

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
ADJUSTED EBITDA
(Unaudited, In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net cash provided by operating activities	\$ 9,478	\$ 13,746	\$ 28,415	\$ 5,500
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	8,748	8,475	25,908	25,491
Gain on wireless sale	-	(7,092)	-	(48,232)
Loss on the disposal of assets, net	132	114	284	1,868
Unrealized gain on ineffective hedge	-	(278)	-	(820)
Amortization of debt issuance costs and debt discount	1,014	1,019	3,035	3,062
Amortization of ineffective hedge	-	-	-	1,970
Loss on extinguishment of debt	-	2,250	336	4,878
Amortization of deferred capacity revenue	(862)	(693)	(2,564)	(2,162)
Stock-based compensation	700	619	2,147	1,898
Deferred income tax expense	48	6,965	543	3,571
Charge for uncollectible accounts	89	66	166	1,385
Cash distribution from equity method investments	-	-	-	3,056
Earnings from equity method investments	-	-	-	(3,056)
Other non-cash expense, net	52	274	466	817
Income taxes (receivable) payable	(130)	(6,302)	(852)	1,736
Changes in operating assets and liabilities	(633)	7,127	(1,710)	(2,521)
Net income	\$ 320	\$ 1,202	\$ 656	\$ 12,559
Add (subtract):				
Interest expense	3,869	4,077	11,590	15,753
Loss on extinguishment of debt	-	2,250	336	4,878
Interest income	(7)	(14)	(18)	(56)
Depreciation and amortization	8,748	8,475	25,908	25,491
Loss (gain) on disposal of assets, net	132	(6,978)	284	(46,364)
Earnings from equity method investments	-	-	-	(3,056)
AWN distributions received/receivable, net	-	-	-	765
Income tax (benefit) expense	(82)	663	217	9,982
Stock-based compensation	700	619	2,147	1,898
Long-term cash incentives	180	714	585	1,356
Pension adjustment	(41)	210	-	210
Net loss attributable to noncontrolling interest	34	37	101	56
Wireless sale transaction-related and wind down costs	-	1,321	-	12,629
Adjusted EBITDA	\$ 13,853	\$ 12,576	\$ 41,806	\$ 36,101

NonGAAP Measures:

The Company provides certain non-GAAP financial information, including Adjusted EBITDA, Free Cash Flow and Net Debt. Adjusted EBITDA and Free Cash Flow measure the Company's primary business activities without regard for the effects of special items and income tax structure. Adjusted EBITDA eliminates the effects of period to period changes in costs that are not directly attributable to the underlying performance of the Company's business operations and is used by Management and the Company's Board of Directors to evaluate current operating financial performance, analyze and evaluate strategic and operational decisions and better evaluate comparability between periods. Free Cash Flow is used to assess the Company's ability to generate cash and plan for future operating and capital actions. Adjusted EBITDA and Free Cash Flow are common measures utilized by our peers (other telecommunications companies) and we believe they provide useful information to investors and analysts about the Company's operating results, financial condition and cash flows. Net Debt provides Management and the Board of Directors with a measure of the Company's current leverage position.

The Company does not provide reconciliations of guidance for Adjusted EBITDA to Net Income, and Free Cash Flow to Net Cash Provided by Operating Activities, in reliance on the unreasonable efforts exception provided under Item 10(e)(1)(i)(B) of Regulation S-K. The Company does not forecast certain items required to develop the comparable GAAP financial measures. These items are realized and unrealized gains and losses on effective and ineffective hedges, charges and benefits for uncollectible accounts, certain other non-cash expenses, unusual items typically excluded from Adjusted EBITDA and Free Cash Flow, and changes in operating assets and liabilities (generally the most significant of these items, representing cash outflows of \$1.7 million and \$2.5 million in the nine-month periods of 2016 and 2015, respectively).

Adjusted EBITDA and Free Cash Flow are not GAAP measures and should not be considered a substitute for net income, net cash provided by operating activities, or net cash provided or used. Adjusted EBITDA as computed below is not consistent with the definition of Consolidated EBITDA referenced in our 2015 Senior Credit Agreements, and other companies may not calculate Non-GAAP measures in the same manner we do.

Adjusted EBITDA is defined as net income (loss) before interest, loss on extinguishment of debt, depreciation and amortization, gain or loss on asset purchases or disposals including the sale of our wireless operations, earnings from equity method investments, income taxes, Wireless Sale transaction and wind-down related costs, stock-based compensation, pension adjustments, net loss attributable to noncontrolling interest and expenses under the Company's long term cash incentive plan ("LTCl"). LTCl expenses are considered part of an interim compensation structure to mitigate the dilutive impact of additional share issuances for executive compensation. Distributions from Awn are included in Adjusted EBITDA.