

ATLANTIC TELE NETWORK INC /DE

Form 10-Q

August 11, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2008

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 Number 0-191551

Atlantic Tele-Network, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

47-0728886
(I.R.S. Employer
Identification Number)

10 Derby Square

Salem, MA 01970

(978) 619-1300

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

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o

Smaller reporting company o

(Do not check if a 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 o No x

As of August 8, 2008, the registrant had outstanding 15,201,110 shares of its common stock (\$.01 par value).

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ATLANTIC TELE-NETWORK, INC.

FORM 10-Q
Quarter Ended June 30, 2008

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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (or the Report) contains forward-looking statements relating to, among other matters, the future financial performance and results of operations of ATN and its subsidiaries, including the relative contributions of Commnet, Sovernet and BDC; the competitive environment in our key markets, demand for our services and industry trends; the outcome of litigation and regulatory matters; our continued access to the credit and capital markets; the pace of our network expansion and improvement, including our realization of the benefits of these investments; and management's plans and strategy for the future. These forward-looking statements are based on estimates, projections, beliefs, and assumptions and are not guarantees of future events or results. Actual future events and results could differ materially from the events and results indicated in these statements as a result of many factors, including, among others, (1) significant political and regulatory risk facing our exclusive license to provide domestic local exchange and international long distance telephone services in Guyana; (2) any significant decline in the price or volume of international long distance calls to Guyana; (3) increased competition affecting our businesses; (4) the regulation of rates that GT&T may charge for local wireline telephone service; (5) significant tax disputes between GT&T and the Guyanese tax authorities; (6) the derivation of a significant portion of our U.S. wireless revenue from a small number of customers; (7) our ability to maintain favorable roaming arrangements; (8) economic, political and other risks facing our foreign operations; (9) regulatory changes affecting our businesses; (10) rapid and significant technological changes in the telecommunications industry; (11) our reliance on a limited number of key suppliers and vendors for timely supply of equipment and services relating to our network infrastructure; (12) any loss of key members of management; (13) the adequacy and expansion capabilities of our network capacity and customer service system to support our customer growth; (14) dependence of our wireless and wireline revenues on the reliability and performance of our network infrastructure; (15) the occurrence of severe weather and natural catastrophes; and (16) our ability to realize the value that we believe exists in businesses that we acquire. These and other additional factors that may cause actual future events and results to differ materially from the events and results indicated in the forward-looking statements above are set forth more fully under Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K), which is on file with the SEC. We undertake no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors that may affect such forward-looking statements.

In this Report the words we, our, ours and us refer to Atlantic Tele-Network, Inc. and its subsidiaries, unless the context indicates otherwise. ClearChoice is a service mark of one of our subsidiaries. This Report also contains other trademarks, service marks and trade names that are the property of others.

Reference to dollars (\$) refer to U.S. dollars unless otherwise specifically indicated.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements****ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Dollars in thousands, except per share amounts)**

	December 31, 2007	June 30, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 71,173	\$ 55,053
Restricted cash	4,831	
Marketable securities	5,280	5,400
Accounts receivable, net of allowances	27,357	31,135
Materials and supplies	4,747	7,446
Prepayments and other current assets	4,987	4,304
Total current assets	118,375	103,338
Fixed Assets:		
Property, plant, and equipment	277,181	300,394
Less accumulated depreciation	(121,428)	(126,642)
Net fixed assets	155,753	173,752
Licenses	14,738	24,344
Goodwill	39,344	40,277
Other intangibles, net	2,349	2,658
Investment in and advances to unconsolidated affiliates	12,453	60
Other assets	1,614	5,816
Total assets	\$ 344,626	\$ 350,245
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 25,618	\$ 23,036
Dividends payable	2,461	2,465
Accrued taxes	11,029	1,706
Advance payments and deposits	3,912	3,709
Other current liabilities	1,859	3,301
Total current liabilities	44,879	34,217
Deferred income taxes	13,082	14,077
Other liabilities	458	458
Long-term debt, excluding current portion	50,000	50,000
Total liabilities	108,419	98,752
Minority interests	27,236	29,527
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value per share; 10,000,000 shares authorized, none issued and outstanding		
	157	157

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Common stock, \$0.01 par value per share; 50,000,000 shares authorized; 15,675,518 and 15,697,557 shares issued, respectively, and 15,220,546 and 15,201,110 shares outstanding, respectively

Treasury stock, at cost; 454,972 and 496,447 shares, respectively	(3,403)	(4,560)
Additional paid-in capital	106,038	106,990
Retained earnings	108,414	121,614
Accumulated other comprehensive loss	(2,235)	(2,235)
Total stockholders' equity	208,971	221,966
Total liabilities, minority interests and stockholders' equity	\$ 344,626	\$ 350,245

The accompanying condensed notes are an integral part of these condensed consolidated financial statements.

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
REVENUE:				
Wireless	\$ 19,884	\$ 24,786	\$ 38,587	\$ 44,539
Local telephone and data	11,439	12,267	22,506	24,514
International long distance	12,802	12,387	25,974	24,942
Other	1,032	974	2,010	2,049
Total revenues	45,157	50,414	89,077	96,044
OPERATING EXPENSES (excluding depreciation and amortization unless otherwise indicated):				
Termination and access fees	7,696	8,376	14,255	15,964
Internet and programming	817	863	1,666	1,762
Engineering and operations	5,709	5,930	11,473	11,785
Sales and marketing	3,641	2,944	8,738	5,618
General and administrative	5,639	6,819	11,489	12,702
Depreciation and amortization	6,658	7,424	13,159	14,501
Gain on disposition of long-lived assets	(1,043)		(1,176)	
Total operating expenses	29,117	32,356	59,604	62,332
Income from operations	16,040	18,058	29,473	33,712
OTHER INCOME (EXPENSE):				
Interest expense	(661)	(664)	(883)	(1,316)
Interest income	517	410	1,108	978
Other income, net	1,514	143	1,768	368
Other income (expense), net	1,370	(111)	1,993	30
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS AND EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES				
	17,410	17,947	31,466	33,742
Income taxes	7,250	6,642	13,914	14,032
INCOME BEFORE MINORITY INTERESTS AND EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES				
	10,160	11,305	17,552	19,710
Minority interests, net of tax of \$0.9 million for the three months ended June 30, 2007 and 2008, and \$1.8 million for the six months ended June 30, 2007 and 2008	(1,753)	(1,373)	(2,703)	(2,374)
Equity in earnings of unconsolidated affiliates	642	272	1,098	735
NET INCOME	\$ 9,049	\$ 10,204	\$ 15,947	\$ 18,071
NET INCOME PER SHARE:				
Basic	\$ 0.60	\$ 0.67	\$ 1.05	\$ 1.19
Diluted	\$ 0.59	\$ 0.67	\$ 1.04	\$ 1.18
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	15,161	15,187	15,156	15,192
Diluted	15,286	15,253	15,288	15,267
DIVIDENDS PER SHARE APPLICABLE TO COMMON STOCK	\$ 0.14	\$ 0.16	\$ 0.28	\$ 0.32

The accompanying condensed notes are an integral part of these condensed consolidated financial statements.

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2008

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,947	\$ 18,071
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	13,159	14,501
Gain on sale of investments in unconsolidated affiliates	(133)	
Gain on sale of Commnet Wireless related assets	(1,043)	
Amortization of stock-based compensation	418	549
Deferred income taxes	461	400
Minority interests	2,703	2,374
Equity in earnings of unconsolidated affiliates	(1,098)	(735)
Dividends received from Bermuda Digital Communications, Ltd.	968	1,106
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable, net	(3,431)	(1,513)
Materials and supplies, prepayments, and other current assets	2,177	(52)
Other assets	(648)	(4,846)
Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities	(2,844)	(1,787)
Accrued taxes	1,895	(8,728)
Net cash provided by operating activities	28,531	19,340
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(18,339)	(20,900)
Acquisitions of businesses, net of cash acquired of \$1,687 and \$5,154, respectively	(6,553)	(11,924)
Decrease in restricted cash		4,831
Purchase of short-term marketable securities		(120)
Proceeds from sale of investments in unconsolidated affiliates	276	
Proceeds from sale of Commnet Wireless related assets	1,507	
Net cash used in investing activities	(23,109)	(28,113)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid on common stock	(4,250)	(4,867)
Distributions to minority shareholders	(823)	(1,620)
Proceeds from stock option exercises	59	304
Purchase of common stock		(1,164)
Net cash used in financing activities	(5,014)	(7,347)
NET CHANGE IN CASH AND CASH EQUIVALENTS	408	(16,120)
CASH AND CASH EQUIVALENTS, beginning of the period	60,543	71,173
CASH AND CASH EQUIVALENTS, end of the period	\$ 60,951	\$ 55,053

The accompanying condensed notes are an integral part of these condensed consolidated financial statements.

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS OPERATIONS

Atlantic Tele-Network, Inc. (ATN or Company) provides wireless and wireline telecommunication services in the Caribbean and North America through the following operating subsidiaries and affiliates:

- Guyana Telephone & Telegraph Company, Ltd. (GT&T), the national and international telephone company in the Republic of Guyana and the largest wireless service provider in that country. The Company has owned 80% of the stock of GT&T since January 1991.
- Commnet Wireless, LLC (Commnet), an owner and operator of wholesale wireless networks in rural areas of the United States. Commnet provides wireless voice and data communications roaming services primarily to national, regional and local wireless carriers. We acquired 95% of the equity of Commnet in September 2005 and the remaining 5% in January 2007.
- Bermuda Digital Communications, Ltd. (BDC), the largest wireless voice and data communications service provider in Bermuda, doing business under the name Cellular One . The Company acquired an equity interest in, and signed a management contract with, BDC in 1998. On May 15, 2008, BDC completed a share repurchase of its common stock. ATN did not tender any shares for repurchase, and, as a result of the transaction, increased its holdings from approximately 43% to approximately 58% of BDC 's outstanding common stock. Prior to this increase in holdings, the Company accounted for its investment in BDC under the equity method and earnings from BDC did not appear in its income from operations, but were instead reflected in equity in earnings of unconsolidated affiliates. Effective with the completion of that share repurchase, the Company began consolidating BDC 's results of operations.
- Sovernet, Inc., (Sovernet), a facilities-based integrated voice, broadband data communications and dial-up service provider in New England, primarily in Vermont. The Company has owned 96% of Sovernet since its acquisition in 2006.
- Choice Communications, LLC (Choice Communications or Choice), is a leading provider of fixed wireless broadband data, wireless digital television services and dial-up internet services to retail and business customers in the U.S. Virgin Islands. Choice is a wholly owned subsidiary of the Company.

ATN provides management, technical, financial, regulatory and marketing services for its subsidiaries and affiliates and typically receives a management fee equal to approximately 4% to 6% of their respective revenues. Management fees from consolidated subsidiaries are eliminated in consolidation. Management fees from unconsolidated affiliates are included in *Other Income* in the accompanying statements of operations.

2. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The financial information included herein is unaudited; however, the Company believes such information and the disclosures herein are adequate to make the information presented not misleading and reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company's financial position and results of operations for such periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Results of interim periods may not be indicative of results for the full year. These condensed consolidated financial statements and related notes should be read in conjunction with the Company's 2007 Annual Report on Form 10-K.

Consolidation

The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries and Commnet of Florida, LLC, which is consolidated in accordance with the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation on Accounting Research Bulletin No. 51* as revised in December 2003 since it was determined that the Company is the primary beneficiary of Commnet of Florida, LLC.

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Except for the Company's investment in Commnet of Florida, LLC, the equity method of accounting is used for the Company's investments in affiliated entities in which the Company has at least a 20% ownership but does not have management control. The Company accounts for investments of less than 20% for which the Company does not have the ability to exert significant influence over the operations by using the cost method of accounting.

Recent Accounting Pronouncements

Effective January 1, 2008, we implemented Statement of Financial Accounting Standard No. 157, *Fair Value Measurement* (SFAS 157), for our financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FASB staff position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, we have elected to defer implementation of SFAS 157 as it relates to all of our non-financial assets and non-financial liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis until January 1, 2009. We are evaluating the impact, if any, this standard will have on our non-financial assets and liabilities. The adoption of SFAS 157 to our financial assets and liabilities and non-financial assets and liabilities that are re-measured and reported at fair value at least annually did not have a material impact on our financial results.

Effective January 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure certain financial instruments and other eligible items at fair value when the items are not otherwise currently required to be measured at fair value. Upon adoption, we did not elect the fair value option for any new items within the scope of SFAS 159 and, therefore, the adoption of SFAS 159 did not have an impact on our consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1). Under the provisions of this standard, unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents are considered participating securities for purposes of calculating earnings per share. FSP No. EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. As the Company's unvested awards of share-based payments' rights to receive dividends or dividend equivalents are forfeitable, the Company does not expect the adoption of FSP No. EITF 03-6-1 to have a material impact on its consolidated financial statements.

In May 2008, the FASB issued FAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption of SFAS No. 162 to have a material effect on its results of operations and financial position.

In April 2008, the FASB issued FSP No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3), which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS 142. FSP 142-3 amends paragraph 11(d) of SFAS 142 to require an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset.

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The FSP also requires the following incremental disclosures for renewable intangible assets:

- The weighted-average period prior to the next renewal or extension (whether explicit and implicit) for each major intangible asset class
- The entity's accounting policy for the treatment of costs incurred to renew or extend the term of a recognized intangible asset
- For intangible asset renewed or extended during the period:
 - For entities that capitalize renewal or extension costs, the costs incurred to renew or extend the asset, for each major intangible asset class
 - The weighted-average period prior to the next renewal or extension (whether explicit and implicit) for each major intangible asset class.

FSP 142-3 is effective for financial statements for fiscal years beginning after December 15, 2008. The guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. Accordingly, FSP 142-3 would not serve as a basis to change the useful life of an intangible asset that was acquired prior to the effective date (January 1, 2009 for a calendar year company). However, the incremental disclosure requirements described

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above would apply to all intangible assets, including those recognized in periods prior to the effective date of FSP 142-3. The Company is currently evaluating the impact that the adoption of FSP 142-3 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 amends and expands the disclosure requirements of Statement 133 to provide a better understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and their effect on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. As of June 30, 2008, we did not have any derivative instruments and do not expect that the adoption of SFAS 161 will have any impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business combinations. SFAS 141R also establishes expanded disclosure requirements for business combinations. SFAS 141R is effective for us on January 1, 2009, and we will apply SFAS 141R prospectively to all business combinations subsequent to the effective date. We are currently evaluating the impact that the adoption of SFAS 141R will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires that noncontrolling interests in subsidiaries be reported in the equity section of the controlling company's balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company's income statement. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact that the adoption of SFAS 160 will have on our consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2007 statement of operations to conform to the 2008 presentation. For the three months ended June 30, 2008, such reclassifications included an increase to 2007 wireless revenue of \$0.8 million; a decrease to 2007 local telephone and data revenue of \$0.3 million; an increase to 2007 international long distance revenue of \$0.5 million and an increase to 2007 termination and access fees expense of \$0.9 million. For the six months ended June 30, 2008, such reclassifications included an increase to 2007 wireless revenue of \$1.3 million; a decrease to 2007 local telephone and data revenue of \$0.7 million; an increase to 2007 international long distance revenue of \$0.7 million and an increase to 2007 termination and access fees expense of \$1.3 million.

3. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates relate to revenue recognition, allowance for doubtful accounts, useful lives of the Company's fixed and finite-lived intangible assets, allocation of purchase price to assets acquired and liabilities assumed in purchase business combinations, fair value of

indefinite-life intangible assets, goodwill and income taxes. Actual results could differ significantly from those estimates.

4. ACQUISITIONS

On May 15, 2008, the Company's equity interest in BDC increased from 43% to 58% as a result of BDC's repurchase of \$17.0 million of shares from other shareholders. Prior to this increase in equity interest, the Company accounted for its investment in BDC under the equity method and earnings from BDC did not appear in its income from operations, but were instead reflected in equity in earnings of unconsolidated affiliates. The Company began consolidating BDC's results of operations from May 16, 2008, the date that we obtained control of BDC.

The transaction was accounted for using the purchase method and the \$17.0 million of consideration, which was funded by a loan from the Company from its cash on hand, was allocated to the Company's share of the assets acquired and liabilities assumed at their estimated fair values as of May 15, 2008. The Company is in the process of completing a third-party valuation of certain acquired tangible and intangible assets; thus, the allocation of the purchase price is preliminary. Included in the preliminary allocation was \$9.4 million of licenses, \$0.7 million attributable to BDC's relationships with its existing customers as of the date of acquisition and \$6.0 million allocable to other acquired assets and liabilities at fair value. The excess of the purchase price over the amounts allocated to assets acquired and

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liabilities assumed of \$0.9 million has been recorded as goodwill. The value of the goodwill from this acquisition can be attributed to a number of business factors including, but not limited to the reputation of BDC as a retail provider of wireless services as well as a network operator, BDC's reputation for customer care, the skills and experience of its management and staff and the strategic position it holds in its marketplace. In accordance with current accounting standards, the goodwill and licenses will not be amortized and will be tested for impairment at least annually as required by SFAS No. 142, "Goodwill and Other Intangible Assets". The customer relationships will be amortized, on an accelerated basis, over the expected period during which their economic benefits are to be realized. For tax purposes, the goodwill and amortization of the customer relationships will not be deductible for tax purposes.

The following table reflects unaudited pro forma results of operations of the Company for the three and six months ended June 30, 2008 assuming that the BDC transaction had occurred on January 1, 2007 (in thousands, except per share data):

	Three Months Ended June 30,					
	2007		2008			
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
Revenue	\$ 45,157	\$ 51,571	\$ 50,414	\$ 53,672		
Net Income	\$ 9,049	\$ 9,125	\$ 10,204	\$ 10,110		
Earnings per Share:						
Basic	\$ 0.60	\$ 0.60	\$ 0.67	\$ 0.67		
Diluted	\$ 0.59	\$ 0.60	\$ 0.67	\$ 0.66		

	Six Months Ended June 30,					
	2007		2008			
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted
Revenue	\$ 89,077	\$ 101,005	\$ 96,044	\$ 104,651		
Net Income	\$ 15,947	\$ 16,033	\$ 18,071	\$ 17,901		
Earnings per Share:						
Basic	\$ 1.05	\$ 1.06	\$ 1.19	\$ 1.18		
Diluted	\$ 1.04	\$ 1.05	\$ 1.18	\$ 1.17		

5. FAIR VALUE MEASUREMENTS

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2008, and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability (in thousands):

Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Commercial paper	\$	\$	\$	\$
Certificates of deposit		5,400		5,400
Money market funds	20,111			20,111
Total assets measured at fair value	\$ 20,111	\$ 5,400	\$	\$ 25,511

6. DEPOSIT FOR ACQUISITION OF SPECTRUM

During the first quarter of 2008, we were awarded the right to acquire, for \$3.0 million, certain spectrum in connection with our participation in the FCC's auction (FCC Auction No. 73) of 700 MHz spectrum being re-claimed by the FCC from the broadcast industry and sold by the FCC to the wireless industry. This amount is included in Other Assets in our Consolidated Balance Sheet as of June 30, 2008; it will be reclassified to Licenses, and considered a capital expenditure, upon the finalization of such award, scheduled to occur during the first quarter of 2009.

7. CREDIT FACILITIES

Long-term debt comprises the following (in thousands):

	December 31, 2007	June 30, 2008
Note payable, as amended, to CoBank, ACB by ATN under a \$50 million term loan	\$ 50,000	\$ 50,000

On August 31, 2007, ATN, as borrower, amended and restated its credit agreement with CoBank, ACB and Banco Popular de Puerto Rico (the CoBank Credit Agreement). The CoBank Credit Agreement provides a \$50 million term loan (the Term Loan) and a \$20 million revolving credit facility (the Revolver Facility), together with the Term Loan, the Credit Facility). The Credit Facility is guaranteed by our Commnet and Sovernet subsidiaries and is collateralized by, among other things, a security interest in substantially all of the assets of and stock owned by ATN, Commnet and Sovernet. The Term Loan has principal repayments deferred until the maturity of the loan on October 31, 2010. Interest on the Term Loan is payable on a quarterly basis at a fixed annual interest rate of 5.85%, net of any patronage payments received by the Company from the bank. Amounts outstanding under the Revolver Facility (none as of June 30, 2008) accrue interest at a rate equal to (at the Company's option): (i) LIBOR plus a margin ranging from 1.25% to 1.50% or (ii) a variable rate of interest as defined within the Revolver Facility plus 1%.

The CoBank Credit Agreement contains certain affirmative and negative covenants of ATN and its subsidiaries (including Commnet) that are typical for loan facilities of this type. Among other things, these covenants restrict ATN's ability to incur additional debt in the future or to incur liens on its property. ATN has also agreed to maintain certain financial ratios under the facilities, including a total leverage ratio (debt to EBITDA) of two to one or less; a debt service coverage ratio (EBITDA to debt service) of three to one or more; an equity to assets ratio of 0.4 to one or more; and a specified leverage ratio for Commnet of 5.00 to one or less. As of June 30, 2008, the Company was in compliance with the covenants of the CoBank Credit Facility.

Table of Contents**8. STOCK-BASED COMPENSATION**

In May 2008, at the Company's Annual Meeting of Stockholders, the Company's stockholders approved the 2008 Equity Incentive Plan (the "2008 Plan"). The 2008 Plan replaced the 1998 Stock Option Plan, the 2005 Restricted Stock Plan and the Director's Remuneration Plan (collectively and including the 2008 Plan the "Share Based Plans"), under which no further awards will be made. The 2008 Plan allows for the grant of stock options, restricted stock, restricted stock units, stock equivalents and awards of shares of common stock that are not subject to restrictions or forfeiture.

During the three months ended June 30, 2007 and 2008, the Company recognized \$204,000 and \$277,000, respectively, of non-cash compensation expense relating to grants under its Share Based Plans. During the six months ended June 30, 2007 and 2008, the Company recognized \$418,000 and \$549,000, respectively, of non-cash compensation expense relating to grants under its Share Based Plans.

9. NET INCOME PER SHARE

For the three and six months ended June 30, 2007 and 2008, stock options and restricted stock issued under the share based plans were the only potentially dilutive securities.

The reconciliation from basic to diluted weighted average common shares outstanding is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
Basic weighted average common shares outstanding	15,161	15,187	15,156	15,192
Unvested shares	43	24	46	24
Stock options	82	42	86	51
Diluted weighted average common shares outstanding	15,286	15,253	15,288	15,267

The following notes the number of common shares not included in the above calculation because the effects of such were anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
Unvested shares		7		7
Stock options	211	434	196	416
Total	211	441	196	423

10. SEGMENT REPORTING

The Company has five reportable segments which are considered material for separate disclosure under Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of an Enterprise and Related Information*. Those five segments are: i) Integrated Telephony-International, which generates all of its revenues in Guyana and has all of its assets located in Guyana (GT&T), ii) Rural Wireless, which generates all of its revenues in the United States and has all of its assets located in the United States (Commnet), iii) Island Wireless, iv) Integrated Telephony-Domestic, which generates all of its revenues and has all of its assets located in the United States (Sovernet) and v) Wireless Television and Data, which generates all of its revenues in and has all of its assets located in the U.S Virgin Islands (Choice). Island Wireless became a reportable segment upon completion of BDC's share repurchase and resulting increase in the Company's equity interest in BDC, effective May 15, 2008. The Island Wireless segment generates all of its revenues in and has all of its assets in Bermuda (Bermuda Digital Communications). The operating segments are managed separately because each offers different services and serves different markets. Certain elements of the 2007 segment information have been revised to conform to the current format of financial information reviewed by the Company's chief operating decision makers.

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The following tables provide information for each operating segment (in thousands):

	For the Three Months Ended June 30, 2007							
	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television and Data	Corporate	Eliminations	Consolidated
Revenues	\$ 26,367	\$ 12,919	\$	\$ 3,693	\$ 2,178	\$ 2,602	\$ (2,602)	\$ 45,157
Depreciation and amortization	3,889	1,723		431	539	76		6,658
Non-cash stock-based compensation				32		172		204
Gain on disposition of long-lived assets		(1,043)						(1,043)
Operating income (loss)	11,394	6,502		497	(283)	532	(2,602)	16,040
Interest expense		(168)			(880)	(660)	1,047	(661)
Interest income	175	50		81		1,258	(1,047)	517
Income taxes	4,731	2,726		195	(99)	(303)		7,250
Equity in earnings of unconsolidated affiliates, net of tax						7,475	(6,833)	642
Net income (loss)	\$ 4,340	\$ 3,632	\$	\$ 227	\$ (1,326)	\$ 9,009	(6,833)	\$ 9,049

	For the Three Months Ended June 30, 2008							
	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television and Data	Corporate	Eliminations	Consolidated
Revenues	\$ 24,687	\$ 16,863	\$ 2,966	\$ 3,730	\$ 2,168	\$ 2,677	\$ (2,677)	\$ 50,414
Depreciation and amortization	4,163	2,215	275	422	275	74		7,424
Non-cash stock-based compensation				32		245		277
Gain on disposition of long-lived asset								
Operating income (loss)	10,817	8,429	938	553	(385)	383	(2,677)	18,058
Interest expense		(76)	(105)	(1)	(879)	(663)	1,060	(664)
Interest income	155	96	5	53		1,161	(1,060)	410
Income taxes	4,590	3,112		186	(135)	(1,111)		6,642
Equity in earnings of unconsolidated affiliates, net of tax						8,078	(7,806)	272
Net income (loss)	\$ 4,044	\$ 4,519	\$ 394	\$ 259	\$ (1,275)	\$ 10,069	(7,806)	\$ 10,204

	For the Six Months Ended June 30, 2007							
	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television and Data	Corporate	Eliminations	Consolidated
Revenues	\$ 52,822	\$ 24,756	\$	\$ 7,326	\$ 4,173	\$ 5,130	\$ (5,130)	\$ 89,077
Depreciation and amortization	7,766	3,253		901	1,086	153		13,159
Non-cash stock-based compensation				63		355		418

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Gain on disposition of long-lived assets		(1,176)							(1,176)
Operating income (loss)	22,470	11,372		936	(851)	676	(5,130)		29,473
Interest expense		(335)			(1,742)	(881)	2,075		(883)
Interest income	315	84		145		2,639	(2,075)		1,108
Income taxes	9,365	4,555		344	(298)	(52)			13,914
Equity in earnings of unconsolidated affiliates, net of tax							13,103	(12,005)	1,098
Net income (loss)	\$ 8,459	\$ 6,052	\$	\$ 426	\$ (2,877)	\$ 15,892	\$ (12,005)	\$	\$ 15,947

For the Six Months Ended June 30, 2008

	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television and Data	Corporate	Eliminations	Consolidated
Revenues	\$ 49,890	\$ 31,406	\$ 2,966	\$ 7,430	\$ 4,352	\$ 5,226	\$ (5,226)	\$ 96,044
Depreciation and amortization	8,347	4,206	275	850	673	150		14,501
Non-cash stock-based compensation				63		486		549
Gain on disposition of long-lived assets								
Operating income (loss)	21,706	15,178	938	1,133	(806)	789	(5,226)	33,712
Interest expense		(214)	(105)	(3)	(1,759)	(1,312)	2,077	(1,316)
Interest income	350	271	5	112		2,317	(2,077)	978
Income taxes	9,527	5,593		386	(282)	(1,192)		14,032
Equity in earnings of unconsolidated affiliates, net of tax						14,804	(14,069)	735
Net income (loss)	\$ 7,879	\$ 8,122	\$ 394	\$ 537	\$ (2,581)	\$ 17,789	\$ (14,069)	\$ 18,071

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December 31, 2007	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television And Data	Corporate	Consolidated
Net Fixed Assets	\$ 111,963	\$ 34,868	\$	\$ 3,320	\$ 4,884	\$ 718	\$ 155,753
Goodwill		32,148		7,196			39,344
Total Assets	156,094	117,680		22,922	6,547	41,383	344,626

Segment Assets

June 30, 2008	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television And Data	Corporate	Consolidated
Net Fixed Assets	\$ 107,321	\$ 45,306	\$ 12,898	\$ 3,166	\$ 4,489	\$ 572	\$ 173,752
Goodwill		32,148	855	7,274			40,277
Total Assets	155,934	121,145	33,336	22,544	6,193	11,093	350,245

Capital Expenditures

Six Months Ended June 30,	Integrated Telephony- International	Rural Wireless	Island Wireless	Integrated Telephony- Domestic	Wireless Television And Data	Corporate	Consolidated
2007	\$ 10,682	\$ 7,078	\$	\$ 575	\$ 4	\$	\$ 18,339
2008	5,905	14,506	22	294	171	2	20,900

11. RELATED PARTY TRANSACTION

In 2001, the Company curtailed the operations and funding of its ATN-Haiti and Transnet S.A. subsidiaries (the Haitian Subsidiaries), wrote-down its investment and began exploring strategic alternatives for the use or disposition of the remaining assets of the Haitian Subsidiaries. In May 2006, the Company's Board of Directors authorized the Company to enter into discussions to sell, at fair value, subject to review and final approval by the Audit Committee, the remaining assets of the Haitian Subsidiaries, consisting primarily of an office building and 13 tower sites located in Haiti, to Cornelius B. Prior, Jr., the Company's Executive Chairman, who is also the father of the Company's Chief Executive Officer.

In August 2007, the Company, upon final approval by the Company's Board of Directors and Audit Committee, completed the sale of the remaining assets of the Haitian Subsidiaries to Access Haiti, S.A., a Haitian company in which Mr. Prior is a significant equity holder, for \$750,000 and the release by Access Haiti, S.A. of certain indebtedness of Transnet S.A. In connection with the sale, Mr. Prior has agreed to indemnify the Company for any claims made against the Haitian Subsidiaries by creditors and vendors of the Haitian Subsidiaries in excess of \$200,000 in the aggregate. In addition, Mr. Prior has agreed to assist the Company in dissolving the Haitian Subsidiaries and agreed that if the dissolution had not been completed by January 2008, the Company would retain the right to sell the Company's equity interests in the Haitian

Subsidiaries to Mr. Prior for \$1. On May 6, 2008, Mr. Prior purchased the Company's remaining equity interests.

12. COMMITMENTS AND CONTINGENCIES

Regulatory and Litigation Matters

The Company and its subsidiaries are subject to certain regulatory and legal proceedings and other claims arising in the ordinary course of business, some of which involve claims for damages and taxes that are substantial in amount. The Company believes that, except for the items discussed below, for which the Company is currently unable to predict the final outcome, the disposition of proceedings currently pending will not have a material adverse effect on the Company's financial position or results of operations.

Regulatory

The Company's Guyana subsidiary, GT&T, is subject to regulation in Guyana under the provisions of its license and under the Guyana Public Utilities Commission Act of 1999 and the Guyana Telecommunications Act of 1990. GT&T also has certain significant rights and obligations under the agreement pursuant to which the Company acquired its interest in GT&T in 1991. In addition, because of the large volume of traffic that GT&T has with the United States, GT&T can be significantly affected by orders of U.S. regulatory agencies.

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In a letter dated September 8, 2006, Guyana's National Frequency Management Unit (NFMU) implied that spectrum fees in 2008 and onward may be increased beyond an amount agreed between GT&T and the Government. GT&T stated its position in a September 14, 2006 letter to the Guyana Government that, by agreement with the Government, spectrum fees would be capped until the NFMU develops a fee methodology, acceptable to all GSM Spectrum licensees, that results in total spectrum fees payable that do not appreciably exceed the capped amount. In correspondence to GT&T in June 2007, the NFMU stated, without indicating whether a fee methodology would be developed, that the cap on GSM spectrum fees will be removed in December 2007. In a letter dated July 3, 2007 to the NFMU, GT&T objected to the NFMU's proposed action and reiterated its position that determining spectrum fees prior to development of an acceptable methodology would violate the Government's prior agreement.

Since 2001, the Government has stated its intention to introduce additional competition into Guyana's telecommunications sector. In 2002, the Government held formal discussions with GT&T regarding this matter. In February and March 2008, at the request of the Government, GT&T met with high-ranking members of the Government officials to discuss potential modifications of GT&T's exclusivity rights and the introduction of competition for international voice and data services. ATN and GT&T believe that such competition is precluded by GT&T's exclusive license to provide domestic fixed (local exchange) and international voice and data services in Guyana, which has a stated expiration in December 2010 and is renewable for an additional 20 year term at GT&T's option.

ATN and GT&T believe that any early termination of our exclusivity would require our consent and appropriate compensation to GT&T, including but not limited to, an adjustment of service rates to reflect the real economic cost to GT&T of providing such services. The Government has informally indicated that it anticipates a transition to full competition in the telecommunications sector will require a significant rebalancing of local and long distance rates for domestic and international services provided by GT&T. GT&T is working with the Government to develop an appropriate methodology and process to implement rate rebalancing during and after a transition to competition. Further, ATN and GT&T believe that certain modifications to the legal and regulatory regime governing the telecommunications market sector in Guyana would be needed, as well as the satisfactory resolution of certain long-standing claims between ATN and GT&T and the Government relating to certain tax and other matters (as described below), for GT&T to consider voluntarily relinquishing its rights by law and contract to be the exclusive provider of domestic fixed and international voice and data services in Guyana. Although discussions are ongoing, we have been open about our willingness to forego renewal of our international exclusivity rights in 2010 as part of an overall settlement and agreement, although the Government has indicated to us a desire to introduce competition in international services in late 2008.

At this time, ATN and GT&T do not know if there will be any regulatory developments in Guyana that will have the effect of terminating or limiting the exclusivity provision of our license, and if so, the timing of any such developments and whether they would be pursuant to an agreement between GT&T and the Government. Other than entering into such an agreement on terms acceptable to us, ATN and GT&T would seek to enforce GT&T's rights by law and contract to be the exclusive provider of international voice and data services in Guyana. Although ATN and GT&T believe that they would be entitled to damages for any involuntary termination of that exclusive license, ATN and GT&T cannot guarantee that we would prevail in any court or arbitration proceeding.

On January 15, 2007, the Public Utilities Commission (PUC) issued a ruling that fixed floor and ceiling rates for both the pre-paid and the post-paid cellular services offered by GT&T and its competition. GT&T's National Competition has been offering promotions that appear to us to violate the floor on cellular rates. We believe the PUC is discriminately enforcing the new minimum and maximum rates in favor of GT&T's primary competitor and, in late 2007, GT&T filed a lawsuit contesting the PUC's enforcement. The PUC has indicated its intent to revisit the floor rate and, possibly, eliminate it.

In January 2007, the PUC ordered GT&T and GT&T's National Competition to implement per-second billing for cellular airtime as opposed to the pre-existing practice of per-minute billing for airtime. The PUC has initiated a proceeding to consider expanding per-second billing to non-mobile, international outbound service. Any such action by the PUC could have an adverse effect on GT&T's financial condition or results

of operations.

In October 1997, the PUC ordered GT&T to increase the number of telephone lines in service to a total of 69,278 lines by the end of 1998; 89,054 lines by the end of 1999; and 102,126 lines by the end of 2000; to allocate and connect an additional 9,331 telephone lines before the end of 1998; and to provide to subscribers who request them facilities for call diversion, call waiting, reminder call, and three-way calling by the end of 1998. In issuing this order, the PUC did not hear evidence or make any findings on the cost of providing these lines and services, the adjustment in telephone rates that may be necessary to give GT&T a fair return on its investment, or the ways and means of financing the requirements of the PUC's order. GT&T has appealed the PUC's order to the Guyana Court of Appeal, and that appeal is still pending. No stay currently exists against this order.

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In July 2004, the FCC released an order revising the spectrum band plan applicable to the Broadband Radio Service and Educational Broadband Service. These are the spectrum bands through which Choice operates its video and broadband data services. The new rules restructure these spectrum bands and could materially impact Choice customers and operations if Choice is required to transition to the new band plan. The FCC has stated that it will consider requests for waiver of the new band plan requirements on a case-by-case basis and described the circumstances under which waivers would be granted. To date the FCC has granted at least three waivers that excuse entities similar to Choice from the re-banding requirement. On April 30, 2007, Choice filed a waiver request at the FCC, which remains pending.

In a separate proceeding in September 2005, the FCC released an order reallocating to Advanced Wireless Services (AWS) another spectrum band used by Choice for its broadband data service. In September 2006, the FCC completed an auction of the AWS spectrum to new licensees. In order to clear the spectrum for the new licensee, Choice will be required to relocate certain operations to different spectrum. However, Choice believes any disruption to its operations by relocating to accommodate a new AWS licensee will be mitigated by the FCC's relocation and compensation rules which specify a mandatory, multi-year negotiation period and relocation to comparable facilities with the costs borne by the party precipitating the move.

Litigation

Upon the acquisition of GT&T in January 1991, ATN entered into an agreement with the government of Guyana to significantly expand GT&T's existing facilities and telecommunications operations and to improve service within a three-year period pursuant to an expansion and service improvement plan (the Plan). The government agreed to permit rate increases in the event of currency devaluation within the three-year period, but GT&T was unable to get timely increases when the Guyanese currency suffered a sharp decline in March 1991. The Plan was modified in certain respects, and the date for completion of the Plan was extended to February 1995. Since 1995, the PUC has had pending a proceeding initiated by the Minister of Telecommunications of Guyana with regard to the failure of GT&T to complete the Plan by February 1995. The PUC last held hearings on this matter in 1998. It is GT&T's position that its failure to receive timely rate increases in compensation for the devaluation of currency in 1991 provides legal justification for GT&T's delay in completing the Plan. If the PUC were to find that GT&T was not excused from fulfilling the terms of the Plan by February 1995, GT&T could be subject to monetary penalties, cancellation of its license, or other action by the PUC or the government that could have a material adverse effect on the Company's business and prospects. The requirements of the Plan were substantially completed more than five years ago. GT&T believes that its obligations have been fulfilled and it has continued to aggressively develop the telecommunications infrastructure in all areas including landline, wireless and data.

GT&T is contesting income tax assessments of approximately \$7.3 million that it has received from the commissioner of Inland Revenue for the years 1991-1996 based on the disallowance as a deduction for income tax purposes of five-sixths of the advisory fees payable by GT&T to the Company. The deductibility of these advisory fees was upheld for one of these years by a decision of the High Court in August 1995. The Guyana Commission of Inland Revenue has filed a High Court Writ seeking an order setting aside that decision on the grounds that the Commissioner did not have a proper hearing. GT&T has contested that Writ. The assessments for the other years are being held in abeyance pending decision on the Writ and GT&T motions to strike. Subsequent to December 31, 2001, GT&T received assessments for the years 1997-2000 in the aggregate amount of approximately \$6.5 million raising the same issues. GT&T expects that proceedings on these assessments will also be held in abeyance pending the Court's decision.

In November 1997, GT&T received assessments of the current equivalent of approximately \$9.7 million from the commissioner of Inland Revenue for taxes for the years 1991 through 1996. It is GT&T's understanding that these assessments stem from an audit that the Guyana High Court stayed before it was completed. Apparently, because the audit was cut short as a result of the High Court's order, GT&T did not receive notice of, and an opportunity to respond to, the proposed assessments as is the customary practice in Guyana, and substantially all of the issues raised in the assessments appear to be based on mistaken facts. GT&T has applied to the Guyana High Court for an order prohibiting the commissioner of Inland Revenue from enforcing the assessments on the grounds that the origin of the audit and the failure to give GT&T notice

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of, and opportunity to respond to, the proposed assessments violated Guyanese law. The Guyana High Court has issued an order effectively prohibiting any action on the assessments pending the determination by the High Court of the merits of GT&T's application.

Should GT&T be held liable for any of the above tax liabilities, totaling \$23.5 million, the Company believes that the government of Guyana would be obligated to reimburse GT&T for any amounts that would reduce GT&T's return on investment to less than 15% per annum for the relevant periods.

In early 2000, Inet Communications, Inc., an internet service provider in Guyana, and the Guyana Consumers Association filed a suit in the High Court against the Attorney General of Guyana and GT&T. The suit claims that GT&T is not entitled to rate increases based on the agreement between the Government of Guyana and ATN and that the Civil Law of Guyana prohibits what is referred to as

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GT&T's monopoly. Inet's motion was struck down for non-appearance of counsel. However, Inet's counsel has applied for the matter to be restored. The Court has not yet taken action on Inet's application.

In July 2002 an individual sued the Attorney General of Guyana in the Guyana courts asking, among other things, for a declaration that the section of the Company's 1990 contract with the Government of Guyana granting to GT&T an exclusive right to operate a telecommunications system in Guyana was null and void as contrary to law and to the Constitution of Guyana. GT&T has joined the suit to contest these claims and this proceeding remains pending.

For further information concerning other pending litigation matters, the disposition of which could have a material adverse effect on the Company's financial position or results of operations, see Notes to Consolidated Financial Statements, Note 12, Commitments and Contingencies - Regulatory and Litigation Matters in our 2007 Form 10-K.

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

This discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2007 Form 10-K. Some of the statements in the discussion are forward-looking statements which are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These risk factors include those discussed under Item 1A, Risk Factors in our 2007 Form 10-K and those set forth in this Report under Cautionary Statement Regarding Forward-Looking Statements.

OVERVIEW

We provide wireless and wireline telecommunications services in the Caribbean and North America through the following operating subsidiaries and affiliate:

- Guyana Telephone & Telegraph Company, Ltd. (or GT&T), the national and international telephone company in the Republic of Guyana and the largest wireless service provider in that country. We have owned 80% of the equity of GT&T since January 1991.
- Commnet Wireless, LLC (or Commnet), an owner and operator of wholesale wireless networks in rural areas of the United States. Commnet provides wireless voice and data communications roaming services primarily to national, regional and local wireless carriers. We acquired 95% of the equity of Commnet in September 2005 and the remaining 5% in January 2007.
- Bermuda Digital Communications, Ltd. (or BDC), the largest wireless voice and data communications service provider in Bermuda, doing business under the name Cellular One. We acquired an equity interest in, and signed a management contract with, BDC in 1998. On May 15,

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2008, BDC completed a share repurchase of its common stock. We did not tender any shares for repurchase, and, as a result of the transaction, increased our holdings from 43% to approximately 58% of BDC's outstanding common stock. Prior to this increase in holdings, we accounted for our investment in BDC under the equity method and earnings from BDC did not appear in our income from operations, but were instead reflected in equity in earnings of unconsolidated affiliates. Effective with the completion of BDC's share repurchase, we began consolidating BDC's results of operations.

- Sovernet, Inc., (or Sovernet), a facilities-based integrated voice, broadband data communications and dial-up service provider in New England, primarily in Vermont. We have owned 96% of Sovernet since its acquisition in February 2006.

- Choice Communications, LLC (or Choice), a leading provider of fixed wireless broadband data services, wireless digital television services and dial-up internet services to retail and business customers in the U.S. Virgin Islands. We acquired Choice in October 1999 and own 100% of the equity of Choice.

As a holding company, we provide management, technical, financial, regulatory, and marketing services to, and typically receive a management fee equal to approximately 4% to 6% of revenues from each operating subsidiary.

The following chart summarizes the operating activities of our subsidiaries and the markets they serve as of June 30, 2008:

Services	Segment	Operating Subsidiary/Affiliate	Markets
Wireless	Rural Wireless	Commnet	United States (rural markets)
	Integrated Telephony-International	GT&T	Guyana
	Island Wireless	BDC	Bermuda

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Local Telephone and Data	Integrated Telephony-International Integrated Telephony-Domestic Wireless Television and Data	GT&T Sovernet Choice (internet access)	Guyana United States (New England) U.S. Virgin Islands
International Long Distance	Integrated Telephony-International	GT&T	Guyana
Other	Wireless Television and Data	Choice (digital television)	U.S. Virgin Islands

For information about our business segments and geographical information about our operating revenues and long-lived assets, see Note 10 to the Consolidated Financial Statements included in this Report.

In the past, we generated most of our revenue and operating income from our GT&T operations and we continue to rely on GT&T for a significant portion of our revenues and profits. GT&T provides domestic wireline telephone service and international long distance service pursuant to an exclusive license from the Government of Guyana and provides wireless service on a non-exclusive basis. The rates that GT&T may charge for its services are regulated by the Public Utility Commission of Guyana (or PUC), an independent regulatory body responsible for regulating telecommunications. See Business Regulation of Our GT&T Subsidiary in the 2007 Form 10-K. The largest component of GT&T's contribution to our consolidated revenue and profit has been from its international long distance business and that business still accounts for roughly half of GT&T's revenue. Most of these revenues and profits are from payments by foreign carriers, which are denominated in U.S. dollars, for handling international long distance calls originating by foreign carriers and terminating in Guyana. The rates at which GT&T collects fees from foreign carriers are established by agreements between it and foreign carriers, and can be affected by limits set by foreign telecommunications regulators, especially the U.S. Federal Communications Commission (or FCC). The primary drivers of the long distance business are the population of Guyanese living abroad who initiate calls to Guyana, the rate foreign carriers pay GT&T for handling the incoming international calls, and the number of people in Guyana capable of receiving international long distance calls, which consist of wireline telephone customers and all the wireless subscribers in Guyana (including subscribers to competitor wireless service providers). In addition, in recent years, we believe various methods of illegal bypass and alternative and cheaper media for communication, such as e-mail and text messaging, may have had a negative impact on both voice traffic and on international long distance revenues. We have taken a number of measures to counter illegal bypass, including taking action against unlicensed operators in Guyana, introducing special outbound call center rates and we are examining automated technical solutions as well. GT&T has also recently faced an increased competitive environment for wireless services in Guyana. Digicel's entry into the Guyana wireless market has significantly increased the competition we face in the Guyana wireless market. Since early 2007, Digicel has used aggressive operational and capital spending to gain market share, including promotional pricing, the use of extensive give-aways and handset subsidies. In turn, we have countered with our own promotions and accelerated the timing of some of our capital expenditures on network expansion and upgrades. We believe that network coverage and quality of service at competitive prices are some of the most important bases on which we compete. In the short-term, however, promotions can have a significant effect on the market. This heightened competition has resulted in higher marketing expense and a decline in market share.

In 2005 and 2006, we entered new businesses and markets through our acquisitions of Commnet and Sovernet. These businesses have provided us with new sources of revenues and with additional growth opportunities. As a result, while GT&T continues to represent a significant portion of our revenues and profits, its relative contribution to our consolidated revenues and consolidated net income has declined significantly in recent years. For the quarters ended June 30, 2007 and 2008, GT&T generated approximately 58% and 49%, respectively, of our consolidated revenues. Commnet generated approximately 65% and 68% of our wireless revenue for the second quarter of 2007 and 2008, respectively. Sovernet generated approximately 32% and 30% of our local telephone and data revenue for the three months ended June 30, 2007 and 2008. We are actively evaluating additional acquisition opportunities of businesses that meet our return on investment and other acquisition criteria.

Recent Developments

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Guyana Operations. Since 2001, the Government of Guyana has stated its intention to introduce additional competition into Guyana's telecommunications sector, including conducting formal discussions with GT&T in 2002 regarding this matter. In February and March 2008, at the request of the Government, GT&T met with high-ranking members of the Government to discuss potential modifications of GT&T's exclusive right to offer international voice and data services. We believe that such competition is precluded by the exclusivity provisions of our license, which has a stated expiration in December 2010 and is renewable for an additional 20 year term at our option.

We believe that any early termination of our exclusivity would require our consent and appropriate compensation to GT&T, including but not limited to, an adjustment of service rates to reflect the real economic cost to GT&T of providing such services. The Government recently indicated that a transition to full competition in the telecommunications sector is anticipated to require a significant

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rebalancing of local and long distance rates for domestic and international services provided by GT&T. GT&T is working with the Government to develop an appropriate methodology and process to implement rate rebalancing during and after a transition to competition.

Further, we believe that certain modifications to the legal and regulatory regime governing the telecommunications market sector in Guyana would be needed, as well as the satisfactory resolution of certain long-standing claims between us and the Government relating to certain tax and other matters (as described in Note 12 to our 2007 Form 10-K), for us to consider voluntarily relinquishing GT&T's rights by law and contract to be the exclusive provider of international voice and data services in Guyana. Although discussions are ongoing, we have been open about our willingness to forego renewal of our international exclusivity rights in 2010 as part of an overall settlement and agreement, although the Government has indicated to us a desire to introduce competition in international services in late 2008.

At this time, we do not know if there will be any regulatory developments in Guyana that will have the effect of terminating or limiting our exclusive license, and if so, the timing of any such developments and whether they would be pursuant to an agreement between us and the Government. Other than entering into such an agreement on terms acceptable to us, we would seek to enforce GT&T's rights by law and contract to be the exclusive provider of international voice and data services in Guyana. Although we believe that we would be entitled to damages for any involuntary termination of that license, we cannot guarantee that we would prevail in any court or arbitration proceeding.

We are highly dependent on GT&T for a significant portion of our revenues and profits. For the three months ended June 30, 2008 approximately 49% of our consolidated revenue and approximately 40% of our consolidated net income, respectively, were generated by GT&T. Our international long distance revenues from GT&T have accounted for approximately 25% of our consolidated revenue during the three months ended June 30, 2008. As of June 30, 2008, we have invested approximately \$282 million in Guyanese telecommunications infrastructure. A loss of exclusivity on international voice and data services would result in a reduction in the international call traffic that we handle and could also result in a decline in international calling rates and termination fees. Any revocation, early termination or other modification of the exclusivity provisions of our license could adversely affect a majority of our revenues and profits and diminish the value of our investment in Guyana. See Risk Factors Our exclusive license to provide local exchange and long distance telephone services in Guyana is subject to significant political and regulatory risk in our 2007 Form 10-K.

Commnet Transaction. In December 2007, Commnet completed the sale of 59 base stations, along with spectrum licenses, in two Midwestern states for total consideration of approximately \$17.0 million and recorded a pre-tax gain of \$5.0 million. At the same time, Commnet entered into an agreement with this carrier to purchase spectrum, lease additional spectrum and build a network in rural areas in three other states. As of May, 2008, this new network consists of approximately 70 base stations, and includes a long-term roaming agreement with this carrier. Commnet committed to and completed the new network build by June 30, 2008. The agreement also provides the carrier with a purchase option on the new base stations exercisable beginning in 2010 through 2012 at a predetermined price each year. The purchase price consideration reduces each option year and was determined based on estimates of what would be needed to provide a reasonable return on our investment and is intended to be reflective of the then fair value of the base stations.

BDC. On May 15, 2008, BDC completed a \$17.0 million share repurchase of its common stock. We did not tender any shares for repurchase, and, as a result of the transaction, increased our holdings from 43% to approximately 58% of BDC's outstanding common stock. We funded the transaction by loaning BDC \$17.0 million from our cash on hand.

Upon completion of the tender offer, BDC's option, which would have been exercisable in July 2008, to repurchase from us all of our equity interest in BDC, was replaced with our right, exercisable in May 2013, to purchase all of BDC's then outstanding common stock at the then fair value of the shares. In the event we do not exercise that right, BDC will then have the right to purchase all of our equity interest in BDC at the

then fair value of the shares.

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Results of Operations

Three Months Ended June 30, 2008 and 2007

	Three Months Ended		Amount of	Percent
	2007	June 30, 2008		
(In thousands)				
REVENUE:				
Wireless	\$ 19,884	\$ 24,786	\$ 4,902	24.7%
Local telephone and data	11,439	12,267	828	7.2
International long distance				