

Edgar Filing: ALASKA COMMUNICATIONS SYSTEMS GROUP INC - Form 8-K

ALASKA COMMUNICATIONS SYSTEMS GROUP INC  
Form 8-K  
February 24, 2005

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):  
February 24, 2005 (February 23, 2005)  
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ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
-----

(Exact name of registrant as specified in its charter)

Delaware	000-28167	52-2126573
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

600 Telephone Ave., Anchorage, Alaska	99503
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 907 - 297 - 3000  
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(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On February 24, 2005, Alaska Communications Systems Group, Inc. reported its

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financial results for the year ended December 31, 2004. The press release is attached hereto as Exhibit 99.1.

### Item 5.02 Election of Director

On February 23, 2005, Alaska Communications Systems Group, Inc. announced the appointment of Gary R. Donahee to its Board of Directors.

The press release announcing his appointment is attached hereto as Exhibit 99.2 and is incorporated herein by reference.

### Item 8.01 Other Events

On February 24, 2005, Alaska Communications Systems Group, Inc. ("ACS") reported financial results for its fourth quarter and year-ended December 31, 2004.

#### Quarterly Financial Highlights

For the fourth quarter ending December 31, 2004, revenues were \$75.1 million, which represented a 3.3 percent increase over fourth quarter 2003 revenues of \$72.8 million, adjusted to exclude revenues from the discontinued State of Alaska contract. Including the State of Alaska contract revenues, reported revenues for the fourth quarter of 2003 were \$77.2 million. Wireless subscribers grew at a record pace for the fifth consecutive quarter and wireless revenue rose to \$15.4 million this quarter compared to \$11.7 million a year ago.

Also during the fourth quarter of 2004 compared to the fourth quarter of 2003:

- o Net loss declined to \$7.1 million from \$17.2 million and to a loss of \$0.23 per share from \$0.58 per share;
- o Adjusted EBITDA increased to \$26.2 million from \$24.1 million; and
- o Interest expense declined to \$12.2 million from \$20.0 million due to an \$8.0 million charge for the early extinguishment of an interest rate swap in the fourth quarter of 2003.

ACS generated \$19.1 million in cash from operating activities in the fourth quarter, following up on \$15.5 million in cash from operating activities in the third quarter. ACS closed the quarter with a cash balance of \$85.9 million.

#### Fourth Quarter 2004 Metric Highlights

- o Increased total number of retail customer relationships across all product lines by approximately 7,800 to over 397,000 total, a doubling of net addition growth rate compared to the third quarter of 2004.
- o Added over 5,100 wireless subscribers, growing 5.4 percent compared to the third quarter of 2004 and bringing the total to over 100,600 wireless subscribers. Churn remained low at 1.7 percent per month.
- o Recorded wireless average revenue per unit (ARPU) of \$45.42 compared to the seasonally stronger third quarter wireless ARPU of \$47.43.
- o Increased digital subscriber lines (DSL) 9.4 percent to over 24,700 compared to the third quarter of 2004 as a result of consumer and business bundling programs.
- o Increased long distance subscribers by over 2,700 to 47,050 customers, a

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6.1 percent increase compared to the third quarter of 2004, principally as a result of a focused selling effort and the bundling of the long distance product with other ACS services.

- o Recorded over 295,000 access lines, representing a decrease of approximately 6,300 lines, or 2.1 percent, compared to the third quarter of 2004, which is in line with company expectations and reflective of industry trends.

### Annual Financial Review

For the year ending December 31, 2004, total revenues were \$302.7 million, which represented a 3.6 percent increase over 2003 adjusted revenues of \$292.3 million. Including the State of Alaska contract and directory business revenues, reported revenues for 2003 were \$323.8 million. Net loss for the year 2004 was \$39.3 million, or \$1.33 per share, as compared to a net loss of \$6.6 million, or \$0.22 per share in 2003. Net loss for 2003 was inclusive of a gain on the disposal of assets of \$112.6 million and contract termination and asset impairment charges of \$54.9 million. Adjusted EBITDA for the year 2004 was \$97.4 million, an increase of 4.8 percent from \$92.9 million in 2003. Net cash provided by operating activities for 2004 increased 15 percent to \$57.8 million, as compared to \$50.4 million in 2003.

Tables Follow

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
For the Three Months and Twelve Months Ended December 31, 2004 and 2003  
(Unaudited, in Thousands, Except per Share Amounts)

	Three Months Ended December 31,		Twelve Month December
	2004	2003	2004
Operating revenues:			
Local telephone	\$50,961	\$52,614	\$211,187
Wireless	15,428	11,680	56,694
Directory	-	-	-
Internet	5,160	8,610	20,173
Interexchange	3,576	4,333	14,653
<b>Total operating revenues</b>	<b>75,125</b>	<b>77,237</b>	<b>302,707</b>
Operating expenses:			
Local telephone	30,862	31,786	127,918
Wireless	10,689	9,268	37,918
Directory	-	-	-
Internet	4,535	9,694	25,739
Interexchange	4,262	7,656	19,773
Contract termination and asset impairment charges	-	319	-
Depreciation and amortization	20,701	15,450	78,387
Loss (gain) on disposal of assets, net	29	(115)	2,854
<b>Goodwill impairment loss</b>	<b>-</b>	<b>-</b>	<b>-</b>

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Total operating expenses	71,078	74,058	292,589
Operating income	4,047	3,179	10,118
Other income and expense:			
Interest expense	(12,234)	(19,992)	(51,288)
Interest income and other	903	713	1,657
Total other income (expense)	(11,331)	(19,279)	(49,631)
Loss before income taxes and discontinued operations	(7,284)	(16,100)	(39,513)
Income tax benefit (expense)	219	(1,095)	219
Loss from continuing operations	(7,065)	(17,195)	(39,294)
Loss from discontinued operations	-	-	-
Cumulative effect of change in accounting principle, net of tax	-	-	-
Net loss	\$ (7,065)	\$ (17,195)	\$ (39,294)
Loss per share - basic and diluted:			
Loss from continuing operations	\$ (0.23)	\$ (0.58)	\$ (1.33)
Loss from discontinued operations	-	-	-
Net loss	\$ (0.23)	\$ (0.58)	\$ (1.33)
Weighted average shares outstanding:			
Basic	30,105	29,429	29,592
Diluted	30,105	29,429	29,592

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited, In Thousands Except Per Share Amounts)

	December
Assets	
Current assets:	
Cash and cash equivalents	\$8
Restricted cash	
Accounts receivable-trade, net of allowance of \$4,869 and \$4,865	3
Materials and supplies	

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Prepayments and other current assets	-----
Total current assets	14
Property, plant and equipment	1,06
Less: Accumulated depreciation and amortization	64
	-----
Property, plant and equipment, net	41
Goodwill	3
Intangible Assets	2
Debt issuance costs	1
Deferred charges and other assets	-----
Total assets	\$63 =====
	-----
	Liabilities and Stockholders' Equity (Deficit)
Current liabilities:	
Current portion of long-term obligations	\$
Accounts payable-affiliate	
Accounts payable, accrued and other current liabilities	5
Income taxes payable	
Advance billings and customer deposits	-----
Total current liabilities	6
Long-term obligations, net of current portion	52
Other deferred credits and long-term liabilities	7
Commitments and contingencies	
Stockholders' equity (deficit):	
Preferred stock, no par, 5,000 authorized, no shares issued and outstanding	
Common stock, \$.01 par value; 145,000 shares authorized, 35,245 and	
33,611 shares issued and 30,695 and 29,343 outstanding, respectively	
Common stock, \$.01 par value; 0 and 267 shares subject to mandatory redemption	
Treasury stock, 4,549 and 4,268 shares, respectively, at cost	(1
Paid in capital in excess of par value	28
Accumulated deficit	(29
Accumulated other comprehensive loss	(
	-----
Total stockholders' equity (deficit)	(3
	-----
Total liabilities and stockholders' equity	\$63 =====

Schedule 3

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 Years ended December 31, 2004 and 2003  
 (Unaudited, in Thousands)

2004                      2003  
 -----

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Net cash provided by operating activities	\$57,827	\$50,411
Cash Flows from Investing Activities:		
Construction & capital expenditures, net of capitalized interest	(51,422)	(48,566)
Net proceeds from sale of business	-	155,269
Placement of funds in restricted account	(1,055)	(3,725)
Release of funds from escrow	-	3,539
	-----	
Net cash used by investing activities	(52,477)	106,517
Cash Flows from Financing Activities:		
Proceeds from the issuance of long-term debt, net of discounts	-	375,970
Debt issuance costs	-	(14,000)
Repayments of long-term debt	(26,962)	(434,102)
Purchase of treasury stock	(127)	(5,830)
Issuance of common stock	9,801	267
	-----	
Net cash provided (used) by financing activities	(17,288)	(77,695)
Increase (decrease) in cash	(11,938)	79,233
Cash, Beginning of period	97,798	18,565
	-----	
Cash, End of period	\$85,860	\$97,798
	=====	
Supplemental Cash Flow Data:		
Interest paid, net of capitalized interest	\$45,470	\$51,372
	=====	
Income taxes paid, net of refund	\$876	\$-
	=====	
Supplemental Noncash Transactions:		
Interest rate swap marked to market	\$-	\$(14,152)
	=====	
Property acquired under a mortgage	\$-	\$2,340
	=====	
Minimum pension liability adjustment	\$(12)	\$(191)
	=====	
Dividend declared, but not paid	\$(5,694)	\$-
	=====	

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
SCHEDULE OF ADJUSTED REVENUES  
For the Three Months Ended March 31, 2001 and 2000  
(Unaudited, in Thousands)

Three Months Ended  
December 31,

-----  
2004                      2003  
-----

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Total operating revenues	\$75,125	\$77,237
Adjustment for termination of the State of Alaska TPA contract	-	(4,479)
Adjustment for sale of the Company's Directory business - Directory revenues	-	-
	-----	-----
Total adjusted operating revenues	\$75,125	\$72,758
	=====	=====

Note: In an effort to provide investors with additional information regarding the Company's results as determined by generally accepted accounting principles (GAAP), the Company also discloses certain non-GAAP information which management utilizes to assess performance. The Company has disclosed its total operating revenues adjusted to exclude the impact of disposed of operations and the termination of the State of Alaska Telecommunications Partnering Agreement (TPA) as the Company believes that such data will facilitate more useful period-to-period comparisons of the Company's ongoing operations.

Schedule 5

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
SCHEDULE OF LOCAL TELEPHONE REVENUES  
For the Three Months and Twelve Months Ended December 31, 2004 and 2003  
(Unaudited, in Thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2004	2003	2004	2003
Local telephone revenues:				
Local network service	\$22,697	\$22,686	\$91,669	\$96,656
Network access revenue	22,174	23,808	97,536	97,759
Deregulated and other	6,090	6,120	21,982	21,271
	-----	-----	-----	-----
Local telephone revenues	\$50,961	\$52,614	\$211,187	\$215,686
	=====	=====	=====	=====

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
SCHEDULE OF EBITDA CALCULATION  
For the Three Months and Year Ended December 31, 2004 and 2003  
(Unaudited, in Thousands)

	Three Months Ended December 31,	Twelve Months December
	-----	-----

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	2004	2003	2004
Net cash provided (used) by operating activities	\$19,093	\$ (59)	\$57,827
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on discontinued operations	-	-	-
Loss (gain) on disposal of assets and asset impairments	(29)	115	(2,854)
Depreciation and amortization	(20,701)	(15,450)	(78,387)
Amortization of debt issuance costs, warrants and original issue discount	(1,085)	(935)	(6,088)
Non-cash stock compensation expense	-	(900)	-
Other non-cash expenses	(12)	(4,118)	(12)
Other deferred credits	(1,478)	100	(3,048)
Changes in components of working capital:			
Accounts receivable and other current assets	(2,811)	1,604	(7,907)
Accounts payable and other current liabilities	404	1,932	1,176
Deferred charges and other assets	(446)	515	(1)
Net cash used in discontinued operations	-	1	-
Net income (loss)	\$ (7,065)	\$ (17,195)	\$ (39,294)
Add (subtract):			
Interest expense	12,234	19,992	51,288
Income tax (benefit) expense	(219)	1,095	(219)
Depreciation and amortization	20,701	15,450	78,387
(Gain) loss on disposal of assets and asset impairment charges, net	29	(115)	2,854
Gain on foreign exchange	-	-	-
Goodwill impairment loss	-	-	-
Impairment charges related to SOA	-	-	-
Stock based compensation	-	900	-
Non-cash pension expense	150	238	699
Non-cash litigation reserves	-	3,880	(300)
EBITDA	25,830	24,245	93,415
Adjustment for discontinued operations	-	-	-
Adjustment for the termination of airplane lease	-	-	2,854
Adjustment for Neptune capped commitment	-	-	750
Adjustment for sale of the Company's directory business - Directory EBITDA	-	(164)	-
IDS transaction costs	375	-	375
Adjusted EBITDA	\$26,205	\$24,081	\$97,394

Note: In an effort to provide investors with additional information regarding the Company's results as determined by generally accepted accounting principles (GAAP), the Company also discloses certain non-GAAP information which management utilizes to assess performance and believes provides useful information to investors. The Company has disclosed its net gain before interest expense, provisions for taxes, depreciation expense, amortization expense and other non-cash charges inclusive of non cash pension expense and a non cash release of litigation reserves following legal settlement (EBITDA) because the Company believes it is an important indicator because it provides information about our ability to service debt, pay dividends and fund capital expenditures. To further assist the reader in understanding operations, EBITDA has also been adjusted to exclude the impact of discontinued and



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disposed of operations (Adjusted EBITDA) as the Company believes that such data will facilitate more useful period-to-period comparisons of the Company's ongoing operations. EBITDA and Adjusted EBITDA are not GAAP measures and should not be considered a substitute for net income and loss and other measures of financial performance recorded in accordance with GAAP. The calculation of "Adjusted EBITDA" as presented in this press release differs from the calculation of, and therefore is not directly comparable to, "Indenture EBITDA" as presented in ACS' prospectus supplement, dated January 26, 2005, primarily because the calculation of "Adjusted EBITDA" only includes adjustments that meet the criteria of being "non recurring" under Regulation G.

### ALASKA COMMUNICATIONS SYSTEMS GROUP, INC. KEY OPERATING STATISTICS (Unaudited)

	December 31, 2004	September 30, 2004
<b>Local telephone:</b>		
Retail access lines *	207,905	209,442
Wholesale access lines	16,590	17,500
UNE loop lines	64,589	68,524
UNE platform lines	6,365	6,251
Total local telephone access lines	295,449	301,717
Average local telephone access lines for the quarter	298,583	304,512
Average local telephone revenue per line for the quarter	\$56.18	\$56.10
Quarterly growth rate in local telephone access lines	-2.1%	-1.8%
<b>Wireless</b>		
Covered population	482,251	480,422
Ending subscribers	100,657	95,529
Average subscribers for the quarter	98,093	93,306
Quarterly growth rate	5.4%	4.9%
Activations for the quarter	10,642	9,219
Deactivations for the quarter	5,514	4,773
Average monthly churn for the quarter	1.7%	1.7%
Penetration	20.9%	19.9%
Quarterly minutes of use (000's) **	90,483	93,100
Average revenue per subscriber for the quarter***	\$45.42	\$47.43

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Long Distance:

Long distance subscribers	47,050	44,334
Quarterly minutes of use (000's)	34,779	36,614
Average subscribers for the quarter	45,692	43,494
Average revenue per subscriber for the quarter	\$26.09	\$29.72

Internet:

DSL subscribers	24,711	22,596
Dial-Up and other service subscribers	22,842	23,699
	-----	-----
Total Internet subscribers	47,553	46,295
	=====	=====
Average subscribers for the quarter	46,924	45,739
Average DSL & dial up revenue per subscriber for the quarter****	\$28.86	\$28.98

\* Prior period retail access lines impacted by change in line count methodology.

\*\* Wireless MOU have been restated to include prepaid airtime certificates.

\*\*\* Wireless ARPU has been restated to better reflect ongoing revenue derived from ACS's wireless customers. The restated ARPU excludes equipment sales, foreign roaming (non-ACS customers on ACS's network) and access termination revenue. Previously, wireless ARPU was based on wireless revenues, including those that were not derived from ACS's customer base.

\*\*\*\* Internet ARPU has been restated to include only DSL and dial-up revenues. Previously, Internet ARPU included all internet revenues; however, the customer base included only DSL and dial-up subscribers. The restated ARPU provides consistency between revenues and customer counts.

Schedule 7

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.  
KEY OPERATING STATISTICS  
(Unaudited)

	December 31, 2004	September 30, 2004	Net Movement
	-----	-----	-----
Local telephone retail access lines	207,905	209,442	(1,537)
Wireless subscribers	100,657	95,529	5,128
Less adjustment for resellers	(6,425)	(6,655)	230
	-----	-----	-----
	94,232	88,874	5,358
	-----	-----	-----
Long distance subscribers	47,050	44,334	2,716
DSL and dial up subscribers	47,553	46,295	1,258
	-----	-----	-----
	396,740	388,945	7,795
	=====	=====	=====

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Item 9.01 Financial Statements and Exhibits

Exhibit No. -----	Description -----
99.1	Alaska Communications Systems Group, Inc. Press Release dated February 24, 2005.
99.2	Alaska Communications Systems Group, Inc. Press Release dated February 23, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 8-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 24, 2005 Alaska Communications Systems Group, Inc.  
  
/s/ David Wilson  
-----  
David Wilson,  
Senior Vice President and Chief  
Financial Officer (Principal  
Accounting Officer and Principal  
Financial Officer)

EXHIBIT INDEX

Exhibit No. -----	Description -----
99.1	Alaska Communications Systems Group, Inc. Press Release dated February 24, 2005.
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