

ATLANTIC TELE NETWORK INC /DE

Form 10-Q

August 11, 2014

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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

**For the quarterly period ended June 30, 2014**

**OR**

**o 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 001-12593**

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## 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)

**600 Cummings Center**

**Beverly, MA 01915**

(Address of principal executive offices, including zip code)

**(978) 619-1300**

(Registrant's telephone number, including area code)

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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  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 11, 2014, the registrant had outstanding 15,924,748 shares of its common stock (\$.01 par value).



Table of Contents

ATLANTIC TELE-NETWORK, INC.

FORM 10-Q

Quarter Ended June 30, 2014

<u>CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS</u>	3	
<u>PART I FINANCIAL INFORMATION</u>	4	
<u>Item 1</u>	<u>Unaudited Condensed Consolidated Financial Statements</u>	4
	<u>Condensed Consolidated Balance Sheets at December 31, 2013 and June 30, 2014</u>	4
	<u>Condensed Consolidated Income Statements for the Three and Six Months Ended June 30, 2013 and 2014</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income for the Six Months Ended June 30, 2013 and 2014</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2014</u>	7
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8-16
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16-27
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4</u>	<u>Controls and Procedures</u>	29
<u>PART II OTHER INFORMATION</u>		30
<u>Item 1</u>	<u>Legal Proceedings</u>	30
<u>Item 1A</u>	<u>Risk Factors</u>	30
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 6</u>	<u>Exhibits</u>	30
<u>SIGNATURES</u>		32
<u>CERTIFICATIONS</u>		



Table of Contents

**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, our future financial performance and results of operations; 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 level of estimated future capital expenditures and 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) the general performance of our operations, including operating margins, wholesale revenues, and the future growth and retention of our subscriber base; (2) government regulation of our businesses, which may impact our FCC and other telecommunications licenses; (3) economic, political and other risks facing our foreign operations; (4) our ability to maintain favorable roaming arrangements; (5) our ability to efficiently and cost-effectively upgrade our networks and IT platforms to address rapid and significant technological changes in the telecommunications industry; (6) the loss of or our inability to recruit skilled personnel in our various jurisdictions, including key members of management; (7) our ability to find investment or acquisition or disposition opportunities that fit our strategic goals for the Company; (8) increased competition; (9) our reliance on a limited number of key suppliers and vendors for timely supply of equipment and services relating to our network infrastructure; (10) the adequacy and expansion capabilities of our network capacity and customer service system to support our customer growth; (11) the occurrence of severe weather and natural catastrophes; (12) our continued access to capital and credit markets; and (13) our ability to realize the value that we believe exists in our businesses. 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 17, 2014 and the other reports we file from time to time with the SEC. The Company undertakes 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 the Company, we, our, ours, us and ATN refer to Atlantic Tele-Network, Inc. and its subsidiaries. This Report contains trademarks, service marks and trade names that are the property of, or licensed by, ATN, and its subsidiaries.

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)**

	<b>December 31, 2013</b>	<b>June 30, 2014</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 356,607	\$ 348,804
Restricted cash	39,000	58,794
Accounts receivable, net of allowances of \$9.7 million and \$9.1 million, respectively	37,680	44,598
Materials and supplies	7,269	8,507
Deferred income taxes	1,994	1,994
Prepayments and other current assets	24,705	21,182
Assets of discontinued operations	4,748	169
Total current assets	472,003	484,048
Fixed Assets:		
Property, plant and equipment	606,912	626,716
Less: accumulated depreciation	(352,280)	(373,689)
Net fixed assets	254,632	253,027
Telecommunication licenses, net	39,687	40,301
Goodwill	45,077	45,077
Trade name license, net	417	417
Customer relationships, net	1,807	1,647
Restricted cash	39,000	
Other assets	7,096	6,247
Total assets	\$ 859,719	\$ 830,764
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 41,709	\$ 39,892
Dividends payable	4,279	4,311
Accrued taxes	36,081	6,441
Advance payments and deposits	8,327	7,784
Deferred income taxes	1,601	1,601
Other current liabilities	17,889	3,353
Liabilities of discontinued operations	11,187	13,698
Total current liabilities	121,073	77,080
Deferred income taxes	26,007	25,428
Other liabilities	12,784	16,655
Total liabilities	159,864	119,163
Commitments and contingencies (Note 12)		
Atlantic Tele-Network, Inc. Stockholders' Equity:		

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Preferred stock, \$0.01 par value per share; 10,000,000 shares authorized, none issued and outstanding				
Common stock, \$0.01 par value per share; 50,000,000 shares authorized; 16,494,982 and 16,631,797 shares issued, respectively, and 15,816,189 and 15,924,748 shares outstanding, respectively		164		166
Treasury stock, at cost; 678,793 and 707,049 shares, respectively		(13,389)		(15,166)
Additional paid-in capital		139,106		142,589
Retained earnings		519,651		530,399
Accumulated other comprehensive loss		(2,202)		(2,199)
Total Atlantic Tele-Network, Inc. stockholders' equity		643,330		655,789
Non-controlling interests		56,525		55,812
Total equity		699,855		711,601
Total liabilities and equity	\$	859,719	\$	830,764

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



Table of Contents

## ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 and 2014

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
<b>REVENUE:</b>				
U.S wireless	\$ 26,589	\$ 37,456	\$ 47,802	\$ 65,848
International wireless	21,837	22,422	43,267	45,570
Wireline	20,877	21,283	41,441	42,813
Equipment and other	2,323	2,108	3,948	4,212
Total revenue	71,626	83,269	136,458	158,443
<b>OPERATING EXPENSES</b> (excluding depreciation and amortization unless otherwise indicated):				
Termination and access fees	13,601	16,231	26,656	32,093
Engineering and operations	9,182	9,521	18,840	19,151
Sales and marketing	4,787	4,926	9,276	9,946
Equipment expense	2,834	3,273	5,501	5,988
General and administrative	13,120	14,435	25,029	28,133
Transaction-related charges		346	63	367
Depreciation and amortization	12,195	12,930	24,183	24,910
Gain on disposition of long lived asset			(1,076)	
Total operating expenses	55,719	61,662	108,472	120,588
Income from operations	15,907	21,607	27,986	37,855
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net	(2,722)	(20)	(4,986)	(207)
Other income (expense), net	13	73	27	(36)
Other income (expense), net	(2,709)	53	(4,959)	(243)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>				
	13,198	21,660	23,027	37,612
Income tax expense	4,868	7,338	8,813	12,890
<b>INCOME FROM CONTINUING OPERATIONS</b>				
	8,330	14,322	14,214	24,722
Income from discontinued operations, net of tax	3,091		7,125	
<b>NET INCOME</b>	11,421	14,322	21,339	24,722
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(1,934)	(2,809)	(2,989)	(5,368)
Discontinued operations	(630)		(717)	
	(2,564)	(2,809)	(3,706)	(5,368)
<b>NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS</b>				
	\$ 8,857	\$ 11,513	\$ 17,633	\$ 19,354
<b>NET INCOME PER WEIGHTED AVERAGE BASIC SHARE ATTRIBUTABLE TO</b>				

**ATLANTIC TELE-NETWORK, INC.**

**STOCKHOLDERS:**

Continuing operations	\$	0.41	\$	0.72	\$	0.72	\$	1.22
Discontinued operations		0.16				0.41		
Total	\$	0.57	\$	0.72	\$	1.13	\$	1.22

**NET INCOME PER WEIGHTED AVERAGE**

**DILUTED SHARE ATTRIBUTABLE TO**

**ATLANTIC TELE-NETWORK, INC.**

**STOCKHOLDERS:**

Continuing operations	\$	0.40	\$	0.72	\$	0.71	\$	1.21
Discontinued operations		0.16				0.41		
Total	\$	0.56	\$	0.72	\$	1.12	\$	1.21

**WEIGHTED AVERAGE COMMON SHARES**

**OUTSTANDING:**

Basic		15,706		15,915		15,647		15,873
Diluted		15,821		16,023		15,756		15,986

**DIVIDENDS PER SHARE APPLICABLE TO**

**COMMON STOCK**

	\$	0.25	\$	0.27	\$	0.50	\$	0.54
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The accompanying condensed notes are an integral part of these condensed consolidated financial statements.

Table of Contents

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2014**  
**(Unaudited)**  
**(Dollars in thousands)**

	2013	Six Months Ended June 30,	2014
Net income	\$	21,339	24,722
Other comprehensive income:			
Unrealized gain on interest rate swap, net of tax expense of \$2.2 million and \$0.0 million, respectively		3,265	
Other comprehensive income, net of tax		3,265	
Comprehensive income		24,604	24,722
Less: Comprehensive income attributable to non-controlling interests		(3,706)	(5,368)
Comprehensive income attributable to Atlantic Tele-Network, Inc.	\$	20,898	19,354

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

Table of Contents

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2014**

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2013	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 21,339	\$ 24,722
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	24,183	24,910
Provision for doubtful accounts	569	256
Amortization of debt discount and debt issuance costs	631	48
Stock-based compensation	1,972	2,379
Income from discontinued operations, net of tax	(7,125)	
Gain on disposition of long-lived assets	(1,076)	
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(6,104)	(7,174)
Materials and supplies, prepayments, and other current assets	(7,216)	(3,336)
Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities	10,026	(641)
Accrued taxes	(24,028)	(23,952)
Other	(653)	(1,905)
Net cash provided by operating activities of continuing operations	12,518	15,307
Net cash provided by (used in) operating activities of discontinued operations	22,917	(3,255)
Net cash provided by operating activities	35,435	12,052
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(39,696)	(25,104)
Proceeds from disposition of long-lived assets	1,500	1,371
Decrease in restricted cash		19,206
Net cash used in investing activities of continuing operations	(38,196)	(4,527)
Net cash used in investing activities of discontinued operations	(12,487)	
Net cash used in investing activities	(50,683)	(4,527)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid on common stock	(3,919)	(8,574)
Distributions to non-controlling interests	(1,624)	(6,081)
Payment of debt issuance costs	(12)	
Principal repayment of term loan	(3,920)	
Proceeds from stock option exercises	1,232	610
Purchase of common stock	(915)	(1,283)
Investments made by minority shareholders in consolidated affiliates	135	
Net cash used in financing activities of continuing operations	(9,023)	(15,328)
Net cash used in financing activities of discontinued operations,	(938)	
Net cash used in financing activities	(9,961)	(15,328)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(25,209)</b>	<b>(7,803)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>136,647</b>	<b>356,607</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>\$ 111,438</b>	<b>\$ 348,804</b>

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

Table of Contents

## ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION AND BUSINESS OPERATIONS

The Company is a telecommunications holdings company that, through its operating subsidiaries, provides wireless and wireline telecommunications services in North America, Bermuda and the Caribbean.

The Company offers the following principal services:

- **Wireless.** In the United States, the Company offers wholesale wireless voice and data roaming services to national, regional, local and selected international wireless carriers in rural markets located principally in the Southwest and Midwest. The Company also offers wireless voice and data services to retail customers in Bermuda, Guyana, the Caribbean and smaller markets in the United States.
- **Wireline.** The Company's local telephone and data services include its operations in Guyana and the mainland United States. The Company is the exclusive licensed provider of domestic wireline local and long-distance telephone services in Guyana and international voice and data communications into and out of Guyana. The Company also offers facilities-based integrated voice and data communications services to enterprise and residential customers in New England, primarily in Vermont, and wholesale transport services in Vermont and New York State. In addition, the Company offers wholesale long-distance voice services to telecommunications carriers.

The following chart summarizes the operating activities of the Company's principal subsidiaries, the segments in which the Company reports its revenue and the markets it served as of June 30, 2014:

Services	Segment	Markets	Tradenames
<b>Wireless</b>	U.S. Wireless	United States	Commnet, Choice
	Island Wireless	Aruba, Bermuda, Turks and Caicos, U.S. Virgin Islands	Mio, CellOne, Islandcom, Choice
	International Integrated Telephony	Guyana	Cellink
<b>Wireline</b>	International Integrated Telephony	Guyana	GT&T, eMagine
	U.S. Wireline	United States (New England and New York State)	Sovernet, ION, EssexTel

The Company is actively evaluating potential strategic acquisitions and investment opportunities, both domestic and international, that meet its return-on-investment and other acquisition criteria. The Company provides management, technical, financial, regulatory, and marketing services to its subsidiaries and typically receives a management fee equal to a percentage of their respective revenue. Management fees from subsidiaries are eliminated in consolidation. For information about the Company's business segments and geographical information about its revenue, operating income and long-lived assets, see Note 11 to the Condensed Consolidated Financial Statements.

## 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 2013 Annual Report on Form 10-K.

See Note 4 for information regarding the Company's sale of its U.S. retail wireless business operated under the Alltel name. The assets, liabilities and operations of the Alltel business have been classified as discontinued for all periods presented. Unless indicated otherwise, the information in the notes to the Condensed Consolidated Financial Statements refer only to our continuing operations.

### *Consolidation*

The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries and certain entities, which are consolidated in accordance with the provisions of the Financial Accounting Standards Board's ( FASB )

Table of Contents

authoritative guidance on the consolidation of variable interest entities since it is determined that the Company is the primary beneficiary of these entities.

During the six months ended June 30, 2014, the Company recognized approximately \$0.7 million in general and administrative expenses to correct for an understatement of transactional tax liabilities generated in periods during 2013. The Company determined that the impact of the correction of this error was not material to the current or any prior period financial statements.

The Company's effective tax rate declined in 2014 as the result of increased income in lower taxed jurisdictions, such as Bermuda, as compared to 2013. The Company's effective tax rate in 2013 was higher than the statutory federal income tax rate of 35% (plus applicable statutory state income tax rates) due primarily to (i) the portion of our earnings that are taxed in Guyana at 45%, and (ii) a portion of the Company's earnings that include losses generated in foreign jurisdictions for which we receive no tax benefit since these are non-tax jurisdictions. The Company's effective tax rates for the three months ended June 30, 2013 and 2014 were 36.9% and 33.9%, respectively. The Company's effective tax rates for the six months ended June 30, 2013 and 2014 were 38.3% and 34.3%, respectively.

***Recent Accounting Pronouncements***

In June 2014, the Financial Accounting Standards Board ( FASB ) issued a standards update on accounting for share-based payments when the terms of the award provide that a performance target could be achieved after a requisite service period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued a standard on revenue recognition providing a single, comprehensive revenue recognition model for all contracts with customers. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective beginning January 1, 2017, with no early adoption permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are currently evaluating the adoption method options and the impact of the new guidance on our consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update ( ASU ) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 provides guidance on determining when disposals can be presented as discontinued operations. ASU 2014-08 requires that only disposals representing a strategic shift in operations should be presented as discontinued operations. A strategic shift may include a disposal of a major line of business, major equity method investment or a major part of an entity. Additionally, ASU 2014-08 requires expanded disclosures regarding discontinued operations. This standard is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted. The adoption of this amendment is not expected to have a material impact on the Company's condensed consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 provides clarification regarding whether ASC 810-10, Consolidation Overall or ASC 830-30, Foreign Currency



Matters Translation of Financial Statements, applies to the release of cumulative translation adjustments into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. The revised standard is effective for reporting periods beginning after December 15, 2013. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the Emerging Issues Task Force), which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a company does not have: (i) a net operating loss carryforward; (ii) a similar tax loss; or (iii) a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The authoritative guidance is effective for fiscal years and the interim periods within those fiscal years beginning on or after December 15, 2013 and was applied on a prospective basis. The adoption of this authoritative guidance did not have a material impact on the Company's condensed consolidated financial statements.

### 3. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenue and expenses during the reporting periods. The most significant estimates relate to the 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-lived intangible assets, goodwill and income taxes. Actual results could differ significantly from those estimates

Table of Contents**4. DISCONTINUED OPERATIONS SALE OF U.S. RETAIL WIRELESS BUSINESS**

On September 20, 2013, the Federal Communications Commission announced its approval of the previously announced proposed sale of the Company's U.S. retail wireless business operated under the Alltel name to AT&T Mobility for approximately \$780.0 million in cash plus \$16.8 million in working capital adjustments. The Company previously reported the operations of this business within its U.S. Wireless segment. As a result of that approval, the Company completed the sale of certain U.S. retail wireless assets on that date.

The \$796.8 million in cash proceeds included \$78.0 million of cash to be held in a general indemnity escrow account. Subject to the terms and conditions of the purchase agreement between AT&T Mobility and the Company governing the sale, the restrictions on \$19.5 million of these funds expired March 2014. The remaining \$58.5 million has been recorded as restricted cash on the Company's June 30, 2014 balance sheet and classified as a current asset since \$19.5 million and \$39.0 million will be released, subject to any indemnity claims, to the Company in September 2014 and March 2015, respectively.

As of June 30, 2014, the Company has also recorded \$7.3 million for the minority shareholders' interests in the sold operation which is based on the estimated final distributions to the minority shareholders and is included in non-controlling interests on its balance sheet.

The Company has reclassified the assets of its Alltel operations, consisting of prepaid expenses and other current assets, and liabilities of its Alltel operations, consisting of accounts payable and other current liabilities, to assets of discontinued operations and liabilities of discontinued operations, respectively, within its December 31, 2013 and June 30, 2014 balance sheets.

Revenues and income from discontinued operations related to the Alltel business for the three months and six months ended June 30, 2013 and 2014 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2014	2013	2014
Revenue from discontinued operations	\$	103,446	\$	211,483
Income from discontinued operations, net of tax expense of \$1.8 million and \$4.3 million for the three and six months ended June 30, 2013 respectively		3,091		7,125

**5. FAIR VALUE MEASUREMENTS**

In accordance with the provisions of fair value accounting, a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability and defines fair value based upon an exit price model.

The fair value measurement guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include money market funds, debt and equity securities and derivative contracts that are traded in an active exchange market.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes corporate obligations and non-exchange traded derivative contracts.

Table of Contents

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments and intangible assets that have been impaired whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets and liabilities of the Company measured at fair value on a recurring basis as of December 31, 2013 and June 30, 2014 are summarized as follows (in thousands):

Description	December 31, 2013		Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	
Certificates of deposit	\$	\$ 363	\$ 363
Money market funds	\$ 2,244	\$	\$ 2,244
<b>Total assets measured at fair value</b>	\$ 2,244	\$ 363	\$ 2,607

Description	June 30, 2014		Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	
Certificate of deposit	\$	\$ 363	\$ 363
Money market funds	\$ 2,039	\$	\$ 2,039
<b>Total assets measured at fair value</b>	\$ 2,039	\$ 363	\$ 2,402

*Certificate of Deposit*

As of December 31, 2013 and June 30, 2014, this asset class consisted of a time deposit at a financial institution denominated in U.S. dollars. The asset class is classified within Level 2 of the fair value hierarchy because the fair value was based on observable market data.

*Money Market Funds*

As of December 31, 2013 and June 30, 2014, this asset class consisted of a money market portfolio that comprises Federal government and U.S. Treasury securities. The asset class is classified within Level 1 of the fair value hierarchy because its underlying investments are valued using quoted market prices in active markets for identical assets.

**6. LONG-TERM DEBT**

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The Company has a credit facility (the Credit Facility ) which previously included two term loans and currently provides for a revolver loan of up to \$100.0 million. The revolver loan also has a \$10.0 million swingline sub-facility and a \$55.0 million letter of credit sub-facility for issuance in connection with the Company s Mobility Fund Grant obligations (see Note 8).

On September 20, 2013 the Company repaid its outstanding term loans in full. Amounts borrowed under the term loans bore interest at a rate equal to, at the Company s option, either (i) at the London Interbank Offered Rate (LIBOR) plus an applicable margin ranging between 2.00% to 4.00% or (ii) a base rate plus an applicable margin ranging from 1.00% to 3.00%. The base rate was equal to the higher of (i) 1.50% plus the higher of (x) the one-week LIBOR and (y) the one-month LIBOR; or (ii) the prime rate (as defined in the Credit Facility). The applicable margin was determined based on the ratio of our indebtedness (as defined in the Credit Facility) to our EBITDA (as defined in the Credit Facility).

Amounts borrowed under the revolver loan bear interest at a rate equal to, at the Company s option, either (i) LIBOR plus an applicable margin ranging between 2.00% to 3.50% or (ii) a base rate plus an applicable margin ranging from 1.00% to 2.50% (or, in the case of amounts borrowed under the swing-line sub- facility, an applicable margin ranging from 0.50% to 2.00%.) The Company must also pay a fee ranging from 0.25% to 0.50% of the average daily unused portion of the revolver loan over each calendar quarter, which fee is payable in arrears on the last day of each calendar quarter.

The Credit Facility contains customary representations, warranties and covenants, including covenants by the Company limiting additional indebtedness, liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans, sale and

Table of Contents

leasebacks, transactions with affiliates and fundamental changes. In addition, the Credit Facility contains financial covenants by the Company that (i) impose a maximum leverage ratio of indebtedness to EBITDA, (ii) require a minimum debt service ratio of EBITDA to principal, interest and taxes payments and (iii) require a minimum ratio of equity to consolidated assets. As of June 30, 2014, we were in compliance with all of the financial covenants of the Credit Facility.

*Note Payable Other*

In connection with the Company's merger of its Bermuda subsidiary with M3 Wireless, Ltd. in May 2011, the Company assumed a term loan of approximately \$7.0 million owed to Keytech Ltd., the former parent company of M3 Wireless, Ltd. and current 42% minority shareholder in the Company's Bermuda operations. This term loan, which bore interest at 7% per annum, was repaid in full in July 2013.

**7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company's objective in using interest rate derivatives was to add stability to interest expense and to manage its exposure to the interest rate movements of its variable-rate debt. To accomplish this objective, the Company primarily used interest rate derivatives as part of its interest rate risk management strategy. Interest rate derivatives, designated as cash flow hedges, involved the receipt of variable-rate amounts from counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of interest rate derivatives that qualified as cash flow hedges was recorded in accumulated other comprehensive income and was subsequently reclassified into earnings in the period that the hedged forecasted transaction affected earnings.

As a result of the repayment of its variable-rate debt on September 20, 2013, the Company terminated its interest rate derivatives in October 2013.

Amounts previously reported in accumulated other comprehensive income related to the interest rate derivatives were reclassified to Unrealized loss on interest rate derivative contracts as of the date of the prepayment of the Company's outstanding term notes.

The table below presents the effect of the Company's derivative financial instruments on the consolidated income statements for the three and six months ended June 30, 2013 and 2014 (in thousands):

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<b>Three Months Ended</b>	<b>Derivative in Cash Flow Hedging Relationships</b>	<b>Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)</b>	<b>Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)</b>	<b>Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)</b>
<b>June 30,</b>				
2013	Interest Rate Swap	\$ 4,373	Interest expense	\$ 1,039
2014	Interest Rate Swap	\$	Interest expense	\$

<b>Six Months Ended</b>	<b>Derivative in Cash Flow Hedging Relationships</b>	<b>Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)</b>	<b>Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)</b>	<b>Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)</b>
<b>June 30,</b>				
2013	Interest Rate Swap	\$ 5,441	Interest expense	\$ (2,022)
2014	Interest Rate Swap	\$	Interest expense	\$

Table of Contents

**8. GOVERNMENT GRANTS**

The Company has received funding from the U.S. Government and its agencies under Stimulus and Mobility Fund programs. These are generally designed to fund telecommunications infrastructure expansion into rural or underserved areas of the United States. The fund programs are evaluated to determine if they represent funding related to capital expenditures (capital grants) or operating activities (income grants).

*Stimulus Grants*

The Company was awarded several federal stimulus grants in 2009 and 2010 by the U.S. Government under provisions of the American Recovery and Reinvestment Act of 2009 intended to stimulate the deployment of broadband infrastructure and services to rural, unserved and underserved areas. As of June 30, 2014, the Company has spent (i) \$35.8 million in capital expenditures (of which \$27.5 million has been funded by the federal stimulus grant) in connection with the Company's build of ten new segments of fiber-optic, middle-mile broadband infrastructure in upstate New York and parts of Pennsylvania and Vermont; (ii) \$7.6 million in capital expenditures (of which \$5.3 million has been funded by the federal stimulus grant) in connection with the Company's last-mile broadband infrastructure buildout in the Navajo Nation across Arizona, New Mexico and Utah; and (iii) \$45.4 million in capital expenditures (of which \$31.8 million has been or is expected to be funded by the federal stimulus grant) in connection with the Company's fiber-optic middle mile network buildout to provide broadband and transport services to over 340 community anchor institutions in Vermont. The results of the Company's New York and Vermont stimulus projects are included in the Company's U.S. Wireline segment and the results of the Company's Navajo stimulus project are included in the Company's U.S. Wireless segment. The New York and Navajo Stimulus projects were completed during 2013. The Vermont stimulus project will be completed during the latter half of 2014 and the Company anticipates that it will incur an additional \$3.0 million of capital expenditures of which \$2.1 million is expected to be funded by the federal stimulus grants.

*Mobility Fund Grants*

As part of the Federal Communications Commission's (FCC) reform of its Universal Service Fund (USF) program, which previously provided support to carriers seeking to offer telecommunications services in high-cost areas and to low-income households, the FCC created the Mobility Fund and the Tribal Mobility Fund, each a one-time award meant to support wireless coverage in underserved geographic areas in the United States. In August 2013, the Company received FCC final approval for approximately \$21.7 million of Mobility Fund support and in June 2014, approximately \$2.4 million of Tribal Mobility fund support to its wholesale wireless business (collectively the Mobility Funds) to expand voice and broadband networks in certain geographic areas in order to offer either 3G or 4G coverage. As part of the receipt of the Mobility Funds, the Company committed to comply with certain additional FCC construction and other requirements. A portion of these funds will be used to offset network capital costs and a portion is used to offset the costs of supporting the networks for a period of five years. In connection with the Company's application for the Mobility Funds, the Company has posted approximately \$11.0 million in letters of credit to the Universal Service Administrative Company (USAC) to secure these obligations. If the Company fails to comply with any of the terms and conditions upon which the Mobility Funds were granted, or if it loses eligibility for the Mobility Funds, USAC will be entitled to draw the entire amount of the letter of credit applicable to the affected project plus penalties and may disqualify the Company from the receipt of additional Mobility Fund support. As of June 30, 2014, all of the letters of credit remain outstanding and no amounts have been drawn thereon.

The Company began the construction of its Mobility Funds projects during the third quarter of 2013 and its results are included in the Company's U.S. Wireless segment. As of June 30, 2014, the Company has received approximately \$7.3 million in Mobility Funds. Of these funds, \$1.4 million was recorded as an offset to the cost of the property, plant, and equipment associated with these projects and, consequentially, a reduction of future depreciation expense and \$6.1 million was recorded as a liability to reduce future operating expenses. The balance sheet



presentation is based on the timing of the expected recognition of the funds and accordingly, \$2.3 million is recorded within other current liabilities while the remaining \$3.8 million is recorded within other long-term liabilities.

Table of Contents**9. EQUITY**

Total equity was as follows (in thousands):

	Six Months Ended June 30,					
	Atlantic Tele- Network, Inc.	2013 Non-Controlling Interests	Total Equity	Atlantic Tele- Network, Inc.	2014 Non-Controlling Interests	Total Equity
Equity, beginning of period	\$ 334,146	\$ 60,094	\$ 394,240	\$ 643,330	\$ 56,525	\$ 699,855
Stock-based compensation	2,071		2,071	2,379		2,379
Comprehensive income:						
Net income	17,633	3,706	21,339	19,354	5,368	24,722
Other comprehensive income-Gain on interest rate swap (net of tax)	3,265		3,265			
Total comprehensive income	20,898	3,706	24,604	19,354	5,368	24,722
Issuance of common stock upon exercise of stock options	3,955		3,955	1,109		1,109
Dividends declared on common stock	(7,884)		(7,884)	(8,605)		(8,605)
Distributions to non-controlling interests		(3,096)	(3,096)		(6,081)	(6,081)
Investments made by non-controlling interests		135	135			
Purchase of treasury stock	(3,640)		(3,640)	(1,778)		(1,778)
Equity, end of period	\$ 349,546	\$ 60,839	\$ 410,385	\$ 655,789	\$ 55,812	\$ 711,601

**10. NET INCOME PER SHARE**

For the three and six months ended June 30, 2013 and 2014, outstanding stock options 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,	
	2013	2014	2013	2014
Basic weighted-average common shares outstanding	15,706	15,915	15,647	15,873
Stock options	115	108	109	113
Diluted weighted-average common shares outstanding	15,821	16,023	15,756	15,986

The above calculation for the three months ended June 30, 2013 does not include 60,000 shares related to certain stock options because the effects of such options were anti-dilutive. For the six months ended June 30, 2014 the calculation does not include 153,000 shares related to certain stock options because the effect of such options was anti-dilutive.

## 11. SEGMENT REPORTING

The Company has four reportable segments for separate disclosure in accordance with the FASB's authoritative guidance on disclosures about segments of an enterprise. Those four segments are: i) U.S. Wireless, which generates all of its revenues in and has all of its assets located in the United States, ii) International Integrated Telephony, which generates all of its revenues in and has all of its assets located in Guyana, iii) Island Wireless, which generates a majority of its revenues in, and has a majority of its assets located in, Bermuda and which also generates revenues in and has assets located in the U.S. Virgin Islands, Aruba and Turks and Caicos and iv) U.S. Wireline, which generates all of its revenues in and has all of its assets located in the United States. The operating segments are managed separately because each offers different services and serves different markets.

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

Table of Contents

## For the Three Months Ended June 30, 2013

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. wireless	\$ 26,589	\$	\$	\$	\$	\$ 26,589
International wireless		6,530	15,307			21,837
Wireline	152	15,170		5,555		20,877
Equipment and other	103	508	1,655	57		2,323
Total revenue	26,844	22,208	16,962	5,612		71,626
Depreciation and amortization	3,997	4,535	2,560	794	309	12,195
Non-cash stock-based compensation					1,166	1,166
Operating income (loss)	12,934	6,235	2,301	(124)	(5,439)	15,907

## For the Six Months Ended June 30, 2013

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. wireless	\$ 47,802	\$	\$	\$	\$	\$ 47,802
International wireless		13,284	29,983			43,267
Wireline	305	30,853		10,283		41,441
Equipment and other	205	763	2,873	107		3,948
Total revenue	48,312	44,900	32,856	10,390		136,458
Depreciation and amortization	8,080	8,925	5,155	1,436	587	24,183
Non-cash stock-based compensation					1,972	1,972
Operating income (loss)	22,179	12,568	3,935	(532)	(10,164)	27,986

## For the Three Months Ended June 30, 2014

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. wireless	\$ 37,456	\$	\$	\$	\$	\$ 37,456
International wireless		6,758	15,664			22,422
Wireline	152	14,445		6,686		21,283
Equipment and other	207	194	1,641	66		2,108
Total revenue	37,815	21,397	17,305	6,752		83,269
Depreciation and amortization	3,453	4,400	2,607	1,186	1,284	12,930
Non-cash stock-based compensation					1,323	1,323
Operating income (loss)	22,651	4,594	2,552	(966)	(7,224)	21,607

## For the Six Months Ended June 30, 2014

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. wireless	\$ 65,848	\$	\$	\$	\$	\$ 65,848
International wireless		13,655	31,915			45,570
Wireline	305	29,151		13,357		42,812
Equipment and other	386	389	3,313	125		4,212

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Total revenue	66,538	43,195	35,228	13,482		158,443
Depreciation and amortization	6,756	8,713	5,215	2,327	1,899	24,910
Non-cash stock-based compensation					2,379	2,379
Operating income (loss)	36,239	10,229	5,978	(2,040)	(12,480)	37,855

Table of Contents

	Segment Assets						Consolidated
	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items		
<b>December 31, 2013:</b>							
Net fixed assets	\$ 73,592	\$ 118,917	\$ 29,310	\$ 26,082	\$ 6,731	\$ 254,632	
Goodwill	32,148		5,438	7,491		45,077	
Total assets	151,094(1)	197,903	74,427	45,351	390,944	859,719	
<b>June 30, 2014:</b>							
Net fixed assets	\$ 72,244	\$ 114,557	\$ 26,450	\$ 25,987	\$ 13,778	\$ 253,027	
Goodwill	32,148		5,438	7,491		45,077	
Total assets	244,308(1)	200,209	76,897	43,034	266,314	830,764	

(1) Includes \$4,748 and \$169 of assets associated with our discontinued operations as of December 31, 2013 and June 30, 2014, respectively.

	Capital Expenditures						Consolidated
	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items		
<b>Six Months Ended June 30,</b>							
2013	\$ 23,357	\$ 6,116	\$ 1,911	\$ 6,689	\$ 1,623	\$ 39,696	
2014	\$ 14,845	\$ 6,072	\$ 1,958	\$ 976	\$ 1,253	\$ 25,104	

**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 and in our Annual Report on Form 10-K for the year ended December 31, 2013, 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.

On May 8, 2009, Digicel filed a lawsuit in Guyana challenging the legality of GT&T's exclusive license rights under Guyana's constitution. Digicel initially filed this lawsuit against the Attorney General of Guyana in the High Court. On May 13, 2009, GT&T petitioned to intervene in the suit in order to oppose Digicel's claims and that petition was granted on May 18, 2009. GT&T filed an answer to the charge on June 22, 2009 and the case is pending. The Company believes that any legal challenge to GT&T's exclusive license rights granted in 1990 is without merit and the Company is vigorously defending against the legal challenge.

In Bermuda, the Regulatory Authority continued its implementation of the Electronic Communications Act of 2011, which allows communications service providers to enter new lines of business and introduces competition in the sector. As the government of Bermuda

continues to reform the local telecommunications market it is possible that new or amended regulations may establish regulatory and other fees that could increase our regulatory costs. We cannot predict when or if these proposals will be adopted, or, if adopted, the impact that their implementation will have on our Island Wireless Segment.

The term of the Company's telecommunications license to operate in Aruba expired on January 15, 2014. The government of Aruba informed the Company earlier in January 2014 that a renewed license would be issued only upon payment by the Company of a fee in the amount of approximately \$4.0 million. In addition, the government of Aruba demanded that the Company pay overdue spectrum invoices in the amount of approximately \$2.0 million no later than July 31, 2014. The Company continues to contest the assessment of these fees, and continues to operate actively seek a resolution with the Aruba government with respect to the fees, if any, to be paid in relation to a renewed license and the assessed spectrum fees.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The discussion and analysis of our financial condition and results of operations that follows are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ significantly from these estimates under different assumptions or conditions. This discussion should be read in conjunction with our condensed consolidated financial statements herein and the accompanying notes*

Table of Contents

thereto, and our Annual Report on Form 10-K for the year ended December 31, 2013, in particular, the information set forth therein under Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* .

**Overview**

We are a telecommunications holdings company that, through our operating subsidiaries, provides wireless and wireline telecommunications services in North America, Bermuda and the Caribbean. We are actively evaluating strategic acquisitions and investment opportunities, both domestic and international, that meet our return-on-investment and other acquisition criteria. For a discussion of our investment strategy and risks involved, see *Risk Factors We are actively evaluating strategic investment and acquisition opportunities, which may affect our long-term growth prospects* in our Form 10-K for the year ended December 31, 2013.

We offer the following principal services:

- **Wireless.** In the United States, we offer wholesale wireless voice and data roaming services to national, regional, local and selected international wireless carriers in rural markets located principally in the Southwest and Midwest. We also offer wireless voice and data services to retail customers in Bermuda, Guyana, the Caribbean and smaller markets in the United States.
- **Wireline.** Our local telephone and data services include our operations in Guyana and the mainland United States. We are the exclusive licensed provider of domestic wireline local and long-distance telephone services in Guyana and international voice and data communications into and out of Guyana. We also offer facilities-based integrated voice and data communications services to enterprise and residential customers in New England, primarily in Vermont, and wholesale transport services in Vermont and New York State. In addition, we offer wholesale long-distance voice services to telecommunications carriers.

The following chart summarizes the operating activities of our principal subsidiaries, the segments in which we report our revenue and the markets we served as of June 30, 2014:

Services	Segment	Markets	Tradenames
<b>Wireless</b>	U.S. Wireless	United States (rural markets)	Commnet, Choice
	Island Wireless	Aruba, Bermuda, Turks and Caicos, U.S. Virgin Islands	Mio, CellOne, Islandcom, Choice
	International Integrated Telephony	Guyana	Cellink
<b>Wireline</b>	International Integrated Telephony	Guyana	GT&T, eMagine
	U.S. Wireline	United States (New England and New York State)	Sovernet, ION, Essexel

We provide management, technical, financial, regulatory, and marketing services to our subsidiaries and typically receive a management fee equal to a percentage of their respective revenue. Management fees from our subsidiaries are eliminated in consolidation.



**Discontinued Operations Sale of U.S. Retail Wireless Business**

On September 20, 2013, the Federal Communications Commission announced its approval of our previously announced proposed sale of our U.S. retail wireless business operated under the Alltel name to AT&T Mobility LLC for approximately \$796.8 million in cash that included a sale price adjustment for the working capital of the business of \$16.8 million (the Alltel Sale). As a result of that approval, we completed the sale of certain U.S. retail wireless assets on that date.

The operations of the Alltel business, which were previously included in our U.S. Wireless segment, have been classified as discontinued operations in all periods presented. Unless indicated otherwise, the information in this Management's Discussion and Analysis relates only to our continuing operations.

**Stimulus Grants**

We were awarded several federal stimulus grants in 2009 and 2010 by the U.S. Government under provisions of the American Recovery and Reinvestment Act of 2009 intended to stimulate the deployment of broadband infrastructure and services to rural, unserved and underserved areas. As of June 30, 2014, we have spent (i) \$35.8 million in capital expenditures (of which \$27.5 million has been funded by the federal stimulus grant) in connection with our build of ten new segments of fiber-optic, middle-mile broadband infrastructure in upstate New York and parts of Pennsylvania and Vermont; (ii) \$7.6 million in capital expenditures (of which \$5.3 million has been funded by the federal stimulus grant) in connection with our last-mile broadband infrastructure buildout in the Navajo Nation across Arizona, New Mexico and Utah; and (iii) \$45.4 million in capital expenditures (of which \$31.8 million

Table of Contents

has been or will be funded by the federal stimulus grant) in connection with our fiber-optic middle mile network buildout to provide broadband and transport services to over 340 community anchor institutions in Vermont. The results of our New York and Vermont stimulus projects are included in our U.S. Wireline segment and the results of our Navajo stimulus project are included in our U.S. Wireless segment. The New York and Navajo Stimulus projects were completed during 2013. The Vermont stimulus project will be completed during the latter half of 2014 and we anticipate that it will incur an additional \$3.0 million of capital expenditures of which \$2.1 million is expected to be funded by the federal stimulus grants.

**Mobility Fund Grants**

As part of the Federal Communications Commission's (FCC) reform of its Universal Service Fund (USF) program, which previously provided support to carriers seeking to offer telecommunications services in high-cost areas and to low-income households, the FCC created the Mobility Fund and the Tribal Mobility Fund, each a one-time award meant to support wireless coverage in underserved geographic areas in the United States. In August 2013, the Company received FCC final approval for approximately \$21.7 million of Mobility Fund support and in June 2014, approximately \$2.4 million of Tribal Mobility Fund support to its wholesale wireless business (collectively the Mobility Funds) to expand voice and broadband networks in certain geographic areas in order to offer either 3G or 4G coverage. As part of the receipt of the Mobility Funds, the Company committed to comply with certain additional FCC construction and other requirements. A portion of these funds will be used to offset network capital costs and a portion is used to offset the costs of supporting the networks for a period of five years. In connection with the Company's application for the Mobility Funds, the Company has posted approximately \$11.0 million in letters of credit to the Universal Service Administrative Company (USAC) to secure these obligations. If the Company fails to comply with any of the terms and conditions upon which the Mobility Funds were granted, or if it loses eligibility for the Mobility Funds, USAC will be entitled to draw the entire amount of the letter of credit applicable to the affected project plus penalties and may disqualify the Company from the receipt of additional Mobility Fund support. As of June 30, 2014, all of the letters of credit remain outstanding and no amounts have been drawn thereon.

We began the construction of our Mobility Funds projects during the fourth quarter of 2013 and its results are included in our U.S. Wireless segment. As of June 30, 2014, we have received approximately \$7.3 million in Mobility Funds. Of these funds, \$1.4 million has been recorded as an offset to the cost of the property, plant and equipment associated with these projects and, consequentially, a reduction of the future depreciation expense and \$6.1 million was recorded as a liability to reduce future operating expenses. The balance sheet presentation of current versus long-term is based on the timing of the expected usage of the funds and accordingly, \$2.3 million is recorded within other current liabilities while the remaining \$3.8 million is recorded within other long-term liabilities.

Table of Contents**Results of Operations***Three Months Ended June 30, 2013 and 2014*

	Three Months Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2013	2014		
	(In thousands)			
<b>REVENUE:</b>				
U.S. Wireless	\$ 26,589	\$ 37,456	\$ 10,867	40.9%
International Wireless	21,837	22,422	585	2.7
Wireline	20,877	21,283	406	1.9
Equipment and Other	2,322	2,108	(214)	(9.2)
Total revenue	71,626	83,269	11,643	16.3
<b>OPERATING EXPENSES</b> (excluding depreciation and amortization unless otherwise indicated):				
Termination and access fees	13,601	16,231	2,630	19.3
Engineering and operations	9,182	9,521	339	3.7
Sales, marketing and customer services	4,787	4,926	139	2.9
Equipment expense	2,834	3,273	439	15.5
General and administrative	13,120	14,435	1,315	10.0
Transaction-related charges		346	346	100.0
Depreciation and amortization	12,195	12,930	735	6.0
Total operating expenses	55,719	61,662	5,943	10.7
Income from operations	15,907	21,607	5,700	35.8
<b>OTHER INCOME (EXPENSE):</b>				
Interest income (expense), net	(2,722)	(20)	2,702	(99.3)
Other income (expense), net	13	73	60	461.5
Other income (expense), net	(2,709)	53	2,762	(102.0)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>				
	13,198	21,660	8,462	64.1
Income tax expense	4,868	7,338	2,470	50.7
<b>INCOME FROM CONTINUING OPERATIONS</b>				
	8,330	14,322	5,992	71.9
<b>INCOME FROM DISCONTINUED OPERATIONS</b>				
Income from discontinued operations, net of tax	3,091		(3,091)	(100.0)
Income from discontinued operations	3,091		(3,091)	(100.0)
<b>NET INCOME</b>	11,421	14,322	2,901	25.4
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(1,934)	(2,809)	(875)	45.2
Discontinued operations	(630)		630	(100.0)
	(2,564)	(2,809)	(245)	9.6
<b>NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS</b>				
	\$ 8,857	\$ 11,513	\$ 2,656	30.0%

*U.S. Wireless revenue.* The substantial majority of U.S. wireless revenue consists of wholesale revenue. For the three months ended June 30, 2013 and 2014 wholesale revenue represented 96% and 97%, respectively, of total U.S. wireless revenue. In addition, U.S. wireless revenue also

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includes a small amount of retail revenue generated by our operations in certain smaller rural markets already covered by our wholesale network in the western United States. Wholesale revenue is generated from providing mobile voice or data services to the customers of other wireless carriers, the provision of network switching services and certain transport services using our wireless networks. Wholesale wireless revenue is primarily driven by the number of sites and base stations we operate, the amount of voice and data traffic from the subscribers of other carriers that each of these sites generates, and the rates we are paid from our carrier customers for carrying that traffic.

The most significant competitive factor we face in our wholesale wireless business is the extent to which our carrier customers choose to roam on our networks or elect to build or acquire their own infrastructure in our markets, reducing or eliminating their need for our services in those markets.

Table of Contents

Our U.S. wireless revenue increased to \$37.5 million for the three months ended June 30, 2014 from \$26.6 million for the three months ended June 30, 2013, an increase of \$10.9 million or 41%. The revenue growth was a result of capacity and technology upgrades to our network, an increase in the demand for data services and an increase in the base stations used in our wholesale operations from 572 as of June 30, 2013 to 654 as of June 30, 2014.

We expect to see continued growth in domestic data traffic in 2014, offset by an expected decline in contracted wholesale data prices. As a result, we expect to see modest year-on-year growth in U.S. Wireless revenue in the second half of 2014.

*International wireless revenue.* International wireless revenue includes retail and wholesale voice and data wireless revenue from our operations in Bermuda and the Caribbean, including the U.S. Virgin Islands.

International wireless revenue increased by \$0.6 million, or 3%, to \$22.4 million for the three months ended June 30, 2014, from \$21.8 million for the three months ended June 30, 2013. This increase was due to an increase in retail revenue of \$0.9 million partially offset by a decrease in wholesale roaming revenue of \$0.3 million.

The increase in retail revenue was a result of subscriber growth in our Island Wireless segment (which does not include Guyana) resulting in a \$0.6 million increase in revenue and revenue growth in Guyana of \$0.3 million. Our total International Wireless subscribers, which include subscribers in our Island Wireless segment as well as Guyana, decreased from 333,000 subscribers as of June 30, 2013 to 321,000 subscribers as of June 30, 2014 of which 88% were prepaid subscribers. The increase in retail revenues was partially offset by a decrease in wholesale roaming revenues in certain of our Island Wireless properties due primarily to rate reductions.

While we have experienced subscriber growth in a number of our international markets, competition remains strong, and the high proportion of prepaid subscribers means that subscribers and revenue could shift relatively quickly in future periods. Additionally, wholesale revenues in these markets are subject to seasonality and can fluctuate between quarters.

*Wireline revenue.* Wireline revenue is generated by our wireline operations in Guyana, including international telephone calls into and out of that country, our integrated voice and data operations in New England, our wholesale transport operations in New York State and our wholesale long-distance voice services to telecommunications carriers. This revenue includes basic service fees, measured service revenue, and internet access fees, as well as installation charges for new lines, monthly line rental charges and long- distance or toll charges.

Wireline revenue increased by \$0.4 million, or 2%, to \$21.3 million for the three months ended June 30, 2014, from \$20.9 million during the three months ended June 30, 2014. Revenues from our domestic wireline businesses increased by \$1.1 million as a result of higher wholesale long distance voice service revenue and increased wholesale transport operations. This increase, however, was partially offset by a \$0.7 million decline in wireline revenues in Guyana where increases in high speed data services were more than offset by decreases in local landline telephone revenue and international calls into Guyana.

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We anticipate that wireline revenue from our international long-distance business in Guyana will be negatively impacted, principally through the loss of market share, should we cease to be the exclusive provider of domestic fixed and international long-distance service in Guyana, whether by reason of the Government of Guyana enacting legislation to such effect or a modification, revocation or lack of enforcement of our exclusive rights. While the loss of our exclusive rights will likely cause an immediate reduction in our wireline revenue, over the longer term such declines may be offset by increased revenue from data services to consumers and enterprises in Guyana, an increase in regulated local calling rates in Guyana, and increased wholesale transport services and large enterprise and agency sales in the United States.

We currently cannot predict when or if the Government of Guyana will enact such legislation or take, or fail to take, any action that would otherwise affect our exclusive rights in Guyana. See *Business Guyana Regulation* with the Company's 2013 Annual Report on Form 10-K.

*Equipment and other revenue.* Equipment and other revenue represent revenue from wireless equipment sales, primarily handsets to retail customers, and other miscellaneous revenue items.

Equipment and other revenue decreased by \$0.2 million, or 9% to \$2.1 million for the three months ended June 30, 2014, from \$2.3 million for the three months ended June 30, 2013. Equipment revenue decreased primarily as the result of a \$0.3 million decrease in revenue in our International Integrated Telephony segment as a result of a decrease in subscriber additions offset by a \$0.1 million increase in our U.S Wireless segment's retail operations as a result of an increase in subscriber additions.

We believe that equipment and other revenue could continue to increase as a result of gross subscriber additions, more aggressive subsidies driving demand for devices and the continued growth in smartphone penetration.

Table of Contents

*Termination and access fee expenses.* Termination and access fee expenses are charges that we pay for voice and data transport circuits (in particular, the circuits between our wireless sites and our switches), internet capacity and other access fees we pay to terminate our calls, as well as customer bad debt expense.

Termination and access fees increased by \$2.6 million, or 19%, from \$13.6 million for the three months ended June 30, 2013 to \$16.2 million for the three months ended June 30, 2014. This increase in our termination and access fees was incurred across all of our segments. Our U.S. Wireless segment reported an increase of \$1.2 million in these costs as the result of increased data volumes due to the expansion and upgrades to our networks. Our U.S. Wireline segment experienced an increase of \$1.2 million in termination and access fees as a result of the increased operating costs associated with the completion of our fiber network in our wholesale transport services operations and increased traffic volumes in our wholesale long-distance service business.

Termination and access fees are expected to increase in future periods with expected growth in volume but remain fairly proportionate to their related revenue as our networks expand.

*Engineering and operations expenses.* Engineering and operations expenses include the expenses associated with developing, operating and supporting our expanding networks, including the salaries and benefits paid to employees directly involved in the development and operation of our networks.

Engineering and operations expenses increased by \$0.3 million, or 3%, from \$9.2 million to \$9.5 million for the three months ended June 30, 2013 and 2014, respectively. The increase in engineering and operations expenses was primarily the result of a \$0.7 million increase in our International Integrated Telephony segment as a result of increased maintenance costs on our network and billing systems partially offset by a \$0.2 million decrease in our Island Wireless segment due to its continuing realization of operational synergies, particularly in Bermuda.

We expect that engineering and operations expenses will increase over time due to an expected increase in our network capacity and geographic expansion of our networks, both of which will require additional support.

*Sales, marketing and customer service expenses.* Sales and marketing expenses include salaries and benefits we pay to sales personnel, customer service expenses, sales commissions and the costs associated with the development and implementation of our promotion and marketing campaigns.

Sales and marketing expenses increased by \$0.1 million, or 2%, from \$4.8 million for the three months ended June 30, 2013 to \$4.9 million for the three months ended June 30, 2014. Sales and marketing expenses increased \$0.3 million in our U.S. Wireless segment's retail operations to support its increasing revenues offset by a \$0.2 million reduction in sales and marketing expenses in our International Integrated Telephony segment.

We expect that sales, marketing and customer service expenses will remain fairly consistent as a percentage of revenues in future periods.

*Equipment expenses.* Equipment expenses include the costs of our handset and customer resale equipment in our retail wireless businesses.

Equipment expenses increased by \$0.4 million, or 14%, from \$2.8 million for the three months ended June 30, 2013 to \$3.2 million for the three months ended June 30, 2014, respectively, primarily as a result of increased equipment sales in our U.S. Wireless segment's retail operations.

We believe that equipment expenses could continue to rise, from time to time, as we may choose to raise device subsidies to attract and retain customers.

*General and administrative expenses.* General and administrative expenses include salaries, benefits and related costs for general corporate functions including executive management, finance and administration, legal and regulatory, facilities, information technology and human resources. General and administrative expenses also include internal costs associated with our performance of due-diligence on our pending or completed acquisitions.

General and administrative expenses increased by \$1.3 million, or 10% from \$13.1 million for the three months ended June 30, 2013 to \$14.4 million for the three months ended June 30, 2014 primarily as the result of an increase in overhead costs in our i) corporate and shared services functions in order to support our increased revenues; ii) U.S. Wireline segment in connection with bringing our expanded fiber network into service and iii) Island Wireless segment in order to support our expanding network and customer bases.



Table of Contents

We expect that these general and administrative expenses will remain fairly consistent as a percentage of revenues in future periods.

*Transaction-related charges.* Transaction-related charges include the external costs, such as legal, tax and accounting, and consulting fees directly associated with acquisition and disposition-related activities, which are expensed as incurred. Transaction-related charges do not include internal costs, such as employee salary and travel-related expenses, incurred in connection with acquisitions or dispositions or any integration-related costs.

We incurred \$0.3 million of transaction-related charges during the three months ended June 30, 2014 and a nominal amount of transaction-related charges for the three months ended June 30, 2013.

We expect that transaction-related charges will continue to be incurred from time to time as we continue to explore additional acquisition or disposition opportunities and the extent of such charges will vary from period to period.

*Depreciation and amortization expenses.* Depreciation and amortization expenses represent the depreciation and amortization charges we record on our property and equipment and on certain intangible assets.

Depreciation and amortization expenses increased by \$0.7 million from \$12.2 million for the three months ended June 30, 2013 to \$12.9 million for the three months ended June 30, 2014. The increase was primarily the result of a \$0.4 million increase in depreciation expense in our U.S. Wireline segment as a result of certain network assets relating to our fiber network expansion in New York being placed into service during 2014. In addition, our corporate overhead depreciation expense increased by \$0.4 million as a result of its retention of certain assets previously held by the Company's Alltel business which were not sold to AT&T Mobility LLC in September 2013. These increases were offset by a \$0.1 million reduction in depreciation expense in the Company's other operating segments.

We expect depreciation expense to increase as a result of ongoing network investments in our businesses.

*Interest income (expense), net.* Interest income (expense), net represents interest expense and fees incurred on our outstanding credit facilities and interest rate derivatives, net of interest income earned on our cash balances.

Interest income (expense), net decreased \$2.7 million from \$2.7 million of expense for the three months ended June 30, 2013 to a nominal amount for the three months ended June 30, 2014. The decrease was primarily the result of the repayment of our outstanding long-term debt in September 2013 and the termination of our interest rate derivative contracts in October 2013. During the three months ended June 30, 2014, we had no borrowings outstanding under our credit facilities.

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*Other income (expense), net.* Other income (expense), net represents miscellaneous non-operational income we earned or expenses we incurred. Other income (expense), net was nominal for the three months ended June 30, 2013 and 2014.

*Income taxes.* Our effective tax rates for the three months ended June 30, 2013 and 2014 were 36.9% and 33.9%, respectively. Our effective tax rate declined in 2014 as the result of increased income in lower taxed jurisdictions, such as Bermuda, as compared to 2013. Our effective tax rate in 2013 was higher than the statutory federal income tax rate of 35% (plus applicable statutory state income tax rates) due primarily to (i) the portion of our earnings that are taxed in Guyana at 45%, and (ii) a portion of our earnings that include losses generated in foreign jurisdictions for which we receive no tax benefit since these are non-tax jurisdictions. Our consolidated tax rate will continue to be impacted by the mix of income generated among the jurisdictions in which we operate.

*Income from discontinued operations, net of tax.* Income from discontinued operations, net of tax was \$3.1 million for the three months ended June 30, 2013. We did not recognize any income from discontinued operations during the three months ended June 30, 2014.

*Net income attributable to non-controlling interests.* Net income attributable to non-controlling interests reflected an allocation of \$2.6 million and \$2.8 million of income generated by our less than wholly-owned subsidiaries for the three months ended June 30, 2013 and 2014, respectively. Included within these amounts was \$0.6 million related to our discontinued operations for the three months ended June 30, 2013.

*Net income attributable to Atlantic Tele-Network, Inc. stockholders.* Net income attributable to Atlantic Tele-Network, Inc. stockholders increased to \$11.5 million for the three months ended June 30, 2014 from \$8.9 million for the three months ended June 30, 2013.

On a per share basis, net income increased to \$0.72 per diluted share from \$0.56 per diluted share for the three months ended June 30, 2014 and 2013, respectively. Included within net income per diluted share for the three months ended June 30, 2013 was \$0.16 of net income per diluted share from discontinued operations.

Table of Contents

Six Months Ended June 30, 2013 and 2014

	Six Months Ended June 30,		Amount of	Percent
	2013	2014	Increase (Decrease)	Increase (Decrease)
	(In thousands)			
<b>REVENUE:</b>				
U.S. Wireless	\$ 47,802	\$ 65,848	\$ 18,046	37.8%
International Wireless	43,267	45,570	2,303	5.3
Wireline	41,441	42,813	1,372	3.3
Equipment and Other	3,948	4,212	264	6.7
Total revenue	136,458	158,443	21,985	16.1
<b>OPERATING EXPENSES</b> (excluding depreciation and amortization unless otherwise indicated):				
Termination and access fees	26,656	32,093	5,437	20.4
Engineering and operations	18,840	19,151	311	1.7
Sales, marketing and customer services	9,276	9,946	670	7.2
Equipment expense	5,501	5,988	487	8.9
General and administrative	25,029	28,133	3,104	12.4
Transaction-related charges	63	367	304	482.5
Depreciation and amortization	24,183	24,910	727	3.0
Gain on disposition of long lived assets	(1,076)		1,076	(100.0)
Total operating expenses	108,472	120,588	12,116	11.2
Income from operations	27,986	37,855	9,869	35.3
<b>OTHER INCOME (EXPENSE):</b>				
Interest income (expense), net	(4,986)	(207)	4,779	(95.8)
Other income (expense), net	27	(36)	(63)	(233.3)
Other income (expense), net	(4,959)	(243)	4,716	(95.1)
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>				
	23,027	37,612	14,585	63.3
Income tax expense	8,813	12,890	4,077	46.3
<b>INCOME FROM CONTINUING OPERATIONS</b>				
	14,214	24,722	10,508	73.9
<b>INCOME FROM DISCONTINUED OPERATIONS</b>				
Income from discontinued operations, net of tax	7,125		(7,125)	(100.0)
Income from discontinued operations	7,125		(7,125)	(100.0)
<b>NET INCOME</b>	21,339	24,722	3,383	15.9
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(2,989)	(5,368)	(2,379)	79.6
Discontinued operations	(717)		717	(100.0)
	(3,706)	(5,368)	(1,662)	44.8
<b>NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS</b>				
	\$ 17,633	19,354	\$ 1,721	9.8%

Table of Contents

*U.S. wireless revenue.* US wireless revenue increased by \$18.0 million, or 38%, to \$65.8 million for the six months ended June 30, 2014, from \$47.8 million for the six months ended June 30, 2013. The revenue growth was a result of capacity and technology upgrades to our network, an increase in the demand for data services and an increase in the base stations used in our wholesale operations from 572 as of June 30, 2013 to 654 as of June 30, 2014.

*International wireless revenue.* International wireless revenue increased by \$2.3 million, or 5%, to \$45.6 million for the six months ended June 30, 2014, from \$43.3 million for the three months ended June 30, 2013. This increase was due to an increase in retail revenue of \$2.2 million and an increase in wholesale roaming revenue of \$0.1 million.

The increase in retail revenues was a result of subscriber growth in our Island Wireless segment (which does not include Guyana) resulting in a \$1.8 million increase in revenue and revenue growth in Guyana of \$0.4 million. Our total International Wireless subscribers, which include subscribers in our Island Wireless segment as well as Guyana, decreased from 333,000 subscribers as of June 30, 2013 to 321,000 subscribers as of June 30, 2014 of which 88% were prepaid subscribers. The increase in wholesale roaming revenues was the result of increased volume, partially offset by some rate reductions, in our Island Wireless segment.

*Wireline revenue.* Wireline revenue increased by \$1.4 million, or 3%, to \$42.8 million for the six months ended June 30, 2014, from \$41.4 million during the six months ended June 30, 2013. Revenues from our domestic wireline businesses increased by \$3.1 million. This increase, however, was partially offset by a \$1.7 million decline in wireline revenues in our International Integrated Telephony segment, where an increase in high-speed data service revenue was more than offset by decreases in local landline revenue and inbound international calls.

*Equipment and other revenue.* Equipment and other revenue increased by \$0.3 million, or 5% to \$4.2 million for the six months ended June 30, 2014, from \$3.9 million for the six months ended June 30, 2013. Equipment revenue primarily increased as the result of an increase in subscribers in our Island Wireless segment and in our U.S. Wireless segment's retail operations where equipment revenues increased by \$0.4 million and \$0.2 million, respectively. These increases were partially offset by a \$0.4 million decrease in our International Integrated Telephony segment due to lower wireless subscriber additions.

*Termination and access fee expenses.* Termination and access fees increased by \$5.4 million, or 20%, from \$26.7 million for the six months ended June 30, 2013 to \$32.1 million for the six months ended June 30, 2014. This increase in our termination and access fees was incurred across all of our segments. Our U.S. Wireless segment reported an increase of \$2.7 million in these costs as the result of increased data traffic volumes and the expansion and upgrade of our networks. Increased traffic volumes in our U.S. Wireline segment resulted in a \$1.1 million increase in termination and access fees. In addition, increased traffic volumes and roaming costs in our Island Wireless segment resulted in a \$0.3 million increase in these costs.

*Engineering and operations expenses.* Engineering and operations expenses increased by \$0.4 million from \$18.8 million to \$19.2 million for the six months ended June 30, 2013 and 2014, respectively. The increase in engineering and operations was predominantly caused by an increase across most of our segments as a result of the expansion and upgrades to our networks partially offset by a decrease of \$0.6 million in our Island Wireless segment due to its continuing realization of operational synergies, particularly in Bermuda.

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*Sales, marketing and customer service expenses.* Sales and marketing expenses increased by \$0.6 million, or 6%, from \$9.3 million for the six months ended June 30, 2013 to \$9.9 million for the six months ended June 30, 2014. Sales and marketing expenses increased \$0.7 million in our U.S. Wireless segment's retail operations to support its increased revenues and subscriber base and increased \$0.3 million in our U.S. Wireline segment wholesale transport services in New York State. These increases were partially offset by a \$0.3 million reduction in sales and marketing expense in our International Integrated Telephony segment.

*Equipment expenses.* Equipment expenses increased by \$0.5 million from \$5.5 million for the six months ended June 30, 2013 to \$6.0 million for the six months ended June 30, 2014, primarily as a result of increased equipment sales in our U.S. Wireless segment's retail operations.

*General and administrative expenses.* General and administrative expenses increased by \$3.1 million, or 12% from \$25.0 million for the six months ended June 30, 2013 to \$28.1 million for the six months ended June 30, 2014 primarily as the result of an increase in overhead costs in our i) corporate and shared services functions in order to support our increased revenues; ii) U.S.

Table of Contents

Wireline segment in connection with bringing our expanded fiber network into service and iii) Island Wireless segment in order to support our expanding network and customer bases.

*Transaction-related charges.* We incurred nominal transaction-related charges for the six months ended June 30, 2013 and \$0.4 million for the six months ended June 30, 2014.

*Depreciation and amortization expenses.* Depreciation and amortization expenses increased by \$0.7 million from \$24.2 million for the six months ended June 30, 2013 to \$24.9 million for the six months June 30, 2014 respectively. The increase was primarily the result of a \$0.4 million increase in depreciation expense in our U.S. Wireline segment as a result of certain network assets relating to our fiber network expansion in New York being placed into service during 2014. In addition, our corporate overhead depreciation expense increased by \$0.4 million as a result of its retention of certain assets previously held by the Company's Alltel business which were not sold to AT&T Mobility LLC in September 2013. These increases were offset by a \$0.1 million reduction in depreciation expense in the Company's other operating segments.

*Gain on disposal of long lived asset.* During the six months ended June 30, 2013, we sold certain network assets and telecommunications licenses in our U.S. Wireless segment for proceeds of \$1.5 million and recognized a gain on such disposition of \$1.1 million.

*Interest income (expense), net.* Interest income (expense), net decreased \$4.8 million from \$4.9 million of expense to \$0.2 million of expense for the six months ended June 30, 2013 and 2014, respectively. The decrease was primarily the result of the repayment of our long-term debt in September 2013 and the termination of our interest rate derivative contracts in October 2013.

*Other income (expense), net.* Other income (expense), net represents miscellaneous non-operational income we earned or expenses we incurred. Other income (expense), net was nominal for the six months ended June 30, 2013 and 2014.

*Income taxes.* Our effective tax rates for the six months ended June 30, 2013 and 2014 were 38.3% and 34.3%, respectively. Our effective tax rate declined in 2014 as the result of increased income in lower taxed jurisdictions, such as Bermuda, as compared to 2013. Our effective tax rate in 2013 was higher than the statutory federal income tax rate of 35% (plus applicable statutory state income tax rates) due primarily to (i) the portion of our earnings that are taxed in Guyana at 45%, and (ii) a portion of our earnings that include losses generated in foreign jurisdictions for which we receive no tax benefit since these are non-tax jurisdictions. Our consolidated tax rate will continue to be impacted by the mix of income generated among the jurisdictions in which we operate.

*Income from discontinued operations, net of tax.* Income from discontinued operations, net of tax was \$7.1 million for the six months ended June 30, 2013. We did not recognize any income from discontinued operations during the six months ended June 30, 2014.

*Net income attributable to non-controlling interests.* Net income attributable to non-controlling interests reflected an allocation of \$3.7 million and \$5.4 million of income generated by our less than wholly-owned subsidiaries for the six months ended June 30, 2013 and 2014, respectively. Included within these amounts was \$0.7 million related to our discontinued operations for the six months ended June 30, 2013.

*Net income attributable to Atlantic Tele-Network, Inc. stockholders.* Net income attributable to Atlantic Tele-Network, Inc. stockholders increased to \$19.4 million for the six months ended June 30, 2014 from \$17.6 million for the six months ended June 30, 2013.

On a per share basis, net income increased to \$1.21 per diluted share from \$1.12 per diluted share for the six months ended June 30, 2014 and 2013, respectively. Included within net income per diluted share for the six months ended June 30, 2013 was \$0.41 of net income per diluted share from discontinued operations.

### **Regulatory and Tax Issues**

We are involved in a number of regulatory and tax proceedings. A material and adverse outcome in one or more of these proceedings could have a material adverse impact on our financial condition and future operations. For discussion of ongoing proceedings, see Note 12 to the Unaudited Condensed Consolidated Financial Statements in this Report.

### **Liquidity and Capital Resources**

Historically, we have met our operational liquidity needs through a combination of cash on hand and internally generated funds and have funded capital expenditures and acquisitions with a combination of internally generated funds, cash on hand and

Table of Contents

borrowings under our credit facilities. We believe our current cash, cash equivalents and availability under our current credit facility will be sufficient to meet our cash needs for the next twelve months for working capital and capital expenditures.

*Uses of Cash*

*Capital Expenditures.* A significant use of our cash has been for capital expenditures to expand and upgrade our networks.

For the six months ended June 30, 2013 and 2014, we spent approximately \$39.7 million and \$25.1 million, respectively, on capital expenditures. The following notes our capital expenditures, by operating segment, for these periods:

	Capital Expenditures						Consolidated
	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items		
<b>Six Months Ended June 30,</b>							
2013	\$ 23,357	\$ 6,116	\$ 1,911	\$ 6,689	\$ 1,623	\$ 39,696	
2014	\$ 14,845	\$ 6,072	\$ 1,958	\$ 976	\$ 1,253	\$ 25,104	

We are continuing to invest in upgrading and expanding our networks in many of our markets, along with upgrading our operating and business support systems. We currently anticipate that capital expenditures for our continuing operations for the year ended December 31, 2014 will be between \$60.0 million and \$65.0 million.

We expect to fund our current capital expenditures primarily from our current cash balances and cash generated from operations.

*Acquisitions and investments.* Historically, we have funded our acquisitions with a combination of cash on hand and borrowings under our credit facilities.

We continue to explore opportunities to acquire or expand our existing communications properties and licenses in the United States, the Caribbean and elsewhere. Such acquisitions may require external financing. While there can be no assurance as to whether, when or on what terms we will be able to acquire any such businesses or licenses or make such investments, such acquisitions may be accomplished through the issuance of shares of our capital stock, payment of cash or incurrence of additional debt. From time to time, we may raise capital ahead of any definitive use of proceeds to allow us to move more quickly and opportunistically if an attractive investment materializes.

As of June 30, 2014, we had approximately \$348.8 million in cash and cash equivalents and \$58.8 million of restricted cash primarily as a result of the proceeds from our Alltel Sale, and no long-term debt. How and when we deploy our balance sheet capacity will figure prominently in our longer-term growth prospects and stockholder returns.



*Income taxes.* We use cash-on-hand to make payments for income taxes. As of June 30, 2014, we have made tax payments for substantially all of the expected tax liability owed on the gain we recognized on the sale of the Alltel business.

*Dividends.* We use cash-on-hand to make dividend payments to our common stockholders when declared by our Board of Directors. For the six months ended June 30, 2014, our Board declared dividends to our stockholders, which includes a \$0.27 per share dividend declared on June 19, 2014, and paid on July 10, 2014, of \$8.6 million. We have declared quarterly dividends for the last 63 fiscal quarters.

*Stock repurchase plan.* Our Board of Directors approved a \$5.0 million stock buyback plan in September 2004 pursuant to which we have spent approximately \$2.1 million through June 30, 2014. Our last repurchase of our Common Stock under this plan was in 2007. We may repurchase shares at any time depending on market conditions, our available cash and our cash needs

### ***Sources of Cash***

*Total liquidity.* As of June 30, 2014, we had approximately \$348.8 million in cash and cash equivalents, a decrease of \$7.8 million from the December 31, 2013 balance of \$356.6 million. The decrease is primarily attributable to cash provided by our operating activities of \$12.1 million (which is net of income tax payments of \$32.9 million during the six months ended June 30, 2014, primarily related to taxes owed from the 2013 gain on the sale of the Alltel business), cash used for capital expenditures of \$25.1 million and cash used in our financing activities of \$15.3 million. In addition to our cash and cash equivalents, we also have restricted cash totaling \$58.8 million as of June 30, 2014, related to an indemnity escrow from our Alltel sale.

Table of Contents

*Cash provided by operations.* Cash provided by operating activities was \$12.1 million for the six months ended June 30, 2014 and \$35.4 million for the six months ended June 30, 2013, a decrease of \$23.3 million. During the six months ended June 30, 2014, cash provided by operations was negatively impacted by a decrease in cash provided by our discontinued operations of \$26.2 million and an increase in cash used for accounts payable and other current liabilities of \$10.7 million in comparison to the six months ended June 30, 2013. These items were partially offset by an increase in net income of \$3.4 million and the absence of net income for our discontinued operations of \$7.1 million in comparison to the six months ended June 30, 2013.

Table of Contents

*Cash used in investing activities.* Cash used in investing activities was \$50.7 million for the six months ended June 30, 2013. Cash provided by investing activities was \$4.5 million for the six months ended June 30, 2014. The \$46.2 million decrease was predominately the result of a decrease in the restricted cash of \$19.2 million, a decrease in capital expenditures of \$14.6 million and no effect from our discontinued operations during 2014 as compared to a usage of cash of \$12.5 million during 2013. The six months ended June 30, 2014 also included \$1.4 million in proceeds from the sale of certain network equipment used in our U.S. Wireless segment. The \$1.1 million gain on this sale is being deferred over ten years, the life of the lease which was entered into by us for the purpose of leasing the sold assets.

*Cash used in financing activities.* Cash used in financing activities increased by \$5.3 million, from \$10.0 million for the six months ended June 30, 2013 to \$15.3 million of cash for the six months ended June 30, 2014. The increase was primarily the result of the timing impact of paying a \$3.9 million dividend declared by our Board of Directors on December 6, 2012 in the fourth quarter of 2012 as opposed to in the first quarter of 2013 and increase in our distributions to non-controlling interests of \$4.5 million which included a \$2.9 million distribution to the non-controlling shareholders of the Alltel business. These increases were partially offset by a \$3.9 million reduction in the repayments of our term loans which were repaid in full in September 2013.

*Credit facilities.* We have a credit facility (the Credit Facility ) which previously included two term loans and currently provides for a revolver loan of up to \$100.0 million. The revolver loan also has a \$10.0 million swingline sub-facility and a \$55.0 million letter of credit sub-facility for issuance in connection with our Mobility Fund Grant obligations (see Note 8) to the Condensed Consolidated Financial Statements.

On September 20, 2013 we repaid our outstanding term loans in full. Amounts borrowed under the term loans bore interest at a rate equal to, at our option, either (i) at the London Interbank Offered Rate (LIBOR) plus an applicable margin ranging between 2.00% to 4.00% or (ii) a base rate plus an applicable margin ranging from 1.00% to 3.00%. The base rate was equal to the higher of (i) 1.50% plus the higher of (x) the one-week LIBOR and (y) the one-month LIBOR; or (ii) the prime rate (as defined in the Credit Facility). The applicable margin was determined based on the ratio of our indebtedness (as defined in the Credit Facility) to our EBITDA (as defined in the Credit Facility).

Amounts borrowed under the revolver loan bear interest at a rate equal to, at our option, either (i) LIBOR plus an applicable margin ranging between 2.00% to 3.50% or (ii) a base rate plus an applicable margin ranging from 1.00% to 2.50% (or, in the case of amounts borrowed under the swing-line sub-facility, an applicable margin ranging from 0.50% to 2.00%.) We must also pay a fee ranging from 0.25% to 0.50% of the average daily unused portion of the revolver loan over each calendar quarter, which fee is payable in arrears on the last day of each calendar quarter.

The Credit Facility contains customary representations, warranties and covenants, including covenants by us limiting additional indebtedness, liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates and fundamental changes. In addition, the Credit Facility contains financial covenants by us that (i) impose a maximum leverage ratio of indebtedness to EBITDA, (ii) require a minimum debt service ratio of EBITDA to principal, interest and taxes payments and (iii) require a minimum ratio of equity to consolidated assets. As of June 30, 2014, we were in compliance with all of the financial covenants of the Credit Facility.

*Factors Affecting Sources of Liquidity*

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*Internally generated funds.* The key factors affecting our internally generated funds are demand for our services, competition, regulatory developments, economic conditions in the markets where we operate our businesses and industry trends within the telecommunications industry.

*Restrictions under Credit Facility.* Our Credit Facility contains customary representations, warranties and covenants, including covenants by us limiting additional indebtedness, liens, guaranties, mergers and consolidations, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates and fundamental changes. In addition, the Credit Facility contains financial covenants by us that (i) impose a maximum ratio of indebtedness to EBITDA (ii) require a minimum ratio of EBITDA to principal and interest payments and cash taxes and, (iii) require a minimum ratio of equity to consolidated assets. As of June 30, 2014, we were in compliance with all of the financial covenants of the Credit Facility.

*Capital markets.* Our ability to raise funds in the capital markets depends on, among other things, general economic conditions, the conditions of the telecommunications industry, our financial performance, the state of the capital markets and our compliance with Securities and Exchange Commission ( SEC ) requirements for the offering of securities. On June 6, 2014, the SEC declared effective our universal shelf registration statement. This filing registered potential future offerings of our securities.

Table of Contents

**Recent Accounting Pronouncements**

In June 2014, the Financial Accounting Standards Board ( FASB ) issued a standards update on accounting for share-based payments when the terms of the award provide that a performance target could be achieved after a requisite service period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued a standard on revenue recognition providing a single, comprehensive revenue recognition model for all contracts with customers. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective beginning January 1, 2017, with no early adoption permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are currently evaluating the adoption method options and the impact of the new guidance on our consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update ( ASU ) 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 provides guidance on determining when disposals can be presented as discontinued operations. ASU 2014-08 requires that only disposals representing a strategic shift in operations should be presented as discontinued operations. A strategic shift may include a disposal of a major line of business, major equity method investment or a major part of an entity. Additionally, ASU 2014-08 requires expanded disclosures regarding discontinued operations. This standard is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted. The adoption of this amendment is not expected to have a material impact on the Company s condensed consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 provides clarification regarding whether ASC 810-10, Consolidation Overall or ASC 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of cumulative translation adjustments into net income when a reporting entity either sells a part or all of its investment in a foreign entity or ceases to have a controlling financial interest in a subsidiary or group of assets that constitute a business within a foreign entity. The revised standard is effective for reporting periods beginning after December 15, 2013. The adoption of this amendment did not have a material impact on the Company s condensed consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the Emerging Issues Task Force), which states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a company does not have: (i) a net operating loss carryforward; (ii) a similar tax loss; or (iii) a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The authoritative guidance is effective for fiscal years and the interim periods within those fiscal years beginning on or after December 15, 2013 and was applied on a prospective basis. The adoption of this authoritative guidance did not have a material impact on the Company s condensed consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Foreign Currency Exchange Sensitivity.* With the exception of GT&T, all of our foreign subsidiaries operate in jurisdictions where the U.S. dollar is the recognized currency. The only foreign currency for which we have a material exposure is the Guyanese dollar, because a significant portion of our Guyana revenues and expenditures are transacted in Guyanese dollars. The Guyanese exchange rate remained relatively constant at approximately 205 Guyana dollars to 1 U.S. dollar from 2004 through May 2013. Beginning in May 2013, the exchange rate began to increase and ended at a rate of approximately 210 Guyana dollars to 1 U.S. dollar as of December 31, 2013. The exchange rate remained consistent at 210 Guyana dollars to 1 U.S. dollar during the six months ended June 30, 2014. The results of future operations may be affected by changes in the value of the Guyana dollar.

*Interest Rate Sensitivity.* As of June 30, 2014, we did not have any outstanding variable rate debt and as a result, we believe that we do not have an exposure to fluctuations in interest rates. We may have an exposure to fluctuations in interest rates if we again borrow amounts under our revolver loan within our Credit Facility.

#### **ITEM 4. CONTROLS AND PROCEDURES**

*Management's Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective for the reasons described below.

As disclosed in our Annual Report on Form 10-K as filed with the SEC on March 17, 2014, we identified material weaknesses in our internal control over financial reporting as of December 31, 2013 relating to (i) the implementation of a new billing system in Guyana and (ii) the accounting personnel in our GT&T subsidiary possessing insufficient experience and training in the Company's business processes and accounting policies to enable them to make accounting and reporting decisions in a manner consistent with our financial reporting and U.S. GAAP timeline requirements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely basis. Notwithstanding the previously identified material weakness, management, based on the work performed as part of our remediation plan, has concluded that the unaudited interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with generally accepted accounting principles.

Table of Contents

**Remediation Plan**

As discussed in our Annual Report on Form 10-K, our management team took immediate action to begin remediating the material weaknesses, including (i) improving our technical ability to report information from the billing system to our financial reporting systems and (ii) providing increased training on our internal controls and procedures, including these remedial measures, to our personnel and (iii) providing additional enhanced local and centralized oversight and management of the accounting and IT services provided by our local personnel. The Company believes that these procedures will remediate the material weaknesses described above. While certain aspects of these remedial actions have been completed, we expect these efforts to continue through 2014 as we continue to actively plan for and implement additional control procedures to improve our overall control environment.

*Changes in internal control over financial reporting.* Except as noted above, there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 12 to the Condensed Consolidated Financial Statements included in this Report.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2013 Annual Report on Form 10-K as filed with the SEC on March 17, 2014. The risks described in our 2013 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

In September 2004, the Board of Directors authorized the Company to repurchase up to \$5.0 million of common stock. The repurchase authorizations do not have a fixed termination date and the timing of the buyback amounts and exact number of shares purchased will depend on market conditions. No repurchases were made under this plan during the quarter ended June 30, 2014.

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The following table reflects the repurchases by the Company of its common stock during the quarter ended June 30, 2014:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under the Plans or Programs
April 1, 2014 - April 30, 2014		\$		\$ 2,919,965
May 1, 2014 - May 31, 2014		\$		\$ 2,919,965
June 1, 2014 - June 30, 2014	407	\$ 55.21		\$ 2,919,965

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(1) Represents shares purchased on June 15, 2014 from our executive officers and other employees who tendered these shares to the Company to satisfy their tax withholding obligations incurred in connection with the vesting of restricted stock awards at such date. These shares were not purchased under the plan discussed above. The price paid per share was the closing price per share of our Common Stock on the Nasdaq Stock Market on the date those shares were purchased

### Item 6. Exhibits

- 10.1 Terms of employment of Barry C. Fougere, dated May 20, 2014.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.



Table of Contents

31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

**SIGNATURES**

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

Atlantic Tele-Network, Inc.

Date: August 11, 2014

By: /s/ Michael T. Prior  
Michael T. Prior  
President and Chief Executive Officer

Date: August 11, 2014

By: /s/ Justin D. Benincasa  
Justin D. Benincasa  
Chief Financial Officer and Treasurer