic subscriber is defined as one basic tier of service delivered to an address or separate subunits thereof regardless of the number of outlets purchased.
[3] A digital programming tier subscriber is defined as one digital programming tier of service delivered to an address or separate subunits thereof regardless of the number of outlets or digital programming tiers purchased. Digital programming tier subscribers are a subset of basic subscribers.
[4] A high-definition/digital video recorder ("HD/DVR") converter box is defined as one box rented by a digital programming or basic tier subscriber. A digital programming or basic tier subscriber is not required to rent an HD/DVR converter box to receive service.
[5] Applicable average monthly video revenues divided by the average number of basic subscribers at the beginning and end of each month in the period ("Video ARPU") for the three months ended June 30, 2013 and 2012.
[6] Video ARPU for the six months ended June 30, 2013 and 2012.
[7] A local access line in service is defined as a revenue generating circuit or channel connecting a customer to the public switched telephone network.
[8] A Lifeline wireless line in service is defined as a revenue generating wireless device that is eligible for Lifeline support. The Universal Service Fund's Lifeline program is administered by the Universal Service Administrative Company and is designed to ensure that quality telecommunications services are available to low-income customers at affordable rates.
[9] A non-Lifeline wireless line in service is defined as a revenue generating wireless device that is not eligible for Lifeline support.
[10] Average monthly wireless revenues, excluding those from other common carrier customers, divided by the average of wireless subscribers at the beginning and end of each month in the period ("Wireless ARPU"). Revenue used for this calculation includes Wireline segment - Consumer - Wireless and Wireline segment - Business Services - Wireless revenues for the three months ended June 30, 2013 and 2012.
[11] Wireless ARPU for the six months ended June 30, 2013 and 2013. Revenue used for this calculation includes Wireline segment - Consumer - Wireless and Wireline segment - Business Services - Wireless revenues.

Wireline Segment Revenues

Consumer
The increase in data revenue is primarily due to a $2.9 million or 16% and $6.3 million or 18% increase in cable modem revenue for the three and six months ended June 30, 2013 when compared to the same periods in 2012, respectively, due to increased subscribers and our subscribers' selection of plans that offer higher speeds and higher usage limits.

Business Services
Business Services data revenue is comprised of monthly recurring charges for data services and charges billed on a time and materials basis largely for personnel providing on-site customer support. This latter category can vary significantly based on project activity.

The increase in data revenue is primarily due to a $5.6 million or 51% and $11.8 million or 53% increase in managed services project revenue for the three and six months ended June 30, 2013 when compared to the same periods in 2012, respectively, due to special project work.

Managed Broadband
The increase in data revenue is primarily due to a $1.7 million or 8% and $5.3 million or 14% increase in monthly contract revenue for the three and six months ended June 30, 2013 when compared to the same periods in 2012, respectively, due to new ConnectMD® and SchoolAccess® customers and increased data network capacity purchased by our existing ConnectMD® and SchoolAccess® customers. The increase in data revenue is partially offset by the absence of $1.6 million in revenue that was recognized in the second quarter of 2012 as a result of the successful appeal of previously denied funding from USAC.

Wireline Segment Cost of Goods Sold

Consumer
The increase in Cost of Goods Sold for the six months ended June 30, 2013 when compared to the same period in 2012 is primarily due to an increase in video Cost of Goods Sold primarily due to programming changes.

Business Services
The increase in Cost of Goods Sold is primarily due to a $5.2 million or 63% and a $11.0 million or 64% increase in managed services project Cost of Goods Sold for the three and six months ended June 30, 2013 when compared to the same period in 2012, respectively, related to the increased revenue described above in "Wireline Segment Revenues – Business Services."

Wireline Segment Adjusted EBITDA
The increase in Adjusted EBITDA for the three and six months ended June 30, 2013 when compared to the same periods in 2012 is primarily due to increased revenue as described above in "Wireline Segment Revenues." This increase was partially offset by increased Cost of Goods Sold as described above in "Wireline Segment Cost of Goods Sold" and an increase in selling, general and administrative expense.

Selling, General and Administrative Expenses
Selling, general and administrative expenses increased $3.8 million to $63.9 million for the three months ended June 30, 2013. Selling, general and administrative expenses increased $5.4 million to $128.4 million for the six months ended June 30, 2013. Individually significant items contributing to the increase include:

- A $1.8 million and $3.0 million increase in labor costs for the three and six months ended June 30, 2013, respectively, when compared to the same periods in 2012,
- A $0.8 million and $1.7 million increase in contract labor related to non-capitalizable network projects for our ConnectMD ® and SchoolAccess® customers for the three and six months ended June 30, 2013, respectively, when compared to the same periods in 2012, and
- A $0.7 million increase in share-based compensation expense for the three months ended June 30, 2013 when compared to the same period in 2012.

Increases for the six months ended June 30, 2013 were partially offset by a $1.0 million decrease in contribution expense when compared to the same period in 2012 due to the absence of new donated services to the University of Alaska that had occurred in 2012.

As a percentage of total revenues, selling, general and administrative expenses were 34% for the three months ended June 30, 2013 and 2012. As a percentage of total revenues, selling, general and administrative expenses decreased from 35% for the six months ended June 30, 2012 to 34% for the six months ended June 30, 2013.

Depreciation and Amortization Expense
Depreciation and amortization expense increased $1.0 million to $34.4 million and $2.7 million to $68.4 million in the three and six months ended June 30, 2013, respectively. These increases are primarily due to new assets placed in service in the last six months of 2012 and in 2013, partially offset by assets which became fully depreciated during the last six months of 2012 and in 2013.

Other Expense, Net
Other expense, net of other income, increased $0.6 million to $17.5 million and $0.2 million to $34.4 million in the three and six months ended June 30, 2013, respectively, primarily due to a write-off of loan fees related to the refinancing of our Senior Credit Facility.

Income Tax Expense
Income tax expense totaled $4.2 million and $4.0 million in the three months ended June 30, 2013 and 2012, respectively. Our effective income tax rate was 51% and 51% in the three months ended June 30, 2013 and 2012, respectively.

Income tax expense totaled $7.2 million and $5.1 million in the six months ended June 30, 2013 and 2012, respectively. Our effective income tax rate was 50% in the six months ended June 30, 2013 and 2012.

At June 30, 2013, we have income tax net operating loss carryforwards of $277 .5 million that will begin expiring in 2020 if not utilized, and alternative minimum tax credit carryforwards of $1.9 million available to offset regular income taxes payable in future years.

We have recorded deferred tax assets of $114.1 million associated with income tax net operating losses that were generated from 2000 to 2011 and that expire from 2020 to 2031, respectively, and with charitable contributions that were converted to net operating losses in 2004 through 2007, and that expire in 2024 through 2027, respectively.

Tax benefits associated with recorded deferred tax assets are considered to be more likely than not realizable through future reversals of existing taxable temporary differences and future taxable income exclusive of reversing temporary differences and carryforwards. The amount of deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced which would result in additional income tax expense. We estimate that our effective annual income tax rate for financial statement purposes will be 48% to 53% in the year ending December 31, 2013, primarily due to the large amount of permanent differences expected in 2013 as compared to our net income before income tax expense.

Liquidity and Capital Resources

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

On April 30, 2013, GCI Holdings, Inc., a wholly owned subsidiary of GCI, entered into a Third Amended and Restated Credit and Guarantee Agreement with Credit Agricole Corporate and Investment Bank, as administrative agent, Union Bank, N.A., as syndication agent, and Suntrust Bank, as documentation agent ("Amended Senior Credit Facility"). The Amended Senior Credit Facility provides up to $240.0 million in delayed draw term loans and a $150.0 million revolving credit facility. The Amended Senior Credit Facility replaced the Senior Credit Facility described in Note 6(c) of our December 31, 2012 annual report on Form 10-K. The interest rate under the Amended Senior Credit Facility is London Interbank Offered Rate (“LIBOR”) plus a margin dependent upon our Total Leverage Ratio ranging from 2% to 3%. The Amended Senior Credit Facility will mature on April 30, 2018. The terms of the Amended Senior Credit Facility include customary representations and warranties, customary affirmative and negative covenants and customary events of default. At any time after the occurrence of an event of default under the Amended Senior Credit Facility, the lenders may, among other options, declare any amounts outstanding under the Amended Senior Credit Facility immediately due and payable and terminate any commitment to make further loans under the Amended Senior Credit Facility. The obligations under the Amended Senior Credit Facility are secured by a security interest on substantially all of the assets of GCI Holdings, Inc. and the subsidiary guarantors, and on the stock of GCI Holdings, Inc.

As discussed in the General Overview section of this Item 2, on July 22, 2013, we closed the AWN transaction. Under the terms of the Wireless Agreement, we agreed to purchase certain wireless network assets from ACS and its affiliates for $100.0 million and we agreed to contribute the purchased assets, our wireless network assets and certain rights to use capacity to AWN. We funded the purchase of wireless network assets by borrowing $100.0 million under our Amended Senior Credit Facility on July 17, 2013. We have also agreed to provide AWN a $50.0 million working capital line of credit.

We will manage AWN and receive a management fee of 4% of free cash flow as defined in the Wireless Agreement in the first two years of operations. The management fee will increase to 6% in the third and fourth years of the agreement and 8% after the fourth year of the agreement. The management fee will be paid before distributions to the owners.

We have entered into several financing arrangements under the New Markets Tax Credit (“NMTC”) program which have provided a total of $32.3 million in net cash to help fund the extension of terrestrial broadband service for the first time to rural Northwestern Alaska communities via a high capacity hybrid fiber optic and microwave network. When completed, the project, called TERRA-NW, will connect to our TERRA-Southwest network and provide a high capacity backbone connection from the served communities to the Internet. We began construction on TERRA-NW in 2012 and expect to complete all current phases of the project in 2014. We placed into service Phase 1 of the TERRA-NW project on January 3, 2013. The total net cash received under the NMTC program is recorded as Restricted Cash on our Consolidated Balance Sheets. We have used $21.4 million of Restricted Cash to fund cumulative TERRA-NW capital expenditures through June 30, 2013. We plan to fund an additional $20.7 million for TERRA-NW.

In November 2012 we entered into the Media Agreements pursuant to which we agreed to purchase three Alaska broadcast stations for a total of $7.6 million. The Media Agreements are subject to the satisfaction of customary closing conditions, including the receipt of required governmental approvals from the FCC. The transactions are expected to close in the second half of 2013.

While our short-term and long-term financing abilities are believed to be adequate as a supplement to internally generated cash flows to fund capital expenditures and acquisitions as opportunities arise, turmoil in the global financial markets may negatively impact our ability to further access the capital markets in a timely manner and on attractive terms, which may have a negative impact on our ability to grow our business.

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

Our net cash flows provided by and (used for) operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012, are summarized as follows (amounts in thousands):

	Six Months Ended June 30, 2013	2012
Operating activities	$ 76,316	53,140
Investing activities	(76,716)	(62,118)
Financing activities	2,121	1,707
Net increase (decrease) in cash and cash equivalents	$ 1,721	(7,271)

Operating Activities
The increase in cash flows provided by operating activities for the six months ended June 30, 2013, as compared to the same period in 2012, is due to a decrease in capital projects accrued in accounts payable.

Investing Activities
Net cash used in investing activities consists primarily of cash paid for capital expenditures. Our most significant recurring investing activity has been capital expenditures and we expect that this will continue in the future. A significant portion of our capital expenditures is based on the level of customer growth and the technology being deployed.

Our cash expenditures for property and equipment, including construction in progress, totaled $87.4 million and $60.0 million during the six months ended June 30, 2013 and 2012, respectively. Our capital expenditures increased for the six months ended June 30, 2013, as compared to the six months ended June 30, 2012, primarily due to timing of payments on related accounts payable. Depending on available opportunities and the amount of cash flow we generate during 2013, we expect our 2013 expenditures from unrestricted cash for property and equipment, including construction in progress, for our core and non-core operations, to total approximately $150.0 million and $35.0 million, respectively.

Financing Activities
Net cash provided by financing activities for the six months ended June 30, 2013, consists primarily of proceeds from borrowing under the revolving portion of our Senior Credit Facility. These proceeds were offset by repayments of Rural Utilities Service (“RUS”) debt and repurchases of our common stock. Proceeds from borrowings fluctuate from year to year based on our liquidity needs. We may use excess cash to make optional repayments on our debt or repurchase our common stock depending on various factors, such as market conditions.

On July 17, 2013, we borrowed $100.0 million under the term loan portion of our Senior Credit Facility to fund the purchase of wireless network assets from ACS as part of the close of the AWN transaction.

Available Borrowings Under Amended Senior Credit Facility
Our Amended Senior Credit Facility includes a $240.0 million term loan and a $150.0 million revolving credit facility with a $25.0 million sublimit for letters of credit (“Senior Credit Facility”). We had $100.0 million outstanding under the term loan at June 30, 2013. Under the revolving portion of the Senior Credit Facility we have borrowed $10.0 million and have $0.5 million of letters of credit outstanding, which leaves $279.5 million available for borrowing as of June 30, 2013. A total of $110.0 million is outstanding as of June 30, 2013. As previously described, on July 17, 2013, we borrowed $100.0 million under the term loan portion to fund the purchase of wireless network assets from ACS.

Debt Covenants
We are subject to covenants and restrictions applicable to our $325.0 million in aggregate principal amount of 6.75% Senior Notes due 2021, our $425.0 million in aggregate principal amount of 8.63% Senior Notes due 2019, our Senior Credit Facility, our RUS loans, and our CoBank loans. We are in compliance with the covenants, and we believe that neither the covenants nor the restrictions in our indentures or loan documents will limit our ability to operate our business.

Share Repurchases
GCI's Board of Directors has authorized a common stock buyback program for the repurchase of GCI Class A and Class B common stock in order to reduce the outstanding shares of Class A and Class B common stock. Under this program, we are currently authorized to make up to $98.4 million of repurchases as of June 30, 2013. We are authorized to increase our repurchase limit $5.0 million per quarter indefinitely and to use stock option exercise proceeds to repurchase additional shares. If stock repurchases are less than the total approved quarterly amount the difference may be carried forward and applied against future stock repurchases. During the six months ended June 30, 2013, we repurchased 1.5 million shares of GCI common stock under the stock buyback program at a cost of $12.9 million. The common stock buyback program is expected to continue for an indefinite period dependent on leverage, liquidity, company performance, and market conditions and subject to continued oversight by GCI's Board of Directors. The open market repurchases have and will continue to comply with the restrictions of SEC Rule 10b-18.

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

Those policies considered to be critical accounting policies for 2013 are revenue recognition related to revenues from the Remote high cost, rural health and schools and libraries USF programs, the allowance for doubtful receivables, impairment and useful lives of intangible assets and the valuation allowance for net operating loss deferred tax assets. A complete discussion of our critical accounting policies can be found in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our December 31, 2012 annual report on Form 10-K.

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. A complete discussion of our significant accounting policies can be found in note 1 in the accompanying "Condensed Notes to Interim Consolidated Financial Statements" and in Part II of our December 31, 2012 annual report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes. Our Senior Credit Facility carries interest rate risk. Amounts borrowed under our Senior Credit Facility bear interest at LIBOR plus 3.0% or less depending upon our Total Leverage Ratio (as defined in the Senior Credit Facility). Should the LIBOR rate change, our interest expense will increase or decrease accordingly. As of June 30, 2013, we have borrowed $110.0 million subject to interest rate risk. On this amount, each 1% increase in the LIBOR interest rate would result in $1.1 million of additional gross interest cost on an annualized basis. All of our other material borrowings have a fixed interest rate. We do not hold derivatives.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized, accumulated and communicated to our management, including our principal executive and financial officers, to allow timely decisions regarding required financial disclosure, and reported as specified in the SEC’s rules and forms. As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Exchange Act Rule 13a - 15(e)) under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation and as described below under “Management’s Report on Internal Control Over Financial Reporting", our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2013.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) identified in connection with the evaluation of our controls performed during the quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information about repurchases of shares of our Class A common stock during the quarter ended June 3 0, 2013:

	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	(d) Maximum Number (or approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs[3]
April 1, 2013 to April 30, 2013	193,355	$ 8.95	193,212	$ 102,956,951
May 1, 2013 to May 31, 2013	108,373	$ 8.90	108,210	$ 101,994,333
June 1, 2013 to June 30, 2013	437,166	$ 8.36	433,725	$ 98,370,490
Total	738,894			

[1] Consists of 735,147 shares from open market purchases made under our publicly announced repurchase plan and 3,747 shares from private purchases made to settle the minimum statutory tax-withholding requirements pursuant to restricted stock award vesting.

[2] The repurchase plan was publicly announced on November 3, 2004. Our plan does not have an expiration date, however transactions pursuant to the plan are subject to periodic approval by our Board of Directors. We expect to continue the repurchases for an indefinite period dependent on leverage, liquidity, company performance, market conditions and subject to continued oversight by our Board of Directors.

[3] The total amount approved by our Board of Directors for repurchase under our publicly announced repurchase plan was $327.6 million through June 30, 2013, consisting of $322.6 million through March 31, 2013, and an additional $5.0 million during the three months ended June 30, 2013. We have made total repurchases under the program of $229.2 million through June 30, 2013. If stock repurchases are less than the total approved quarterly amount the difference may be carried forward and used to repurchase additional shares in future quarters, subject to board approval.

Item 6. 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):

Exhibit No.	Description
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by our President and Director *
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by our Senior Vice President, Chief Financial Officer and Treasurer *
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by our President and Director *
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by our Senior Vice President, Chief Financial Officer and Treasurer *
101	The following materials from General Communication, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Income Statements; (iii) Consolidated Statements of Stockholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Condensed Notes to Interim Consolidated Financial Statements *

*	Filed herewith.

SIGNATURES

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

GENERAL COMMUNICATION, INC.

Signature	Title	Date
/s/ Ronald A. Duncan Ronald A. Duncan	President and Director (Principal Executive Officer)	August 1, 2013
/s/ John M. Lowber John M. Lowber	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	August 1, 2013
/s/ Lynda L. Tarbath Lynda L. Tarbath	Vice President, Chief Accounting Officer (Principal Accounting Officer)	August 1, 2013

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Ronald A. Duncan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Communication, Inc. for the period ended June 30, 2013;

2. Based on my knowledge, this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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 the end of the period covered by this report based on such evaluation; and

   d) 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

SECTION 302 CERTIFICATION

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.

	/s/ Ronald A. Duncan
Date: August 1, 2013	Ronald A. Duncan
	President and Director

SECTION 302 CERTIFICATION

I, John M. Lowber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Communication, Inc. for the period ended June 30, 2013;

2. Based on my knowledge, this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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 the end of the period covered by this report based on such evaluation; and

   d) 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

SECTION 302 CERTIFICATION

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.

	/s/ John M. Lowber
Date: August 1, 2013	John M. Lowber
	Senior Vice President, Chief Financial Officer, and Treasurer

Exhibit 32.1

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 Quarterly Report of General Communication, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2013 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. § 1350, as adopted pursuant to § 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: August 1, 2013

/s/ Ronald A. Duncan
Ronald A. Duncan
Chief Executive Officer
General Communication, Inc.

Exhibit 32.2

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 Quarterly Report of General Communication, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2013 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. § 1350, as adopted pursuant to § 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: August 1, 2013

/s/ John M. Lowber
John M. Lowber
Chief Financial Officer
General Communication, Inc.