CNF INC
Form 10-K
March 11, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2003

or

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

For the Transition Period From to

Commission File Number 1-5046

CNF INC.

Incorporated in the State of Delaware

I.R.S. Employer Identification No. 94-1444798

3240 Hillview Avenue, Palo Alto, California 94304

Telephone Number (650) 494-2900

www.cnf.com

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock ($.625 par value)	**New York Stock Exchange** **Pacific Exchange**
(Title of Each Class)	**(Name of Each Exchange on Which Registered)**

Securities Registered Pursuant to Section 12(g) of the Act:

8 7/8% Notes Due 2010

7.35% Notes Due 2005

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). x Yes ¨ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter.

Aggregate market value of voting stock held by persons other than Directors, Officers and those shareholders holding more than 5% of the outstanding voting stock, based upon the closing price per share Composite Tape on June 30, 2003: $851,040,333

Number of shares of Common Stock outstanding as of January 31, 2004: 50,011,311

DOCUMENTS INCORPORATED BY REFERENCE

Part III

Proxy Statement for CNF s Annual Meeting of Shareholders to be held on April 20, 2004 (only those portions referenced specifically herein are incorporated in this Form 10-K).

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PART I

ITEM 1. BUSINESS

Legal Organization

CNF Inc. was incorporated in Delaware in 1958, and in 2001, changed its name from CNF Transportation Inc. to CNF Inc. CNF Inc. and its subsidiaries (CNF) provide supply chain management services for business-to-business shipments by land, air and sea throughout the world.

At December 31, 2003, CNF owned 100% of the capital stock of Con-Way Transportation Services, Inc., Con-Way NOW, Inc., Con-Way Logistics, Inc., Con-Way Air Express, Inc., Menlo Worldwide, LLC, Emery Worldwide Airlines, Inc., and other less significant wholly owned subsidiaries. In December 2001, CNF formed Menlo Worldwide, LLC, and in December 2002, CNF transferred 100% of the capital stock of Menlo Worldwide Forwarding, Inc., Menlo Worldwide Expedite!, Inc. and Menlo Logistics, Inc. (also known as Menlo Worldwide Logistics) to Menlo Worldwide, LLC. In August 2003, CNF also transferred its majority ownership interest in the Vector SCM joint venture with General Motors to Menlo Worldwide, LLC.

Reporting Segments

Information on reporting segments is presented in the manner in which components are organized for making operating decisions, assessing performance and allocating resources, which may be different than the manner in which components are organized for legal purposes, as described above. Accordingly, for financial reporting purposes, CNF is divided into five segments. The Menlo Worldwide group of businesses, which was formed effective in 2002, represents the collective operating results of the separate Menlo Worldwide Forwarding (formerly Emery Forwarding), Menlo Worldwide Logistics and Menlo Worldwide Other reporting segments.

Con-Way Transportation Services reporting segment (Con-Way). Includes the combined operating results of Con-Way Transportation Services, Inc. and its subsidiaries and affiliated companies. Con-Way provides next-day, second-day and transcontinental freight trucking throughout the U.S., Canada, Puerto Rico, and Mexico, as well as expedited transportation, air freight forwarding, contract logistics and warehousing and truckload brokerage services.

Menlo Worldwide Forwarding reporting segment (Forwarding). Includes the combined operating results of Menlo Worldwide Forwarding, Inc. (MWF), previously Emery Air Freight Corporation, and its subsidiaries, Menlo Worldwide Expedite!, Inc. (formerly Emery Expedite! Inc.) and a portion of the operations of Emery Worldwide Airlines, Inc. (EWA), which ceased air carrier operations in December 2001. Forwarding provides time-definite domestic and international air freight and ocean forwarding services, customs brokerage, and other trade services.

Menlo Worldwide Logistics reporting segment (Logistics). Includes the operating results of Menlo Worldwide Logistics and its subsidiaries. Menlo Worldwide Logistics develops integrated contract logistics solutions, including the management of complex distribution networks and supply chain engineering and consulting.

Menlo Worldwide Other reporting segment. Includes the operating results of Vector SCM, a company jointly owned by Menlo Worldwide, LLC and General Motors (GM). It serves as the lead logistics manager for GM.

CNF Other reporting segment. Includes the operating results of Road Systems, Inc., a trailer manufacturer, and certain corporate activities.

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For financial information concerning CNF s geographic and reporting segment operating results, refer to Item 8, Financial Statements and Supplementary Data, under Note 16, Segment Reporting.

Information Available on Website

CNF makes available, free of charge, on its website at www.cnf.com, under the headings Investor Relations/Annual Report, Proxy and Other SEC Filings, copies of its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to those reports, in each case as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission.

In addition, CNF makes available, free of charge, on its website at www.cnf.com, under the headings Investor Relations/Corporate Governance, current copies of the following documents: (i) the charters of the Audit, Compensation, and Director Affairs Committees of its Board of Directors; (ii) its Corporate Governance Guidelines; (iii) its Code of Ethics for Chief Executive and Senior Financial Officers; (iv) its Code of Business Conduct and Ethics for Directors; and (v) its Code of Ethics for employees. Copies of these documents are also available in print to shareholders upon request, addressed to the Corporate Secretary at 3240 Hillview Avenue, Palo Alto, California 94304.

None of the information on CNF s website shall be deemed to be a part of this report.

Con-Way Transportation Services

Con-Way Regional Carriers

Con-Way s primary business units are regional less-than-truckload (LTL) motor carriers that operate a combined network of freight service centers that provide complete market coverage in North America. The regional carriers provide industry-leading time-definite delivery service to manufacturing, industrial, commercial and retail business-to-business customers, and consist of Con-Way Western Express (CWX), which serves 13 Western states, including Hawaii and Alaska, with service into Mexico; Con-Way Central Express (CCX), which serves 25 central and eastern states; Con-Way Southern Express (CSE), which serves 12 southeastern states, the District of Columbia and Puerto Rico; and Con-Way Canada Express, which serves 11 Canadian provinces. In 2003, the regional carriers accounted for 94.1% of Con-Way s revenue.

Typically, LTL carriers transport shipments weighing between 100 and 15,000 pounds from multiple shippers utilizing a network of freight service centers combined with a fleet of line-haul and pickup-and-delivery tractors and trailers. Freight is picked up from customers and consolidated for shipment at the originating service center. The freight is then loaded into trailers and transferred to the destination service center providing service to the delivery area. At the destination service center, the freight is delivered to the customer.

Con-Way NOW, Con-Way Logistics and Con-Way Air Express

In addition to the regional LTL carriers, Con-Way operates a group of asset-light businesses, including Con-Way NOW, Con-Way Logistics, and Con-Way Air Express. Con-Way defines asset-light businesses as those subsidiaries or affiliated companies that require a comparatively smaller capital investment than its LTL operations.

Con-Way NOW specializes in time-definite shipments, such as replacement parts, medical equipment and other urgent shipments, where expedited delivery is critical. Con-Way NOW has delivery service in 48 states and parts of Canada.

Con-Way Logistics offers integrated supply chain services for shippers, using its own warehouses, transportation provided by other ground and air carriers as well as Con-Way s regional carriers and alliances with leading supply chain software firms.

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Con-Way Air Express (CAX) is an air freight forwarder that arranges freight shipments using transportation provided by other operators, including commercial airlines, dedicated air operators and drayage companies. Through an agency network and connections with other Con-Way components, CAX provides full-service coverage in the United States and Puerto Rico.

Prior to the sale of most of its assets in August 2000, Con-Way Truckload Services operated as a full-service, multi-modal truckload company that provided door-to-door delivery of truckload shipments.

Con-Way-Competitive Conditions

The trucking, logistics and air freight forwarding industries are intensely competitive. Principal competitors of Con-Way include regional and national LTL companies. Competition in the trucking industry is based on freight rates, service, reliability, transit times and scope of operations.

Menlo Worldwide

Effective January 1, 2002, CNF combined its Forwarding, Logistics and Vector SCM units to form Menlo Worldwide, a business that provides a full range of logistics services from a single source. The formation of Menlo Worldwide was intended to address a trend among businesses to outsource the management of increasingly complex supply chain and logistics services in order to lower costs, reduce inventories and increase speed, flexibility and efficiency. The Menlo Worldwide companies were aligned to meet this demand by combining their air and ocean freight forwarding capabilities, extensive proprietary information systems and full range of value-added supply chain management services including transportation, warehouse, inventory management and customs clearance on a global scale. The Menlo Worldwide sales team markets all global services provided by the Menlo Worldwide companies to deliver customer-specific solutions using bundled forwarding and logistics services.

Menlo Worldwide Forwarding

Forwarding provides expedited and deferred domestic and international air freight service, ocean container service, and customs brokerage. As described below under Forwarding International, and Forwarding North America, Forwarding utilizes primarily commercial airlines for the transportation of its customers freight in international markets and, for the transportation of freight within North America, Forwarding relies primarily upon third-party air carriers and its own dedicated ground transportation network.

Restructuring Plans

Prior to the restructuring described in the following paragraph, Forwarding provided air freight services in North America using owned and leased aircraft operated by EWA and, to a lesser extent, owned and leased aircraft operated by third parties. EWA, a separate subsidiary of CNF, is included in the Forwarding reporting segment except for EWA s previous operations under the now-terminated Priority Mail contract with the U.S. Postal Service (USPS), which are reported separately as discontinued operations.

In June 2001, Forwarding began an operational restructuring to align it with management s estimates of future business prospects for domestic heavy air freight and to address changes in market conditions, which deteriorated due primarily to a slowing domestic economy and loss of EWA s contracts with the USPS to transport Express Mail and Priority Mail. The $340.5 million second-quarter restructuring charge in 2001 consisted primarily of non-cash impairment charges and estimated future cash expenditures related primarily to the return to lessors of certain aircraft leased to EWA. Based on issues identified during inspections conducted by the Federal Aviation Administration (FAA), on August 13, 2001, EWA was required to suspend its air carrier operations as part of an interim settlement agreement with the FAA. As a result, EWA furloughed approximately 400 pilots and crew members and Forwarding made arrangements to continue its service to customers by

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utilizing aircraft operated by several other air carriers. Primarily in response to the FAA action and a worsening global economic downturn, Forwarding re-evaluated its restructuring plan. On December 5, 2001, CNF announced that Forwarding in 2002 would become part of CNF s new Menlo Worldwide group of supply chain services providers and in North America would utilize aircraft operated by other air carriers instead of EWA operating its own fleet of aircraft, and that EWA would permanently cease air carrier operations. In connection with the revised restructuring plan, in the fourth quarter of 2001 Forwarding recognized additional restructuring charges of $311.7 million for the planned disposal of leased aircraft, cessation of EWA s remaining operations, employee separation costs for 157 of EWA s non-pilot employees, and other costs.

For further discussion of FAA actions and other regulatory matters, including the termination of EWA s air carrier operations in 2001 and the surrender of EWA s air carrier certificate in 2002, refer to Regulation Air Transportation.

In response to continued declines in North American air freight revenue, Forwarding continued restructuring its operations in the fourth quarter of 2003, primarily to reduce the costs of its North American freight service center network. Under the restructuring plan, Forwarding closed nine freight service centers located in markets for which the transportation of shipments between service centers and customers could be served more cost effectively by cartage agents.

For further discussion of Forwarding s restructuring plans, refer to Results of Operations Menlo Worldwide Forwarding Restructuring Plans under Item 7, Management s Discussion and Analysis. For cumulative activity related to Forwarding s 2001 and 2003 restructuring charges, refer to Note 3, Restructuring Plans, under Item 8, Financial Statements and Supplementary Data.

For further discussion of Forwarding s terminated Express Mail contract with the USPS, refer to Results of Operations Menlo Worldwide Forwarding Express Mail Contract, under Item 7, Management s Discussion and Analysis. For a discussion of Forwarding s terminated Priority Mail contract with the USPS, refer to Results of Operations Discontinued Operations Priority Mail Contract, under Item 7, Management s Discussion and Analysis.

Forwarding - International

Internationally, Forwarding provides air and ocean freight transportation services, using primarily commercial airlines and ocean carriers. International business comprises shipments that either originate or terminate outside of the United States. For international air freight with an origination or destination point in North America, Forwarding primarily utilizes its hub-and-spoke freight service center network and dedicated ground transportation fleet for pickup-and-delivery service and for the consolidation or deconsolidation of customer shipments. At origination or destination points in continents other than North America, these activities are primarily completed by third-party cartage agents. International business is marketed through Forwarding s domestic network of sales offices as well as its international network of foreign subsidiaries, branches and agents.

Forwarding - North America

Forwarding s hub-and-spoke system is centered at the Dayton, Ohio International Airport, where its leased air cargo facility (the Hub) and related support facilities are located. The Hub handles a wide variety of shipments, ranging from small packages to heavyweight cargo. While Forwarding s freight system is designed to handle parcels, packages and shipments of a variety of sizes and weights, its air freight operations are focused primarily on heavy air freight (defined as shipments of 70 pounds or more). In addition to the Hub, Forwarding operates nine regional hubs, strategically located around the United States, and a system of freight service centers and sales offices.

In North America, Forwarding primarily utilizes third-party air carriers to transport customer shipments between hub and freight service center facilities. The aircraft used to transport customer shipments are primarily

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owned or leased by the third-party air carriers. However, as of December 31, 2003, the third-party air carriers also operated 11 aircraft that were owned or leased by EWA. The duration of Forwarding s agreements with the third-party air carriers, which range from one week to 21 months, is intended to provide Forwarding with the flexibility to adjust its fleet size to meet changes in demand due to seasonality or market conditions. For the pickup and delivery of customer shipments in North America, Forwarding primarily utilizes its dedicated ground transportation fleet, and to a lesser degree, cartage agents.

Other Business Units

Forwarding has established several variable-cost-based business units to enhance the range of services it can offer to its customers. Menlo Worldwide Expedite! is a rapid-response freight handling subsidiary that provides door-to-door delivery of shipments in North America and overseas. Menlo Worldwide Trade Services (formerly Emery Customs Brokerage) provides full-service customs clearance regardless of mode or carrier.

Competition

The air freight industry is intensely competitive. Principal competitors of Forwarding include integrated air freight carriers, air freight forwarders and international airlines and, to a lesser extent, trucking companies and passenger and cargo air carriers. Competition in the air freight industry is based on, among other things, freight rates, quality of service, reliability, transit times and scope of operations.

Menlo Worldwide Logistics

Logistics specializes in developing and managing complex national and global supply and distribution networks, including transportation management, dedicated contract warehousing, dedicated contract carriage and supply chain consulting services. Transportation management refers to the management of third-party transportation providers for customers inbound/outbound supply chain needs through the use of state-of-the-art logistics management systems to consolidate, book and track shipments. Contract warehousing refers to the optimization of warehouse operations for customers using technology and warehouse management systems to reduce inventory carrying costs and supply chain cycle times. For several customers, contract-warehousing operations include light assembly or kitting operations, where manuals and cords are packed with the finished goods prior to distribution. Logistics ability to link these systems with its customers internal enterprise resource planning systems is intended to provide customers with improved visibility to their supply chains. Contract carriage refers to the management of a dedicated transportation fleet for a single customer.

Since the formation of Logistics in 1990, the third-party logistics industry has grown significantly as the outsourcing of non-core functions, such as distribution, has become more commonplace and businesses increasingly evaluate overall logistics costs. The ability to access information through computer networks also increases the value of capturing real-time logistics information to track inventories, shipments and deliveries. These industry trends, combined with Logistics ability to provide solutions for complex supply chain issues, have helped it to secure new contracts and expand contracts with existing customers, which are primarily large companies.

At December 31, 2003, Logistics client base included 40 companies, many of which are Fortune 200 businesses. Four customers, each with a Standard & Poors investment-grade credit rating, collectively accounted for 52.4% of the revenue reported for the Menlo Worldwide Logistics reporting segment in 2003. Although no single Logistics customer accounts for more than 3.8% of the consolidated revenue of CNF and its subsidiaries, the loss of significant revenue from any of Logistics major customers by termination of the customer relationship for any reason, including the business failure of the customer, could have an adverse effect on Logistics results of operations. Logistics generally seeks to mitigate risks related to the termination of a customer relationship, for reasons other than the business failure of a customer, by requiring that any facility or major equipment lease that it enters into on behalf of a customer must be assumed by the customer upon termination of the arrangement. Compensation from Logistics customers takes different forms, including cost-plus, gain-sharing, transaction, fixed-dollar and consulting fees.

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Competition

The third-party logistics industry is intensely competitive. Competition for larger projects is generally based on the ability to rapidly implement technology-based transportation and logistics solutions. Competitors in the logistics industry are numerous and include domestic and foreign logistics companies, the logistics arms of integrated transportation companies and contract manufacturers; however, Logistics primarily competes against a limited number of major competitors that have resources sufficient to provide services under large logistics contracts.

Menlo Worldwide Other

In December 2000, CNF and GM formed the Vector SCM (supply chain management) joint venture for the purpose of providing logistics management services on a global basis for GM, and ultimately for customers in addition to GM. In August 2003, CNF transferred its majority ownership interest in Vector SCM (Vector) to Menlo Worldwide, LLC. Although Menlo Worldwide, LLC (MW) owns a majority interest in Vector, MW s portion of Vector s operating results are reported in the Menlo Worldwide Other reporting segment as an equity-method investment based on GM s ability to control certain operating decisions. Vector was established to reduce GM s supply chain costs and improve GM s supply chain management by bringing increased speed, flexibility and reliability to GM s global supply chain, including shipment of parts to manufacturing plants and vehicles to dealers.

Prior to the amendments described below, agreements pertaining to Vector (collectively, Vector Agreements) provided that Vector would be compensated by sharing in efficiency gains and cost savings achieved through the implementation of Approved Business Cases (ABCs) and other special projects in GM s North America region and three international regions. An ABC is a project, developed with and approved by GM, aimed at reducing costs, assuming operational responsibilities, and/or achievement of operational changes.

In August 2003, the Vector Agreements were amended, primarily to expedite the transition of logistics services in the North America region from GM to Vector. The amendments changed the compensation principles for GM s North American logistics operations, revised the allocation of Vector s profit between GM and MW, and modified the formula for the valuation of Vector in the event that MW exercises its Put Right, as more fully discussed in Item 7, Management s Discussion and Analysis, under Results of Operations Menlo Worldwide Menlo Worldwide Other. Also refer to Note 4, Investment in Unconsolidated Joint Venture in Item 8, Financial Statements and Supplementary Data.

CNF Other

The CNF Other reporting segment included the operating results of Road Systems, Inc. and certain corporate activities. A majority of the revenue from Road Systems was from sales to other CNF subsidiaries and, prior to its bankruptcy in September 2002, Consolidated Freightways Corporation.

Discontinued Operations

Priority Mail Contract

On November 3, 2000, EWA and the USPS announced an agreement to terminate their contract for the transportation and sortation of Priority Mail (the Priority Mail contract), which was originally scheduled to terminate in the first quarter of 2002, subject to renewal options. Under separate agreements, the USPS agreed to reimburse EWA for Priority Mail contract termination costs and settle claims relating to the underpayment of amounts owed to EWA under the Priority Mail contract. As described under Results of Operations Discontinued Operations Priority Mail Contract, of Item 7, Management s Discussion and Analysis, claims relating to amounts owed to EWA under the Priority Mail contract were settled in connection with payments from the USPS to EWA in 2002 and 2001.

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Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation (CFC) to CNF s shareholders. Refer to Item 7, Management s Discussion and Analysis under Liquidity and Capital Resources Discontinued Operations Spin-Off of CFC for a discussion of matters related to CFC s filing for bankruptcy in September 2002.

General

Employees

At December 31, 2003, CNF s operations had approximately 26,000 regular full-time employees. The approximate number of regular full-time employees by segment was as follows: Con-Way, 16,000; Forwarding, 6,500, including 900 covered by collective bargaining agreements; Logistics, 1,800; Menlo Worldwide Other, 900; CNF Other, 800. The 800 employees included in the CNF Other segment consist primarily of executive, administrative and technology positions that support CNF s operating subsidiaries.

Cyclicality and Seasonality

CNF s businesses operate in industries that are affected by general economic conditions and seasonal fluctuations, both of which affect demand for transportation services. In the trucking and airfreight industries, for a typical year, the months of September and October usually have the highest business levels while the months of December, January and February usually have the lowest business levels.

Regulation

Air Transportation

Based on issues identified during inspections conducted by the FAA, on August 13, 2001, EWA was required to suspend its air carrier operations as part of an interim settlement agreement with the FAA, as more fully discussed in Item 7, Management s Discussion and Analysis, under Results of Operations Forwarding Restructuring Plans. In a final settlement agreement with the FAA entered into on September 17, 2001, EWA agreed to pay a $1 million civil penalty related to alleged operations, avionics, and maintenance irregularities. EWA surrendered its air carrier certificate on December 4, 2002.

Forwarding is subject to certain FAA regulations pertaining to freight handling, including maintenance and upkeep of air cargo containers and safety, including the transportation of hazardous materials, as more fully discussed below under Environmental. However, since EWA ceased air carrier operations in 2001, it no longer is a certificated air carrier and is not subject to the FAA aircraft-related safety regulations.

Ground Transportation

The motor carrier industry is subject to federal regulation by the Federal Motor Carrier Safety Administration (FMCSA) and the Surface Transportation Board (STB), both of which are units of the U.S. Department of Transportation (DOT). The FMCSA enforces comprehensive trucking safety regulations and performs certain functions relating to such matters as motor carrier registration, cargo and liability insurance, extension of credit to motor carrier customers, and leasing of equipment by motor carriers from owner-operators. The STB has authority to resolve certain types of pricing disputes and authorize certain types of intercarrier agreements.

At the state level, federal preemption of economic regulation does not prevent the states from regulating motor vehicle safety on their highways. In addition, federal law allows all states to impose insurance requirements on motor carriers conducting business within their borders, and empowers most states to require motor carriers conducting interstate operations through their territory to make annual filings verifying that they

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hold appropriate registrations from FMCSA. Motor carriers also must pay state fuel taxes and vehicle registration fees, which normally are apportioned on the basis of mileage operated in each state.

In April of 2003, the FMCSA issued a final rule to change the regulations governing hours of service for commercial truck drivers. The new rules increase the total consecutive off-duty hours a driver must take prior to driving in interstate commerce, reduce the total daily consecutive driving and on-duty hours allowed, and increase the number of weekend hours a driver must rest prior to the start of a new on-duty cycle. Motor carriers are required to comply with the new regulations effective January 4, 2004. Con-Way s management does not believe the new rules will have a material effect on its operations.

Environmental

CNF is subject to laws and regulations that (i) govern activities or operations that may have adverse environmental effects such as discharges to air and water, as well as handling and disposal practices for solid and hazardous waste, and (ii) impose liability for the costs of cleaning up, and certain damages resulting from, sites of past spills, disposals or other releases of hazardous materials. Environmental liabilities relating to CNF s properties may be imposed regardless of whether CNF leases or owns the properties in question and regardless of whether such environmental conditions were created by CNF or by a prior owner or tenant, and also may be imposed with respect to properties which CNF may have owned or leased in the past. CNF has provided for its estimate of remediation costs at these sites.

CNF s operations involve the storage, handling and use of diesel and jet fuel and other hazardous substances. In particular, CNF is subject to environmental laws and regulations dealing with underground fuel storage tanks and the transportation of hazardous materials. In 2003, Forwarding resolved an outstanding matter related to an investigation by the DOT and the FAA into the handling of so-called hazardous materials by MWF and EWA. EWA was fined and recognized a $6.5 million charge in the third quarter of 2003. As a condition of the resolution, MWF is required to develop and implement a hazardous materials compliance program to detect and prevent future violations. For a three-year period, MWF is required to engage an approved third-party auditor to assess whether its hazardous materials operation is consistently in compliance with all applicable laws.

CNF has been designated a Potentially Responsible Party (PRP) by the EPA with respect to the disposal of hazardous substances at various sites. CNF expects that its share of the clean-up costs will not have a material adverse effect on CNF s financial condition, cash flows, or results of operations.

Homeland Security

CNF is subject to compliance with cargo security and transportation regulations issued by the Transportation Security Administration and by the Department of Homeland Security, including regulation by the new Bureau of Customs and Border Protection (CBP). CNF believes that it will be able to comply with pending CBP rules, which will require pre-notification of cross-border shipments, with no material effect on its operations.

Con-Way s regional carriers and Forwarding, as well as certain other subsidiaries, are approved by the CBP to participate in the voluntary Customs-Trade Partnership Against Terrorism program (C-TPAT). The C-TPAT was designed in 2002 to provide a process to facilitate the efficient release of goods and provide resolution of any outstanding issues affecting CBP processing of cross-border shipments. As participants of C-TPAT, these subsidiaries have developed security measures that have been reviewed and certified by the CBP.

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ITEM 2. PROPERTIES

Management believes that CNF s facilities are suitable and adequate, that they are being appropriately utilized, and that they have sufficient capacity to meet operational needs in the foreseeable future. Management continuously reviews anticipated requirements for facilities and may acquire additional facilities and/or dispose of existing facilities as appropriate.

Con-Way Transportation Services

As of December 31, 2003, Con-Way s regional carriers operated 336 freight service centers, of which 138 were owned and 198 were leased. The service centers, which are strategically located to cover the geographic areas served by Con-Way, represent physical buildings and real property with dock, office and/or shop space. These facilities do not include meet-and-turn points, which generally represent small owned or leased real property with no physical structures. The total number of trucks, tractors and trailers utilized by the Con-Way regional carriers at December 31, 2003 was approximately 28,100.

At December 31, 2003, Con-Way Logistics leased 7 warehouses in the U.S. and Con-Way Air Express operated 13 leased warehouse and service center facilities.

Menlo Worldwide Forwarding

Forwarding s Hub, which encompasses approximately 800,000 square feet, is centered at the Dayton, Ohio International Airport. The Hub was financed by industrial revenue bonds, of which $108 million in principal amount was outstanding as of December 31, 2003.

As of December 31, 2003, Forwarding operated 102 freight facilities in North America, including nine regional hubs, as well as service centers, of which 10 were owned and 92 were leased. The freight service centers are strategically located to cover the geographic areas served by Forwarding. Additionally, Forwarding leased 25 facilities for office space. At December 31, 2003, Forwarding operated 133 leased facilities in international locations, including freight service centers, logistics warehouses and office space.

As described above under Item 1, Business Menlo Worldwide Forwarding International, Forwarding primarily utilizes third-party air carriers to transport North American customer shipments between hub and freight service center facilities. The aircraft used to transport customer shipments are primarily owned or leased by the third-party air carriers. However, as of December 31, 2003, the third-party air carriers also operated 11 aircraft that were owned or leased by EWA. At December 31, 2003, Forwarding operated approximately 1,200 trucks, tractors, and trailers, along with equipment provided by its agents.

Menlo Worldwide Logistics

As of December 31, 2003, Logistics operated 40 warehouses in North America, of which 26 were leased by Logistics and 14 were leased or owned by clients of Logistics. Internationally, Logistics operated an additional 20 warehouses, of which 9 were leased by Logistics and 11 were leased or owned by clients.

At December 31, 2003, Logistics operated approximately 80 trucks, tractors, and trailers.

CNF Other

Principal properties of the CNF Other segment included CNF s leased executive offices in Palo Alto, California, and its owned Administrative and Technology Center in Portland, Oregon.

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ITEM 3. LEGAL PROCEEDINGS

Certain legal proceedings of CNF are summarized in Item 8, Financial Statements and Supplementary Data, under Note 3, Restructuring Plans, and Note 15, Commitments and Contingencies. Environmental matters are discussed in Item 1, Business, under Regulation Environmental.

In 2001, EWA received subpoenas issued by federal grand juries in Massachusetts and the District of Columbia and the USPS Inspector General for documents relating to the Priority Mail contract. EWA cooperated fully and provided the documents requested in those subpoenas. In September 2003, CNF received notice from the United States Attorney s Office for the District of Columbia that EWA is being considered for possible civil action under the False Claims Act for allegedly submitting false invoices to the USPS for payment under the Priority Mail contract. EWA has entered into a tolling agreement with the government in order to give the parties more time to investigate the allegations. EWA is in the early stages of conducting its own investigation of the allegations and as a result CNF is currently unable to predict the outcome of this matter. Under the False Claims Act, the government would be entitled to recover treble damages, plus penalties, if a court was to ultimately conclude that EWA knowingly submitted false invoices to the USPS.

On February 16, 2000, a DC-8 cargo aircraft operated by EWA personnel crashed shortly after take-off from Mather Field, near Sacramento, California. The crew of three was killed. The National Transportation Safety Board subsequently determined that the probable cause of the crash was the disconnection of the right elevator control tab due to improper maintenance, but was not able to determine whether the maintenance errors occurred during the most recent heavy maintenance D check by an outside vendor or during subsequent maintenance of the aircraft. MWF, EWA and CNF Inc. have been named as defendants in wrongful death lawsuits brought by the families of the three deceased crew members, seeking compensatory and punitive damages. MWF, EWA and CNF Inc. also may be subject to other claims and proceedings relating to the crash, which could include other private lawsuits seeking monetary damages and governmental proceedings. Although MWF, EWA and CNF Inc. maintain insurance that is intended to cover claims that may arise in connection with an airplane crash, there can be no assurance that the insurance will in fact be adequate to cover all possible types of claims. In particular, any claims for punitive damages or any sanctions resulting from possible governmental proceedings would not be covered by insurance.

On December 5, 2001, EWA announced that it would cease operating as an air carrier, and in connection therewith terminated the employment of all pilots and crew members, bringing the total number of terminated employees in 2001 to 800. Those pilots and crew members are represented by the Air Line Pilots Association (ALPA) under a collective bargaining agreement. Subsequently, ALPA filed a grievance on behalf of the pilots and crew members protesting the cessation of EWA s air carrier operations and Forwarding s use of other air carriers. The ALPA matters are the subject of litigation in U.S. District Court and, depending on the outcome of that litigation, may be subject to binding arbitration. Based on CNF s current evaluation, management believes that it has provided for its estimated exposure related to the ALPA matters. However, CNF cannot predict with certainty the ultimate outcome of these matters.

EWA, MWF, Menlo Worldwide, LLC and, CNF Inc. are named as defendants in a lawsuit filed in state court in California by approximately 140 former EWA pilots and crew members. The lawsuit alleges wrongful termination in connection with the termination of EWA s air carrier operations, and seeks $500 million and certain other unspecified damages. CNF believes that the lawsuit s claims are without merit, and intends to vigorously defend the lawsuit.

CNF has become aware of information that Emery Transnational, a Philippines-based joint venture in which MWF may be deemed to be a controlling partner, may be in violation of the Foreign Corrupt Practices Act. CNF is conducting an internal investigation and has notified the Department of Justice and the Securities and Exchange Commission of this matter. CNF will share the results of its internal investigation, when completed, with the appropriate regulatory agencies, and will fully cooperate with any investigations that may be conducted by such regulatory agencies.

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Certain current and former officers of CNF, EWA and Forwarding and all of CNF s current directors have been named as defendants in a purported shareholder derivative suit filed in September 2003 in California Superior Court for the County of San Mateo. The complaint alleges breach of fiduciary duty, gross mismanagement, waste and abuse of control relating to the management, control and operation of EWA and Forwarding. CNF is named only as a nominal defendant and no relief is sought against it. CNF maintains insurance for the benefit of its officers and directors, and the applicable insurance carriers have been notified of the claims asserted in the lawsuit.

A lawsuit was filed in the United States District Court for the Northern District of California by certain participants in CFC s defined benefit pension plan, naming as defendants CFC s fiduciary committee and certain former CFC employees individually, and also naming as defendants CNF Inc., CNF Service Company, certain individuals and Towers Perrin. The lawsuit alleges breach of ERISA fiduciary duties in connection with the spin-off of assets and liabilities from CNF s defined benefit plan to CFC s defined benefit plan as part of CNF s 1996 spin-off of CFC, and seeks class action status on behalf of all affected participants. In November 2003, the Court granted motions to dismiss filed by CNF Inc. and CNF Service Company, and entered a final judgment dismissing both parties from the lawsuit.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

CNF did not submit any matter to a vote of security holders during the fourth quarter of the fiscal year covered by this Annual Report.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

CNF s common stock is listed for trading on the New York Stock Exchange (NYSE) and the Pacific Exchange under the symbol CNF.

See Item 8, Financial Statements and Supplementary Data under Note 17, Quarterly Financial Data, for the range of common stock prices as reported on the NYSE and common stock dividends paid for each of the quarters in 2003 and 2002. At January 31, 2003, CNF had 7,977 common shareholders of record.

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ITEM 6. SELECTED FINANCIAL DATA

CNF Inc.

Five Year Financial Summary

(Dollars in thousands except per share data)	2003	2002	2001	2000	1999
SUMMARY OF OPERATIONS					
Revenues					
Con-Way Transportation Services	$ 2,212,597	$ 2,011,477	$ 1,912,313	$ 2,044,896	$ 1,878,216
Menlo Worldwide					
Forwarding	1,881,496	1,778,712	2,044,794	2,608,142	2,408,416
Logistics	1,009,952	969,089	898,182	890,800	716,008
	2,891,448	2,747,801	2,942,976	3,498,942	3,124,424
CNF Other	287	2,841	7,442	28,539	34,661
Total Revenues	$ 5,104,332	$ 4,762,119	$ 4,862,731	$ 5,572,377	$ 5,037,301
Operating Income (Loss)					
Con-Way Transportation Services	$ 195,343	$ 147,154(a)	$ 157,467	$ 227,312	$ 228,820
Menlo Worldwide					
Forwarding	(47,579)	(11,980)	(790,345)	28,365	75,514
Logistics	25,312	31,827	(15,818)	33,303	22,255
Other	20,718	18,188	(9,415)	(560)	
	(1,549)	38,035	(815,578)	61,108	97,769
CNF Other	(2,357)	(3,369)	(2,540)	1,546	27,649(c)
Total Operating Income (Loss)	$ 191,437	$ 181,820	$ (660,651)	$ 289,966	$ 354,238
Depreciation and amortization	$ 149,380	$ 159,080	$ 195,397	$ 190,651	$ 164,876
Interest expense	30,071	23,558	27,992	29,972	25,972
Income (Loss) from Continuing Operations Before					
Income Tax Provision (Benefit)	156,016	146,244	(695,933)	261,196	332,260(d)
Income tax (provision) benefit	(63,992)	(32,035)(b)	262,367	(109,880)	(144,752)
Net Income (Loss) from Continuing Operations	83,785	105,959	(441,849)	143,055	179,290
Gain (Loss) from discontinuance, net of tax		(12,398)	38,975	(13,508)	2,966
Cumulative effect of accounting change, net of tax				(2,744)	
Net Income (Loss) Applicable to Common Shareholders	$ 83,785	$ 93,561	$ (402,874)	$ 126,803	$ 182,256
EARNINGS (LOSS) PER COMMON SHARE					
Basic					
	$ 1.69	$ 2.16	$ (9.06)	$ 2.95	$ 3.72

Net Income (Loss) from Continuing Operations					
Gain (Loss) from discontinuance, net of tax		(0.26)	0.80	(0.28)	0.06
Cumulative effect of accounting change, net of tax				(0.06)	
Net Income (Loss) Applicable to Common Shareholders	$ 1.69	$ 1.90	$ (8.26)	$ 2.61	$ 3.78
Diluted					
Net Income (Loss) from Continuing Operations	$ 1.57	$ 1.96	$ (9.06)	$ 2.65	$ 3.29
Gain (Loss) from discontinuance, net of tax		(0.22)	0.80	(0.24)	0.06
Cumulative effect of accounting change, net of tax				(0.05)	
Net Income (Loss) Applicable to Common Shareholders	$ 1.57	$ 1.74	$ (8.26)	$ 2.36	$ 3.35
Common dividends	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40
Common shareholders equity	$ 15.21	$ 13.43	$ 12.04	$ 20.90	$ 19.15
STATISTICS					
Total assets	$ 2,749,852	$ 2,739,761	$ 2,990,020	$ 3,244,941	$ 3,059,334
Long-term obligations	536,314	557,610	565,815	534,649	433,446
Preferred securities of subsidiary trust	125,000	125,000	125,000	125,000	125,000
Capital expenditures	137,378	84,838	192,125	235,221	324,604
Effective (tax) benefit rate	(41.02)%	(21.9)%	37.7%	(42.1)%	(43.6)%
Basic average shares	49,537,945	49,139,134	48,752,480	48,490,662	48,189,618
Market price range	$ 24.44-$35.77	$ 27.36-$38.28	$ 21.05-$39.88	$ 20.25-$34.75	$ 28.28-$45.52
Number of shareholders at December 31	8,006	8,131	8,561	8,802	9,520
Number of regular full-time employees	26,000	26,200	26,100	28,700	28,300

CNF s results from continuing operations included various income or loss items that affected the year-to-year comparisons of the reported operating income (loss) of its reporting segments. These materially significant unusual or infrequently occurring items that affected operating income in the three years ended December 31, 2003 are summarized in Item 8, Financial Statements and Supplementary Data, under Note 16, Segment Reporting Unusual or Infrequent Items. Other materially significant items affecting the year-to-year comparisons of net income from continuing operations in the years reported above are described in the notes below and in Item 7, Management s Discussion and Analysis.

(a) Includes an $8.7 million first-quarter net gain, $5.3 million after tax, ($0.09 per diluted share) from the sale of a property.

(b) Includes a $25.0 million third-quarter ($0.44 per diluted share) reversal of accrued taxes related to the settlement with the IRS of aircraft maintenance issues.

(c) Includes a $16.5 million first-quarter net gain, $9.3 million after tax, ($0.17 per diluted share) from a corporate legal settlement, and a $10.1 million second-quarter net gain, $5.7 million after tax, ($0.10 per diluted share) from the sale of the assets of CNF s former wholesale parts and supplies distributor.

(d) Includes a $9.6 million fourth-quarter net gain, $5.4 million after tax, ($0.10 per diluted share) from the sale of securities.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (referred to as Management s Discussion and Analysis) is intended to assist in the understanding and assessment of the principal factors affecting the results of operations, liquidity and capital resources, as well as the critical accounting policies of CNF and its subsidiaries. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes, which include additional information about CNF s significant accounting policies and practices and the transactions that underlie CNF s financial results.

CNF provides supply chain management services for commercial and industrial shipments by land, air and sea throughout the world. CNF s principal businesses consist of Con-Way and the Menlo Worldwide group of businesses. However, for financial reporting purposes, CNF is divided into five reporting segments. The operating results of Con-Way, a provider of regional less-than-truckload (LTL) freight services, are reported as one reporting segment while Menlo Worldwide is divided into three reporting segments: Forwarding, primarily a global provider of air freight and ocean forwarding services; Logistics, a provider of integrated contract logistics solutions; and Menlo Worldwide Other, which consists of Vector, a joint venture with GM that serves as the lead logistics manager for GM. Also, certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the separate CNF Other reporting segment.

CNF s operating results are generally expected to depend on the number and weight of shipments transported, the prices received on those shipments, and the mix of services provided to customers, as well as the fixed and variable costs incurred by CNF in providing the services and the ability to manage those costs under changing shipment levels. As more fully discussed in Item 1, Business, Con-Way and Forwarding primarily transport shipments through freight service center networks while Logistics and Vector manage the logistics functions of their customers and primarily utilize third-party transportation providers for the movement of customer shipments.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

In 2003, CNF s net income available to common shareholders was $83.8 million ($1.57 per diluted share), a 10.4% decline from 2002. Net income available to common shareholders in 2002 was $93.6 million ($1.74 per diluted share), which included a $12.4 million after-tax net loss ($0.22 per diluted share) from discontinued operations. In 2001, CNF reported a net loss applicable to common shareholders of $402.9 million ($8.26 per diluted share), which included a $39.0 million after-tax gain ($0.80 per diluted share) from discontinued operations. Gains and losses from discontinued operations in all periods presented were due to the terminated Priority Mail contract with the U.S. Postal Service and/or the business failure of Consolidated Freightways Corporation (CFC) in September 2002, as described below under Discontinued Operations.

CONTINUING OPERATIONS

The following table compares results from continuing operations (dollars in thousands, except per share amounts) for the years ended December 31:

	2003	2002	2001
Revenues	$ 5,104,332	$ 4,762,119	$ 4,862,731
Operating Income (Loss)	191,437	181,820	(660,651)
Net Income (Loss) from Continuing Operations (after preferred stock dividends)	83,785	105,959	(441,849)
Diluted Earnings (Loss) per Share from Continuing Operations	1.57	1.96	(9.06)

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CNF s results from continuing operations for all reported periods included various income or loss items that affected the year-to-year comparisons of the reported operating income or loss. These special items, which were identified as such by CNF s management based in part on their materiality to the relevant reporting segment, are separately summarized under each reporting segment.

Continuing Operations Overview 2003 Compared to 2002

CNF s revenue in 2003 increased 7.2% to $5.10 billion, as both Con-Way and the Menlo Worldwide group of businesses achieved revenue growth amid improved U.S. and global economic conditions. Consolidated operating income rose 5.3% to $191.4 million, due principally to significantly higher operating income from Con-Way. A larger operating loss at Forwarding and a decline in operating income from Logistics was partially offset by higher operating income at Vector. Special items, which are separately summarized under each reporting segment, resulted in a net operating loss of $7.1 million in 2003, while 2002 reflects a $24.9 million net gain from special items.

Con-Way s operating income grew 32.7% in 2003 to $195.3 million, due principally to the effect of revenue growth and operating leverage. Forwarding s operating loss increased to $47.6 million in 2003 from $12.0 million in 2002, reflecting a $7.1 million net operating loss from the effect of special items in 2003 compared to a $15.6 million net gain from special items in 2002. Forwarding s revenue in 2003 grew 5.8%, but was insufficient to cover its costs. Although North American air freight revenue decreased in 2003, the rate of decline slowed from the previous two years. Gross margins on international air freight fell, primarily from the loss of higher-margin business related to the prior-year port disruption, partially offset by an increase in higher-margin military business in 2003. In response to continued declines in North American air freight revenue, Forwarding recognized a $7.8 million restructuring charge in 2003, primarily to reduce costs of its North American freight service center network. Logistics operating income in 2003 fell 20.5% to $25.3 million as a higher percentage of lower-margin services contributed to lower operating income despite a 4.2% increase in revenue. Vector s operating income, which rose 13.9% to $20.7 million, reflects compensation earned under amended agreements with GM, its joint venture partner and customer.

Other net expense in 2003 of $35.4 million was essentially unchanged from 2002 as a $3.0 million decline in investment income and a $6.5 million increase in interest expense were mostly offset by an $8.1 million increase in the cash-surrender value of corporate-owned life insurance policies. Higher interest expense in 2003 was primarily due to the settlement of interest rate swaps in December 2002, which effectively converted long-term debt from fixed-rate to floating-rate prior to their termination. CNF recognized equity venture losses of $3.7 million in 2003 and $4.6 million in 2002.

In 2003, CNF s income from continuing operations before income tax provision increased 6.7% over 2002 on growth in revenue and operating income. CNF s net income from continuing operations (after income taxes and preferred stock dividends) declined in 2003 despite higher revenue and operating income, primarily due to an increase in the effective tax rate to 41.0% in 2003 from 21.9% in 2002, which reflects a $25.0 million reversal of accrued taxes from the settlement of tax matters in 2002.

Continuing Operations Overview 2002 Compared to 2001

Consolidated revenue in 2002 fell 2.1% to $4.76 billion as a revenue decline at Forwarding was partially offset by revenue growth at Con-Way and Logistics. Operating income of $181.8 million in 2002, including the $24.9 million net gain from special items, improved from a $660.7 million operating loss in 2001, which included a net loss of $764.1 million from special items. Operating income in 2002 was largely due to improved operating results from the Menlo Worldwide businesses, partially offset by lower operating income from Con-Way, whose operating income fell 6.5% due principally to higher employee costs. Operating results in 2001 largely reflect the adverse effect of special items, including a $652.2 million restructuring charge at Forwarding and a $47.5 million loss from the business failure of a Logistics customer.

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Other net expense of $35.6 million was essentially flat in 2002 as higher costs of obtaining letters of credit and a decline in the cash-surrender value of corporate owned life insurance policies were mostly offset by lower interest expense on long-term debt. CNF recognized equity venture losses of $4.6 million in 2002 and $5.3 million in 2001.

In 2002, net income from continuing operations of $106.0 million primarily reflects the significant improvement in consolidated operating results and a low 21.9% effective tax rate, as described above, while the net loss of $441.8 million from continuing operations in 2001 was substantially due to the significant special charges at Forwarding and Logistics.

CON-WAY TRANSPORTATION SERVICES

The following table compares operating results (dollars in thousands), operating margins, and the percentage increase in selected operating statistics of the Con-Way reporting segment for the years ended December 31:

	2003	2002	2001
Summary of Operating Results			
Revenues	$ 2,212,597	$ 2,011,477	$ 1,912,313
Operating Income	195,343	147,154	157,467
Operating Margin	8.8%	7.3%	8.2%
Item affecting comparability of operating income:			
Net gain from the sale of a property		8,675	

	2003 vs. 2002	2002 vs. 2001
Selected Regional-Carrier Operating Statistics		
Revenue per day	+8.8%	+3.5%
Yield	+5.7	+2.5
Weight per day:		
Less-than-truckload	+2.5	+1.0
Total	+3.0	+1.0

In 2003, Con-Way s revenue rose 10.0% due to higher revenue from Con-Way s regional carriers and continued growth from Con-Way s asset-light businesses, which include Con-Way NOW, Con-Way Logistics, and Con-Way Air Express. Revenue per day from the regional carriers rose 8.8% from 2002 on increases in revenue per hundredweight (yield) and weight per day (weight). In 2003, growth in weight transported was due in part to comparatively better economic conditions, particularly in the fourth quarter. In the fourth quarter of 2003, revenue per day increased 11.1% from the fourth quarter of 2002 on a 9.4% increase in weight and a 1.5% improvement in yield. Yield improvement in 2003 was achieved through rate increases, continued growth in interregional joint services, which typically command higher rates on longer lengths of haul, and higher fuel surcharges. Excluding fuel surcharges, yield in 2003 rose 3.6%. Con-Way s operating income in 2003 increased 32.7%, due largely to higher revenue from the regional carriers as well as revenue growth from Con-Way s asset-light businesses, which reduced their collective net operating loss in 2003 by 26.0%. The improvement in Con-Way s operating margin in 2003 reflects operating leverage, as Con-Way s service center network accommodated additional shipments with proportionally smaller cost increases. Operating income in 2003 benefited from a 45.2% decline in variable employee compensation, which was partially offset by a 6.6% increase in pension expense. Operating income in 2002 included an $8.7 million net gain from the sale of a property.

Con-Way s revenue in 2002 increased 5.2% over 2001 on revenue growth from Con-Way s regional carriers and a 42.9% increase in revenue from Con-Way s asset-light businesses. Regional-carrier revenue per day rose

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3.5% from 2001 on a 2.5% improvement in yield and a 1.0% increase in weight. Yield in 2002 benefited from rate increases and growth in higher-yielding interregional joint services, but was adversely affected by a decline in fuel surcharges. Excluding fuel surcharges, yield in 2002 increased 2.8% from 2001. Con-Way s operating income in 2002 fell 6.5% due primarily to a 10.9% increase in employee costs (including variable compensation), partially offset by higher revenue and an $8.7 million net gain from the sale of a property in 2002.

MENLO WORLDWIDE

For financial reporting purposes, the Menlo Worldwide group is divided into three reporting segments: Forwarding, Logistics, and Menlo Worldwide Other. Vector SCM, a joint venture with General Motors, is reported in the Menlo Worldwide Other segment as an equity-method investment. In 2003, the Menlo Worldwide group of businesses reported revenue of $2.89 billion and an operating loss of $1.5 million.

FORWARDING

The following table compares operating results (dollars in thousands), operating margins, and the percentage increase (decrease) in selected operating statistics of the Forwarding reporting segment for the years ended December 31:

	2003	2002	2001
Summary of Operating Results			
Revenues	$ 1,881,496	$ 1,778,712	$ 2,044,794
Operating Loss	(47,579)	(11,980)	(790,345)
Operating Margin	-2.5%	-0.7%	-38.7%
Items affecting comparability of operating loss:			
Restructuring charges	(7,800)		(652,241)
Net gains from payments under the Air Transportation Safety and System Stabilization Act	7,230	9,895	
Loss for the resolution of a hazardous materials case	(6,500)		
Duplicate airhaul costs and aircraft-related losses			(60,496)
Express Mail settlement / operating income		5,715	6,324
Goodwill amortization			(10,210)
	(7,070)	15,610	(716,623)

	2003 vs. 2002	2002 vs. 2001
Selected Air Freight Operating Statistics		
International		
Revenue per day	+14.8%	+0.3%
Weight	+14.0	+2.7
Yield	+0.8	-2.9
North America		
Revenue per day	-8.8	-16.7
Weight	+0.3	-6.8
Yield	-9.1	-10.6

During 2003, Forwarding s revenue grew 5.8%, due to higher international air freight revenue partially offset by lower North American air freight revenue. Strong growth in international air freight revenue per day was largely due to a 14.0% increase in international average pounds per day (weight), which benefited from improved business levels in Asian and European markets and from an increase in war-related military business, which primarily benefited the first quarter of 2003. Weight in 2002 was positively affected by labor-related disruption of western U.S. ports, which temporarily diverted some international freight from ocean carriers to air carriers in the fourth quarter of 2002. Revenue per pound (yield) on international freight rose slightly in 2003, principally from higher fuel surcharges and an increase in higher-yield military business, partially offset by the loss of higher-yield business related to the port disruption in 2002. Excluding fuel surcharges, international yield in 2003 fell 0.9% from 2002. North American air freight revenue per day in 2003 fell 8.8% on a 0.3% increase in weight and a 9.1% decline in yield, which was due primarily to a higher percentage of lower-yield delivery services in 2003, partially offset by the yield-enhancing effect of higher fuel surcharges. Excluding fuel surcharges, the decline in North American yield was 12.1%. Forwarding s efforts to increase second-day and deferred delivery services, as well as a decline in the demand for next-day delivery services, contributed to a higher percentage of lower-yield second-day and deferred delivery services. The decline in demand for next-day delivery services was due primarily to a loss of business to transportation providers using ground-based modes of delivery.

Forwarding s operating loss increased to $47.6 million in 2003 from $12.0 million in 2002, reflecting a $7.1 million net operating loss in 2003 from the effect of special items and, in 2002, a $15.6 million net gain from special items. Forwarding s revenue in 2003 grew 5.8%, but was insufficient to cover its costs. Although North American air freight revenue decreased in 2003, the rate of decline slowed from the previous two years. Gross margins on international air freight fell, primarily from the loss of higher-margin business related to the prior-year port disruption, partially offset by an increase in higher-margin military business in 2003. In response to continued declines in North American air freight revenue, Forwarding in 2003 recognized a $7.8 million restructuring charge, primarily to reduce the costs of its North American freight service center network, as more fully discussed below under Restructuring Plans. Management will continue Forwarding s focus on increasing the revenue and operating margins of its variable-cost-based international operations and, in North America, will continue its efforts to align its costs with revenues.

In 2002, Forwarding s revenue fell 13.0% from 2001 to $1.78 billion, due primarily to lower North American air freight revenue, essentially flat international air freight revenue, and the termination by the U.S. Postal Service (USPS) of EWA s contract to transport Express Mail, as described below under Express Mail Contract. In 2001, Forwarding recognized revenue of $117.0 million from the Express Mail contract until termination of the contract effective in August 2001.

Forwarding s average international air freight revenue per day in 2002 was essentially unchanged from 2001 as a 2.7% improvement in weight was offset by a 2.9% decline in yield. Growth in international weight in 2002 was attributable in part to improved business levels in international markets served by Forwarding, particularly in Asia. Weight and yield in 2002 benefited from business related to the labor-related port disruption. International yields in 2002 were negatively affected by a decline in fuel surcharges from 2001. Excluding fuel surcharges, international yield in 2002 fell 1.2%. North American air freight revenue per day fell 16.7% in 2002 on a 6.8% decline in North American weight and a 10.6% drop in yield. North American weight in 2002 was negatively affected by comparatively weaker U.S. economic conditions, a reduction in the number of aircraft routes and domestic markets served by Forwarding, and a loss of business to ground transportation providers, while 2001 was adversely affected by lost business from the September 11, 2001 terrorist attacks. In 2002, lower yield in North America was due in part to Forwarding s efforts to increase second-day and economy service, which contributed to a higher percentage of lower-yield service offerings and from lower fuel surcharges. Excluding fuel surcharges, the decline in North American yield was 9.6%.

Forwarding s operating loss in 2002 improved to $12.0 million from $790.3 million in 2001. Forwarding s operating loss in 2002 included a $15.6 million net gain from special items while the operating loss in 2001 reflects special items that collectively represented a $716.6 million net charge, which consisted primarily of Forwarding s restructuring charges, as detailed below under Restructuring Plans. Forwarding s operating loss in 2002 was reduced by lower airhaul costs, a 16.7% decrease in employee costs and a decline in depreciation, aircraft lease payments and aircraft-related expenses.

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Restructuring Plans

2001 Restructuring Plan

In June 2001, Forwarding began an operational restructuring to align it with management s estimates of future business prospects for domestic heavy air freight and to address changes in market conditions, which deteriorated due primarily to a slowing domestic economy and loss of EWA s contracts with the USPS to transport Express Mail and Priority Mail. The $340.5 million second-quarter restructuring charge in 2001 consisted primarily of non-cash impairment charges of $278.0 million and $62.5 million of estimated future cash expenditures related primarily to the return to lessors of certain aircraft leased to EWA. Based on issues identified during inspections conducted by the Federal Aviation Administration (FAA), on August 13, 2001, EWA was required to suspend its air carrier operations as part of an interim settlement agreement with the FAA. As a result, EWA furloughed approximately 400 pilots and crew members and Forwarding made arrangements to continue its service to customers by utilizing aircraft operated by several other air carriers. Primarily in response to the FAA action and a worsening global economic downturn, Forwarding re-evaluated its restructuring plan. On December 5, 2001, CNF announced that Forwarding (formerly known as Emery or Emery Forwarding) in 2002 would become part of CNF s new Menlo Worldwide group of supply chain services providers and in North America would utilize aircraft operated by other air carriers instead of EWA operating its own fleet of aircraft, and that EWA would permanently cease air carrier operations. In connection with the revised restructuring plan, in the fourth quarter of 2001 Forwarding recognized additional restructuring charges of $311.7 million, including $305.6 million for the planned disposal of leased aircraft, cessation of EWA s remaining operations, and other costs, and $6.1 million for employee separation costs for 157 of EWA s non-pilot employees.

In connection with CNF s announcement of the cessation of EWA s air carrier operations on December 5, 2001, EWA terminated the employment of all of its pilots and crew members, bringing the total number of terminated employees in 2001 to 800. Those pilots and crew members are represented by ALPA under a collective bargaining agreement. Subsequently, ALPA filed a grievance on behalf of the pilots and crew members protesting the cessation of EWA s air carrier operations and Forwarding s use of other air carriers. The ALPA matters are subject to binding arbitration. Based on CNF s current evaluation, management believes that it has provided for its estimated exposure related to the ALPA matters. However, CNF cannot predict with certainty the ultimate outcome of these matters.

Following the fourth-quarter restructuring charge in 2001, Forwarding s cash flows have reflected the cost of having other air carriers provide service to Forwarding s North American customers as well as lease payments and other costs associated with Forwarding s restructuring plan; however, Forwarding s operating expenses have reflected the cost of aircraft operated by other carriers but have not included scheduled lease payments and return costs or other restructuring-related payments, as these expenses were accrued in connection with the restructuring charges.

Forwarding s restructuring reserves for aircraft and other costs declined to $34.8 million at December 31, 2003 from $67.7 million at December 31, 2002 due primarily to aircraft lease payments and return costs. None of the 37 aircraft that were grounded in connection with Forwarding s 2001 restructuring plan remained under lease as of December 31, 2003. Restructuring reserves at December 31, 2003 consisted primarily of CNF s estimated exposure related to labor matters in arbitration, as described above, as well as other estimated restructuring obligations.

2003 Restructuring Plan

In response to continued declines in North American air freight revenue, Forwarding continued restructuring its operations in the fourth quarter of 2003, primarily to reduce the costs of its North American freight service center network. Under the restructuring plan, Forwarding closed nine service centers located in markets for which the transportation of shipments between service centers and customers could be served more cost

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effectively by cartage agents. In connection with the restructuring plan, Forwarding recognized a $7.8 million charge, primarily for the accrual of future lease payments on closed facilities and employee termination costs. Management estimates the restructuring plan will reduce annual operating expenses in 2004 by $20 million with no adverse effect on revenue levels or the quality and coverage of delivery service. Lower future operating expenses are expected to result primarily from a decline in service center lease expense and lower employee costs, partially offset by higher costs for third-party cartage service.

Forwarding s restructuring charges recognized during 2001 and 2003 reflect CNF s estimate of the costs of the related restructuring activities. CNF believes that these estimates are adequate to cover these costs based on information currently available and assumptions management believes are reasonable under the circumstances. However, there can be no assurance that actual costs will not differ from this estimate, and that difference would be recognized as additional expense or income in the period when and if that determination can be made.

Refer to Item 8, Financial Statements and Supplementary Data, under Note 3, Restructuring Plans, for the cumulative activity related to Forwarding s 2001 and 2003 restructuring plans.

Terrorist Attacks

Forwarding s operating results in 2001 were adversely affected by the terrorist attacks on September 11, 2001. Contractors providing air carrier service to Forwarding were grounded on September 11 and 12 and did not resume service until the evening of September 13.

In response to the September 11, 2001 terrorist attacks, the U.S. Congress passed the Air Transportation Safety and System Stabilization Act (the Act), a $15 billion emergency economic assistance package intended to mitigate financial losses in the air carrier industry. The legislation provides for $5 billion in direct loss reimbursement and other financial assistance. In March 2002, Forwarding received an $11.9 million payment under the Act, resulting in a $9.9 million first-quarter net gain in 2002. In March 2003, Forwarding received a final payment of $7.5 million, resulting in a $7.2 million first-quarter net gain in 2003.

Forwarding is not able to accurately quantify how the events of September 11, or any subsequent terrorist activities, will affect the global economy, governmental regulation, the air transportation industry, Forwarding s costs of providing air freight services and the demand for Forwarding s air freight services. However, Forwarding believes that any additional security measures that may be required by future regulations could result in additional costs and could have an adverse effect on its operations and service.

Express Mail Contract

Effective August 26, 2001, the USPS terminated for convenience a contract under which EWA transported Express Mail and other classes of mail for the USPS (the Express Mail contract). As described below under Discontinued Operations, EWA received a $70.0 million provisional payment from the USPS for termination costs and other claims related to the Express Mail contract on September 26, 2001. Under a subsequent settlement agreement, the USPS on December 17, 2002 paid EWA an additional $5.0 million to settle EWA s Express Mail contract termination costs, including the reimbursement of certain aircraft and other assets. As a result of the final $5.0 million settlement payment, EWA in December 2002 fully recovered the remaining Express Mail assets, resulting in a $5.7 million net gain reported in the Forwarding segment.

In 2001, EWA recognized revenue of $117.0 million and operating income of $6.3 million from the transportation of mail under the Express Mail contract, as reported in the Forwarding segment.

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LOGISTICS

The following table compares operating results (dollars in thousands) and operating margins of the Logistics reporting segment for the years ended December 31:

	2003	2002	2001
Summary of Operating Results			
Revenues	$ 1,009,952	$ 969,089	$ 898,182
Operating Income (Loss)	25,312	31,827	(15,818)
Operating Margin	2.5%	3.3%	-1.8%
Items affecting comparability of operating income (loss):			
Net gain from a contract termination		1,850	
Loss from the business failure of a customer			(47,454)
		1,850	(47,454)

Logistics revenue in 2003 rose 4.2% over 2002, due principally to an increase in carrier management and warehouse management services, partially offset by lower revenue from contract-carriage and consulting services. Higher revenue from carrier management services in 2003 was achieved despite the fourth-quarter loss of a significant customer, a division of a large company that terminated the logistics outsourcing arrangements of all of its divisions. The customer accounted for 6.0% of Logistics revenue in 2003 but was among Logistics lowest-margin accounts. Fourth-quarter revenue in 2003 fell 1.2% from the fourth quarter of 2002, due in part to the customer loss. Operating income in 2003 was $25.3 million, a 20.5% decline from 2002, which included a $1.9 million net gain from a contract termination. Excluding the prior-year contract termination gain, lower operating income in 2003 was due principally to an increase in lower-margin carrier management services and a decline in higher-margin consulting fee revenue. Operating income in 2003 included $3.1 million of costs incurred throughout the year for contracts that were terminated due to customer failure, scheduled expiration, or termination of the outsourcing arrangement.

Revenue for Logistics in 2002 increased 7.9% over 2001 as higher revenue from carrier and warehouse management services offset a decline in revenue from contract-carriage and consulting services. Logistics 2002 operating income of $31.8 million, including a $1.9 million net gain from a contract termination, improved from a $15.8 million operating loss in 2001, which included a $47.5 million loss from the business failure of a customer. Excluding these special items, the decline in 2002 operating results was attributable to a mix of lower-margin services and higher employee costs, which rose 8.3% over 2001.

A portion of Logistics revenue is attributable to contracts for which Logistics manages the transportation of freight but subcontracts the actual transportation and delivery of products to third parties. Logistics refers to this as purchased transportation. Logistics net revenue (revenue less purchased transportation) in 2003 was $292.8 million, an increase from $286.6 million in 2002 and $268.5 million in 2001.

MENLO WORLDWIDE OTHER

The Menlo Worldwide Other reporting segment consists of the results of Vector, a joint venture formed with GM in December 2000 for the purpose of providing logistics management services on a global basis for GM, and ultimately for customers in addition to GM. Prior to the amendments described below, agreements pertaining to Vector (collectively, Vector Agreements) provided that Vector would be compensated by sharing in efficiency gains and cost savings achieved through the implementation of Approved Business Cases (ABCs) and other special projects in GM s North America region and GM s three international regions. An ABC is a project, developed with and approved by GM, aimed at reducing costs, assuming operational responsibilities, and/or achieving operational changes.

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In August 2003, the Vector Agreements were amended, primarily to expedite the transition of logistics services in the North America region from GM to Vector. The amendments changed the compensation principles for GM s North American logistics operations, revised the allocation of Vector s profit between GM and MW, and modified the formula for the valuation of Vector in the event that MW exercises its Put Right, as described below.

The amendments to the Vector Agreements provide for Vector to be compensated for its management of logistics for all of GM s North America operations rather than through its sharing in efficiency gains and cost savings under individual and separately approved ABCs in North America. In each year of a five-year period retroactive to January 1, 2003, Vector will be compensated with a management fee based on shipment volumes and can earn additional compensation if certain performance criteria are achieved. In accordance with GAAP, compensation under the volume-based management fee will be recognized as vehicles are shipped while performance-based compensation will not be recognized until specified levels of cost savings are achieved, which will generally not be determinable until the fourth quarter of each contract year. Vector will also be compensated by GM for its direct and administrative costs in North America, subject to certain limitations.

The amended Vector Agreements also increase Vector s allocation of profit and loss from 80% to 85%. Although MW owns a majority equity interest, the operating results of Vector are reported as an equity-method investment based on GM s ability to control certain operating decisions.

Under the Vector Agreements, GM has the right to purchase MW s membership interest in Vector (Call Right) and MW has the right to require GM to purchase MW s membership interest in Vector (Put Right). The Call Right and Put Right are exercisable at the sole discretion of GM and MW, respectively. Prior to amendment of the Vector Agreements, exercise of the Call Right or Put Right required GM to pay MW for the fair value of MW s membership interest in Vector, as determined by approved appraisers using a predetermined valuation formula. Under the amended Vector Agreements, the amount payable by GM to MW under the Put Right is based on a mutually agreed-upon estimated value for MW s membership interest as of the contract amendment date and will decline on a straight-line basis over an 8-year period beginning January 1, 2004. Exercise of MW s Put Right or GM s Call Right would result in MW retaining commercialization contracts involving customers other than GM.

Reported operating income of the Menlo Worldwide Other segment in 2003 was $20.7 million, a 13.9% increase from 2002. Operating income in 2003 reflects the recognition of Vector s compensation in accordance with the amended Vector Agreements. Operating income of the Menlo Worldwide Other segment in the first half of 2002 included substantially all of Vector s net income for that period (rather than CNF s pro-rata portion of that net income), because CNF was contractually entitled to substantially all of Vector s net income to the extent of Vector s cumulative losses because, under the contract, all of Vector s losses in prior periods were allocated to CNF. During the second quarter of 2002, CNF s allocated cumulative losses from the Vector joint venture had been recouped through allocated net income. As a result, GM began sharing in Vector s net income in the third quarter of 2002. In 2002, MW reported operating income from Vector of $18.2 million compared to an operating loss of $9.4 million in 2001, which was Vector s first full year of operation.

In each successive year covered by the amended Vector agreements, management anticipates that performance-based compensation will represent a growing percentage of compensation earned in GM s North America region. Management also intends to increase the percentage of compensation earned from commercialization activities and from GM s international regions and aftermarket parts supply operations, which are unaffected by the amended Vector Agreements.

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CNF OTHER

The following table compares the operating loss (dollars in thousands) of the CNF Other reporting segment for the years ended December 31:

	2003	2002	2001
Summary of Operating Results			
Revenues	$ 287	$ 2,841	$ 7,442
Operating Loss	(2,357)	(3,369)	(2,540)
Items affecting comparability of operating loss:			
Loss from uncollectible non-trade receivables		(3,595)	
Net gain from the sale of a property		2,367	
		(1,228)	

The CNF Other segment consists of the results of Road Systems and certain corporate activities. A majority of the revenue from Road Systems was from sales to other CNF subsidiaries and, prior to its bankruptcy in September 2002, Consolidated Freightways Corporation. The CNF Other operating loss in 2003 primarily reflects the net loss from the sale of corporate properties while the operating loss in 2002 was primarily the net result of a $3.6 million loss from uncollectible non-trade receivables following the business failure of CFC and a $2.4 million net gain from the sale of a corporate property. The operating loss in 2001 reflects the collective results of RSI and various corporate activities.

DISCONTINUED OPERATIONS

Priority Mail Contract

On November 3, 2000, EWA and the USPS announced an agreement (the Termination Agreement) to terminate their contract for the transportation and sortation of Priority Mail (the Priority Mail contract). As more fully discussed in Item 8, Financial Statements and Supplementary Data, under Note 2, Discontinued Operations, all claims relating to amounts owed to EWA under the Priority Mail contract were fully settled in connection with payments from the USPS to EWA in 2002 and 2001, which resulted in after-tax gains of $2.9 million in 2002 and $39.0 million in 2001.

Spin-Off of CFC

As more fully discussed below under Liquidity and Capital Resources Discontinued Operations Spin-off of CFC, CNF recognized 2002 third-quarter and fourth-quarter losses from discontinuance of $13.0 million (net of $8.3 million of income taxes) and $2.3 million (net of $1.4 million of income taxes), respectively, in connection with the bankruptcy of CFC in September 2002.

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LIQUIDITY AND CAPITAL RESOURCES

In 2003, operating activities provided $222.6 million, which was used primarily to fund investing activities that used $131.3 million and financing activities that consumed $38.6 million. The excess cash flow from operations increased cash and cash equivalents from $270.4 million at December 31, 2002 to $321.5 million at December 31, 2003.

The following table summarizes CNF s cash flows for the years ended December 31:

	2003	2002	2001
Operating Activities			
Net income (loss)	$ 92,024	$ 101,811	$ (394,591)
Non-cash adjustments (1)	197,553	278,264	690,309
	289,577	380,075	295,718
Changes in assets and liabilities			
Accrued aircraft leases and return provision	(26,269)	(302,630)	(8,333)
Other	(40,695)	(72,659)	19,978
	(66,964)	(375,289)	11,645
Net Cash Provided by Operating Activities	222,613	4,786	307,363
Net Cash Used in Investing Activities	(131,326)	(84,505)	(193,960)
Net Cash Used in Financing Activities	(38,597)	(54,193)	(34,646)
Net Cash Provided by (Used in) Continuing Operations	52,690	(133,912)	78,757
Net Cash Provided by (Used in) Discontinued Operations	(1,634)	3,553	217,491
Increase (Decrease) in Cash and Cash Equivalents	$ 51,056	$ (130,359)	$ 296,248

(1) Non-cash adjustments refer to depreciation, amortization, deferred income taxes, provision for uncollectible accounts, equity in earnings of joint venture, and non-cash gains and losses.

CONTINUING OPERATIONS

In 2003, operating activities generated $222.6 million, an increase from $4.8 million in 2002. Cash flow from operations in 2003 reflects $26.3 million of restructuring-related aircraft lease payments and return costs while 2002 reflects $302.6 million of payments for that same purpose. Cash from operating activities in 2003 was provided primarily by net income before non-cash adjustments of $289.6 million, partially offset by $67.0 million used in the net change of assets and liabilities. Cash flow from accrued liabilities in 2003 included the net effect of a $36.7 million decline in accrued incentive compensation and a $20.0 million increase in other accrued liabilities. For all periods reported, changes in accrued incentive compensation reflect CNF s payment schedule under its employee incentive plans, under which total incentive compensation earned in an award year is paid to employees with a partial payment in December of the award year and a final payment in February of the next award year. Changes in employee benefits in 2003 and 2002 largely reflect the net effect of defined benefit pension plan funding contributions as described below under Defined Benefit Pension Plan, partially offset by expense accruals for CNF s defined benefit pension plan obligation. Accrued income taxes increased in 2003 based on taxable income but declined in 2002 and 2001 based on taxable losses in those years, due principally to restructuring-related payments that were tax-deductible in those years. As a result, Other Receivables in CNF s Consolidated Balance Sheets at December 31, 2003 and 2002 included receivables of $24.0 million and $60.9 million, respectively, for income tax refunds. In accordance with GAAP, the changes in accrued income taxes are based on taxable income under tax-based accounting rules while deferred taxes reflect the effect of temporary differences between GAAP-based and tax-based accounting rules.

Cash from operating activities of $4.8 million in 2002 declined from $307.4 million in 2001, due mostly to the substantial payments made in 2002 for restructuring-related aircraft lease payments and return costs, a decline

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in accrued income taxes, and defined benefit plan funding payments of $76.2 million. Positive cash flows from operating activities included an increase in accrued incentive compensation and $31.0 million received in connection with the termination of interest rate swaps, as more fully discussed in Item 8, Financial Statements and Supplementary Data, under Note 10, Derivative Instruments and Hedging Activities.

Investing activities in 2003 used $131.3 million, an increase from $84.5 million used in 2002, due principally to a $53.0 million increase in capital expenditures at Con-Way, primarily for the acquisition of revenue equipment. Investing activities in 2002 fell from $194.0 million used in 2001 due largely to capital expenditure reductions of $84.0 million at Con-Way and $14.9 million at Forwarding.

In all periods reported, net cash used in financing activities consisted primarily of dividend payments and scheduled principal payments for the Thrift and Stock Plan notes guaranteed by CNF. Cash used in financing activities in 2003 also included a $4.8 million repayment of Industrial Revenue Bonds, and in 2002, included a $22.4 million repayment of capital aircraft leases.

CNF has a $385 million revolving credit facility that matures on July 3, 2006. The revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to $385 million. At December 31, 2003, no borrowings were outstanding under the facility and $257.0 million of letters of credit were outstanding, leaving $128.0 million of available capacity for additional letters of credit or cash borrowings, subject to compliance with financial covenants and other customary conditions to borrowing. CNF had other uncommitted unsecured credit facilities totaling $99.3 million at December 31, 2003, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of $85.6 million was outstanding under these facilities. Of the total letters of credit outstanding at December 31, 2003, $254.6 million provided collateral for CNF workers compensation and vehicular self-insurance programs. See Other Matters Forward-Looking Statements below, and Note 6, Debt and Other Financing Arrangements, in Item 8, Financial Statements and Supplementary Data, for additional information concerning CNF s $385 million credit facility and some of its other debt instruments.

Defined Benefit Pension Plan

CNF periodically reviews the funding status of its defined benefit pension plan for non-contractual employees, and makes contributions from time to time as necessary in order to comply with the funding requirements of the Employee Retirement Income Security Act (ERISA). Funding of CNF s defined benefit pension is based on ERISA-defined measurements rather than the recognition and measurement criteria prescribed by accounting principles generally accepted in the United States (GAAP). In 2003, CNF contributed a total of $75 million to its defined benefit pension plans and currently estimates it will contribute an additional $75 million in 2004. CNF also made defined benefit pension plan contributions of $76.2 million in 2002 and $13.1 million in 2001, but made no contributions from 1996 through 2000, due in part to the high rate of return realized on plan assets during that period. There can be no assurance that CNF will not be required to make further cash contributions, which could be substantial, to its defined benefit pension plan in the future.

Contractual Cash Obligations

The table below summarizes contractual cash obligations for CNF as of December 31, 2003. These contractual cash obligations are reflected in the Consolidated Balance Sheets, except for operating leases, which are disclosed as future obligations under GAAP.

	Total	Payments Due by Period

(Dollars in thousands)		2004	2005-2006	2007-2008	2009 & Thereafter
Long-Term Debt and Guarantees	$ 405,881	$ 14,055	$ 146,300	$ 45,526	$ 200,000
Capital Lease Obligations	170,419	6,819	13,638	13,638	136,324
Operating Leases	260,266	87,728	102,259	42,704	27,575
Total	$ 836,566	$ 108,602	$ 262,197	$ 101,868	$ 363,899

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As presented above, contractual obligations on long-term debt and guarantees represent principal payments while contractual obligations for capital and operating leases represent the notional payments under the lease arrangements, including anticipated future cash payments for interest on capital leases. Certain liabilities, including those related to pension and postretirement benefit plans and accrued claims costs, are reported in CNF s consolidated balance sheets but not reflected in the table above due to the absence of stated maturities. As more fully discussed above under Defined Benefit Pension Plans, CNF currently estimates that it will contribute $75 million to its defined benefit pension plan in 2004.

As described above under Continuing Operations, letters of credit of $254.6 million were outstanding at December 31, 2003 to provide collateral for CNF s accrued claims costs related to workers compensation and vehicular self-insurance programs. These letters of credit are generally required under self-insurance programs and do not represent additional liabilities as the underlying accrued claims are already reflected on CNF s consolidated balance sheets.

In accordance with GAAP, CNF s operating leases are not included in CNF s consolidated balance sheets. CNF s operating leases were determined to provide economic benefits preferable to ownership based primarily on after-tax cash flows and the effect on CNF s capitalization. Under certain operating leases, Con-Way guarantees the residual value of tractors and trailers at the end of the lease term. At December 31, 2003, the residual value guaranteed under these lease agreements was $18.5 million. CNF recognizes a liability for any shortfall between the residual value guarantee and the equipment s estimated fair value, which fluctuates depending on market conditions.

In 2004, CNF anticipates capital expenditures of between $135 million and $165 million, primarily for the acquisition of additional tractor and trailer equipment. CNF s capital expenditure requirements may increase or decrease depending on business levels and other factors.

For further discussion, see Note 6, Debt and Other Financing Arrangements, and Note 7, Leases, included in Item 8, Financial Statements and Supplementary Data.

Other

CNF s ratio of total debt to capital decreased to 36.8% at December 31, 2003 from 40.3% at December 31, 2002 due primarily to net income and the repayment of debt in 2003.

DISCONTINUED OPERATIONS

Priority Mail Contract

As described above under Results of Operations Discontinued Operations, cash flows from the Priority Mail operations have been segregated and classified as net cash flows from discontinued operations in the Statements of Consolidated Cash Flows. As described in Note 2, Discontinued Operations Priority Mail Contract, in Item 8, Financial Statements and Supplementary Data, EWA received payments in 2002 and 2001 to fully settle EWA s Priority Mail contract termination costs.

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of CFC to CNF s shareholders. In connection with the spin-off of CFC, CNF agreed to indemnify certain states, insurance companies and sureties against the failure of CFC to pay certain workers compensation, tax and public liability claims that were pending as of September 30, 1996. In some cases, these indemnities are supported by letters of credit and surety bonds under which CNF is liable to the issuing bank or the surety company.

In September 2002, CFC filed for bankruptcy and ceased most U.S. operations. Following the commencement of its bankruptcy proceeding, CFC ceased making payments with respect to these workers

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compensation and public liability claims. CNF was required to take over payment of some of these claims, and expects that demands for payment will likely be made against it with respect to the remaining claims. CNF estimates the aggregate amount of all of these claims, plus other costs, to be $25.0 million. As a result, CNF accrued additional reserves in 2002, primarily in accrued claims costs in the Consolidated Balance Sheets, and recognized 2002 third-quarter and fourth-quarter losses from discontinuance of $13.0 million (net of $8.3 million of income taxes) and $2.3 million (net of $1.4 million of income taxes), respectively. CNF intends to seek reimbursement from CFC in its bankruptcy proceeding of amounts that CNF pays in respect of all of these claims, although there can be no assurance that CNF will be successful in recovering all or any portion of such payments.

In addition, CFC was, at the time of the spin-off, and remains a party to certain multiemployer pension plans covering some of its current and former employees. The cessation of its U.S. operations will result in CFC s complete withdrawal (within the meaning of applicable federal law) from these multiemployer plans, at which point it will become obligated, under federal law, to pay its share of any unfunded vested benefits under those plans.

It is possible that the trustees of CFC s multiemployer pension plans may assert claims that CNF is liable for amounts owing to the plans as a result of CFC s withdrawal from those plans and, if so, there can be no assurance that those claims would not be material. CNF has received requests for information regarding the spin-off of CFC from representatives from some of the pension funds, and, in accordance with federal law, CNF has responded to those requests. Under federal law, representatives of CFC s multiemployer plans are entitled to request such information to assist them in determining whether they believe any basis exists for asserting a claim against CNF.

Based on advice of legal counsel and its knowledge of the facts, CNF believes that it would ultimately prevail if any such claims were made, although there can be no assurance in this regard. CNF believes that the amount of those claims, if asserted, could be material, and a judgment against CNF for all or a significant part of these claims could have a material adverse effect on CNF s financial condition, cash flow and results of operations.

If such claims were made, CNF, unless relieved of the obligation through appropriate legal proceedings, would be required under federal law to make periodic cash payments to the multiemployer plans asserting claims against CNF, in an aggregate amount of up to the full amount of those claims. However, under federal law, the claims would initially be decided through arbitration and, upon a final decision by the arbitrator in favor of CNF, the plan trustees would be required to promptly refund those payments, with interest. While the length of time required to reach a final decision in any such arbitration cannot be predicted with certainty, CNF believes that such a decision could be reached within twelve to eighteen months from receipt of claims from the plans, although there can be no assurance in this regard.

CNF currently estimates that the net amount of quarterly payments (after deductibility for tax purposes) could range from $20 million to $25 million (based on certain assumptions), although the actual amount could be greater or less than this estimate. Based on CNF s current financial condition and management s projections of CNF s estimated future financial condition, cash flows and results of operations, as well as a number of other estimates and assumptions, CNF believes that it would have sufficient financial resources to make these periodic payments if it were required to do so. However, there can be no assurance in that regard, and accordingly any requirement to make these periodic payments could have a material adverse effect on CNF s financial condition and cash flows.

As a result of the foregoing, there can be no assurance that matters relating to the spin-off of CFC and CFC s bankruptcy will not have a material adverse effect on CNF s financial condition, cash flows or results of operations, including potentially triggering downgrades of debt instruments or events of default under credit agreements. See Other Matters Forward-Looking Statements and Note 6, Debt and Other Financing Arrangements, in Item 8, Financial Statements and Supplementary Data.

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OTHER MATTERS

ESTIMATES AND CRITICAL ACCOUNTING POLICIES

CNF makes estimates and assumptions when preparing its financial statements in conformity with accounting principles generally accepted in the United States. These estimates and assumptions affect the amounts reported in the accompanying financial statements and notes thereto. Actual results could differ from those estimates. CNF s most critical accounting policies upon which management bases estimates are described below.

Self-Insurance Reserves

CNF uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for medical, casualty, liability, vehicular, cargo and workers compensation claims. Liabilities associated with the risks that are retained by CNF are estimated, in part, by considering historical claims experience, medical costs, demographic factors, severity factors and other assumptions. The undiscounted estimated accruals for these liabilities could be significantly affected if actual costs differ from these assumptions and historical trends.

Income Taxes

In establishing its deferred income tax assets and liabilities, CNF makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. CNF records deferred tax assets and liabilities and periodically evaluates the need for a valuation allowance to reduce deferred tax assets to realizable amounts. The likelihood of a material change in CNF s expected realization of these assets is dependent on future taxable income, its ability to use foreign tax credit carry forwards and carry backs, final U.S. and foreign tax settlements, and the effectiveness of its tax planning strategies in the various relevant jurisdictions. CNF is also subject to examination of its income tax returns for multiple years by the IRS and other tax authorities. CNF periodically assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision and related accruals for income taxes.

Restructuring Reserves

The restructuring charges recognized in 2003 and 2001 were based on significant estimates and assumptions made by management. Refer to the Menlo Worldwide Forwarding Restructuring Plans section under Results of Operations above for a description of the significant assumptions used.

Uncollectible Accounts Receivable

CNF and its subsidiaries report accounts receivable at net realizable value and provide an allowance for uncollectible accounts when collection is considered doubtful. Con-Way and Forwarding provide for uncollectible accounts based on various judgments and assumptions, including revenue levels, historical loss experience, and composition of outstanding accounts receivable. Logistics, based on the size and nature of its client base, performs a frequent and periodic evaluation of its customers creditworthiness and accounts receivable portfolio and recognizes expense from uncollectible accounts when losses are both probable and estimable.

Defined Benefit Pension Plan

CNF has a defined benefit pension plan that covers non-contractual employees in the United States. The amount recognized as pension expense and the accrued pension liability depend upon a number of assumptions and factors, the most significant being the discount rate used to measure the present value of pension obligations, the assumed rate of return on plan assets, which are both affected by economic conditions, market fluctuations, and rate of compensation increase. CNF adjusts its discount rate periodically by taking into account a number of

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factors, including changes in high-quality corporate bond yields and the advice of its outside actuaries. CNF adjusts its assumed rate of return on plan assets based on historic returns of the plan assets and current market expectations.

CNF used a 6.75% discount rate for purposes of calculating its 2003 pension expense, but used a 6.25% discount rate for calculating its 2003 year-end pension liability and its 2004 pension expense, due primarily to declines in high-quality corporate bond yields in 2003. By way of example, if all other factors were held constant, a 0.5% decline in the discount rate would have an estimated $6 million increase in 2004 annual pension expense. CNF used an assumed rate of return on plan assets of 9.0% in 2003 and will assume the same rate for 2004. Using year-end plan asset values, a 0.5% decline in the assumed rate of return on plan assets would have an estimated $3 million increase in 2004 annual pension expense.

The determination of CNF s accrued pension benefit cost includes an unrecognized actuarial loss that results from the cumulative difference between estimated and actual values for the year-end projected pension benefit obligation and the fair value of plan assets. Under GAAP, any portion of the unrecognized actuarial loss or gain that exceeds ten percent of the greater of the projected benefit obligation or fair value of plan assets must be amortized as an expense over the average service period for employees, approximately thirteen years for CNF. Amortization of the unrecognized actuarial loss decreases the annual pension expense in 2004 by approximately $1 million from annual pension expense in 2003.

The accumulated benefit obligation of CNF s defined benefit pension plan less plan assets as of the actuarial measurement dates in 2003 and 2002 exceeded CNF s accrued benefit cost. Accordingly, under GAAP, CNF reported a minimum pension liability adjustment to recognize this shortfall in each year. Due principally to improved equity markets and a corresponding increase in the actual rate of return on plan assets in 2003, the accumulated minimum pension liability adjustments were reduced in 2003, resulting in an $11.0 million decline in the net-of-tax accumulated other comprehensive loss in shareholders equity. CNF s Consolidated Balance Sheets included the following accumulated minimum pension liability adjustments:

	December 31,	
(Dollars in thousands)	**2003**	**2002**
Intangible asset reported in Other Assets	$ 5,146	$ 6,690
Pension liability adjustment reported in Employee Benefits	37,323	56,908
Accumulated other comprehensive loss reported in Shareholders Equity	19,628	30,632

Goodwill and Other Long-Lived Assets

Effective January 1, 2002, CNF adopted SFAS 142, Goodwill and Other Intangible Assets. SFAS 142 specifies that goodwill and indefinite-lived intangible assets will not be amortized but instead will be subject to an annual impairment test. CNF utilizes a third-party independent valuation consultant to perform a goodwill impairment test on an annual basis in the fourth quarter and between annual tests in certain circumstances. Based on an impairment test as of December 31, 2003, CNF was not required to record a charge for goodwill impairment. In accordance with the provisions of SFAS 142, CNF ceased goodwill amortization associated with the Forwarding reporting segment. Prior to adoption of SFAS 142, Forwarding amortized goodwill of $10.2 million in 2001.

Consistent with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, CNF performs an impairment analysis of long-lived assets (other than goodwill or intangible assets) whenever circumstances indicate that the carrying amount may not be recoverable.

In assessing the recoverability of goodwill and other long-lived assets, CNF must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, CNF may be required to record impairment

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charges for goodwill or other long-lived assets in future periods. Any such resulting impairment charges could have a material adverse effect on CNF s financial condition or results of operations, including potentially triggering downgrades of debt instruments. See Forward-Looking Statements below, and Note 6, Debt and Other Financing Arrangements, in Item 8, Financial Statements and Supplementary Data.

MARKET RISK

CNF is exposed to a variety of market risks, including the effects of interest rates, commodity prices, foreign currency exchange rates and credit risk. CNF enters into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to some form of interest rate, commodity or currency-related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure.

CNF is subject to the effect of interest rate fluctuations in the fair value of its long-term debt and capital lease obligations, as summarized in Item 8, Financial Statements and Supplementary Data, under Note 6, Debt and Other Financing Arrangements, and Note 7, Leases. Given a hypothetical 10% change in interest rates, the change in fair value of CNF s long-term debt and guarantees would be approximately $9 million at December 31, 2003.

As more fully discussed in Note 10, Derivative Instruments and Hedging Activities, in Item 8, Financial Statements and Supplementary Data, CNF held two freestanding interest rate swap derivatives at December 31, 2003 that were initially entered into as cash flow hedges to mitigate the effects of interest rate volatility on floating-rate lease payments. In connection with Forwarding s 2001 restructuring plan, hedge accounting was discontinued for these interest rate swaps when EWA settled floating-rate operating leases hedged with the interest rate swaps. Prior to their termination in December 2002, CNF used interest rate swaps to mitigate the impact of interest rate volatility on the fair value of its fixed-rate long-term debt. At December 31, 2003, CNF had not entered into any material derivative contracts to hedge exposure to commodity prices or foreign currency.

CYCLICALITY AND SEASONALITY

CNF s businesses operate in industries that are affected directly by general economic conditions and seasonal fluctuations, both of which affect demand for transportation services. In the trucking and air freight industries, for a typical year, the months of September and October usually have the highest business levels while the months of December, January and February usually have the lowest business levels.

BUSINESS INTERRUPTION

Although the operations of CNF s subsidiaries are largely decentralized, Forwarding maintains a major hub operation at the Dayton International Airport in Dayton, Ohio. While CNF currently maintains property and business interruption insurance covering Forwarding s operations at the Dayton hub, its insurance policies contain limits for certain causes of loss, including but not limited to earthquake and flood. Such policies do not insure against property loss or business interruption resulting from a terrorist act. Accordingly, there can be no assurance that this insurance coverage will be sufficient. As a result, a major property loss or sustained interruption in the business operations at the Dayton hub, whether due to terrorist activities or otherwise, could have a material adverse effect on CNF s financial condition, cash flows, and results of operations.

In addition, CNF and its subsidiaries rely on CNF Service Company for the performance of shared administrative and technology services in the conduct of their businesses. CNF s centralized computer facilities and its administrative and technology employees are located at the Administrative and Technology (AdTech) Center in Portland, Oregon. Although CNF maintains backup systems and has disaster recovery processes and procedures in place, a sustained interruption in the operation of these facilities, whether due to terrorist activities, earthquakes, floods or otherwise, could have a material adverse effect on CNF s financial condition, cash flows, and results of operations.

HOMELAND SECURITY

CNF is subject to compliance with cargo security and transportation regulations issued by the Transportation Security Administration and by the Department of Homeland Security. CNF is not able to accurately predict how new governmental regulation will affect the transportation industry. However, CNF believes that any additional security measures that may be required by future regulations could result in additional costs and could have an adverse effect on its ability to serve customers and on its financial condition, cash flows and results of operations.

EMPLOYEES

Most of the workforce of CNF and its subsidiaries is not affiliated with labor unions. Consequently, CNF believes that the operations of its subsidiaries have significant advantages over comparable unionized competitors (particularly in the trucking industry) in providing reliable and cost-competitive customer services, including greater efficiency and flexibility. There can be no assurance that CNF s subsidiaries will be able to maintain their current advantages over certain of their competitors.

ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51 (FIN 46). FIN 46 requires that all special-purpose entities be designated as either a voting-interest entity or a variable-interest entity (VIE). A VIE is an entity for which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the VIE to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary if it does not effectively disperse risks among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the VIE s expected losses or receives a majority of its expected residual returns.

The implementation of FIN 46 was required for periods beginning after June 15, 2003. However, in October 2003, the FASB deferred the effective date for applying FIN 46 to VIEs created before February 1, 2003 until the end of the first interim period ending after December 15, 2003. In December 2003, the FASB revised FIN 46 (FIN 46R) to incorporate certain revisions, including the requirement to disregard certain rights in determining whether an entity is the primary beneficiary in a VIE. Under FIN 46R, CNF is not the primary beneficiary of a subsidiary trust that has $125.0 million of Term Convertible Securities (TECONS) outstanding at December 31, 2003. As a result, CNF will be required to deconsolidate the TECONS, which were issued in June 1997 and are currently reported on CNF s Consolidated Balance Sheets as Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Debentures of the Company. In the quarter ending March 31, 2004, CNF will report $128.9 million of its convertible subordinated debentures held by the subsidiary trust as long-term debt and will also report its $3.9 million equity ownership in the subsidiary trust as an investment.

In May 2003, the FASB issued SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes classification standards for financial instruments with characteristics of liabilities, equity, or both. CNF adopted SFAS 150 effective July 1, 2003 with no impact.

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FORWARD-LOOKING STATEMENTS

Certain statements included herein constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to a number of risks and uncertainties, and should not be relied upon as predictions of future events. All statements other than statements of historical fact are forward-looking statements, including any projections of earnings, revenues, weight, yield, volumes, income or other financial or operating items, any statements of the plans, strategies, expectations or objectives of CNF or its management for future operations or other future items, any statements concerning proposed new products or services, any statements regarding CNF s estimated future contributions to pension plans, any statements as to the adequacy of reserves, any statements regarding the outcome of any claims that may be brought against CNF by CFC s multi-employer pension plans or regarding the amount of any periodic cash payments that CNF may be required to make while those claims are pending or CNF s ability to make those periodic payments, any statements regarding future economic conditions or performance, any statements regarding the outcome of legal and other claims and proceedings against CNF; any statements of estimates or belief and any statements or assumptions underlying the foregoing.

Certain such forward-looking statements can be identified by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates or anticipates or the negative of those terms or other variations of those terms o comparable terminology or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data and methods that may be incorrect or imprecise and there can be no assurance that they will be realized. In that regard, the following factors, among others and in addition to the matters discussed elsewhere in this document and other reports and documents filed by CNF with the Securities and Exchange Commission, could cause actual results and other matters to differ materially from those discussed in such forward-looking statements: changes in general business and economic conditions, including the global economy; the creditworthiness of CNF s customers and their ability to pay for services rendered; increasing competition and pricing pressure; changes in fuel prices; the effects of the cessation of EWA s air carrier operations; the possibility of additional unusual charges and other costs and expenses relating to Forwarding s operations; the possibility that CNF may, from time to time, be required to record impairment charges for goodwill and other long-lived assets; the possibility of defaults under CNF s $385 million credit agreement and other debt instruments, including defaults resulting from additional unusual charges or from any costs or expenses that CNF may incur in connection with CFC s bankruptcy proceedings or any claims that may be asserted by CFC s multi-employer pension plans, and the possibility that CNF may be required to repay certain indebtedness in the event that the ratings assigned to its long-term senior debt by credit rating agencies are reduced; labor matters, including the grievance by furloughed pilots and crew members, renegotiations of labor contracts, labor organizing activities, work stoppages or strikes; enforcement of and changes in governmental regulations, including the effects of new regulations issued by the Department of Homeland Security; environmental and tax matters; the February 2000 crash of an EWA aircraft and related litigation; and matters relating to CNF s 1996 spin-off of CFC, including the possibility that CFC s multi-employer pension plans may assert claims against CNF, that CNF may be required to make periodic cash payments while those claims are pending, and that CNF may not prevail in those proceedings and may not have the financial resources necessary to satisfy amounts payable to those plans, and matters relating to CNF s defined benefit pension plans. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows, or results of operations. See Note 15, Commitments and Contingencies in Item 8, Financial Statements and Supplementary Data.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CNF Inc.

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2003	December 31, 2002
Assets		
Current Assets		
Cash and cash equivalents	$ 321,460	$ 270,404
Trade accounts receivable, net (Note 1)	769,707	716,037
Other accounts receivable	68,595	129,535
Operating supplies, at lower of average cost or market	14,333	19,612
Prepaid expenses	53,144	43,885
Deferred income taxes (Note 8)	89,440	89,015
Total Current Assets	1,316,679	1,268,488
Property, Plant, and Equipment, at cost		
Land	159,645	162,767
Buildings and leasehold improvements	792,289	769,536
Revenue equipment	652,818	609,631
Other equipment	373,034	377,110
	1,977,786	1,919,044
Accumulated depreciation and amortization	(980,331)	(903,690)
Net Property and Equipment	997,455	1,015,354
Other Assets		
Deferred charges and other assets (Note 4)	126,458	133,411
Capitalized software, net	68,589	75,674
Goodwill, net (Note 1)	240,671	240,593
Deferred income taxes (Note 8)		6,241
	435,718	455,919
Total Assets	$ 2,749,852	$ 2,739,761

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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CNF Inc.

Consolidated Balance Sheets

	December 31,	
(Dollars in thousands except per share data)	**2003**	**2002**
Liabilities and Shareholders Equity		
Current Liabilities		
Accounts payable	$ 354,922	$ 356,605
Accrued liabilities (Notes 2 and 5)	314,543	334,758
Accrued claims costs (Note 1)	120,730	141,632
Accrued aircraft leases and return provision (Note 3)	5,170	27,770
Current maturities of long-term debt and capital leases (Notes 6 and 7)	14,230	12,289
Total current liabilities	809,595	873,054
Long-Term Liabilities		
Long-term debt and guarantees (Note 6)	426,115	447,234
Long-term obligations under capital leases (Note 7)	110,199	110,376
Accrued claims costs (Note 1)	114,793	128,447
Employee benefits (Note 12)	269,318	294,541
Other liabilities and deferred credits	38,149	37,941
Deferred income taxes (Note 8)	37,875	
Accrued aircraft leases and return provision (Note 3)		5,170
Total Liabilities	1,806,044	1,896,763
Commitments and Contingencies (Notes 6, 7 and 15)		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Debentures of the Company (Note 9)	125,000	125,000
Shareholders Equity (Note 11)		
Preferred stock, no par value; authorized 5,000,000 shares:		
Series B, 8.5% cumulative, convertible, $.01 stated value; designated 1,100,000 shares; issued 763,674 and 784,007 shares, respectively	8	8
Additional paid-in capital, preferred stock	116,147	119,239
Deferred compensation, Thrift and Stock Plan (Note 13)	(57,687)	(65,723)
Total Preferred Shareholders Equity	58,468	53,524
Common stock, $.625 par value; authorized 100,000,000 shares; issued 56,436,981 and 56,046,790 shares, respectively	35,273	35,029
Additional paid-in capital, common stock	356,700	345,054
Retained earnings	570,751	506,816
Deferred compensation, restricted stock (Note 14)	(6,188)	(3,710)
Cost of repurchased common stock (6,459,732 and 6,563,868 shares, respectively)	(159,273)	(161,841)
	797,263	721,348
Accumulated Other Comprehensive Loss (Note 11)	(36,923)	(56,874)

Total Common Shareholders Equity	760,340	664,474
Total Shareholders Equity	818,808	717,998
Total Liabilities and Shareholders Equity	$ 2,749,852	$ 2,739,761

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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CNF Inc.

Statements of Consolidated Operations

(Dollars in thousands except per share data)	2003	2002	2001
	Years ended December 31,		
Revenues	$ 5,104,332	$ 4,762,119	$ 4,862,731
Costs and Expenses			
Operating expenses	4,275,689	3,979,137	4,224,023
Selling, general and administrative expenses	496,784	461,807	481,916
Depreciation	132,622	139,355	165,202
Restructuring charges (Note 3)	7,800		652,241
	4,912,895	4,580,299	5,523,382
Operating Income (Loss)	191,437	181,820	(660,651)
Other Income (Expense)			
Investment income	2,527	5,557	3,981
Interest expense	(30,071)	(23,558)	(27,992)
Dividend requirement on preferred securities of subsidiary trust (Note 9)	(6,250)	(6,250)	(6,250)
Miscellaneous, net (Note 1)	(1,627)	(11,325)	(5,021)
	(35,421)	(35,576)	(35,282)
Income (Loss) from Continuing Operations Before Income Tax (Provision) Benefit	156,016	146,244	(695,933)
Income tax (provision) benefit (Note 8)	(63,992)	(32,035)	262,367
Income (Loss) from Continuing Operations	92,024	114,209	(433,566)
Gain (Loss) from discontinuance, net of tax (Note 2)		(12,398)	38,975
Net Income (Loss)	92,024	101,811	(394,591)
Preferred stock dividends	8,239	8,250	8,283
Net Income (Loss) Applicable to Common Shareholders	$ 83,785	$ 93,561	$ (402,874)
Weighted-Average Common Shares Outstanding (Note 1)			
Basic	49,537,945	49,139,134	48,752,480
Diluted	56,725,667	56,655,570	48,752,480
Earnings (Loss) Per Common Share (Note 1)			
Basic			
Net income (loss) from continuing operations	$ 1.69	$ 2.16	$ (9.06)
Gain (Loss) from discontinuance, net of tax		(0.26)	0.80

Net Income (Loss) Applicable to Common Shareholders	$ 1.69	$ 1.90	$ (8.26)
Diluted			
Net income (loss) from continuing operations	$ 1.57	$ 1.96	$ (9.06)
Gain (Loss) from discontinuance, net of tax		(0.22)	0.80
Net Income (Loss) Applicable to Common Shareholders	$ 1.57	$ 1.74	$ (8.26)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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CNF Inc.

Statements of Consolidated Cash Flows

(Dollars in thousands)	**Years ended December 31,** 2003	2002	2001
Cash and Cash Equivalents, Beginning of Year	$ 270,404	$ 400,763	$ 104,515
Operating Activities			
Net income (loss)	92,024	101,811	(394,591)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Discontinued operations, net of tax		12,398	(38,975)
Restructuring charges	7,800		652,241
Loss from the business failure of a customer			47,454
Depreciation and amortization, net of accretion	149,380	159,080	195,397
Increase (Decrease) in deferred income taxes	35,096	105,313	(209,947)
Amortization of deferred compensation	9,376	8,607	7,402
Provision for uncollectible accounts	14,505	17,817	17,435
Equity in (earnings) losses of joint venture	(20,718)	(18,188)	9,415
Loss (Gain) on sales of property and equipment, net	(1,591)	(11,348)	4,636
Loss from equity ventures	3,705	4,585	5,251
Changes in assets and liabilities:			
Receivables	(39,473)	(55,873)	134,265
Prepaid expenses	(9,259)	3,063	353
Unamortized aircraft maintenance			12,776
Accounts payable	(1,563)	18,025	(81,963)
Accrued incentive compensation	(36,682)	52,190	(24,187)
Accrued liabilities, excluding accrued incentive compensation	20,011	(26,250)	(51,141)
Accrued claims costs	(34,556)	(475)	30,005
Income taxes	36,864	(82,365)	(59,787)
Employee benefits	(7,838)	(27,033)	21,763
Accrued aircraft leases and return provision	(26,269)	(302,630)	(8,333)
Deferred charges and credits	20,616	36,236	57,527
Other	11,185	9,823	(19,633)
Net Cash Provided by Operating Activities	222,613	4,786	307,363
Investing Activities			
Capital expenditures	(137,378)	(84,838)	(192,125)
Software expenditures	(12,730)	(14,281)	(15,668)
Proceeds from sales of property and equipment, net	18,782	14,614	13,833
Net Cash Used in Investing Activities	(131,326)	(84,505)	(193,960)
Financing Activities			
Net repayment of long-term debt, guarantees and capital leases	(14,944)	(30,994)	(7,625)
Proceeds from exercise of stock options	6,389	6,948	3,210
Payments of common dividends	(19,850)	(19,663)	(19,522)
Payments of preferred dividends	(10,192)	(10,484)	(10,709)

Net Cash Used in Financing Activities	(38,597)	(54,193)	(34,646)
Net Cash Provided by (Used in) Continuing Operations	52,690	(133,912)	78,757
Net Cash Provided by (Used in) Discontinued Operations	(1,634)	3,553	217,491
Increase (Decrease) in Cash and Cash Equivalents	51,056	(130,359)	296,248
Cash and Cash Equivalents, End of Year	$ 321,460	$ 270,404	$ 400,763
Supplemental Disclosure			
Cash Paid (Refunded) for income taxes, net	$ (14,548)	$ (3,779)	$ 13,555
Cash Paid for interest, net of amounts capitalized	$ 29,179	$ 23,552	$ 28,908

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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CNF Inc.

Statements of Consolidated Shareholders Equity

(Dollars in thousands except per share data)	Preferred Stock Series B: Number of Shares	Preferred Stock Series B: Amount	Common Stock: Number of Shares	Common Stock: Amount	Additional Paid-in Capital	Deferred Compensation	Retained Earnings	Cost of Repurchased Common Stock	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 2000	824,902	$ 8	55,426,605	$ 34,642	$ 456,741	$ (82,025)	$ 855,314	$ (166,939)	$ (35,819)	
Net loss							(394,591)			$ (394,591)
Other comprehensive income (loss):										
Foreign currency translation adjustment									(5,404)	(5,404)
Cumulative effect of accounting change (Note 9)									3,005	3,005
Change in fair value of cash flow hedges									(4,548)	(4,548)
Minimum pension liability adjustment									(2,658)	(2,658)
Comprehensive loss										$ (404,196)
Exercise of stock options including tax benefits of $930			178,377	111	4,028					
Issuance of restricted stock, net of forfeitures			(45,073)	(28)	(3,662)	3,690				
Issuance of employee stock awards					6			19		
Recognition of deferred compensation						4,002				
Repurchased common stock issued for conversion of preferred stock	(19,007)				(2,479)			2,479		
Common dividends declared ($.40 per share)							(19,522)			
Series B, Preferred dividends ($12.93 per share) net of tax benefits of $2,323							(8,283)			
Balance, December 31, 2002	805,895	8	55,559,909	34,725	454,634	(74,333)	432,918	(164,441)	(45,424)	
Net income							101,811			$ 101,811
Other comprehensive income (loss):										
Foreign currency translation adjustment									6,934	6,934
Change in fair value of cash flow hedges									1,149	1,149
Minimum pension liability adjustment									(19,533)	(19,533)
Comprehensive income										$ 90,361
			377,789	237	8,595					

Exercise of stock options including tax benefits of $1,884										
Issuance of restricted stock, net of forfeitures			109,092	67	3,640	(3,707)				
Issuance of employee stock awards					7			17		
Recognition of deferred compensation						8,607				
Repurchased common stock issued for conversion of preferred stock	(21,888)				(2,583)			2,583		
Common dividends declared ($.40 per share)							(19,663)			
Series B, Preferred dividends ($12.93 per share) net of tax benefits of $2,081							(8,250)			
Balance, December 31, 2002	784,007	8	56,046,790	35,029	464,293	(69,433)	506,816	(161,841)	(56,874)	
Net income							92,024			$ 92,024
Other comprehensive income:										
Unrealized gain on marketable securities, net of tax									2,044	2,044
Foreign currency translation adjustment									6,509	6,509
Change in fair value of cash flow hedges									394	394
Minimum pension liability adjustment									11,004	11,004
Comprehensive income										$ 111,975
Exercise of stock options including tax benefits of $1,120			276,206	172	7,336					
Issuance of restricted stock, net of forfeitures			113,985	72	3,746	(3,818)				
Issuance of employee stock awards					6			34		
Recognition of deferred compensation						9,376				
Repurchased common stock issued for conversion of preferred stock	(20,333)				(2,534)			2,534		
Common dividends declared ($.40 per share)							(19,850)			
Series B, Preferred dividends ($12.93 per share) net of tax benefits of $1,833							(8,239)			
Balance, December 31, 2003	763,674	$ 8	56,436,981	$ 35,273	$ 472,847	$ (63,875)	$ 570,751	$ (159,273)	$ (36,923)	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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CNF Inc.

Notes to Consolidated Financial Statements

1. Principal Accounting Policies

Basis of Presentation and Principles of Consolidation: The consolidated financial statements include the accounts of CNF Inc. and its subsidiaries (CNF).

Organization: CNF Inc. and its subsidiaries provide supply chain management services for business-to-business shipments by land, air and sea throughout the world.

CNF s principal businesses consist of Con-Way Transportation Services (Con-Way) and Menlo Worldwide. However, for financial reporting purposes, CNF is divided into five reporting segments. The operating results of Con-Way are reported as one reporting segment while Menlo Worldwide is divided into three reporting segments: Menlo Worldwide Forwarding (Forwarding), Menlo Worldwide Logistics (Logistics), and Menlo Worldwide Other. Also, certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the separate CNF Other reporting segment.

Con-Way provides next-day, second-day and transcontinental freight trucking throughout the U.S., Canada, Puerto Rico and Mexico, as well as expedited transportation, air freight forwarding, contract logistics and warehousing, and truckload brokerage services.

The Menlo Worldwide group of businesses, which was formed effective in 2002, includes the combined operating results of Forwarding, Logistics and the Menlo Worldwide Other reporting segments. Forwarding provides time-definite domestic and international air freight and ocean forwarding services, customs brokerage, and other trade services. Logistics develops integrated contract logistics solutions, including the management of complex distribution networks and supply chain engineering and consulting. The Menlo Worldwide Other reporting segment includes the operating results of Vector SCM (Vector), a joint venture with General Motors (GM) that serves as the lead logistics manager for GM.

The CNF Other reporting segment includes the operating results of Road Systems, a trailer manufacturer, and certain CNF corporate activities.

For further discussion of CNF s discontinued operations, including the terminated Priority Mail contract with the U.S. Postal Service (USPS) and matters relating to the 1996 spin-off of Consolidated Freightways Corporation (CFC), refer to Note 2, Discontinued Operations.

Estimates: Management makes estimates and assumptions when preparing the financial statements in conformity with accounting principles generally accepted in the United States. These estimates and assumptions affect the amounts reported in the accompanying financial statements and notes thereto. Actual results could differ from those estimates.

Recognition of Revenues: CNF recognizes revenue when services have been performed, persuasive evidence of an arrangement exists, the revenue amount is fixed or determinable and collectibility is probable. CNF recognizes the allocation of freight transportation revenue between reporting periods based on relative transit time in each reporting period with expenses recognized as incurred. Revenue from contracts is recognized in accordance with contractual terms as services are provided.

Cash Equivalents: Short-term interest-bearing instruments with maturities of three months or less at the date of purchase (including investments in municipal bonds, auction rate securities, commercial paper, and other money market instruments of $283,491,000 and $208,000,000 at December 31, 2003 and 2002, respectively) are considered cash equivalents.

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CNF Inc.

Notes to Consolidated Financial Statements (Continued)

Trade Accounts Receivable, Net: Trade accounts receivable are net of allowances of $22,688,000 and $22,402,000 at December 31, 2003 and 2002, respectively.

Property, Plant and Equipment: Property, plant and equipment are depreciated primarily on a straight-line basis over their estimated useful lives, which are generally 25 years for buildings and improvements, 10 years or less for aircraft, 5 to 10 years for tractor and trailer equipment and 3 to 10 years for most other equipment. Leasehold improvements are amortized over the shorter of the terms of the respective leases or the useful lives of the assets.

Expenditures for equipment maintenance and repairs are charged to operating expenses as incurred; betterments are capitalized. Gains (losses) on sales of equipment and property are recorded in operating expenses.

Capitalized Software: Capitalized software, net, consists of costs to purchase and develop internal-use software. Amortization of capitalized software is computed on an item-by-item basis over a period of 3 to 10 years, depending on the estimated useful life of the software. Amortization expense related to capitalized software was $19,815,000 in 2003, $18,498,000 in 2002, and $19,098,000 in 2001. Accumulated amortization at December 31, 2003 and 2002 was $82,574,000 and $70,471,000, respectively.

Goodwill and Other Intangible Assets: Effective January 1, 2002, CNF adopted SFAS 142, Goodwill and Other Intangible Assets. SFAS 142 specifies that goodwill and indefinite-lived intangible assets will not be amortized but instead will be subject to an annual impairment test. CNF utilizes a third-party independent valuation consultant to perform a goodwill impairment test on an annual basis in the fourth quarter and between annual tests in certain circumstances. Based on an impairment test as of December 31, 2003, CNF was not required to record a charge for goodwill impairment. In accordance with the provisions of SFAS 142, CNF ceased goodwill amortization associated with the Forwarding reporting segment. Prior to adoption of SFAS 142, Forwarding amortized goodwill of $10.2 million in 2001. The following table indicates the impact on net income (loss) and earnings (loss) per share if the non-amortization provisions of SFAS 142 had been applied beginning January 1, 2001.

	Years ended December 31,		
(Dollars in thousands except per share data)	**2003**	**2002**	**2001**
Net income (loss) from continuing operations, as reported	$ 83,785	$ 105,959	$ (441,849)
Add back:			
Goodwill amortization, net of tax			6,361
Adjusted net income (loss) from continuing operations	$ 83,785	$ 105,959	$ (435,488)
Earnings (loss) per share from continuing operations:			

Basic:			
As reported	$ 1.69	$ 2.16	$ (9.06)
Adjusted	$ 1.69	$ 2.16	$ (8.93)
Diluted:			
As reported	$ 1.57	$ 1.96	$ (9.06)
Adjusted	$ 1.57	$ 1.96	$ (8.93)

Impairment of Long-Lived Assets: CNF reviews long-lived assets and certain identifiable intangibles for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when estimated future undiscounted cash flows expected to result

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CNF Inc.

Notes to Consolidated Financial Statements (Continued)

from the use of the asset and its eventual disposition are less than its carrying amount. If the asset is not considered recoverable, an amount equal to the excess of the carrying amount over the estimated fair value will be charged against the asset with a corresponding expense to the income statement. See Note 3, Restructuring Plans for information concerning impairment charges recognized in 2001.

Income Taxes: CNF follows the liability method of accounting for income taxes.

Accrued Claims Costs: CNF provides for the undiscounted costs of self-insured medical, casualty, liability, vehicular, cargo and workers compensation claims. Such costs are estimated each year based on historical claims and unfiled claims relating to operations conducted through December 31. The actual costs may vary from estimates based on trends of losses for filed claims and claims estimated to be incurred but not filed. The long-term portion of accrued claims costs relate primarily to workers compensation and vehicular claims that are estimated to be payable over several years.

CNF participates in a reinsurance pool to reinsure mostly workers compensation and vehicular liabilities. Each participant in the pool cedes losses to the pool and assumes an equivalent amount of losses. Reinsurance does not relieve CNF of its liabilities under the original policy. However, in the opinion of management, potential exposure to CNF for non-payment is minimal.

Foreign Currency Translation: Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the Foreign Currency Translation Adjustment in the Statements of Consolidated Shareholders Equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in results of operations.

Earnings (Loss) Per Share (EPS): Basic EPS for continuing operations is computed by dividing reported net income (loss) from continuing operations (after preferred stock dividends) by the weighted-average common shares outstanding. The calculation of diluted EPS for continuing operations is calculated as follows:

	Years ended December 31,		
(Dollars in thousands except per share data)	**2003**	**2002**	**2001**
Earnings (Loss):			
Net income (loss) from continuing operations	$ 83,785	$ 105,959	$ (441,849)
Add-backs:			
Dividends on preferred stock, net of replacement Funding	1,379	1,334	
Dividends on preferred securities of subsidiary trust, net of tax	3,816	3,816	

	$ 88,980	$ 111,109	$ (441,849)
Shares			
Weighted-average shares outstanding	49,537,945	49,139,134	48,752,480
Stock options	467,340	700,331	
Series B preferred stock	3,595,382	3,691,105	
Preferred securities of subsidiary trust	3,125,000	3,125,000	
	56,725,667	56,655,570	48,752,480
Diluted earnings (loss) per share from continuing Operations	$ 1.57	$ 1.96	$ (9.06)

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CNF Inc.

Notes to Consolidated Financial Statements (Continued)

For the year ended December 31, 2001, convertible securities and stock options were anti-dilutive. As a result, the assumed shares and related add-back to net loss from continuing operations under the if-converted method have been excluded from the calculation of diluted EPS. If the securities had been dilutive, the assumed shares under the if-converted method would have been as follows: stock options 461,040 shares, series B preferred stock 3,794,159, preferred securities of subsidiary trust 3,125,000 shares.

Stock-Based Compensation: As described in Note 14, Stock-Based Compensation, officers and non-employee directors have been granted options under CNF s stock option plans to purchase common stock of CNF at prices equal to the market value of the stock on the date of grant. CNF accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, no compensation expense is recognized for fixed-option plans because the exercise prices of employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

The following table sets forth the effect on net income (loss) and earnings (loss) per share from continuing operations (after preferred stock dividends) if CNF had applied the fair-value based method and recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based compensation:

	Years ended December 31,		
(Dollars in thousands, except per share data)	**2003**	**2002**	**2001**
Net income (loss) from continuing operations, as reported	$ 83,785	$ 105,959	$ (441,849)
Additional compensation cost, net of tax, that would have been included in net income if the fair-value method had been applied	(9,312)	(8,473)	(9,368)
Adjusted net income (loss) from continuing operations as if the fair-value method had been applied	$ 74,473		

Statement of Cash Flow Data					
(for the years ended December 31,):					
Net cash provided by (used in):					
Operating activities:					
Continuing operations	$ 67,204	$ 114,884	$ (131,396)	$ 82,699	$ 139,080
Discontinued operations	65,399	72,587	19,394	(4,719)	158
Investing activities:					
Continuing operations	(35,577)	(26,991)	(67,816)	(74,467)	(31,971)
Discontinued operations	(60,070)	(35,267)	710,934	—	—
Financing activities:					
Continuing operations	(24,755)	(36,370)	(308,796)	(33,904)	(41,438)

Discontinued operations	(796)	(931)	(1,678)	—	—
Capital expenditures	(41,331)	(42,154)	(69,316)	(58,300)	(64,753)

(1) The Company recognized an impairment charge on its telecommunications licenses during each of the years ended December 31, 2011 and 2012.

(2) During the year ended December 31, 2013, the Company recognized a loss on interest rate derivative contracts. See Note 10 to the Consolidated Financial Statements included in this Report for additional information. During the year ended December 31, 2015, the Company recognized a loss on the deconsolidation of a subsidiary. See Note 5 to the Consolidated Financial Statements included in this Report for additional information

(3) During the year ended December 31, 2013, the Company recognized a gain on the sale of our U.S. retail wireless business operated under the Alltel name to AT&T Mobility LLC completed in September 2013. See Note 4 to the Consolidated Financial Statements included in this Report for additional information.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a holding company that, through our operating subsidiaries, (i) provides wireless and wireline telecommunications services in North America, Bermuda and the Caribbean, (ii) owns and operates commercial distributed generation solar power systems in the United States, and (iii) owns and operates terrestrial and submarine fiber optic transport systems in the United States and the Caribbean, respectively. We were incorporated in Delaware in 1987 and began trading publicly in 1991. Since that time, we have engaged in strategic acquisitions and investments to grow our operations. We continue to actively evaluate additional domestic and international acquisition, divesture, and investment opportunities and other strategic transactions in the telecommunications, energy-related and other industries 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 investment, acquisition and other strategic opportunities, which may affect our long-term growth prospects."

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 United States. We also offer wireless voice and data services to retail customers in Bermuda, Guyana, and in other smaller markets in the Caribbean and 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 and wholesale transport services to enterprise and residential customers in New England, primarily Vermont, and in New York State. In addition, we offer wholesale long distance voice services to telecommunications carriers.
- Renewable Energy. In the United States, we provide distributed generation solar power to corporate, utility and municipal customers in Massachusetts, California and New Jersey.

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 December 31, 2015:

Services	Segment	Markets	Tradenames
Wireless	U.S. Wireless	United States (rural markets)	Commnet, Choice
	Island Wireless	Aruba, Bermuda, U.S. Virgin Islands	Mio, CellOne, Islandcom (through March 23, 2015), Choice
	International Integrated Telephony	Guyana	Cellink
Wireline	International Integrated Telephony	Guyana	GT&T
	U.S. Wireline	United States (New England and New York State)	Sovernet, ION, Essextel
Renewable Energy	Renewable Energy	United States (Massachusetts,	Ahana Renewables

California, and New Jersey)

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.

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To be consistent with how management began to view the structuring and managing of business operations in 2016, the Company anticipates, beginning with the first quarter of 2016, consolidating its reportable segments into three segments as follows: i) Domestic Telecom, consisting of the Company's current U.S. Wireless and U.S. Wireline segments, ii) International Telecom, consisting of the Company's current Island Wireless and International Integrated Telephony segments, and iii) Renewable Energy, consisting of the Company's current Renewable Energy segment.

The pending acquisitions, as described in Note 3, will be included within the International Telecom segment upon the completion of those acquisitions.

Acquisitions

Pending Acquisitions

For the purpose of clarity and consistency, and except where expressly indicated, each of the forward-looking statements made regarding our operations in this Item 7 assumes that the acquisitions described below have not yet been consummated.

Caribbean Asset Holdings LLC

On September 30, 2015, the Company entered into an agreement to acquire all of the membership interests of Caribbean Asset Holdings LLC, the holding company for the Innovative group of companies operating cable TV, Internet and landline services primarily in the U.S. Virgin Islands ("Innovative"), from the National Rural Utilities Cooperative Finance Corporation ("CFC"). The Company will purchase the Innovative operations for a purchase price of approximately $145.0 million, subject to certain purchase price adjustments (the "Innovative Transaction") with the option to finance up to $60.0 million of the purchase price with a loan from an affiliate of CFC, the Rural Telephone Finance Cooperative ("RTFC") on the terms and conditions set forth in a commitment letter and rate lock option letter executed by RTFC filed herewith as Exhibits 99.1 and 99.2, respectively. The Company expects to fund the remaining $85 million of the purchase price, plus any amounts not financed, in cash. With the purchase, the Company's current operations in the U.S. Virgin Islands under the "Choice" name will be combined with Innovative to deliver residential and business subscribers a full range of telecommunications and media services.

The Innovative Transaction is subject to customary closing terms and conditions and the receipt of approvals from the Federal Communications Commission and regulatory authorities in the U.S. and British Virgin Islands and St.

Maarten. The Company currently expects to complete the proposed transaction in mid-2016.

KeyTech Limited

On October 5, 2015, the Company entered into an agreement with KeyTech Limited ("KeyTech"), a publicly held Bermuda company listed on the Bermuda Stock Exchange ("BSX") that provides voice, broadband, and cable television services under the "Logic" name in Bermuda and the Cayman Islands, in which the Company will acquire a controlling interest in KeyTech as part of a proposed business combination of KeyTech with the Company's subsidiary providing wireless services under the "CellOne" name in Bermuda (the "KeyTech Transaction"). KeyTech currently owns a 43% interest in CellOne and as part of the KeyTech Transaction, the Company will contribute our current ownership interest of approximately 43% in CellOne and approximately $42.0 million in cash in exchange for a 51% ownership interest in KeyTech. On a combined basis with KeyTech, the Company currently owns approximately 85% of CellOne. As part of the KeyTech Transaction, CellOne will be merged with and into a company within the KeyTech group and the approximate 15% interest in CellOne held, in the aggregate, by CellOne's minority shareholders will be converted into the right to receive common shares in KeyTech. Following the transaction, CellOne will be indirectly wholly owned by KeyTech and KeyTech will continue to be listed on the BSX. A portion of the cash proceeds that KeyTech will receive upon closing will be used to fund a one-time special dividend to KeyTech's existing shareholders and to retire KeyTech's subordinated debt. The Company currently consolidates the operations of CellOne and, upon closing of the KeyTech Transaction, will consolidate the results of KeyTech, in our financial statements.

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The KeyTech Transaction is subject to customary closing terms and conditions, including, among others, the receipt of approval from the Bermuda Regulatory Authority, the Federal Communications Commission, and the Information and Communications Technology Authority of the Cayman Islands and the consent of the Bermuda Stock Exchange to certain transaction matters. KeyTech shareholders approved the proposed transaction by affirmative vote on October 20, 2015. The Company is working towards completing the proposed transaction by the end of the first quarter of 2016.

Completed Acquisition

On December 24, 2014, we acquired substantially all of the assets of Green Lake Capital, LLC and certain of its affiliates (collectively, "Green Lake"), an owner and operator of commercial distributed generation solar power systems in Massachusetts, California and New Jersey (the "Ahana Acquisition"). We acquired these assets as part of a total transaction valued at approximately $117.7 million which is comprised of approximately $66.3 million of cash consideration, a $12.5 million reimbursement of cash and restricted cash held by Green Lake on the date of the acquisition, and the assumption of $38.9 million of debt. The acquisition was performed through our newly formed subsidiary, Ahana Renewables, LLC ("Ahana Renewables"). Certain subsidiaries of Ahana Renewables have been partially capitalized by a third-party tax equity investor who maintains a non-controlling interest in these subsidiaries. The tax equity investor’s interest in these subsidiaries changes at a certain date (the "Flip Date"), which is the later of a) the five-year anniversary of the placed in service date for the solar assets owned by the subsidiary or, b) the date that the tax equity investor receives a certain return on their original investment in that subsidiary. These dates typically occur at approximately 2 - 4 years from the Ahana Acquisition date. The profits and losses of these subsidiaries are allocated to the tax equity investors and to the Company using the Hypothetical Liquidation Book Value method. The Hypothetical Liquidation Book Value Method is used to calculate the non-controlling interests' share of income for each period by measuring the difference in funds that would flow to the non-controlling interests in a hypothetical liquidation event at the beginning of the period compared to the end of a period (adjusted for capital distributions). The method assumes that the proceeds on liquidation approximate book value and then the proceeds are allocated to ATN and non-controlling interests based on the liquidation provisions of the solar facility operating agreement. A positive difference during the period represents non-controlling interests' share of income and a decrease represents a loss. Ahana Renewables has the option to buy-out the non-controlling interests.

Ahana Renewables generates revenue from the sale of electricity through long-term (10 - 25 years) power purchase agreements as well as the sale of Solar Renewable Energy Credits (“SRECs”) which are government emissions allowances obtained through power generation and compliance with various regulations.

Disposal of Turks and Caicos Operations

During March 2015, we sold certain assets and liabilities of our Turks and Caicos business in our Island Wireless segment. As a result, we recorded a loss of approximately $19.9 million arising from the deconsolidation of non-controlling interests of $20.0 million and a gain of $0.1 million arising from an excess of sales proceeds over the carrying value of net assets disposed of. The disposition is included within other income (expense) and does not relate to a strategic shift in our operations. As a result, the subsidiary's historical results and financial position are presented within continuing operations.

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 December 31, 2015, 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) $47.9 million in capital expenditures (of which $33.0 million has been 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 was completed during 2014.

Mobility Fund

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 two new funds, including the Mobility Fund, a one-time award meant to support wireless coverage in underserved geographic areas in the United States. In August 2013 and October 2014, the Company received FCC final approvals for $21.7 million and $2.4 million, respectively, of Mobility Fund support to its wholesale wireless business (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, we 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 from award date. In connection with the Company's application for the Mobility Funds, we have issued approximately $10.6 million in letters of credit to the Universal Service Administrative Company ("USAC") to secure these obligations. If we fail to comply with any of the terms and conditions upon which the Mobility Funds were granted, or if we lose 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 us from the receipt of additional Mobility Fund support.

We began the construction of its Mobility Funds projects during the third quarter of 2013 and their results are included in the Company's "U.S. Wireless" segment. As of December 31, 2015, we have received approximately $8.1 million in Mobility Funds. Of these funds, $1.0 million was recorded as an offset to operating expenses, $3.4 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 $3.5 million is recorded within other current liabilities while the remaining $0.1 million of future operating costs is recorded within other long-term liabilities in our consolidated balance sheet as of December 31, 2015. The balance sheet presentation is based on the timing of the expected usage of the funds which will reduce future operations expenses.

Reclassifications

Certain reclassifications have been made in the prior period financial statements to conform our consolidated income statements to how we analyze our operations in the current period. These changes did not impact operating income. For the year ended December 31, 2013 the aggregate impact of the changes included an increase to termination and access fees of $14.4 million, a decrease to engineering and operations expenses of $11.0 million, an increase to sales and marketing expenses of $0.5 million, an increase to equipment expense of $0.1 million, and a decrease to general and administrative expenses of $4.0 million. For the year ended December 31, 2014 the aggregate impact of the changes included an increase to termination and access fees of $13.7 million, a decrease to engineering and operations expenses of $9.3 million, an increase to sales and marketing expenses of $0.7 million and a decrease to general and administrative expenses of $5.1 million.

Results of Operations:

Years Ended December 31, 2014 and 2015

	Year Ended December 31, 2014	2015	Amount of Increase (Decrease)	Percent Increase (Decrease)	
REVENUE:					
U.S. wireless	$ 153,040	$ 155,390	$ 2,350	1.5	%
International wireless	88,650	81,652	(6,998)	(7.9)	
Wireline	85,284	86,485	1,201	1.4	
Renewable Energy	—	21,040	21,040	100.0	
Equipment and other	9,373	10,802	1,429	15.2	
Total revenue	$ 336,347	$ 355,369	$ 19,022	5.7	%
OPERATING EXPENSES (excluding depreciation and amortization unless otherwise indicated):					
Termination and access fees	77,888	81,928	4,040	5.2	
Engineering and operations	30,954	37,244	6,290	20.3	
Sales and marketing	21,664	21,466	(198)	(0.9)	
Equipment expense	13,338	14,997	1,659	12.4	
General and administrative	52,734	59,890	7,156	13.6	
Transaction-related charges	2,959	7,182	4,223	142.7	
Depreciation and amortization	51,234	56,890	5,656	11.0	
Gain on disposition of long lived asset	—	(2,823)	(2,823)	(100.0)	
Total operating expenses	$ 250,771	$ 276,774	$ 26,003	10.4	%
Income from operations	$ 85,576	$ 78,595	$ (6,981)	(8.2)	%
OTHER INCOME (EXPENSE):					
Interest income	788	588	(200)	(25.4)	
Interest expense	(1,208)	(3,180)	(1,972)	163.2	
Loss on deconsolidation of subsidiary	—	(19,937)	(19,937)	(100.0)	
Other income (expense), net	1,012	135	(877)	(86.7)	
Other income (expense), net	$ 592	$ (22,394)	$ (22,986)	(3,882.7)	%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	86,168	56,201	(29,967)	(34.8)	
Income tax expense	28,148	24,137	(4,011)	(14.2)	
INCOME FROM CONTINUING OPERATIONS	58,020	32,064	(25,956)	(44.7)	
Gain on disposal of discontinued operations, net of tax	1,102	1,092	(10)	(0.9)	
Income from discontinued operations	$ 1,102	$ 1,092	$ (10)	(0.9)	%

NET INCOME	59,122	33,156	(25,966)	(43.9)	
Net income attributable to non-controlling interests, net of tax:	(10,970)	(16,216)	(5,246)	47.8	
NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS	$ 48,152	$ 16,940	$ (31,212)	(64.8)	%

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U.S. wireless revenue. The substantial majority of U.S. wireless revenue consists of wholesale revenue. For the years ended December 31, 2014 and 2015, wholesale revenue represented 96% and 87% of total U.S. wireless revenue, respectively. U.S. wireless revenue also includes retail revenues 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 a market, reducing or eliminating their need for our services in those markets. Occasionally, we have entered into buildout projects with existing carrier customers to help the customer accelerate the buildout of a given area. Pursuant to these arrangements, we agree to incur the cost of building and operating a network in a newly designated area meeting specified conditions. In exchange, the carrier agrees to license us spectrum in that area and enter into a contract with specific pricing and terms. These arrangements typically include a purchase right in favor of the carrier to purchase that portion of the network and receive back the spectrum for a predetermined price, depending on when the option to purchase is exercised. For example, as previously disclosed, in December 2012, we sold a portion of our network to a carrier customer pursuant to an option contained in our roaming and buildout agreement with that carrier. We currently have one buildout arrangement of approximately 100 built cell sites, which provides the carrier with an option to purchase such sites exercisable beginning no earlier than 2018. At this time, we cannot predict whether the purchase option will be exercised.

Our U.S. wireless revenue increased to $155.4 million for the year ended December 31, 2015 from $153.0 million for the year ended December 31, 2014, an increase of $2.4 million or 1.5%. The increase was primarily driven by growth in our rural U.S. retail wireless business and U.S. wholesale growth due to expanded traffic volume. Capacity and technology upgrades to our network and the increase in the number of base stations from 760 as of December 31, 2014 to approximately 800 as of December 31, 2015 helped drive traffic levels higher. However, the increase in traffic volume was largely offset by reduced rates resulting in the decrease in wholesale revenue.

We expect that data volumes will continue to increase during 2016 due to increased demand combined with our increased capacity to serve such demand following the network upgrades made over the last two years. However, we expect to experience a decline in 2016 revenues and for margins to contract as a result of the necessary evolution of significantly reducing rates to a major customer in exchange for longer term contracts. We believe that this new model has much lower risk in that the extended term and reduced pricing create a potential for a long lived shared infrastructure solution.

Our U.S. wireless revenues may also be impacted by our expanded network capabilities, reach and capacity, continued declines in overall voice traffic on our networks or decisions by our roaming partners to no longer roam on our networks or to continue to expand their networks in areas where we operate.

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. During late 2015, we modified our definition of an active subscriber which resulted in a decrease in our international wireless subscribers. This change was retroactively applied to the reported subscribers for December 31, 2014.

International wireless revenue decreased by $7.0 million, or 7.9 %, to $81.6 million for the year ended December 31, 2015, from $88.6 million for the year ended December 31, 2014. Our Island Wireless segment reported a decrease in international wireless revenue of $5.9 million primarily as the result of the sale of our operations in Turks and Caicos in March 2015 and a decrease in roaming revenue in our other Island Wireless businesses due to anticipated rate declines. Our International Integrated Telephony segment also reported a $1.1 million decrease in international wireless revenue as a result of a decrease in the average number of subscribers throughout the year.

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In total, our international wireless subscribers remained unchanged at 282,000 as of December 31, 2014 and December 31, 2015. Although subscribers within our Integrated Telephony segment increased by approximately 10,000 subscribers, a majority of that increase occurred towards the end of the year and as a result did not significantly impact revenue during 2015. This increase in subscribers was offset by a decrease in our Island Wireless segment primarily as a result of our sale of our operations in Turks and Caicos in March 2015. We expect international wireless revenues to remain relatively unchanged in future periods. Growth in revenue from anticipated subscriber growth may be offset by a decline in wholesale roaming revenues because many visitors' home market carriers continue to charge their customers unusually high rates for roaming services, resulting in lowered overall roaming traffic in these markets. Wholesale roaming revenues in these markets are also subject to seasonality and can fluctuate between quarters.

Additionally, international wireless revenue from our wireless voice and data services in Bermuda may be negatively impacted, principally through the loss of market share, as a result of both the implementation in March 2015 of a decision by the Bermuda Regulatory Authority requiring our Bermuda subsidiary to surrender a portion of spectrum we reserved for the launch of next generation wireless and data services and any reallocation of that spectrum to our competitors. See "Business—Caribbean and Bermuda Regulation".

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, long distance or toll charges, and maintenance and equipment sales.

Wireline revenue increased by $1.2 million, or 1.4 %, to $86.5 million for the year ended December 31, 2015 from $85.3 million for the year ended December 31, 2014. This increase was primarily due to a $2.1 million increase in our International Integrated Telephony segment resulting from increased broadband data revenues offset by a $0.9 decrease in our U.S. wireline segment resulting from decreases in our wholesale long-distance voice services operations.

We anticipate that wireline revenue from our international long distance business in Guyana will continue to 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".

Renewable Energy revenue. Renewable energy revenue represents revenue from the sale of electricity through long-term (10 to 25 years) power purchase agreements ("PPAs") as well as the sale of solar renewable energy credits ("SRECs").

Renewable energy revenue was $21.0 million for the year ended December 31, 2015 and is attributable to our Ahana Acquistion in December 2014.

Our PPAs, which are typically priced at or below then-prevailing local retail electricity rates, allow our customers to secure electricity at predictable and stable prices over the duration of their long-term contract. As such, our PPAs provide us with high-quality contracted cash flows, which should continue over their average remaining life. For these reasons, we expect that Renewable Energy revenue from our current portfolio of commercial solar projects will remain fairly consistent in future periods.

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

Equipment and other revenue increased by $1.4 million, or 15.2 %, from $9.4 million to $10.8 million for the years ended December 31, 2014 and December 31, 2015, respectively. Equipment and other revenue increased in both our U.S. Wireless segment's retail operations and in our International Integrated Telephony segment by $1.1 million and $1.0 million, respectively, as a result of increased subscriber additions and demand for handsets. These increases, however, were offset by a $0.3 million decrease in our Island Wireless segment as a result of our sale of our operations in Turks and Caicos in March 2015 and a decrease in subscribers within the other Island Wireless locations purchasing handsets.

We believe that equipment and other revenue could continue to increase as a result of gross subscriber additions, continued growth in smartphone penetration and continued customer incentives such as device subsidies.

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, other access fees we pay to terminate our calls, customer bad debt expense, telecommunications spectrum, fees and direct costs associated with our Renewable Energy segment.

Termination and access fees increased by $4.0 million, or 5.2%, from $77.9 million for the year ended December 31, 2014 to $81.9 million for the year ended December 31, 2015. Our U.S. Wireless segment reported an increase of $5.9 million in these costs as the result of increased data traffic volumes, costs related to additional technologies and the expansion and upgrade of our networks. Termination and access fees also increased as a result of our Renewable Energy business, acquired in December 2014, which recorded $1.3 million of these costs. These increases were partially offset by decreases of $1.0 million in our International Integrated Telephony segment as a result of non-recurring reductions in bandwidth costs, a $0.6 million reduction in our wholesale long-distance voice services operations within our U.S. Wireline segment and $1.5 million in our Island Wireless segment, which included our operations in Turks and Caicos sold in March 2015.

Termination and access fees are expected to continue to increase in future periods with expected growth in data traffic volume.

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

Engineering and operations expenses increased by $6.3 million, or 20.3%, from $31.0 million for the year ended December 31, 2014 to $37.2 million for the year ended December 31, 2015. The increase was primarily the result of an increase within our U.S. Wireless segment of $4.3 million to support an expanding and upgraded network and additional technologies and as a result of the conclusion of a transition services agreement entered into to provide support services following the sale of our Alltel business which was accounted for as an offset to the expenses in previous periods. Our International Integrated Telephony segment reported an increase in engineering and operations expenses of $2.5 million for network and billing system support, maintenance, and consulting. These increases were offset partially by decreases in our other operating segments as a result of operating efficiencies and the sale of our operations in Turks and Caicos in March 2015.

Engineering and operations expenses are expected to increase as a result of the costs required to support the increased capacity and geographic expansion of our telecommunications network as well as to support our Renewable Energy segment.

Sales and marketing 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.

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Sales and marketing expenses decreased by $0.2 million, or 0.9 %, from $21.7 million for the year ended December 31, 2014 to $21.5 million for the year ended December 31, 2015. Sales and marketing expenses increased by $1.7 million in our International Integrated Telephony segment as a result of additional retail stores and increased promotions and product re-branding expenses and by $0.2 million in our U.S. Wireless segment's retail operations to support its increased revenues and subscriber base. Such increases were offset by a reduction in sales and marketing expenses in our Island Wireless segment of $2.1 million primarily as a result of cost reduction measures and the sale of our operations in Turks and Caicos in March 2015.

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 $1.7 million, or 12.4 %, from $13.3 million for the year ended December 31, 2014 to $15.0 million for the year ended December 31, 2015. The increase in equipment expenses is primarily as a result of increased equipment sales in our U.S. Wireless segment's retail operations as well as in our International Integrated Telephony segment which incurred increases in equipment expenses of $1.6 million and $1.8 million, respectively. These increases were partially offset by reduced expense in our Island Wireless segment of $1.7 million which previously included our operations in Turks and Caicos which was sold in March 2015.

We believe that equipment expenses could continue to increase as a result of the increase in demand for smartphones by our subscribers.

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 $7.2 million, or 13.6%, from $52.7 million for the year ended December 31, 2014 to $59.9 million for the year ended December 31, 2015. The increase was primarily the result of our newly acquired Renewable Energy business, which was acquired in December 2014 and incurred a $4.2 million increase in general and administrative expenses during the twelve months ended December 31, 2015. Our International Integrated Telephony segment reported an increase in general and administrative expenses of $1.9 million primarily relating to one-time legal and consulting costs. Our U.S. Wireless segment reported an increase of $1.9 million primarily as a result of the conclusion of a transition services agreement entered into to provide support services following the sale of our Alltel business, which was accounted for as an offset to expense in previous periods. These increases were partially offset by a $1.1 million decrease in our Island Wireless segment as a result of certain cost reduction measures and the sale of our operations in Turks and Caicos in March 2015.

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 acquisition or disposition related activities or any integration related costs.

We incurred $3.0 million and $7.2 million of transaction related charges during the years ended December 31, 2014 and 2015, respectively. The increase was primarily related to our pending Innovative and KeyTech transactions and our evaluation of renewable energy investment opportunities.

We expect that transaction related expenses will continue to be incurred from time to time as we continue to explore additional acquisition and investment opportunities.

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 $5.7 million, or 11.1 %, from $51.2 million for the year ended December 31, 2014 to $56.9 million for the year ended December 31, 2015. The increase was primarily the result of a $4.7 million increase in depreciation and amortization in our Renewable Energy business which was acquired in December 2014 and a $3.3 million increase in depreciation expense in our U.S. Wireless segment as a result of certain network expansions. Our corporate overhead incurred an increase of $1.0 million to support our expanding operations. These increases were partially offset by a decrease of $2.3 million in our Island Wireless segment primarily as a result of our sale of operations in Turks and Caicos in March 2015 and a decrease in our International Integrated Telephony segment of $0.9 million as a result of certain equipment becoming fully depreciated during 2015.

We expect depreciation expense to increase as we acquire more tangible assets to expand or upgrade our networks and build or acquire solar power generating facilities.

Gain on disposition of long lived assets. During the year ended December 31, 2015, we sold certain network assets and telecommunications licenses in our U.S. Wireless segment and recognized a gain on such disposition of $2.8 million.

Interest income. Interest income represents interest earned on our cash, cash equivalents, and restricted cash balances.

Interest income decreased $0.2 million from $0.8 million to $0.6 million for the years ended December 31, 2014 and 2015, respectively. We expect that interest income will remain consistent in future periods.

Interest expense. Interest expense represents commitment fees and interest incurred on our outstanding credit facilities and interest incurred on the term loans we assumed in our Ahana Acquisition.

Interest expense increased $2.0 million from $1.2 million to $3.2 million for the years ended December 31, 2014 and 2015, respectively. This increase was primarily the result of the interest incurred on project debt we assumed in connection with the Ahana Acquisition.

We expect that interest expense will remain consistent in future periods.

Loss on deconsolidation of subsidiary. During March 2015, we completed the sale of certain assets and liabilities operated in Turks and Caicos and recorded a loss on the disposition and related deconsolidation of this subsidiary of approximately $19.9 million primarily as a result of the expensing of our minority holders' non-controlling interests in our Turks and Caicos operations.

Other income (expense), net. Other income (expense), net represents miscellaneous non-operational income we earned or expenses we incurred. For the year ended December 31, 2014, other income (expense), net included a $1.1 million foreign exchange gain.

Income taxes. Our effective tax rates for the years ended December 31, 2014 and 2015 were 32.7% and 43.0%, respectively. Our effective tax rate increased in 2015 primarily due to the loss on the deconsolidation of our Turks and Caicos business. This loss was generated in a non-tax foreign jurisdiction for which we receive no tax benefit. Our consolidated tax rate will continue to be impacted by the mix of income generated among the jurisdictions in which we operate.

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Gain on sale of discontinued operations, net of tax. Gain on disposal of discontinued operations, net of tax of $1.1 million for the years ended December 31, 2014 and 2015, relates to the gain on the sale of our Alltel business which was sold on September 20, 2013.

Net income attributable to non controlling interests. Net income attributable to non-controlling interests reflected an allocation of $11.0 million and $16.2 million of income generated by our less–than-wholly owned subsidiaries for the twelve months ended December 31, 2014 and 2015, respectively. Of this $5.2 million increase, $1.8 million was the result of increased net income at our less-than-wholly owned retail operations in our U.S. Wireless segment, $1.5 million was the result of our renewable energy operations, which were acquired in December 2014 and $2.5 million was the result of our operations in Turks and Caicos which were sold in March 2015. These increases were partially offset by a decrease of $0.6 million in our other less-than-wholly owned operations.

Net income attributable to Atlantic Tele Network, Inc. stockholders. Net income attributable to Atlantic Tele Network, Inc. stockholders decreased from $48.2 million for the year ended December 31, 2014 to $16.9 million for the year ended December 31, 2015.

On a per share basis, net income decreased from $3.01 per diluted share to $0.96 per diluted share for the years ended December 31, 2014 and 2015, respectively. The years ended December 31, 2014 and 2015 include net income per diluted share of $0.07 and $0.02, respectively, relating to the gain, net of tax, on the sale of our discontinued operations.

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Results of Operations

Years Ended December 31, 2013 and 2014

	Year ended December 31, 2013	2014	Amount of Increase (Decrease)	Percent Increase (Decrease)	
REVENUE:					
U.S. wireless	$ 107,930	$ 153,040	$ 45,110	41.8	%
International wireless	91,432	88,650	(2,782)	(3.0)	
Wireline	84,585	85,284	699	0.8	
Equipment and other	8,888	9,373	485	5.5	
Total revenue	$ 292,835	$ 336,347	$ 43,512	14.9	%
OPERATING EXPENSES (excluding depreciation and amortization unless otherwise indicated):					
Termination and access fees	70,159	77,888	7,729	11.0	
Engineering and operations	27,913	30,954	3,041	10.9	
Sales and marketing	18,226	21,664	3,438	18.9	
Equipment expense	13,013	13,338	325	2.5	
General and administrative	49,066	52,734	3,668	7.5	
Transaction related charges	2,712	2,959	247	9.1	
Depreciation and amortization	48,737	51,234	2,497	5.1	
Impairment of Intangible Assets	—	—	—	—	
Gain on disposition of long lived asset	(1,076)	—	1,076	(100.0)	
Total operating expenses	$ 228,750	$ 250,771	$ 22,021	9.6	%
Income from operations	$ 64,085	$ 85,576	$ 21,491	33.5	%
OTHER INCOME (EXPENSE):					
Interest income	852	788	(64)	(7.5)	
Interest expense	(12,785)	(1,208)	11,577	(90.6)	
Unrealized loss on interest rate derivative contracts	(5,408)	—	5,408	(100.0)	
Other income (expense), net	(271)	1,012	1,283	(473.4)	
Other income (expense), net	$ (17,612)	$ 592	$ 18,204	(103.4)	%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	46,473	86,168	39,695	85.4	
Income tax expense	9,536	28,148	18,612	195.2	
INCOME FROM CONTINUING OPERATIONS	36,937	58,020	21,083	57.1	
INCOME FROM DISCONTINUED OPERATIONS:					
Income from discontinued operations, net of tax	5,166	—	(5,166)	(1,000.0)	
Gain on disposal of discontinued operations, net of tax	307,102	1,102	(306,000)	(99.6)	
Income from discontinued operations	$ 312,268	$ 1,102	$ (311,166)	(99.6)	%
NET INCOME	349,205	59,122	(290,083)	(83.1)	
Net income attributable to non controlling interests, net of tax:					
Continuing operations	(7,989)	(10,970)	(2,981)	37.3	
Discontinued operations	(601)	—	601	(100.0)	

Disposal of discontinued operations	(28,899)	—	28,899	(100.0)	
	$ (37,489)	$ (10,970)	$ 26,519	(70.7)	%
NET INCOME ATTRIBUTABLE TO ATLANTIC TELE NETWORK, INC. STOCKHOLDERS	$ 311,716	$ 48,152	$ (263,564)	(84.6)	%

U.S. wireless revenue. Our U.S. wireless revenue increased to $153.0 million for the year ended December 31, 2014 from $107.9 million for the year ended December 31, 2013, an increase of $45.1 million or 41.8%. The revenue

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growth was a result of an increase in the demand for data services and an increase in our base stations from approximately 600 as of December 31, 2013 to approximately 760 as of December 31, 2014. Revenue growth was also enhanced as we upgraded our network capacities and data speeds at many of our cell sites, enabling higher data volumes as compared to 2013.

International wireless revenue. International wireless revenue decreased by $2.8 million, or 3.0%, to $88.6 million for the year ended December 31, 2014, from $91.4 million for the year ended December 31, 2013. This decrease was mainly due to a decrease in market share within our International Integrated Telephony segment which resulted in a $3.5 million decrease in wireless revenue as well as a decline in roaming revenue in Bermuda and the Caribbean. This decrease was partially offset by a $0.7 million increase in our Island wireless segment as a result of increased subscribers.

In total, our international wireless subscribers decreased slightly from approximately 325,000 as of December 31, 2013 to 324,000 as of December 31, 2014. However, while lower revenue generating subscribers in our International Integrated Telephony segment decreased by 1.9% from December 31, 2013 to December 31, 2014, our higher revenue generating subscribers in our Island Wireless segment increased 6.4% from December 31, 2013 to December 31, 2014, respectively. 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.

Wireline revenue. Wireline revenue increased by $0.7 million, or 0.8%, to $85.3 million for the year ended December 31, 2014 from $84.6 million for the year ended December 31, 2013. This increase was primarily the result of increases from both our fiber network expansion in New York State and in our wholesale transport operations, both of which operate within our U.S. Wireline segment which accounted for an increase of $3.1 million. This increase, however, was partially offset by a $2.4 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.

Equipment and other revenue. Equipment and other revenue increased by $0.5 million, or 5.6%, from $8.9 million to $9.4 million for the years ended December 31, 2013 and December 31, 2014, respectively. Equipment and other revenue increased in our U.S. Wireless segment’s retail operations and in our Island Wireless segment, by $0.5 million and $0.2 million, respectively, as a result of increased demand for handsets. These increases, however, were offset by a $0.7 million decrease in our International Integrated Telephony segment as a result of a decrease in subscribers. Our Renewable Energy segment reported $0.4 million of revenue which represents revenue generated subsequent to Ahana Acquisition on December 24, 2014.

Termination and access fee expenses. Termination and access fees increased by $7.7 million, or 11.0%, from $70.2 million for the year ended December 31, 2013 to $77.9 million for the year ended December 31, 2014. Our U.S. Wireless segment reported an increase in its termination and access fees of $5.4 million as a result of its network expansion which increased traffic volume. Our fiber network expansion in New York State and an increase in our wholesale transport operations resulted in an increase in termination and access fees within our U.S. Wireline segment of $2.9 million. The remaining increase was generated by our Island Wireless segment as a result of increased roaming costs, partially offset by a decrease in our International Integrated Telephony segment as a result of decreased traffic volume.

Engineering and operations expenses. Engineering and operations expenses increased by $3.0 million, or 10.9%, from $27.9 million for the year ended December 31, 2013 to $30.9 million for the year ended December 31, 2014, primarily as a result of the continued implementation of our new billing system in our International Integrated Telephony segment.

Sales and marketing expenses. Sales and marketing expenses increased by $3.4 million, or 18.7%, from $18.2 million for the year ended December 31, 2013 to $21.6 million for the year ended December 31, 2014. Sales and marketing expenses increased within all of our segments but primarily in our U.S. Wireless segment's retail operations, where expanded marketing and advertising campaigns in the latter half of 2013 led to an increase of $2.3 million in these costs.

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Equipment expenses. Equipment expenses increased by $0.3 million, or 2.5%, from $13.0 million for the year ended December 31, 2013 to $13.3 million for the year ended December 31, 2014. The increase in equipment expenses is primarily the result of increased demand for handset devices in our U.S. Wireless segment's retail operations which resulted in an increase of $1.3 million partially offset by decreased costs in our International Integrated Telephony segment as a result of fewer subscribers.

General and administrative expenses. General and administrative expenses increased by $3.7 million, or 7.5%, from $49.0 million for the year ended December 31, 2013 to $52.7 million for the year ended December 31, 2014 as a result of an increase in overhead costs within primarily all of our operating segments as well as the parent company which absorbed additional costs that were shared with the Alltel business which was sold in September 2013.

Transaction related charges. We incurred $2.7 million and $3.0 million of transaction related charges during the years ended December 31, 2013 and 2014, respectively. The 2013 charges primarily related to the sale of our Alltel business while the 2014 charges primarily related to our Ahana Acquisition.

Depreciation and amortization expenses. Depreciation and amortization expenses increased by $2.5 million, or 5.1%, from $48.7 million for the year ended December 31, 2013 to $51.2 million for the year ended December 31, 2014. The increase is the result of network expansions within all of our reporting segments partially offset by a decrease of $0.5 million in our International Telephony segment as certain assets in that segment became fully depreciated in 2014.

Gain on disposition of long lived assets. During the year ended December 31, 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. Interest income decreased from $0.9 million to $0.8 million for the years ended December 31, 2013 and 2014, respectively.

Interest expense. Interest expense decreased $11.6 million from $12.8 million to $1.2 million for the years ended December 31, 2013 and 2014, respectively. The decrease was primarily a result of the repayment of our long term debt and the termination of our interest rate derivative contracts on September 20, 2013. The year ended December 31, 2013 also included a $4.7 million charge relating to the expensing of deferred financing costs upon the repayment of our term loans.

Unrealized loss on interest rate derivative contracts. As a result of the repayment of our variable rate term loans on September 20, 2013, our interest rate derivatives were terminated. Accordingly, we recognized a loss on our interest rate derivative contracts of $5.4 million during the year ended December 31, 2013.

Other income (expense), net. Other income (expense), net was $0.3 million of expense and $1.0 million of income for the years ended December 31, 2013 and 2014, respectively. For the year ended December 31, 2014, other income (expense), net includes a $1.1 million foreign currency exchange gain.

Income taxes. Our effective tax rates for the years ended December 31, 2013 and 2014 were 20.5% and 32.7%, respectively. The year ended December 31, 2013 includes a tax benefit of $8.6 million related to the non recurring write down of an intercompany note receivable. This item had an 18.1% benefit to our effective tax rate for the year ended December 31, 2013. 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 $5.2 million for the year ended December 31, 2013. This amount relates to the operations of our Alltel business which was sold on September 20, 2013.

Gain on disposal of discontinued operations, net of tax. Gain on disposal of discontinued operations, net of tax of $307.1 million and $1.1 million for the years ended December 31, 2013 and 2014, respectively, relates to the gain on our sale of our Alltel business which was sold on September 20, 2013.

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Net income attributable to non controlling interests. Net income attributable to non controlling interests reflected an allocation of $37.5 million and $11.0 million of income generated by our less than wholly owned subsidiaries for the years ended December 31, 2013 and 2014, respectively. During the year ended December 31, 2013, we recorded $0.6 million of net income attributable to non controlling interests relating to our discontinued operations and $28.9 million of net income attributable to non controlling interests relating to the gain on the sale of discontinued operations.

Net income attributable to Atlantic Tele Network, Inc. stockholders. Net income attributable to Atlantic Tele Network, Inc. stockholders decreased from $311.7 million for the year ended December 31, 2013 to $48.2 million for the year ended December 31, 2014. For the years ended December 31, 2013 and 2014, net income attributable to Atlantic Tele Network, Inc. stockholders included a gain on the sale of discontinued operations of $278.2 million and $1.1 million, respectively, net of tax and non controlling interests. The year ended December 31, 2013 also includes $3.5 million of income from discontinued operations, net of tax and non controlling interests.

On a per share basis, net income decreased from $19.71 per diluted share to $3.01 per diluted share for the years ended December 31, 2013 and 2014, respectively. The years ended December 31, 2013 and 2014 include net income per diluted share of $17.59 and $0.07, respectively, relating to the gain, net of tax, on the sale of our discontinued operations. The year ended December 31, 2013 also includes $0.29 of income from discontinued operations, net of tax and non controlling interests.

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 a discussion of ongoing proceedings, see Note 15 to the Consolidated Financial Statements included 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, proceeds from dispositions and 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 at least 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 telecommunications networks as well as for acquisitions.

For the years ended December 31, 2014 and 2015, we spent approximately $58.3 million and $64.8 million, respectively, on capital expenditures. The following details our capital expenditures, by operating segment, for these periods (in thousands):

	Capital Expenditures						
		International					
	U.S.	Integrated	Island	U.S.	Renewable	Reconciling	
Year ended December 31,	Wireless	Telephony	Wireless	Wireline	Energy	Items	Consolidated

2014	$ 33,446	$ 10,646	$ 6,064	$ 4,680	$ —	$ 3,464	$ 58,300
2015	29,741	14,549	8,255	7,847	38	4,323	64,753

We are continuing to invest in upgrading and expanding our telecommunications networks in many of our markets, along with upgrading our operating and business support systems. We currently anticipate that telecom capital expenditures for the year ended December 31, 2016 will be between $60 million and $70 million. Capital expenditures in our Renewable Energy segment are more difficult to project, however we expect to actively pursue further investments in this segment.

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

Acquisitions and investments. Historically, we have funded our acquisitions with a combination of cash on hand and borrowings under our credit facilities. As discussed above, we expected to fund our pending KeyTech Transaction with $42.0 million of cash. In regard to the pending acquisition of Caribbean Asset Holding, LLC, we expect to fund $85.0 million payable in cash and have the option to finance the remaining $60.0 million of the purchase price with a loan from an affiliate of CFC, the Rural Telephone Finance Cooperative.

We continue to explore opportunities to expand our businesses or acquire new businesses and licenses in the United States, the Caribbean and elsewhere. Such acquisitions, including acquisitions of renewable energy assets, 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 December 31, 2015, we had approximately $398.3 million in cash, cash equivalents and restricted cash. Of this amount, $93.3 million was held by our foreign subsidiaries and is permanently invested outside the United States. In addition, we have approximately $32.9 million of debt as of December 31, 2015. How and when we deploy our balance sheet capacity will figure prominently in our longer-term growth prospects and stockholder returns.

Income taxes. We have historically used cash on hand to make payments for income taxes. The Company’s policy is to indefinitely reinvest the undistributed earnings of its foreign subsidiaries, and accordingly, no provision for federal income taxes has been made on accumulated earnings of foreign subsidiaries.

Dividends. We use cash-on-hand to make dividend payments to our common stockholders when declared by our Board of Directors. For the year ended December 31, 2015, our Board declared dividends to our stockholders, which includes a $0.32 per share dividend declared on December 8, 2015, and paid on January 8, 2016, of $16.8 million. We have declared quarterly dividends for the last 69 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 December 31, 2015. 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.

Debt Service and Other Contractual Commitments Table. The following table discloses aggregate information about our debt, lease and other obligations as of December 31, 2015 and the periods in which payments are due:

Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	More Than 5 Years
	(In thousands)				
Debt	$ 32,455	$ 6,284	$ 12,795.0	$ 6,741	$ 6,635
Pension obligations	8,767	643	2,038.1	800.0	5,285.7
Mobility fund grants	3,764	3,619	145	—	—
Operating lease obligations	94,358	25,046	38,673	17,079	13,560
Total	$ 139,344	$ 35,592	$ 53,651	$ 24,620	$ 25,481

We have omitted uncertain income tax liabilities from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either the underlying positions have not been fully developed enough under audit to quantify at this time or the years relating to the issues for certain jurisdictions are not currently under audit. At December 31, 2015, we had $18.9 million of gross unrecognized tax benefits which $12.4 million was included in "Other Liabilities" and $6.5 million is included in "Accrued Taxes" in the consolidated balance sheet.

Sources of Cash

Total liquidity at December 31, 2015. As of December 31, 2015, we had approximately $398.3 million in cash, cash equivalents and restricted cash, an increase of $26.9 million from the December 31, 2014 balance of $371.4 million. The increase is primarily attributable to cash provided by our operating activities of $139.2 million partially offset by cash used for capital expenditures of $64.8 million, cash used for acquisitions of $12.0 million, and cash used in financing activities of $41.4 million. As discussed above we expect to fund our pending acquisitions of KeyTech and Caribbean Asset Holdings with an aggregate of $127.0 million of cash.

Cash provided by operations. Cash provided by operating activities was $139.2 million during the year ended December 31, 2015, an increase of $61.2 million from the $78.0 million provided by operating activities during the year ended December 31, 2014. The increase in cash flow from operations of $61.2 million was primarily the result of an increase in the change in accounts receivable of $27.0 million, and an increased change in accrued taxes of $43.4 million (which was driven by tax payments made in 2014 in connection with or sale of the Alltel business in September 2013). These increases in cash flow from operations were partially offset by a decrease in net income of $25.9 million for the year ended December 31, 2015.

Cash used in investing activities. Cash used in investing activities was $32.0 million for the year ended December 31, 2015. Cash used in investing activities was $74.5 million for the year ended December 31, 2014. The decrease in cash used in investing activities of $42.5 million was primarily the result of $56.2 million used in 2014 to fund the Ahana acquisition (as compared to $12.0 million in 2015) and $4.5 million received from the 2014 disposition of certain assets. Offsetting these decreases was an increase in capital expenditures of $6.5 million.

Cash used in financing activities. Cash used in financing activities increased by $7.5 million, from $33.9 million for the year ended December 31, 2014 to $41.4 million for the year ended December 31, 2015. This increase was predominately the result of repayments of $6.0 million of debt we assumed in connection with the Ahana Acquisition.

On December 19, 2014, we amended and restated our credit facility with CoBank, ACB and a syndicate of other lenders to provide for a $225.0 million revolving credit facility (the "Amended Credit Facility") that includes (i) up to $10 million under the Amended Credit Facility for standby or trade letters of credit, (ii) up to $25.0 million under the

Amended Credit Facility for letters of credit that are necessary or desirable to qualify for disbursements from the FCC's mobility fund and (iii) up to $10.0 million under a swingline sub-facility.

Amounts we may borrow under the Amended Credit Facility bear interest at a rate equal to, at its option, either (i) the London Interbank Offered Rate (LIBOR) plus an applicable margin ranging between 1.50% to 1.75% or (ii) a base rate plus an applicable margin ranging from 0.50% to 0.75%. Swingline loans will bear interest at the base rate plus the applicable margin for base rate loans. The base rate is equal to the higher of (i) 1.00% plus the higher of (x) the one-week LIBOR and (y) the one-month LIBOR; (ii) the federal funds effective rate (as defined in the Amended Credit Facility) plus 0.50% per annum; and (iii) the prime rate (as defined in the Amended Credit Facility). The applicable margin is determined based on the ratio (as further defined in the Amended Credit Agreement) of our indebtedness to EBITDA. Under the terms of the Amended Credit Facility, we must also pay a fee ranging from 0.175% to 0.250% of the average daily unused portion of the Amended Credit Facility over each calendar quarter.

The Amended Credit Facility contains customary representations, warranties and covenants, including a financial covenant that imposes a maximum ratio of indebtedness to EBITDA as well as 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 Amended Credit Facility contains a financial covenant by us that imposes a maximum ratio of indebtedness to EBITDA. As of December 31, 2015, we were in compliance with all of the financial covenants of the Amended Credit Facility.

On January 11, 2016, we amended the Amended Credit Facility to provide for lender consent to, among other actions, (i) the contribution by the Company of all of its equity interests in ATN Bermuda Holdings, Ltd. to ATN Overseas Holdings, Ltd. in connection with the KeyTech Transaction, and subject to the closing of the KeyTech Transaction, a one-time, non-pro rata cash distribution by KeyTech Limited in an aggregate amount not to exceed $13.0 million to certain of KeyTech Limited's shareholders; and (ii) the incurrence by certain subsidiaries of the Company of secured debt in an aggregate principal amount not to exceed $60.0 million in connection with our option to finance a portion of the Innovative Transaction. The Amendment increases the amount the Company is permitted to invest in "unrestricted" subsidiaries of the Company, which are not subject to the covenants of the Amended Credit Facility, from $275.0 million to $400.0 million (as such increased amount shall be reduced from time to time by the aggregate amount of certain dividend payments to the Company's stockholders). The Amendment also provides for the incurrence by the Company of incremental term loan facilities, when combined with increases to revolving loan commitments under the Amended Credit Facility, in an aggregate amount not to exceed $200.0 million, which facilities shall be subject to certain conditions, including pro forma compliance with the total net leverage ratio financial covenant under the Amended Credit Facility.

As of December 31, 2015, we had no borrowings under the Amended Credit Facility and approximately $10.6 million of outstanding letters of credit.

Acquisition of Green Lake Capital, LLC

In connection with the Ahana Acquisition on December 24, 2014, we assumed $38.9 million in debt (the "Ahana Debt"). The Ahana Debt includes multiple loan agreements with banks that bear interest at rates between 4.5% and 6.0%, mature at various times between 2018 and 2023 and are secured by certain solar facilities. Repayment of the Ahana Debt with the banks is made on a monthly basis until maturity.

The Ahana Debt includes a loan from Public Service Electric & Gas (PSE&G) of $2.8 million. The note payable to PSE&G bears interest at 11.3%, matures in 2027, and is secured by certain solar facilities. Repayment of the Ahana Debt with PSE&G can be made in either cash or solar renewable energy credits ("SRECs"), at the Company's discretion. The value of the SRECs was fixed at the time of the loan's closing.

Factors Affecting Sources of Liquidity

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 and renewable energy industries.

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Restrictions under Amended Credit Facility. Our Amended 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 Amended Credit Facility contains a financial covenant by us that imposes a maximum ratio of indebtedness to EBITDA. As of December 31, 2015, we were in compliance with all of the financial covenants of the Amended 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 and renewable energy industries, 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 offering of our securities.

Pending Acquisitions. As discussed above, we expected to fund our pending KeyTech Transaction with $42 million of cash. In regard to the pending acquisition of Caribbean Asset Holding, LLC, we have the option to finance $60 million of the purchase price with a loan from an affiliate of CFC, the Rural Telephone Finance Cooperative. We expect to fund the remaining $85 million of the purchase price, plus any amounts not financed, in cash.

Inflation

We do not believe that inflation has had a significant impact on our consolidated operations in any of the periods presented in the Report.

We have based our discussion and analysis of our financial condition and results of operations on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (or GAAP). We base our estimates on our operating experience and on various conditions existing in the market and we believe them to be reasonable under the circumstances. Our estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

Critical Accounting Estimates

We have identified the critical accounting estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider these accounting estimates to be critical because changes in the assumptions or estimates we have selected have the potential of materially impacting our financial statements.

Revenue Recognition. In determining the appropriate amount of revenue to recognize for a particular transaction, we apply the criteria established by the authoritative guidance for revenue recognition and defer those items that do not meet the recognition criteria. As a result of the cutoff times of our billing cycles, we are often required to estimate the amount of revenues earned but not billed from the end of each billing cycle to the end of each reporting period. These estimates are based primarily on rate plans in effect and historical evidence with each customer or carrier. Adjustments affecting revenue can and occasionally do occur in periods subsequent to the period when the services were provided, billed and recorded as revenue, however historically these adjustments have not been material.

We apply judgment when assessing the ultimate realization of receivables, including assessing the probability of collection and the current credit worthiness of customers. We establish an allowance for doubtful accounts sufficient to cover probable and reasonably estimable losses. Our estimate of the allowance for doubtful accounts considers collection experience, aging of the accounts receivable, the credit quality of customer and, where necessary, other macro economic factors.

Long Lived and Intangible Assets. In accordance with the authoritative guidance regarding the accounting for impairments or disposals of long lived assets and the authoritative guidance for the accounting for goodwill and other intangible assets, we evaluate the carrying value of our long lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows attributable to non current assets subject to depreciation and amortization and discounted cash flows for intangible assets not subject to amortization are less than their carrying amount. If an asset is deemed to be impaired, the amount of the impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections.

Our estimates of the future cash flows attributable to our long lived assets and the fair value of our businesses involve significant uncertainty. Those estimates are based on management's assumptions of future results, growth trends and industry conditions. If those estimates are not met, we could have additional impairment charges in the future, and the amounts may be material.

We also assess the carrying value of goodwill and indefinite lived intangible assets on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The carrying value of each reporting unit, including goodwill assigned to that reporting unit, is compared to its fair value. If the fair value of the reporting unit does not exceed the carrying value of the reporting unit, including goodwill, an analysis is performed to determine if an impairment charge should be recorded.

We performed our annual impairment assessment of our goodwill as of December 31, 2015 and it was determined that no impairment of any of our goodwill existed during the year ended December 31, 2015.

We assess the recoverability of the value of our telecommunications licenses using a market approach. We believe that our telecommunications licenses generally have an indefinite life based on historical ability to renew such licenses, that such renewals may be obtained indefinitely and at little cost, and that the related technology used is not expected to be replaced in the foreseeable future. If the value of these assets was impaired by some factor, such as an adverse change in the subsidiary's operating market, we may be required to record an impairment charge. We test the impairment of our telecommunications licenses annually or more frequently if events or changes in circumstances indicate that such assets might be impaired. The impairment test consists of a comparison of the fair value of telecommunications licenses with their carrying amount on a license by license basis.

We performed our annual impairment assessment of our telecommunications licenses as of December 31, 2015 and it was determined that no impairment of any of our telecommunications licenses existed during the year ended December 31, 2015.

Contingencies. We are subject to proceedings, lawsuits, tax audits and other claims related to lawsuits and other legal and regulatory proceedings that arise in the ordinary course of business as further described in Note 15 to the Consolidated Financial Statements included in this Report. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of loss accruals required, if any, for these contingencies are made after careful analysis of each individual issue. We consult with legal counsel and other experts where necessary in connection with our assessment of any contingencies. The required accrual for any such contingency may change materially in the future due to new developments or changes in each matter. We estimate these contingencies amount to approximately $33.2 million at December 31, 2015. We believe that some adverse outcome is probable and have accordingly accrued $5.0 million as of December 31, 2015 for these matters.

Recent Accounting Pronouncements

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 was effective prospectively for reporting periods beginning after December 15, 2014. See Note 5 to the Consolidated Financial Statements included in this Report for a discussion of the Company's sale of certain assets and liabilities of its Turks and Caicos business.

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In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”, which provides 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 may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. On July 9, 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is now effective for annual reporting periods beginning after December 15, 2017. The FASB will permit companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016. We are currently evaluating the adoption method options and the impact of the new guidance on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs”, which amends the presentation of debt issuance costs on the consolidated balance sheet. Under the new guidance, debt issuance costs are presented as a direct deduction from the carrying amount of the debt liability rather than as an asset. The new guidance is effective retrospectively for fiscal periods starting after December 15, 2015 and early adoption is permitted. We expect to adopt ASU 2015-03 on January 1, 2016 and have determined that its adoption will not have a material impact on our consolidated financial statements and related disclosures at that time.

In April 2015, the FASB issued ASU 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement”, which provides guidance about whether a cloud computing arrangement includes software and how to account for that software license. The new guidance does not change the accounting for a customer’s accounting for service contracts. The standard is effective beginning January 1, 2017, with early adoption permitted, and may be applied prospectively or retrospectively. We do not expect ASU 2015-05 to have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments”, which provides updated guidance related to simplifying the accounting for measurement period adjustments related to business combinations. The amended guidance eliminates the requirement to retrospectively account for adjustments made during the measurement period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect ASU 2015-16 to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-2, “Leases (Topic 842)”, which provides comprehensive lease accounting guidance. The standard requires entities to recognize lease assets and liabilities on the balance sheet as well as disclosure of key information about leasing arrangements. ASU 2016-2 will become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Sensitivity. The only foreign currency for which we have a material exposure is the Guyana dollar, because a significant portion of our Guyana revenues and expenditures are transacted in Guyana dollars. The Guyana 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, 2014. The exchange rate remained consistent at $210 Guyana dollars to 1 U.S. dollar throughout 2015. The results of future operations may be affected by changes in the value of the Guyana dollar.

Interest Rate Sensitivity. As of December 31, 2015, 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 Amended Credit Facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section to this Report. See "Item 15. Exhibits, Financial Statement Schedules."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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 December 31, 2015. 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 Securities and Exchange Commission's ("SEC") 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, or persons performing similar functions 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 December 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a 15(f) and 15d 15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer or persons performing similar functions, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework (2013). Based on its

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assessment, management concluded that, as of December 31, 2015, our internal control over financial reporting was effective based on those criteria.

Our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page F 2.

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting (as defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On February 26, 2016, the Company and Mssrs. Justin Benincasa, Leonard Slap and William Kreisher, entered into severance agreements in the form filed herewith as Exhibit 10.20 and the Company and Mr. Michael Prior entered into a severance agreement as filed herewith as Exhibit 10.21 (collectively, the “Executive Severance Agreements”). The Executive Severance Agreements provide each executive with severance pay upon termination as described therein in exchange for standard covenants of confidentiality, non-competition, non-solicitation and non-circumvention for a one year-period following termination and a standard release and waiver of claims. In the event of an involuntary termination without “cause” and in the absence of a “change in control” (each as defined in the Executive Severance Agreements), each executive would be entitled to (i) severance pay in the amount of one times his base salary (and in the case of the Chief Executive Officer, or CEO, one and a half times his base salary) and (ii) COBRA continuation coverage at a rate equal to the rate paid by active employees during the twelve months following the termination (eighteen months in the case of the CEO). In the event of an involuntary termination either three months prior to or twelve months (eighteen months in the case of the CEO) following a change in control (as defined in the Executive Severance Agreements), such executive would be entitled to (i) severance pay in the amount of one times (and in the case of the CEO, one and a half times) his base salary, (ii) such executive’s maximum target incentive compensation for such year (and in the case of the CEO, one a half times such target), excluding any eligible amounts of equity compensation, (iii) COBRA continuation coverage at a rate equal to the rate paid by active employees during the twelve months following the termination (eighteen months in the case of the CEO) and (iv) the immediate vesting of all restricted stock or stock options held by such executive.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth information regarding our executive officers and directors as of February 29, 2016:

Name	Age	Position
Michael T. Prior	51	President, Chief Executive Officer and Director
Justin D. Benincasa	53	Chief Financial Officer
Barry C. Fougere	51	Senior Vice President, Business Operations
William F. Kreisher	53	Senior Vice President, Corporate Development
Leonard Q. Slap	56	Senior Vice President, General Counsel and Secretary
Cornelius B. Prior, Jr.	82	Chairman
Martin L. Budd	75	Director
Michael T. Flynn	67	Director
Liane J. Pelletier	58	Director
Charles J. Roesslein	67	Director

Executive Officers

Michael T. Prior has been our President and Chief Executive Officer since December 2005 and an officer of the Company since June 2003. He was elected to the Board in May 2008. Previous to joining the Company, Mr. Prior was a partner with Q Advisors LLC, a Denver based investment banking and financial advisory firm focused on the technology and telecommunications sectors. Mr. Prior began his career as a corporate attorney with Cleary Gottlieb Steen & Hamilton LP in London and New York. He received a B.A. degree from Vassar College and a J.D. degree summa cum laude from Brooklyn Law School. Mr. Prior currently serves on the Board of Directors of the Competitive Carriers Association. In 2008, Mr. Prior was named Entrepreneur of the Year for the New England Region by Ernst & Young LLP and One of America's Best CEOs by DeMarche Associates, Inc.

Justin D. Benincasa is our Chief Financial Officer. Prior to joining us in May 2006, Mr. Benincasa was a Principal at Windover Development, LLC since 2004. From 1998 to 2004, he was Executive Vice President of Finance and Administration at American Tower Corporation, a leading wireless and broadcast communications infrastructure company, where he managed finance and accounting, treasury, IT, tax, lease administration and property management. Prior to that, he was Vice President and Corporate Controller at American Radio Systems Corporation and held accounting and finance positions at American Cablesystems Corporation. Mr. Benincasa holds an M.B.A. degree from Bentley University and a B.A. degree from the University of Massachusetts.

Barry C. Fougere is our Senior Vice President, Business Operations. Prior to joining us in 2014, Mr. Fougere served as a Partner in multiple advisory services firms (A.T.Kearney, Heidrick & Struggles, Cambridge Strategic Management Group and Sunapee Advisors,) where he focused on telecommunications, high tech, and other technology enabled client companies. Mr. Fougere has also served as Chief Executive Officer of several smaller information and technology intensive companies (Colubris Networks, BigBelly Solar and BroadStar Energy Solutions). Mr. Fougere serves on the Boards of a number of industry and nonprofit organizations, including the Massachusetts Technology Leadership Council. He holds an M.B.A. degree from the Kellogg School and an M.E.M. degree from the McCormick School of Northwestern University, an M.S. degree in mechanical engineering from Rensselaer Polytechnic Institute and a B.S. degree in mechanical engineering from Worcester Polytechnic Institute.

William F. Kreisher is our Senior Vice President, Corporate Development. Prior to joining us in 2007, Mr. Kreisher was Vice President—Corporate Development at Cingular Wireless (now AT&T Mobility) since 2004. He was part of the corporate development team at Cingular since its formation and spent five years at Bell South before that as a Director of Finance, the acting Chief Financial Officer at its broadband and video division, and as a senior manager in its mergers and acquisitions group. Mr. Kreisher is a more than twenty five year veteran of the telecommunications

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industry, having also worked with MCI Telecommunications and Equant. Mr. Kreisher holds a Masters in Business Administration from Fordham University and a Bachelor of Arts degree from the Catholic University of America.

Leonard Q. Slap is our Senior Vice President and General Counsel. Prior to joining us in May 2010, Mr. Slap was a partner at the law firm of Edwards Angell Palmer & Dodge LLP, where for twenty five years he represented investors and companies in a variety of U.S. and international business transactions, including venture capital and private equity investments, mergers and acquisitions, debt financings and workouts. Mr. Slap focused on transactions involving U.S. and international communications businesses, including broadcast, wireline, wireless broadband telecommunications, information technology and other media. Mr. Slap received a B.S. degree, magna cum laude, from Boston College and a J.D. degree, with honors, from George Washington University School of Law.

Non-Employee Directors

Cornelius B. Prior, Jr. is the Chairman of our Board of Directors. He served as our Chief Executive Officer and Chairman of the Board from 1998 through December 2005, at which time he retired as Chief Executive Officer. Mr. Prior has served as the Chairman of CANTO (the Caribbean Association of National Telecommunication Organizations) and presently is the Chairman of CCAA (Caribbean and Central American Action). He was a managing director and stockholder of Kidder, Peabody & Co. Incorporated, where he directed the Telecommunications Finance Group. A former Naval Officer and Fulbright Scholar, Mr. Prior started his career as an attorney with Sullivan & Cromwell in New York. He is a Trustee of Holy Cross College and former member of the Visiting Committee to Harvard Law School. He resides in St. Thomas, US Virgin Islands, where he is Chairman of the Forum, a not-for-profit arts organization, and Honorary Trustee of the Antilles School. He is also a Director of the Kneissel Music School in Blue Hill, Maine and a director of the University of North Carolina Medical School Ophthalmology Research Institute. He is the father of Michael T. Prior, our President and Chief Executive Officer. Mr. Prior earned his legal degree from the Harvard Law School.

Martin L. Budd has been a director of ours since May 2007, and is the Chair of our Compensation Committee and a member of our Audit and Nominating Committees. He retired as a partner of the law firm of Day, Berry and Howard LLP (now Day Pitney LLP) effective December 31, 2006. Mr. Budd chaired that firm's Business Law Department and its Business Section and had particular expertise in federal securities laws, merger and acquisition transactions and strategic joint ventures. Mr. Budd is chairman of the Connecticut Appleseed Center for Law and Justice and has served on the Legal Advisory Board of the National Association of Securities Dealers. He is a member of the National Executive Committee of the Anti-Defamation League and is the former chairman, and currently serves as a member of, the Board of Trustees of the Hartford Seminary. Mr. Budd earned his legal degree from the Harvard Law School.

Michael T. Flynn has been a director of ours since June 2010 and is a member of our Audit and Compensation Committees. He is currently a director of Airspan Networks, Inc., a provider of wireless broadband equipment and CALIX, Inc., a manufacturer of broadband equipment. Mr. Flynn has forty years of experience in the telecommunications wireline and wireless businesses, and spent ten years as an officer at Alltel Corporation prior to his retirement in 2004. He also previously served as an officer of Southwestern Bell Telephone Co. and its parent SBC Communications from 1987 to 1994. Mr. Flynn has previously served on the board of directors of WebEx Communications, Inc., a provider of internet collaboration services, Equity Media Holding Corporation, an owner and operator of television stations throughout the United States, iLinc Communications, Inc., a provider of SaS web collaboration and GENBAND, a worldwide leader of next generation network systems. Mr. Flynn received a Bachelor of Science degree in Industrial Engineering from Texas A&M University and attended the Dartmouth Institute and the Harvard Graduate School of Business' Advanced Management Program.

Liane J. Pelletier has been a director of ours since June 2012, and is the Chair of our Nominating Committee. Ms. Pelletier has over twenty-five years of experience in the telecommunications industry. From October 2003 through April 2011, she served as the Chief Executive Officer and Chairman of Alaska Communications Systems and prior to that time, served as the former Senior Vice President of Corporate Strategy and Business Development for Sprint Corporation. Ms. Pelletier earned her M.S. in Management at the Sloan School of Business at the Massachusetts Institute of Technology and a B.A. in Economics, magna cum laude, from Wellesley College. Ms. Pelletier currently serves on the Board of Directors of Expeditors International and as President of the National Association of Corporate Directors (“NACD”), Northwest Chapter. Ms. Pelletier is a NACD Board Leadership Fellow.

Charles J. Roesslein has been a director of ours since April 2002 and is the Chair of our Audit Committee and a member of our Compensation and Nominating Committees. He has been a director of National Instruments Corporation since July 2000 and was the Co-Founder and Chief Executive Officer of Austin Tele-Services Partners, LP, a telecommunications provider, from 2004 to January 2016. He is a retired officer of SBC Communications. Mr. Roesslein previously served as Chairman of the Board of Directors, President and Chief Executive Officer of Prodigy Communications Corporation from June of 2000 until December of 2000. He served as President and Chief Executive Officer of SBC-CATV from October 1999 until May 2000, and as President and Chief Executive Officer of SBC Technology Resources from August 1997 to October 1999.

Additional information required by this Item 10 regarding our directors and executive officers will be set forth in our Definitive Proxy Statement for the 2016 Annual Meeting of Stockholders (or “2016 Proxy Statement”) under “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference. Required information regarding our audit committee financial experts and identification of the audit committee of our Board of Directors will be set forth in our 2016 Proxy Statement under “Corporate Governance” and is incorporated herein by reference.

Information regarding our Code of Ethics applicable to our principal executive officer, our principal financial officer, our controller and other senior financial officers appears in Item 1 of this Report under the caption “Business—Available Information.”

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 regarding executive and director compensation will be set forth in our 2016 Proxy Statement under “Executive Officer Compensation” and “Director Compensation” and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item 12 regarding security ownership of certain beneficial owners, directors and executive officers will be set forth in our 2016 Proxy Statement under “Security Ownership of Certain Beneficial Owners and Management” and is incorporated herein by reference.

Information required by this Item 12 regarding our equity compensation plans will be set forth in our 2016 Proxy Statement under “Executive Officer Compensation—Securities Authorized for Issuance Under Equity Compensation Plans” and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item 13 regarding certain relationships and related transactions will be set forth in our 2016 Proxy Statement under “Related Person Transactions” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item 14 regarding auditor fees and services will be set forth in our 2016 Proxy Statement under "Independent Auditor" and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

(1) Financial Statements. See Index to Consolidated Financial Statements, which appears on page F 1 hereof. The financial statements listed in the accompanying Index to Consolidated Financial Statements are filed herewith in response to this Item 15.

(2) Schedule II. Valuation and Qualifying Accounts.

(3) Exhibits. See Index to Exhibits. The exhibits listed in the Index to Exhibits immediately preceding the exhibits are filed herewith in response to this Item 15.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Beverly, Massachusetts on the 29th day of February, 2016.

Atlantic Tele Network, Inc.
By: /s/ Michael T. Prior

Michael T. Prior
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 29th day of February, 2016.

Signature	Title
/s/ Michael T. Prior Michael T. Prior	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Justin D. Benincasa Justin D. Benincasa	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Cornelius B. Prior, Jr. Cornelius B. Prior, Jr.	Chairman
/s/ Martin L. Budd Martin L. Budd	Director
/s/ Michael T. Flynn Michael T. Flynn	Director
/s/ Liane J. Pelletier Liane J. Pelletier	Director
/s/ Charles J. Roesslein Charles J. Roesslein	Director

ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

December 31, 2013, 2014 and 2015

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Report of Independent Registered Public Accounting Firm

To Board of Directors and Stockholders of

Atlantic Tele Network, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Atlantic Tele-Network, Inc. and its subsidiaries at December 31, 2015 and December 31 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for the classification of deferred taxes in the consolidated balance sheet in 2015.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 29, 2016

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ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2015

(In Thousands, Except Share Data)

	December 31, 2014	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 326,216	$ 392,045
Restricted cash	39,703	824
Accounts receivable, net of allowances of $11.3 million and $9.3 million, respectively	52,873	39,020
Materials and supplies	10,546	8,220
Deferred income taxes	2,588	—
Prepayments and other current assets	19,273	28,383
Assets of discontinued operations	175	—
Total current assets	451,374	468,492
Fixed Assets:		
Property, plant and equipment	763,417	807,247
Less accumulated depreciation	(393,835)	(433,744)
Net fixed assets	369,582	373,503
Telecommunication licenses, net	44,090	43,468
Goodwill	45,077	45,077
Trade name license, net	417	417
Customer relationships, net	1,496	1,081
Restricted cash	5,475	5,477
Other assets	7,519	7,489
Total assets	$ 925,030	$ 945,004
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 6,083	$ 6,284
Accounts payable and accrued liabilities	61,737	44,137
Dividends payable	4,631	5,142
Accrued taxes	5,667	9,181
Advance payments and deposits	7,898	9,459
Deferred income taxes	213	—
Other current liabilities	16,593	10,152
Liabilities of discontinued operations	1,247	—
Total current liabilities	104,069	84,355
Deferred income taxes	30,366	45,406
Other liabilities	19,619	26,944
Long-term debt, excluding current portion	32,794	26,575
Total liabilities	186,848	183,280
Commitments and contingencies (Note 15)		

Atlantic Tele-Network, Inc. Stockholders’ Equity:		
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; 16,647,334 and 16,828,576 shares issued, respectively, and 15,925,748 and 16,067,736 shares outstanding, respectively	166	168
Treasury stock, at cost; 721,586 and 760,840 shares, respectively	(15,549)	(18,254)
Additional paid-in capital	145,563	154,768
Retained earnings	549,963	547,321
Accumulated other comprehensive loss	(2,921)	(3,704)
Total Atlantic Tele-Network, Inc. stockholders’ equity	677,222	680,299
Non-controlling interests	60,960	81,425
Total equity	738,182	761,724
Total liabilities and equity	$ 925,030	$ 945,004

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

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ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

For the Years Ended December 31, 2013, 2014 and 2015

(In Thousands, Except Per Share Data)

	December 31,		
	2013	2014	2015
REVENUE:			
U.S. wireless	$ 107,930	$ 153,040	$ 155,390
International wireless	91,432	88,650	81,652
Wireline	84,585	85,284	86,485
Renewable energy	—	—	21,040
Equipment and other	8,888	9,373	10,802
Total revenue	292,835	336,347	355,369
OPERATING EXPENSES (excluding depreciation and amortization unless otherwise indicated):			
Termination and access fees	70,159	77,888	81,928
Engineering and operations	27,913	30,954	37,244
Sales and marketing	18,226	21,664	21,466
Equipment expense	13,013	13,338	14,997
General and administrative	49,066	52,734	59,890
Transaction-related charges	2,712	2,959	7,182
Depreciation and amortization	48,737	51,234	56,890
Gain on disposition of long-lived assets	(1,076)	—	(2,823)
Total operating expenses	228,750	250,771	276,774
Income from operations	64,085	85,576	78,595
OTHER INCOME (EXPENSE)			
Interest income	852	788	588
Interest expense	(12,785)	(1,208)	(3,180)
Loss on interest rate derivative contracts	(5,408)	—	—
Loss on deconsolidation of subsidiary	—	—	(19,937)
Other income , net	(271)	1,012	135
Other income (expense), net	(17,612)	592	(22,394)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	46,473	86,168	56,201
Income taxes	9,536	28,148	24,137
INCOME FROM CONTINUING OPERATIONS	36,937	58,020	32,064
INCOME FROM DISCONTINUED OPERATIONS:			
Income from discontinued operations, net of tax	5,166	—	—
Gain on sale of discontinued operations, net of tax	307,102	1,102	1,092
Income from discontinued operations, net of tax	312,268	1,102	1,092
NET INCOME	349,205	59,122	33,156
Net income attributable to non-controlling interests, net of tax:			

Continuing operations	(7,989)	(10,970)	(16,216)
Discontinued operations	(601)	—	—
Disposal gain on sale of discontinued operations	(28,899)	—	—
Net income attributable to non-controlling interests, net of tax:	(37,489)	(10,970)	(16,216)
NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS	$ 311,716	$ 48,152	$ 16,940
NET INCOME PER WEIGHTED AVERAGE BASIC SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS:			
Continuing operations	$ 1.84	$ 2.96	$ 0.99
Discontinued operations:			
Discontinued operations	$ 0.29	$ —	$ —
Gain on sale of discontinued operations	17.72	0.07	$ 0.07
Total discontinued operations	$ 18.01	$ 0.07	$ 0.07
Total	$ 19.85	$ 3.03	$ 1.06
NET INCOME PER WEIGHTED AVERAGE DILUTED SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS:			
Continuing operations	$ 1.83	$ 2.94	$ 0.98
Discontinued operations			
Discontinued operations	$ 0.29	$ —	$ —
Gain on sale of discontinued operations	17.59	0.07	$ 0.07
Total discontinued operations	$ 17.88	$ 0.07	$ 0.07
Total	$ 19.71	$ 3.01	$ 1.05
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	15,704	15,898	16,022
Diluted	15,817	16,013	16,142
DIVIDENDS PER SHARE APPLICABLE TO COMMON STOCK	$ 1.04	$ 1.12	$ 1.22

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

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ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2013, 2014, and 2015

(in thousands)

	December 31,		
	2013	2014	2015
Net income	$ 349,205	$ 59,122	$ 33,156
Other comprehensive income:			
Foreign currency translation adjustment	(259)	4	26
Projected pension benefit obligation, net of tax expense of $0.2 million, $0.6 million and $0.7 million	(631)	(724)	(809)
Unrealized gain on interest rate swap, net of tax (benefit) of $(3.6) million	6,985	—	—
Other comprehensive income (loss), net of tax	6,095	(720)	(783)
Comprehensive income	355,300	58,402	32,373
Less: Comprehensive income attributable to non-controlling interests	(37,489)	(10,970)	(16,216)
Comprehensive income attributable to Atlantic Tele-Network, Inc.	$ 317,811	$ 47,432	$ 16,157

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

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ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

For the Years Ended December 31, 2013, 2014, and 2015

(In Thousands, Except Share Data)

	Common Stock	Treasury Stock, at cost	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total ATNI Stockholders' Equity	Non-Controlling Interests	Total Equity
Balance, December 31, 2012	$ 160	$ (5,286)	$ 123,253	$ 224,316	$ (8,297)	$ 334,146	$ 60,094	$ 394,240
Issuance of 100,902 restricted shares of common stock	—	—	—	—	—	—	—	—
Issuance of 303,536 shares of common stock upon exercise of stock options	4	—	9,298	—	—	9,302	—	9,302
Purchase of 163,222 shares of common stock	—	(8,103)	—	—	—	(8,103)	—	(8,103)
Stock-based compensation	—	—	4,454	—	—	4,454	—	4,454
Dividends declared on common stock	—	—	—	(16,381)	—	(16,381)	(27,832)	(44,213)
Tax benefit from stock options exercised	—	—	2,101	—	—	2,101	—	2,101
Non-controlling interest in equity acquired	—	—	—	—	—	—	407	407
Investments made by minority shareholders	—	—	—	—	—	—	(13,633)	(13,633)
Comprehensive income:								
Net income	—	—	—	311,716	—	311,716	37,489	349,205
Other comprehensive income, net of tax of $2,316	—	—	—	—	6,095	6,095	—	6,095
Total comprehensive income						317,811	37,489	355,300

Balance, December 31, 2013	164	(13,389)	139,106	519,651	(2,202)	643,330	56,525	699,855
Issuance of 109,318 restricted shares of common stock	—	—	—	—	—	—	—	—
Issuance of 43,034 shares of common stock upon exercise of stock options	2	—	1,621	—	—	1,623	—	1,623
Purchase of 34,293 shares of common stock	—	(2,160)	—	—	—	(2,160)	—	(2,160)
Stock-based compensation	—	—	4,324	—	—	4,324	—	4,324
Dividends declared on common stock	—	—	—	(17,840)	—	(17,840)	(16,331)	(34,171)
Excess tax benefits from share-based compensation	—	—	512	—	—	513	—	513
Investments made by minority shareholders	—	—	—	—	—	—	9,796	9,796
Comprehensive income:								
Net income	—	—	—	48,152	—	48,152	10,970	59,122
Other comprehensive loss, net of tax of $641	—	—	—	—	(719)	(720)	—	(720)
Total comprehensive income	—	—	—	—	—	47,432	10,970	58,402
Balance, December 31, 2014	166	(15,549)	145,563	549,963	(2,921)	677,222	60,960	738,182
Issuance of 93,864 restricted shares of common stock	1	—	—	—	—	1	—	1
Issuance of 87,378 shares of common stock upon exercise of stock options	1	—	2,808	—	—	2,809	—	2,809
Purchase of 37,567 shares of common stock	—	(2,705)	—	—	—	(2,705)	—	(2,705)
Stock-based compensation	—	—	4,974	—	—	4,974	—	4,974
Dividends declared on common stock	—	—	—	(19,582)	—	(19,582)	(16,715)	(36,297)
Excess tax benefits from share-based compensation	—	—	1,423	—	—	1,423	—	1,423

Investments made by minority shareholders	—	—	—	—	—	—	951	951
Deconsolidation of subsidiary	—	—	—	—	—	—	20,013	20,013
Comprehensive income:								
Net income	—	—	—	16,940	—	16,940	16,216	33,156
Other comprehensive loss, net of tax of $717	—	—	—	—	(783)	(783)	—	(783)
Total comprehensive income	—	—	—	—	—	16,157	16,216	32,373
Balance, December 31, 2015	$ 168	$ (18,254)	$ 154,768	$ 547,321	$ (3,704)	$ 680,299	$ 81,425	$ 761,724

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

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ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013, 2014 and 2015

(In Thousands)

	December 31, 2013	2014	2015
Cash flows from operating activities:			
Net income	$ 349,205	$ 59,122	$ 33,156
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	48,737	51,234	56,890
Provision for doubtful accounts	1,163	1,676	1,199
Amortization and write off of debt discount and debt issuance costs	6,681	114	458
Stock-based compensation	4,454	4,323	4,975
Loss on interest rate derivative contracts	5,408	—	—
Deferred income taxes	(4,849)	(113)	17,869
Income from discontinued operations, net of tax	(5,166)	—	—
Gain on disposition of long-lived assets	(1,076)	—	(2,823)
Gain on sale of discontinued operations	(307,102)	(1,102)	(1,092)
Loss on deconsolidation of subsidiary	—	—	19,937
Changes in operating assets and liabilities, excluding the effects of acquisitions:			
Accounts receivable, net	2,233	(15,264)	11,744
Materials and supplies, prepayments, and other current assets	(17,117)	(4,817)	(1,094)
Income tax receivable	14,251	(2,620)	—
Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities	10,472	7,629	(2,385)
Accrued taxes	(242,696)	(15,650)	9,740
Other	4,006	(1,833)	(9,494)
Net cash provided by (used in) operating activities of continuing operations	(131,396)	82,699	139,080
Net cash provided by (used in) operating activities of discontinued operations	19,394	(4,719)	158
Net cash provided by (used in) operating activities	(112,002)	77,980	139,238
Cash flows from investing activities:			
Capital expenditures	(69,316)	(58,300)	(64,753)
Acquisition of business	—	(50,361)	(11,968)
Restricted cash acquired from acquisition of businesses	—	(5,884)	—
Net proceeds from sale of assets	—	1,371	—
Change in restricted cash	—	38,707	38,877
Proceeds from disposition of long-lived assets	1,500	—	5,873
Net cash used in investing activities of continuing operations	(67,816)	(74,467)	(31,971)
Net cash provided by investing activities of discontinued operations	710,934	—	—
Net cash provided by (used in) investing activities	643,118	(74,467)	(31,971)

Cash flows from financing activities:			
Dividends paid on common stock	(12,096)	(17,488)	(19,070)
Distribution to minority stockholders	(26,155)	(16,331)	(16,514)
Payment of debt issuance costs	(12)	(1,945)	(892)
Proceeds from stock option exercises	2,669	1,129	1,998
Principal repayments of term loan	(272,137)	—	(6,017)
Purchase of common stock	(1,473)	(1,665)	(1,893)
Investments made by minority shareholders in consolidated affiliates	408	2,500	950
Repurchase of non-controlling interests	—	(104)	—
Net cash used in financing activities of continuing operations	(308,796)	(33,904)	(41,438)
Net cash used in financing activities of discontinued operations	(1,678)	—	—
Net cash used in financing activities	(310,474)	(33,904)	(41,438)
Effect of foreign currency exchange rates on cash and cash equivalents	(682)	—	—
Net change in cash and cash equivalents	219,960	(30,391)	65,829
Cash and cash equivalents, beginning of period	136,647	356,607	326,216
Cash and cash equivalents, end of period	$ 356,607	$ 326,216	$ 392,045
Supplemental cash flow information:			
Interest paid	$ 4,857	$ 2,930	$ 2,724
Taxes paid	$ 256,819	$ 48,349	$ 9,636
Dividends declared, not paid	$ 4,285	$ 4,618	$ 5,141

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

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ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS OPERATIONS

The Company is a holding company that, through its operating subsidiaries, (i) provides wireless and wireline telecommunications services in North America, Bermuda and the Caribbean, (ii) owns and operates commercial distributed generation solar power systems in the United States, and (iii) owns and operates terrestrial and submarine fiber optic transport systems in the United States and the Caribbean, respectively.

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 United States. The Company also offers wireless voice and data services to retail customers in Bermuda, Guyana, and in other smaller markets in the Caribbean and 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 and wholesale transport services to enterprise and residential customers in New England, primarily Vermont, and in New York State. In addition, the Company offers wholesale long distance voice services to telecommunications carriers.
- Renewable Energy. In the United States, the Company provides distributed generation solar power to corporate, utility and municipal customers in Massachusetts, California and New Jersey.

The following chart summarizes the operating activities of the Company's principal subsidiaries, the segments in which it reports its revenue and the markets it served as of December 31, 2015:

Services	Segment	Markets	Tradenames
Wireless	U.S. Wireless	United States (rural markets)	Commnet, Choice
	Island Wireless	Aruba, Bermuda, U.S. Virgin Islands	Mio, CellOne, Islandcom (through March 23, 2015), Choice
	International Integrated Telephony	Guyana	Cellink
Wireline	International Integrated Telephony	Guyana	GT&T
	U.S. Wireline	United States (New England and New York State)	Sovernet, ION, Essextel
Renewable Energy	Renewable Energy	United States (Massachusetts, California, and New Jersey)	Ahana Renewables

The Company is actively evaluating potential acquisitions, investment opportunities and other strategic transactions, both domestic and international, that meet its return on investment and other 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 17 to the Consolidated Financial Statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Certain reclassifications have been made in the prior period financial statements to conform the Company's consolidated income statements to how management analyzes its operations in the current period. These changes did not impact operating income. For the year ended December 31, 2013 the aggregate impact of the changes included an increase to termination and access fees of $14.4 million, a decrease to engineering and operations expenses of $11.0 million, an increase to sales and marketing expenses of $0.5 million, an increase to equipment expense of $0.1 million, and a decrease to general and administrative expenses of $4.0 million. For the year ended December 31, 2014 the aggregate impact of the changes included an increase to termination and access fees of $13.7 million, a decrease to engineering and operations expenses of $9.3 million, an increase to sales and marketing expenses of $0.7 million and a decrease to general and administrative expenses of $5.1 million.

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 for approximately $780.0 million in cash plus $16.8 million in working capital. 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 and recorded a gain of approximately $307.1 million during the year ended December 31, 2013. During the years ended December 31, 2014 and 2015, the Company recorded additional gains of $1.1 million relating to changes in certain estimates.

The operations of the Alltel business, which were previously included in the Company's U.S. Wireless segment, have been classified as discontinued operations in all periods presented. The gain on the sale of the Alltel business is also included in discontinued operations. See Note 4 for additional information. Unless indicated otherwise, the information in the Notes to the Consolidated Financial Statements relates only to our continuing operations.

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, the gain on sale of discontinued operations and income taxes. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Company considers all investments with an original maturity of three months or less at date of purchase to be cash equivalents. The Company places its cash and temporary investments with banks and other institutions that it believes have a high credit quality. At December 31, 2015, the Company had deposits with banks in excess of FDIC insured limits and $50.7 million of its cash is on deposit with non insured institutions such as corporate money market issuers and cash held in foreign banks. The Company's cash and cash equivalents are not subject to any restrictions (see Note 9). As of December 31, 2014 and 2015, the Company held $1.8 million and $3.8 million, respectively, of its cash in Guyana dollars. While there are risks associated with the conversion of Guyana dollars to U.S. dollars due to limited liquidity in the Guyana foreign currency markets, to date it has not prevented the Company from converting Guyana dollars into U.S. dollars within a given three month period or from converting at a price that reasonably approximates the reported exchange rate.

Restricted Cash

Substantially all of the Company's restricted cash balances were acquired as a part of the acquisition of Ahana Renewables as described in Note 3. The restricted cash is held in escrow and serves as collateral for Ahana Renewables' debt in order to meet future debt service obligations and other operating obligations of the solar facilities.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for the estimated probable losses on uncollectible accounts receivable. The allowance is based upon a number of factors including the credit worthiness of customers, the Company's historical experience with customers, the age of the receivable and current market and economic conditions. Such factors are reviewed and updated by the Company on a quarterly basis. Uncollectible amounts are charged against the allowance account.

Materials and Supplies

Materials and supplies primarily include handsets, customer premise equipment, cables and poles and are recorded at the lower of cost or market cost being determined on the basis of specific identification and market determined using replacement cost.

Fixed Assets

The Company's fixed assets are recorded at cost and depreciated using the straight line method generally between 3 and 39 years. Expenditures for major renewals and betterments that extend the useful lives of fixed assets are capitalized. Repairs and replacements of minor items of property are charged to maintenance expense as incurred. The cost of fixed assets in service and under construction includes an allocation of indirect costs applicable to construction. Grants received for the construction of assets are recognized as a reduction of the cost of fixed assets, a reduction of depreciation expense over the useful lives of the assets and as a reduction of capital expenditures in the statements of cash flows.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, period to period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized. The increase in the carrying value of the associated long lived asset is depreciated over the corresponding estimated economic life. The consolidated balance sheets include accruals of $2.7 million and $3.0 million as of December 31, 2014 and 2015, respectively, for estimated costs associated with asset retirement obligations.

In accordance with the authoritative guidance for the accounting for the impairment or disposal of long lived assets, the Company evaluates the carrying value of long lived assets, including property and equipment, in relation to the operating performance and future undiscounted cash flows of the underlying business whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists when estimated undiscounted cash flows attributable to an asset are less than its carrying amount. If an asset is deemed to be impaired, the amount of the impairment loss recognized represents the excess of the asset's carrying value as compared to its estimated fair value, based on management's assumptions and projections.

Management's estimate of the future cash flows attributable to its long lived assets and the fair value of its businesses involve significant uncertainty. Those estimates are based on management's assumptions of future results, growth trends and industry conditions. If those estimates are not met, the Company could have additional impairment charges in the future, and the amounts may be material.

The Company determined that there was no impairment of its fixed assets in any of the three years ended December 31, 2015.

Goodwill and Indefinite Lived Intangible Assets

Goodwill is the amount by which the cost of acquired net assets exceeded the fair value of those net assets on the date of acquisition. The Company allocates goodwill to reporting units at the time of acquisition and bases that allocation on which reporting units will benefit from the acquired assets and liabilities. Reporting units are defined as operating segments or one level below an operating segment, referred to as a component. The Company has determined that its reporting units are components of its multiple operating segments. The Company assesses goodwill for impairment on an annual basis in the fourth quarter or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. If the book value of a reporting unit exceeds its fair value, the implied fair value of goodwill is compared with the carrying amount of goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recorded equal to that excess.

A significant majority of the Company’s telecommunications licenses are not amortized and are carried at their historical costs. The Company believes that telecommunications licenses generally have an indefinite life based on the historical ability to renew such licenses, that such renewals may be obtained indefinitely and at little cost, and that the related technology used is not expected to be replaced in the foreseeable future. The Company has elected to perform its annual testing of its telecommunications licenses in the fourth quarter of each fiscal year, or more often if events or circumstances indicate that there may be impairment. If the value of these assets were impaired by some factor, such as an adverse change in the subsidiary’s operating market, the Company may be required to record an impairment charge. The impairment test consists of a comparison of the fair value of telecommunications licenses with their carrying amount on a license by license basis and as a part of the test the Company assesses the appropriateness of the application of the indefinite lived assertion.

As of December 31, 2014 and 2015, the Company performed its annual impairment assessment of its goodwill and indefinite lived intangible assets (telecommunications licenses) and determined that no impairment charge was required. See Note 8 for further details.

Intangible Assets

Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets acquired. These include acquired customer relationships and trade names.

Customer relationships are amortized over their estimated lives of 12 years, which are based on the pattern in which economic benefit of the customer relationship is estimated to be realized.

Interest Rate Derivatives

As required by the authoritative guidance on accounting for derivative instruments and hedging activities, the Company recorded all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company managed economic risks related to interest rates primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company entered into derivative financial instruments to manage exposures that arose from business activities that resulted in the payment of future known and uncertain cash amounts, the value of which were determined by interest rates. The Company's derivative financial instruments were used to manage differences in the amount, timing, and duration of its known or expected cash payments principally related to the Company's borrowings. As a result of the repayment of its variable rate debt on September 20, 2013, the Company terminated its derivative financial instruments during 2013. See Note 9 for further details.

Debt

Debt is measured at amortized cost. Debt discounts, representing the difference between the proceeds and the principal amount of debt, are amortized as interest expense in the consolidated income statements over the period of the debt on a straight line basis, which approximates the effective interest method. Debt issuance costs are capitalized as part of other assets in the consolidated balance sheet and are amortized as interest expense in the consolidated income statements over the period of the debt on a straight line basis, which approximates the effective interest method. Except for interest costs incurred for the construction of a qualifying asset which are capitalized during the period the assets are prepared for their intended use, interest costs are expensed.

Non Controlling Interests

The non controlling interests in the accompanying consolidated balance sheets reflect the original investments by the minority stockholders in GT&T, Commnet's consolidated subsidiaries, Bermuda Digital Communications, Islandcom, Sovernet and its consolidated subsidiaries and Ahana Renewables, along with their proportional share of the earnings or losses, net of any distributions.

Changes in Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), by component, were as follows (in thousands):

	Projected Pension Benefit Obligation	Translation Adjustment	Total
Balance at December 31, 2013	$ (1,949)	$ (253)	$ (2,202)
Adjust funded status of pension plan, net of tax of $0.6 million	(723)	—	(723)
Foreign currency translation adjustment	—	4	4
Balance at December 31, 2014	(2,672)	(249)	(2,921)
Adjust funded status of pension plan, net of tax of $0.7 million	(809)	—	(809)
Foreign currency translation adjustment	—	26	26
Balance at December 31, 2015	$ (3,481)	$ (223)	$ (3,704)

Revenue Recognition- Telecommunications

Service revenues are primarily derived from providing access to and usage of the Company's networks and facilities. Access revenues from postpaid customers are generally billed one month in advance and are recognized over the period that the corresponding service is rendered to customers. Revenues derived from usage of the Company's networks, including airtime, roaming, long distance and Universal Service Fund revenues, are recognized when the services are provided and are included in unbilled revenues until billed to the customer. Prepaid airtime sold to customers is recorded as deferred revenue prior to the commencement of services and is recognized when the airtime is used or expires. The Company offers enhanced services including caller identification, call waiting, call forwarding, three way calling, voice mail, and text and picture messaging, as well as downloadable wireless data applications, including ringtones, music, games, and other informational content. Generally, these enhanced features generate additional service revenues through monthly subscription fees or increased usage through utilization of the features. Other optional services such as equipment protection plans may also be provided for a monthly fee and are either sold separately or bundled and included in packaged rate plans. Revenues from enhanced features and optional services are recognized when earned. Access and usage based services are billed throughout the month based on the bill cycle assigned to a particular customer. As a result of billing cycle cut off times, management must estimate service revenues earned but not yet billed at the end of each reporting period.

Sales of communications products including wireless handsets and accessories represent a separate earnings process and are recognized when the products are delivered to and accepted by customers. The Company accounts for transactions involving both the activation of service and the sale of equipment in accordance with the authoritative guidance for the accounting for revenue arrangements with multiple deliverables. Fees assessed to communications customers to activate service are not a separate unit of accounting and are allocated to the delivered item (equipment) and recognized as product sales to the extent that the aggregate proceeds received from the customer for the equipment and activation fee do not exceed the relative fair value of the equipment.

Wholesale revenues are those revenues generated from providing voice or data services to the customers of other wireless carriers principally through “roaming” agreements, and the revenue is recognized over the period that the service is rendered to customers.

Sales and use and state excise taxes collected from customers that are remitted to the governmental authorities are reported on a net basis and excluded from the revenues and sales.

Revenue Recognition-Renewable Energy

Revenue from the Company’s Renewable Energy segment is generated from the sale of electricity through long-term power purchase agreements (“PPA’s”) with various customers, or hosts, that range from 10 to 25 years. The Company, which is required to sell all generated power to the hosts, recognizes revenue from the PPA’s as electricity is generated and sold at contractual rates as defined within the respective PPA.

The Company’s Renewable Energy segment also generates revenue from the sale of Solar Renewable Energy Credits (“SRECs”). Revenue is recognized as SRECs are sold through long-term purchase agreeements at the contractual rate specified in the agreement.

Accounting for Grants

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

Funding received from Stimulus programs is on a cost reimbursement basis for capital expenditures incurred by the Company to expand its network and is considered a capital grant. Accordingly, reimbursements for eligible expenditures under the Stimulus programs are recorded as a reduction to property, plant and equipment on the

Company's consolidated balance sheets, an investing cash inflow and a future reduction in depreciation expense in the consolidated income statements. The depreciable period for the grant is commensurate with the related assets which typically range from 5 to 20 years. As of December 31, 2015, the Company has spent $99.3 million in capital expenditures of which $73.9 million has been or will be funded by the Stimulus programs. Accordingly, funding received for capital expenditures from the Stimulus Programs is recorded as a reduction to property, plant and equipment on the Company's consolidated balance sheets, an investing cash inflow within capital expenditures and a future reduction in depreciation expense in the consolidated income statements. Funding received for operating costs is recorded as a reduction to the Company's operating expenses in its consolidated statements of income and an operating cash inflow.

Funding received from Universal Service Fund programs is received over time for operating the Company's network in certain rural geographical areas and is considered an income grant. Accordingly, such funding is recognized as operating cash inflows. Once services are provided, revenue is recognized in the Company's consolidated income statements. During the year ended December 31, 2014 and December 31, 2015 the Company received approximately $3.9 million and $7.9 million, respectively, from the Universal Service Fund programs. Of these amounts, $1.3 million for the years ended December 31, 2014 and December 31, 2015 were to support our U.S. Wireless business relating to high cost areas.

Funding received from the Mobility Fund, as further described in Note 11, is for the use of both capital expenditures and operating costs incurred by the Company. Accordingly, funding received for capital expenditures from the Mobility Fund is recorded as a reduction to property, plant and equipment on the Company's consolidated balance sheets, an investing cash inflow within capital expenditures and a future reduction in depreciation expense in the consolidated income statements. Funding received for operating costs is recorded as a reduction to the Company's operating expenses in its consolidated income statements and an operating cash inflow.

Compliance with grant requirements is reviewed as of December 31, of each year to ensure that conditions related to grants have been met and there is reasonable assurance that the Company will be able to retain the grant proceeds and to ensure that any contingencies that may arise from not meeting the conditions are appropriately recognized.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that the Company believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. If the Company determines that it would be able to realize our deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related authority. It is possible that the ultimate resolution of these uncertain matters may be greater or less than the amount that the Company estimated. If payment of these amounts proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period in which it is determined that the liabilities are no longer necessary. If the estimate of tax liabilities proves to be more than the ultimate assessment, a further charge to expense would result.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets.

The Company does not provide for United States income taxes on earnings of foreign subsidiaries as such earnings are considered to be indefinitely reinvested.

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As of December 31, 2014, the Company had deferred taxes that were classified as current and noncurrent assets and liabilities. The Company elected to prospectively adopt ASU 2015-17 as of December 31, 2015, thus reclassifying $3.9 million of current deferred tax assets and $0.2 million of current deferred tax liabilities to noncurrent on the accompanying consolidated December 31, 2015 balance sheet. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on the Company's consolidated results of income and comprehensive income.

Credit Concentrations and Significant Customers

The Company has been historically dependent on a limited amount of customers for its wholesale roaming business. The following table indicates the percentage of revenues generated from a single customer that exceeds 10% of the Company's consolidated revenue in any of the past three years:

Customer	2013		2014		2015	
Verizon	13	%	16	%	19	%
AT&T	18	%	26	%	17	%

No other customer accounted for more than 10% of consolidated revenue in any of the past three years.

The following table indicates the percentage of accounts receivable, from customers that exceed 10% of the Company's consolidated accounts receivable, net of allowances, as of December 31, 2014 and 2015:

Customer	2014		2015	
AT&T	47	%	17	%
Verizon	7	%	13	%

Foreign Currency Gains and Losses

With regard to the Company's Guyana operations, for which the Guyana dollar is the functional currency, foreign currency transaction gains and losses are included in determining net income. At each balance sheet date, balances denominated in foreign currencies are adjusted to reflect the current exchange rate. Beginning in 2013, the value of the Guyana Dollar increased from approximately G$205 to one U.S. Dollar to approximately G$210 to one U.S. Dollar. Accordingly, the Company recognized a nominal foreign currency loss during the year ended December 31, 2013 and $1.1 million gain on foreign currency exchanges during the year ended December 31, 2014. As of December 31, 2015 the exchange rate remained at G$210 to one U.S. Dollar.

Fair Value of Financial Instruments

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.
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, 2014 and 2015 are summarized as follows:

	December 31, 2014		
Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Certificates of deposit	$ —	$ 363	$ 363
Money market funds	$ 1,493	$ —	$ 1,493
Total assets measured at fair value	$ 1,493	$ 363	$ 1,856

	December 31, 2015		
Description	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Certificates of deposit	$ —	$ 377	$ 377
Money market funds	$ 76,263	$ —	$ 76,263
Total assets measured at fair value	$ 76,263	$ 377	$ 76,640

Certificate of Deposit

As of December 31, 2014 and December 31, 2015, 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.

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Money Market Funds

As of December 31, 2014 and December 31, 2015, 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

Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. When deemed appropriate, the Company manages economic risks related to interest rates primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company entered into derivative financial instruments to manage exposures that arose from business activities that resulted in the payment of future known and uncertain cash amounts, the value of which were determined by interest rates. The Company's derivative financial instruments were used to manage differences in the amount, timing, and duration of its known or expected cash payments principally related to the Company's borrowings. The principal market in which the Company executes its foreign currency contracts is the institutional market in an over the counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks.

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

Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate their fair values because of the relatively short-term maturities of these financial instruments.

The fair value of long-term debt is estimated using Level 2 inputs. At December 31, 2015, the fair value of long-term debt, including the current portion, was equal to its carrying amount of $32,860. At December 31, 2014, the fair value of the long-term debt, including the current portion, was equal to its carrying amount of $38,877.

Net Income Per Share

Basic net income per share is computed by dividing net income attributable to the Company's stockholders by the weighted average number of common shares outstanding during the period and does not include any other potentially dilutive securities. Diluted net income per share gives effect to all potentially dilutive securities using the treasury stock method.

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

	Year ended December 31,		
	2013	2014	2015
Basic weighted-average common shares outstanding	15,704	15,898	16,022
Stock options	113	115	120
Diluted weighted-average common shares outstanding	15,817	16,013	16,142

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

	For the Year Ended December 31,		
	2013	2014	2015
Stock options	61	—	2
Total	61	—	2

Stock Based Compensation

The Company applies the fair value recognition provisions of the authoritative guidance for the accounting for stock based compensation and is expensing the fair value of the grants of options to purchase common stock over their vesting period of four years. Relating to grants of options, the Company recognized $1.4 million, $0.9 million and $0.4 million of non cash, share based compensation expense during 2013, 2014 and 2015, respectively. See Note 12 for assumptions used to calculate the fair value of the options granted.

The Company also issued 100,902 restricted shares of common stock in 2013; 109,318 restricted shares of common stock in 2014 and 93,864 restricted shares of common stock in 2015. These shares are being charged to income based upon their fair values over their vesting period of four years. Non cash equity based compensation expense, related to the vesting of restricted shares issued was $3.1 million, $3.4 million and $4.3 million in 2013, 2014 and 2015, respectively.

In connection with the Ahana Acquisition, the Company issued shares of Ahana Renewables to Ahana Renewables' management and recorded $0.3 million of stock based compensation during 2015.

Stock based compensation expense is recognized within general and administrative expenses within the consolidated income statements.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“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 was effective prospectively for reporting periods beginning after December 15, 2014. See note 5 for a discussion of the Company’s sale of certain assets and liabilities of its Turks and Caicos business.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”, which provides 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.

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The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. On July 9, 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is now effective for annual reporting periods beginning after December 15, 2017. The FASB will permit companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the adoption method options and the impact of the new guidance on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which amends the presentation of debt issuance costs on the consolidated balance sheet. Under the new guidance, debt issuance costs are presented as a direct deduction from the carrying amount of the debt liability rather than as an asset. The new guidance is effective retrospectively for fiscal periods starting after December 15, 2015 and early adoption is permitted. The Company expect to adopt ASU 2015-03 on January 1, 2016 and have determined that its adoption will not have a material impact on its consolidated financial statements and related disclosures at that time.

In April 2015, the FASB issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement", which provides guidance about whether a cloud computing arrangement includes software and how to account for that software license. The new guidance does not change the accounting for a customer's accounting for service contracts. The standard is effective beginning January 1, 2017, with early adoption permitted, and may be applied prospectively or retrospectively. The Company does not expect ASU 2015-05 to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments", which provides updated guidance related to simplifying the accounting for measurement period adjustments related to business combinations. The amended guidance eliminates the requirement to retrospectively account for adjustments made during the measurement period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect ASU 2015-16 to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-2, "Leases (Topic 842)", which provides comprehensive lease accounting guidance. The standard requires entities to recognize lease assets and liabilities on the balance sheet as well as disclosure of key information about leasing arrangements. ASU 2016-2 will become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements.

3. ACQUISITIONS

Pending Acquisitions

Caribbean Asset Holdings LLC

On September 30, 2015, the Company entered into an agreement to acquire all of the membership interests of Caribbean Asset Holdings LLC, the holding company for the Innovative group of companies operating cable TV, Internet and landline services primarily in the U.S. Virgin Islands ("Innovative"), from the National Rural Utilities Cooperative Finance Corporation ("CFC"). The Company will purchase the Innovative operations for a purchase price of approximately $145 million, subject to certain purchase price adjustments (the "Innovative Transaction"). In connection with the purchase, we have the option to finance up to $60 million of the purchase price with a loan from an affiliate of CFC, the Rural Telephone Finance Cooperative ("RTFC") on the terms and conditions set forth in a commitment letter and rate lock option letter executed by RTFC filed herewith as Exhibits 99.1 and 99.2, respectively. We expect to fund the remaining $85.0 million of the purchase price, plus any amounts not financed, in cash. With the purchase, the Company's current operations in the U.S. Virgin Islands under the "Choice" name will be combined with Innovative to deliver residential and business subscribers a full range of telecommunications and media services.

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The Innovative Transaction is subject to customary closing terms and conditions and the receipt of approvals from the Federal Communications Commission and regulatory authorities in the U.S. and British Virgin Islands and St. Maarten. The Company currently expects to complete the proposed transaction in mid-2016.

KeyTech Limited

On October 5, 2015, the Company entered into an agreement with KeyTech Limited (“KeyTech”), a publicly held Bermuda company listed on the Bermuda Stock Exchange (“BSX”) that provides broadband and cable television services and other telecommunications services to residential and enterprise customers under the “Logic” name in Bermuda and the Cayman Islands, in which the Company will acquire a controlling interest in KeyTech as part of a proposed business combination of KeyTech with the Company’s subsidiary providing wireless services under the “CellOne” name in Bermuda. As part of the proposed transaction, the Company will contribute its current ownership interest of approximately 43% in CellOne and approximately $42 million in cash in exchange for a 51% ownership interest in KeyTech. On a combined basis, the Company and KeyTech currently own approximately 85% of CellOne. As part of the proposed transaction, CellOne will be merged with and into a company within the KeyTech group and the approximate 15% interest in CellOne held, in the aggregate, by CellOne’s minority shareholders will be converted into the right to receive common shares in KeyTech. Following the transaction, CellOne

will be indirectly wholly owned by KeyTech and KeyTech will continue to be listed on the BSX. A portion of the cash proceeds that KeyTech will receive upon closing will be used to fund a one-time special dividend to KeyTech's existing shareholders and to retire KeyTech's subordinated debt. The Company currently consolidates the operations of CellOne and, upon closing of the proposed transaction, will consolidate the results of KeyTech, in its financial statements.

The proposed transaction is subject to customary closing terms and conditions, including, among others, the receipt of approval from the Bermuda Regulatory Authority, the Federal Communications Commission, and the Information and Communications Technology Authority of the Cayman Islands and the consent of the Bermuda Stock Exchange to certain transaction matters. KeyTech shareholders approved the proposed transaction by affirmative vote on October 20, 2015. The Company is working towards completing the proposed transaction by the end of the first quarter 2016.

Completed Acquisition

On December 24, 2014, the Company acquired substantially all of the assets of Green Lake Capital, LLC and certain of its affiliates (collectively, "Green Lake"), an owner and operator of commercial distributed generation solar power systems in Massachusetts, California and New Jersey (the "Ahana Acquisition"). The Company acquired these assets as part of a total transaction valued at approximately $117.7 million which is comprised of approximately $66.3 million of cash consideration a $12.5 million reimbursement of cash and restricted cash held by Green Lake on the date of acquisition and the assumption of $38.9 million of debt. The acquisition was performed through the Company's newly formed subsidiary, Ahana Renewables, LLC ("Ahana Renewables"). Certain subsidiaries of Ahana Renewables have been partially capitalized by a third-party tax equity investor who maintains a non-controlling interest in these subsidiaries. The tax equity investor's interest in these subsidiaries changes at a certain date (the "Flip Date"), which is the later of a) the five-year anniversary of the placed in service date for the solar assets owned by the subsidiary or, b) the date that the tax equity investor receives a certain return on their original investment in that subsidiary. These dates typically occur at approximately 2 - 4 years from the Ahana Acquisition date. The profits and losses of these subsidiaries will be allocated to the tax equity investors and to the Company using the Hypothetical Liquidation Book Value method. The Hypothetical Liquidation Book Value Method is used to calculate the non-controlling interests' share of income for each period by measuring the difference in funds that would flow to the non-controlling interests in a hypothetical liquidation event at the beginning of the period compared to the end of a period (adjusted for capital distributions). The method assumes that the proceeds on liquidation approximate book value and then the proceeds are allocated to the Company and non-controlling interests based on the liquidation provisions of the solar facility operating agreement. A positive difference during the period represents non-controlling interests' share of income and a decrease represents a loss. Ahana Renewables has the option to buy-out the non-controlling interests.

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The Ahana Acquisition was accounted for using the purchase method, and Ahana Renewables' results of operations since December 24, 2014 have been included in the Company's new Renewable Energy segment as reported in Note 17. The total purchase consideration of $78.8 million cash was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition as determined by management. The table below represents the preliminary assessment of the total acquisition cost to the net assets of Ahana Renewables based on their acquisition date fair values:

Total consideration	$ 78,782
Purchase price allocation:	
Cash	$ 6,571
Other current assets	2,011
Property, plant and equipment	111,446
Restricted cash	5,884
Current liabilities	(853)
Long-Term debt	(38,877)
Non-controlling interests	(7,400)
Net assets acquired	$ 78,782

The non-controlling interests were valued using an income approach which included the estimated cash flows to the non-controlling interests in the form of distributions and buy-outs. The cash flows were tax affected using a weighted average tax rate of 40% and were discounted at a rate of 11.75% to determine their acquisition date fair value.

The acquired property, plant and equipment is comprised of the commercial distributed solar power systems and was valued using an income approach. The assets were assigned an economic life of 25 years, and expected income from the assets was based forecasted production and the related sale of energy and solar renewable energy credits, forecasted operating expenses, net working capital requirements and tax expense from cash flows and benefits from depreciation of the acquired assets. Cash flows were discounted at an approximate 8% discount rate to determine the property, plant and equipment acquisition date fair value.

For the years ended December 31, 2014 and 2015, the Ahana Acquisition accounted for $0.4 million and $21.0 million of the Company's revenue, respectively, and $2.5 million and $4.0 million of the Company's transaction-related charges pertaining to legal, accounting and consulting services.

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 LLC for approximately $780.0 million in cash plus $16.8 million in working capital. The Company previously reported the operations of this business within its U.S. Wireless segment. As a result of that approval, the Company

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completed the sale of certain U.S. retail wireless assets on that date and recorded a gain in 2013 of approximately $307.1 million calculated as follows (in thousands):

Proceeds:		
Received		$ 702,000
Escrowed		78,000
Working capital		16,828
Adjusted proceeds		796,828
Less: Net assets sold or impaired:		
Assets sold or impaired:		
Current assets	51,597	
Property, plant and equipment, net	190,970	
Telecommunications licenses	50,553	
Other intangible assets	37,434	
Other assets	13,202	
Liabilities sold:		
Current liabilities	(40,674)	
Other liabilities	(22,796)	
Net assets sold or impaired		280,286
Less: Transaction related costs		(13,517)
Pre-tax gain		503,025
Less: Income taxes at effective rate		195,923
Net gain on sale		$ 307,102

During 2014 and 2015, the Company recognized an additional $1.1 million of gain relating to changes in certain estimates.

The $796.8 million in cash proceeds included $78.0 million of cash held in a general indemnity escrow account. The Company recorded $39.0 million of the indemnity escrow as restricted cash within current assets in its consolidated balance sheet as of December 31, 2014. In March 2015, the $39.0 million indemnity escrow was released to the Company.

The Alltel trade name was not sold to AT&T Mobility LLC. Due to trade name assignment restrictions, and no planned use through continuing operations, the trade name was fully impaired. As a result, an impairment of $11.9 million was recorded as a part of the disposal and included in the 2013 net gain calculation.

Upon the sale, the Company recorded $28.9 million for the minority shareholders' interests in the sold operation which was based on the estimated final distribution to the minority shareholders. In 2013, 2014 and 2015, $18.9 million, $5.8 million and $4.1 million, respectively, was distributed to minority shareholders. The Company has included $4.5 million and $0.4 million in non controlling interests on its December 31, 2014 and 2015 balance sheets, respectively.

The Company has reclassified the assets, which include prepayments and other current assets, and liabilities, which include accounts payable and accrued liabilities, of its Alltel operations to assets of discontinued operations and liabilities of discontinued operations within its December 31, 2014 balance sheets.

Revenues and income from discontinued operations related to the Alltel business for the years ended December 31, 2013 was as follows (in thousands):

	Year Ended December 31, 2013	
Revenue from discontinued operations	$	299,519
Income from discontinued operations, net of tax expense of $2,512		5,166

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5. LOSS ON DECONSOLIDATION OF SUBSIDIARY

During March 2015, the Company sold, to an unrelated party, certain assets and liabilities of its Turks and Caicos business in its Island Wireless segment. As a result, the Company recorded a loss of approximately $19.9 million arising from the deconsolidation of non-controlling interests of $20.0 million and a gain of $0.1 million arising from an excess of sales proceeds over the carrying value of net assets disposed of. The disposition is included within other income (expense) and does not relate to a strategic shift in the Company's operations. As a result, the subsidiary's historical results and financial position are presented within continuing operations.

6. ACCOUNTS RECEIVABLE:

As of December 31, 2014 and 2015, accounts receivable consist of the following (in thousands):

	2014	2015
Retail	$ 21,367	$ 23,805
Wholesale	41,245	24,341
Other	1,605	168
Accounts receivable	64,217	48,314
Less: allowance for doubtful accounts	(11,344)	(9,294)
Total accounts receivable, net	$ 52,873	$ 39,020

7. FIXED ASSETS:

As of December 31, 2014 and 2015, property, plant and equipment consisted of the following (in thousands):

	Useful Life (in Years)	2014	2015
Telecommunications equipment and towers	5 -15	$ 514,814	$ 553,237
Solar assets	20-23	111,446	111,446
Office and computer equipment	3 -10	46,757	54,665
Buildings	15-39	18,079	18,540
Transportation vehicles	3 -10	7,589	8,882
Leasehold improvements	Shorter of useful life or lease term	11,494	11,592
Land	—	1,146	1,198
Furniture and fixtures	5 -10	8,110	6,584

Total property, plant and equipment	719,435	766,144
Construction in progress	43,982	41,103
Total property, plant and equipment	763,417	807,247
Less: Accumulated depreciation	(393,835)	(433,744)
Net fixed assets	$ 369,582	373,503

Depreciation and amortization of fixed assets, using the straight line method over the assets' estimated useful life, for the years ended December 31, 2013, 2014 and 2015 was $48.3 million, $50.3 million and $55.9 million, respectively.

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For the years ended December 31, 2013, 2014 and 2015, amounts of capital expenditures were offset by grants of $31.6 million, $2.3 million and $2.6 million, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company tests goodwill for impairment on an annual basis, which has been determined to be as of December 31 of each fiscal year. The Company also tests goodwill between annual tests if an event occurs or circumstances change that indicate that the fair value of a reporting unit may be below its carrying value.

The Company employs both qualitative and quantitative tests of its goodwill. During 2015, the Company performed a qualitative assessment on goodwill to determine whether a quantitative assessment was necessary and determined there were no indicators of potential impairment. In 2014, the Company performed a qualitative assessment for some of the Company's reporting units and determined there were no indicators of impairment. For the other reporting units in 2014, goodwill was evaluated using a quantitative model. The quantitative test for goodwill impairment is determined using a two step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a discounted cash flow ("DCF") analysis. Determining fair value requires the exercise of significant judgment, including judgments about appropriate discount rates, perpetual growth rates, and the amount and timing of expected future cash flows. Discount rates are based on a weighted average cost of capital ("WACC"), which represents the average rate a business must pay its providers of debt and equity. The cash flows employed in the DCF analysis were derived from internal earnings and forecasts and external market forecasts. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed.

The second step of our quantitative test for goodwill impairment compares the implied fair value of the reporting unit's goodwill with its carrying amount of goodwill to measure the amount of impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, whereby the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company performed its annual impairment assessments of its goodwill as of December 31, 2014 and December 31, 2015 and determined that no impairment charges were required, as the fair value of each reporting unit exceeded its book value. Accordingly, there were no changes in the carrying amounts of goodwill during these years.

Telecommunications Licenses

The Company tests those telecommunications licenses that are indefinite lived for impairment on an annual basis, which has been determined to be as of December 31st of each fiscal year. The Company also tests telecommunication licenses that are indefinite lived between annual tests if an event occurs or circumstances change that indicate that the fair value of a reporting unit may be below its carrying value.

The Company performed a qualitative assessment for its annual impairment assessment of substantially all of its indefinite lived telecommunications licenses as of December 31, 2014 and 2015 and determined that there were no indications of potential impairments.

The changes in the carrying amount of the Company's telecommunications licenses, by operating segment, for the three years ended December 31, 2015 were as follows (in thousands):

	U.S. Wireless	U.S. Wireline	Island Wireless	Consolidated
Balance at December 31, 2013	$ 19,888	$ 31	$ 19,768	$ 39,687
Acquired licenses	5,025	—	—	5,025
Amortization	—	—	(622)	(622)
Balance at December 31, 2014	$ 24,913	$ 31	$ 19,146	$ 44,090
Amortization	—	—	(622)	(622)
Balance at December 31, 2015	$ 24,913	$ 31	$ 18,524	$ 43,468

The licenses acquired during 2014 were acquired in all cash transactions from various parties and related to licenses expected to be available for use into perpetuity. The Company's Island Wireless segment is amortizing one of its telecommunications licenses through its expiration date of June 2020.

Customer Relationships

The customer relationships, all of which are included in the Island Wireless segment, are being amortized on an accelerated basis, over the expected period during which their economic benefits are to be realized. The Company recorded $0.4 million of amortization related to customer relationships during each of the three years ended December 31, 2015.

Future amortization of customer relationships, in our Island Wireless segment, is as follows (in thousands):

	Future Amortization
2016	$ 309
2017	276
2018	200
2019	145
2020	111
Thereafter	40
Total	$ 1,081

9. LONG TERM DEBT

On September 20, 2013, the Company repaid, in full, all of its then outstanding term loans under its Credit Facility. The Company incurred nominal fees for the breakage of the term loans and recorded approximately $4.7 million in interest expense during the year ended December 31, 2013 related to the accelerated amortization of deferred financing costs associated with the term loans.

Amounts the Company borrowed under the term loans bore interest through September 20, 2013 at a rate equal to, at its option, either (i) LIBOR plus an applicable margin ranging between 2.00% to 4.00% or (ii) a base rate plus an applicable 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 the Company's indebtedness (as defined in the Credit Facility) to its EBITDA (as defined in the Amended Credit Facility).

Amounts borrowed under the revolver loan bore 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 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 also paid 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 was payable in arrears on the last day of each calendar quarter.

On December 19, 2014, the Company amended and restated its credit facility with CoBank, ACB and a syndicate of other lenders to provide for a $225 million revolving credit facility (the ”Amended Credit Facility”) that includes (i) up to $10 million under the Amended Credit Facility for standby or trade letters of credit, (ii) up to $25 million under the Amended Credit Facility for letters of credit that are necessary or desirable to qualify for disbursements from the FCC’s mobility fund and (iii) up to $10 million under a swingline sub-facility.

Amounts the Company may borrow under the Amended Credit Facility bear interest at a rate equal to, at its option, either (i) the London Interbank Offered Rate (LIBOR) plus an applicable margin ranging between 1.50% to 1.75% or (ii) a base rate plus an applicable margin ranging from 0.50% to 0.75%. Swingline loans will bear interest at the base rate plus the applicable margin for base rate loans. The base rate is equal to the higher of (i) 1.00% plus the higher of (x) the one-week LIBOR and (y) the one-month LIBOR; (ii) the federal funds effective rate (as defined in the Amended Credit Facility) plus 0.50% per annum; and (iii) the prime rate (as defined in the Amended Credit Facility). The applicable margin is determined based on the ratio (as further defined in the Amended Credit Facility) of the Company’s indebtedness to EBITDA. Under the terms of the Amended Credit Facility, the Company must also pay a fee ranging from 0.175% to 0.250% of the average daily unused portion of the Amended Credit Facility over each calendar quarter.

The Amended Credit Facility contains customary representations, warranties and covenants, including a financial covenant that imposes a maximum ratio of indebtedness to EBITDA as well as covenants by the Company 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 Amended Credit Facility contains a financial covenant by us that imposes a maximum ratio of indebtedness to EBITDA. As of December 31, 2015, the Company was in compliance with all of the financial covenants of the Amended Credit Facility.

As of December 31, 2015, the Company had no borrowings under the Amended Credit Facility and approximately $10.6 million of outstanding letters of credit.

Acquisition of Green Lake Capital, LLC

In connection with the Ahana Acquisition on December 24, 2014, the Company assumed $38.9 million in long-term debt (the “Ahana Debt”). The Ahana Debt includes multiple loan agreements with banks that bear interest at rates between 4.5% and 6.0 %, mature at various times between 2018 and 2023 and are secured by certain solar facilities. Repayment of the Ahana Debt with the banks is made on a monthly basis until maturity.

The Ahana Debt also includes a loan from Public Service Electric & Gas (PSE&G). The note payable to PSE&G bears interest at 11.3%, matures in 2027, and is secured by certain solar facilities. Repayment of the Ahana Debt with PSE&G can be made in either cash or SRECs, at the Company’s discretion, with the value of the SRECs being fixed at the time of the loan’s closing.

As of December 31, 2015, $32.9 million of the Ahana Debt remained outstanding.

10. 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 a 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 designated and 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.

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As a result of the repayment of its variable rate debt on September 20, 2013, the Company terminated its interest rate derivatives and paid $5.4 million, the net fair value of those derivatives, to its counterparties. The Company recognized this amount as an expense during the year ended December 31, 2013 and as a separate line in the consolidated income statements.

Amounts previously reported in accumulated other comprehensive income related to the interest rate derivatives were reclassified to “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 year ended December 31, 2013 (in thousands):

Year ended December 31, 2013	Derivative in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)
	Interest Rate Swap	$ 6,255	Interest expense	$ 764

11. GOVERNMENT GRANTS

The Company has received funding from the U.S. Government and its agencies under Stimulus and Universal Services 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

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 December 31, 2015, 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) $47.9 million in capital expenditures (of which $33.0 million has been 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 was completed during 2014.

Mobility Fund

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 two new funds, including the Mobility Fund, a one-time award meant to support wireless coverage in underserved geographic areas in the United States. In August 2013 and October 2014, the

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Company received FCC final approvals for $21.7 million and $2.4 million, respectively, of Mobility Fund support to its wholesale wireless business (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 from award date. In connection with the Company's application for the Mobility Funds, the Company has issued approximately $10.6 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.

The Company began the construction of its Mobility Funds projects during the third quarter of 2013 and their results are included in the Company's "U.S. Wireless" segment. As of December 31, 2015, the Company has received approximately $8.1 million in Mobility Funds. Of these funds, $1.0 million was recorded as an offset to operating expenses, $3.4 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 $4.6 million is recorded within other current liabilities while the remaining $0.1 million of future operating costs is recorded within other long-term liabilities in the Company's consolidated balance sheet as of December 31, 2015. The balance sheet presentation is based on the timing of the expected usage of the funds which will reduce future operations expenses.

12. EQUITY

Common Stock

The Company has paid quarterly dividends on its common stock since January 1999.

Treasury Stock

During the years ended December 31, 2013, 2014 and 2015, the Company repurchased the following shares from employees to satisfy tax withholding and stock options exercise obligations incurred in connection with the vesting of restricted stock awards and the exercise of stock options:

Year ended December 31,	Shares Repurchased	Aggregate Cost (in thousands)	Average Repurchase Price
2013	163,222	$ 8,103	$ 49.64
2014	34,293	2,160	63.01
2015	37,567	2,705	72.01

Stock Based Compensation

The Company has 2,000,000 shares reserved for the grant of stock options, restricted stock, restricted stock units, stock equivalents and awards of shares of common stock that are not subject to restrictions or forfeiture.

Stock Options

Stock options have a term of ten years and vest annually and ratably over a period of four years.

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The following table summarizes stock option activity for the years ended December 31, 2014 and 2015:

	Year Ended December 31, 2014			
	Number of Options	Weighted Avg. Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	401,287	$ 36.63		
Exercised	(43,034)	37.68		
Forfeited—Unvested	(7,000)	34.22		
Outstanding at December 31, 2014	351,253	36.55	5.0	$ 10,901,529
Vested and expected to vest at December 31, 2014	351,142	36.56	5.0	$ 10,987,590
Exercisable at December 31, 2014	290,128	36.81	4.6	$ 8,929,815

	Year Ended December 31, 2015			
	Number of Options	Weighted Avg. Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	351,253	$ 36.55		
Granted	5,000	71.43		
Exercised	(87,378)	32.14		
Forfeited—Unvested	—	—		
Outstanding at December 31, 2015	268,875	38.64	4.7	$ 10,646,006
Vested and expected to vest at December 31, 2015	268,011	38.53	4.7	$ 10,640,134
Exercisable at December 31, 2015	248,875	38.05	4.5	$ 9,998,956

The unvested options as of December 31, 2015 represent $0.2 million in unamortized stock based compensation which will be recognized over a weighted average term of 2.61 years.

The following table summarizes information relating to options granted and exercised during the years ended December 31, 2013, 2014 and 2015 (in thousands, except fair value of options granted data):

	2013	2014	2015
Weighted-average fair value of options granted	$ N/A	$ N/A	$ 30.70
Aggregate intrinsic value of options exercised	6,111	1,098	3,488
Cash proceeds received upon exercise of options	2,669	1,621	1,999
Excess tax benefits from share-based compensation	2,101	513	1,423

The aggregate intrinsic value represents the total pre tax intrinsic value (the difference between our closing common stock price on December 31st and the exercise price, multiplied by the number of the in the money stock options) that would have been received by the stock option holders had all stock options holders exercised their stock options on December 31st. The amount of aggregate intrinsic value will change based on the fair market value of our common stock.

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The Company did not grant any options during 2013 or 2014. The estimated fair value of the options granted during 2015 were determined using a Black Scholes option pricing model, based on the following weighted average assumptions:

	Options Granted in 2015	
Risk-free interest rate	1.55	%
Expected dividend yield	1.76	%
Expected life	6.25	years
Expected volatility	51.85	%

The Company recognized $1.4 million, $0.9 million and $0.4 million, respectively, of stock compensation expense relating to the granted options during 2013, 2014 and 2015, respectively.

Restricted Stock

Restricted stock issued under the 2008 Equity Investment Plan vest ratably over four years.

The following table summarizes restricted stock activity during the year ended December 31, 2014:

	Shares	Weighted Avg. Fair Value
Unvested as of January 1, 2014	154,519	$ 44.04
Granted	109,318	64.73
Forfeited	(8,500)	51.44
Vested and issued	(60,194)	44.61
Unvested as of December 31, 2014	195,143	$ 55.13

The following table summarizes restricted stock activity during the year ended December 31, 2015:

	Shares	Weighted Avg. Fair Value
Unvested as of January 1, 2015	195,143	$ 55.13
Granted	93,864	66.26
Forfeited	(1,687)	65.18
Vested and issued	(68,919)	52.70
Unvested as of December 31, 2015	218,401	$ 60.60

In connection with the grant of restricted shares, the Company recognized $3.1 million, $3.4 million and $4.3 million of compensation expense within its income statements for the years ended December 31, 2013, 2014 and 2015, respectively.

The unvested shares as of December 31, 2015 represent $9.4 million in unamortized stock based compensation which will be recognized over a weighted average period of 2.6 years.

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13. INCOME TAXES

The components of income before income taxes for the years ended December 31, 2013, 2014 and 2015 are as follows (in thousands):

	2013	2014	2015
Domestic	$ 13,697	$ 57,767	$ 50,563
Foreign	32,776	28,401	5,638
Total	$ 46,473	$ 86,168	$ 56,201

The following is a reconciliation from the tax computed at statutory income tax rates to the Company's income tax expense for the years ended December 31, 2013, 2014, and 2015 (in thousands):

	2013	2014	2015
Tax computed at statutory U.S. federal income tax rates	$ 16,270	$ 30,160	$ 19,652
Non-controlling interest	(2,750)	(1,229)	(2,807)
Income taxes in excess (below) statutory U.S. tax rates:			
Guyana	701	(284)	379
Bermuda and Turks & Caicos	(3,203)	(4,712)	1,704
Turks & Caicos intercompany note receivable write-down	(8,572)	—	—
Foreign tax reserve	2,081	2,095	2,468
State taxes	400	1,252	935
Change in valuation allowance	(476)	(2,548)	(5,949)
Foreign tax credit expiration	1,820	2,999	6,396
Other, net	3,265	415	1,359
Income tax expense	$ 9,536	$ 28,148	$ 24,137

The components of income tax expense (benefit) for the years ended December 31, 2013, 2014 and 2015 are as follows (in thousands):

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	2013	2014	2015
Current:			
United States—Federal	$ 1,703	$ 14,761	$ (1,308)
United States—State	895	1,347	(383)
Foreign	11,787	12,153	7,959
Total current income tax expense	$ 14,385	$ 28,261	$ 6,268
Deferred:			
United States—Federal	$ (5,273)	$ 5,205	$ 16,760
United States—State	169	466	1,636
Foreign	255	(5,784)	(527)
Total deferred income tax expense (benefit)	(4,849)	(113)	17,869
Consolidated:			
United States—Federal	$ (3,570)	$ 19,966	$ 15,452
United States—State	1,064	1,813	1,253

Foreign	12,042	6,369	7,432
Total income tax expense	$ 9,536	$ 28,148	$ 24,137

The significant components of deferred tax assets and liabilities are as follows as of December 31, 2014 and 2015 (in thousands):

	2014	2015
Deferred tax assets:		
Receivables reserve	$ 1,321	$ 702
Temporary differences not currently deductible for tax	8,001	7,236
Deferred compensation	2,019	2,135
Foreign tax credit carryforwards	10,576	4,180
Pension	436	1,153
Net operating losses	4,171	4,463
Valuation allowance	(13,763)	(7,814)
Total deferred tax asset	12,761	12,055
Deferred tax liabilities:		
Property, plant and equipment, net	$ 27,681	$ 43,718
Intangible assets, net	12,021	13,743
Tax on foreign earnings	1,050	—
Total deferred tax liabilities	40,752	57,461
Net deferred tax liabilities	$ 27,991	$ 45,406

Deferred tax assets and liabilities are reflected in the accompanying consolidated balance sheets as follows (in thousands):

	2014	2015
Deferred tax assets:		
Current	$ 2,588	$ —
Long term	—	—
Total deferred tax asset	$ 2,588	$ —
Deferred tax liabilities:		
Current	$ 213	$ —
Long term	30,366	45,406
Total deferred tax liabilities	$ 30,579	$ 45,406
Net deferred tax liabilities	$ 27,991	$ 45,406

As of December 31, 2015, the Company adopted ASU 2015-17 which requires deferred tax liabilities and assets to be classified as non- current in a classified balance sheet.

As of December 31, 2015, the Company estimated that it had gross state and foreign net operating loss (“NOL”) carryforwards of $40.7 million and $8.6 million respectively. The state NOL’s will expire at various dates between 2016 and 2036. The foreign NOL consists of $5.5 million from Aruba, which will expire between 2016 and 2019. The remaining foreign NOL is from Guyana and has no expiration. The Company assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing NOL deferred tax assets. A significant piece of negative evidence evaluated was the cumulative loss incurred by certain state and foreign reporting jurisdictions over the three-year period ended December 31, 2014. On the basis of this evaluation, the Company believed it was more likely than not that the benefit from these state and foreign NOL carryforwards would not be realized. In recognition of this risk at December 31, 2014, the Company provided a valuation allowance of $1.7 million and $1.4 million for the state and foreign NOL carryforwards, respectively. At December 31, 2015 our state and foreign NOL carryforward valuation allowance was $2.0 million and $1.7 million, respectively.

As of December 31, 2014, the Company had $10.5 million of foreign tax credits. During the year ended December 31, 2015, $6.3 million of foreign tax credit carryforwards expired. The remaining amount will expire in 2016. Similar to prior years, the Company examined its projected mix of foreign source and U.S. source earnings and concluded it is more likely than not that it will not generate sufficient foreign source income to utilize its existing foreign tax credits prior to their expiration date. As a result, the Company has continued to maintain a full valuation allowance against these credits through December 31, 2015.

The Company has approximately $156.9 million of undistributed earnings of its foreign subsidiaries that as of December 31, 2015 are considered to be indefinitely reinvested and accordingly, no U.S. federal or state income taxes have been provided thereon. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical because of the complexities associated with its hypothetical calculation.

The Company had net unrecognized tax benefits (including interest and penalty) of $14.0 million as of December 31, 2013, $16.5 million as of December 31, 2014 and $18.9 million as of December 31, 2015. The net increase of the reserve during the year ended December 31, 2015 was attributable to additions to uncertain tax positions taken in the current and prior years.

The following shows the activity related to unrecognized tax benefits during the three years ended December 31, 2015 (in thousands):

Gross unrecognized tax benefits at December 31, 2012	10,336
Increase in uncertain tax positions	4,137
Lapse in statute of limitations	—
Gross unrecognized tax benefits at December 31, 2013	14,050
Increase in uncertain tax positions	1,675
Lapse in statute of limitations	(226)
Settlements	—
Gross unrecognized uncertain tax benefits at December 31, 2014	15,499
Increase in uncertain tax positions	1,717
Lapse in statute of limitations	—
Settlements	—
Gross unrecognized uncertain tax benefits at December 31, 2015	$ 17,216

The Company's accounting policy is to classify interest and penalties related to income tax matters as part of income tax expense. The accrued amounts for interest and penalties are $1.7 million as of December 31, 2015, and $1.0 million as of December 31, 2014, and $0.4 million as of December 31, 2013.

All $18.9 million of unrecognized tax benefits (including interest and penalty) would affect the effective tax rate if recognized.

The Company and its subsidiaries file income tax returns in the U.S. and in various state and local jurisdictions. The statute of limitations related to the consolidated U.S. federal income tax return is closed for all tax years up to and including 2011. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file varies by state. The Company does not expect that the amount of unrecognized tax benefits relating to U.S. tax matters will change significantly within the next 12 months.

The Company also files an income tax return in Guyana. See Note 15 relating to certain tax matters pertaining to those filings. There is no expected settlement date of those matters and upon settlement, which might not occur in the near future, the payment may vary significantly from the amounts currently recorded. The Company will continue to update amounts recorded as new developments arise.

14. RETIREMENT PLANS

The Company has a noncontributory defined benefit pension plan for eligible employees of GT&T who meet certain age and employment criteria. Company contributions to fund the plan are intended to provide not only for benefits attributed for service to date but also for those expected to be earned in the future. The Company's funding policy is to contribute to the plan such amounts as are actuarially determined to meet funding requirements. The benefits

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are based on the participants' average salary or hourly wages during the last three years of employment and credited service years.

The weighted average rates assumed in the actuarial calculations for the pension plan are as follows as of December 31, 2013, 2014 and 2015:

	2013	2014	2015
Discount rate	5.75 %	5.75 %	5.75 %
Annual salary increase	7.50 %	6.50 %	6.50 %
Expected long-term return on plan assets	7.00 %	7.00 %	6.50 %

The expected long term rate of return on pension plan assets was determined based on several factors including input from pension investment consultants, projected long term returns of equity and bond indices in Guyana and elsewhere, including the United States, and historical returns over the life of the related obligations of the fund. The Company, in conjunction with its pension investment consultants, reviews its asset allocation periodically and rebalances its investments when appropriate in an effort to earn the expected long term returns. The Company will continue to evaluate its long term rate of return assumptions at least annually and will adjust them as necessary.

Changes during the year in the projected benefit obligations and in the fair value of plan assets are as follows for 2014 and 2015 (in thousands):

	2014	2015
Projected benefit obligations:		
Balance at beginning of year:	$ 12,237	$ 14,093
Service cost	612	652
Interest cost	720	766
Benefits and settlements paid	(623)	(1,329)
Actuarial gain	1,129	218
Exchange rate adjustment	18	-
Balance at end of year	$ 14,093	$ 14,400
Plan net assets:		
Balance at beginning of year:	$ 12,673	$ 13,165
Actual return on plan assets	267	110
Company contributions	832	-
Benefits and settlements paid	(623)	(1,329)
Exchange rate adjustment	16	-
Balance at end of year	$ 13,165	$ 11,946
Under funded status of plan	$ (928)	$ (2,454)

The Company's investment policy for its pension assets is to have a reasonably balanced investment approach, with a long term bias toward debt investments. The Company's strategy allocates plan assets among equity, debt and other assets in both Guyana and the United States to achieve long term returns without significant risk to principal. The fund is prohibited under Guyana law from investing in the equity, debt or other securities of the employer, its subsidiaries or associates of the employer or any company of which the employer is a subsidiary or an associate. Furthermore, the plan must invest between 70% - 80% of its total plan assets within Guyana.

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The fair values for the pension plan’s net assets, by asset category, at December 31, 2015 are as follows (in thousands):

Asset Category	Total	Level 1	Level 2	Level 3
Cash, cash equivalents, money markets and other	$ 9,730	$ 7,950	$ 1,780	$ —
Equity securities	1,760	1,760	—	—
Fixed income securities	456	456	—	—
Total	$ 11,946	$ 10,166	$ 1,780	$ —

The plan’s weighted average asset allocations at December 31, 2014 and 2015, by asset category are as follows:

	2014	2015
Cash, cash equivalents, money markets and other	80.0 %	81.5 %
Equity securities	13.0	14.7
Fixed income securities	7.0	3.8
Total	100 %	100 %

Amounts recognized on the Company’s consolidated balance sheets consist of (in thousands):

	As of December 31,	
	2014	2015
Other Liabilities	$ 928	$ 2,454
Accumulated other comprehensive loss, net of tax	(2,672)	(3,481)

Amounts recognized in accumulated other comprehensive loss consist of (in thousands):

	2014	2015
Net actuarial loss	$ (3,148)	$ (5,836)
Accumulated other comprehensive loss, pre-tax	$ (3,148)	$ (5,836)
Accumulated other comprehensive loss, net of tax	$ (2,672)	$ (3,481)

Components of the plan’s net periodic pension cost are as follows for the years ended December 31, 2013, 2014 and 2015 (in thousands):

	2013	2014	2015
Service cost	$ 543	$ 612	$ 652
Interest cost	665	720	766
Expected return on plan assets	(949)	(848)	(813)
Amortization of unrecognized net actuarial loss	150	218	245
Net periodic pension cost	$ 409	$ 702	$ 850

For the year ended December 31, 2016, the Company expects to contribute approximately $586 to its pension plan.

The following estimated pension benefits, which reflect expected future service, as appropriate, are expected to be paid over the next ten years as indicated below (in thousands):

Fiscal Year	Pension Benefits
2016	$ 643
2017	667
2018	757
2019	614
2020	800
2021 - 2025	5,286
	$ 8,767

15. COMMITMENTS AND CONTINGENCIES

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

The Company had previously amended its Amended Credit Facility to provide for an additional $55 million letter of credit sub facility to its revolver loan to be available for issuance in connection with the Company's Mobility Fund Grant obligations. On June 17, 2013, the Company issued approximately $29.8 million in letters of credit to the Universal Service Administrative Company to secure a portion of the pending awards of approximately $68.8 million of Mobility Fund Grants to certain of its subsidiaries. In connection with the Company's sale of its Alltel business on September 20, 2013, it notified the FCC and USAC that it would no longer be eligible to perform under the terms and conditions of the Alltel Mobility Funds. At that time, USAC chose not to draw any amounts under our letter of credit securing the Alltel Mobility Funds and the Company terminated $19.9 million in letters of credit on November 14, 2013. See Note 11 for further information about the Mobility Fund. As of December 31, 2013 the Company had approximately $9.9 million in letters of credit payable to USAC outstanding to cover its Mobility Fund obligations and there were no draw downs against these letters of credit. The letters of credit accrue a fee at a rate of 1.75% per annum on the outstanding amounts. If the Company fails to comply with certain terms and conditions upon which the Mobility Fund Grants are to be granted, or if it loses eligibility for Mobility Fund support, USAC will be entitled to draw the entire amount of the letter of credit applicable to the affected project including penalties. The results of the Company's Mobility Fund projects, once initiated, will be included in the Company's "U.S. Wireless" segment.

Currently, the Company's Guyana subsidiary, GT&T, holds a license to provide domestic fixed services and international voice and data services in Guyana on an exclusive basis until December 2030. Since 2001, the Government of Guyana has stated its intention to introduce additional competition into Guyana's telecommunications sector. Since that time, the Company and GT&T have met on several occasions with officials of the Government of Guyana to discuss potential modifications of GT&T's exclusivity and other rights under the existing agreement and license. In 2012, the Government of Guyana introduced draft legislation in Parliament that, if enacted, would have the effect of terminating the Company's exclusive license rights by permitting other telecommunications carriers to receive licenses to provide domestic fixed services and international voice and data services in Guyana. Along with the draft legislation, the Government also released drafts of new regulations and licenses (collectively, the “Draft Laws”). These Draft Laws would also introduce material changes to many other features of Guyana’s existing telecommunications regulatory regime. While little or no substantive actions were taken on the Draft Laws since 2012, the Company cannot predict when or if the proposed legislation will be adopted by Parliament or, if adopted and then signed into law by the President, the manner in which it would be implemented by the Minister of Telecommunications and the PUC. Although the Company believes that it would be entitled to damages or other compensation for any involuntary termination of its contractual exclusivity rights, it cannot guarantee that the Company would prevail in a proceeding to enforce its rights or that its actions would effectively halt any unilateral action by the Government.

Historically, GT&T has been subject to other litigation proceedings and disputes in Guyana that, while not conclusively resolved, to the Company's knowledge have not been the subject of discussions or other significant activity in the last five years. It is possible, but not likely, that these disputes, as discussed below, may be revived. The Company believes that none of these additional proceedings would, in the event of an adverse outcome, have a material impact on the Company's consolidated financial position, results of operation or liquidity.

In a letter dated September 8, 2006, the National Frequency Management Unit ("NFMU") agreed that total spectrum fees in Guyana should not increase for the years 2006 and 2007. However, that letter implied that spectrum fees in 2008 and onward may be increased beyond the amount GT&T agreed to with the Government. GT&T has objected to the NFMU's proposed action and reiterated its position that an increase in fees prior to development of an acceptable methodology would violate the Government's prior agreement. In 2011, GT&T paid the NFMU $2.6 million representing payments in full for 2008, 2009 and 2010. However, by letter dated November 23, 2011, the NFMU stated that it did not concur with GT&T's inference that the amount was payment in full for the specified years as it was their continued opinion that the final calculation for GSM spectrum fees was not agreed upon and was still an outstanding issue. By further letter dated November 24, 2011, the NFMU further rejected a proposal that was previously submitted jointly by GT&T and Digicel which outlined a recommended methodology for the calculation of these fees. The NFMU stated that it would prepare its own recommendation which it would send to the Minister of Telecoms for decision of the matter. GT&T paid additional spectrum fees in 2012 according to the methodology used for its 2011 payments, and have reserved amounts payable for 2013 and 2014 according to this methodology. There have been no further discussions on this subject and GT&T has not had the opportunity to review any recommendation made to the Minister.

In November 2007, Caribbean Telecommunications Limited ("CTL") filed a complaint in the U.S. District Court for the District of New Jersey against GT&T and ATN claiming breach of an interconnection agreement for domestic cellular services in Guyana and related claims. CTL asserted over $200 million in damages. GT&T and ATN moved to dismiss the complaint on procedural and jurisdictional grounds. On January 26, 2009, the court granted the motions to dismiss the complaint on the grounds asserted. On November 7, 2009 and again on April 4, 2013, CTL filed a similar claim against GT&T and the PUC in the High Court of Guyana. The Company believes these claims are without merit and are duplicative of a previous claim filed by CTL in Guyana that was dismissed. There has been no action on these matters since the April 2013 filing.

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 intends to vigorously defend against such a legal challenge.

On February 17, 2010, GT&T filed a lawsuit in the High Court of Guyana asserting that, despite its denials, Digicel is engaged in international bypass in violation of GT&T's exclusive license rights, the interconnection agreement between the parties, and the laws of Guyana. GT&T is seeking, among other things, injunctive relief to stop the illegal bypass activity, actual damages in excess of US$9 million and punitive damages of approximately US$5 million. Digicel filed counterclaims alleging that GT&T has violated the terms of the interconnection agreement and Guyana laws. GT&T intends to vigorously prosecute this suit.

GT&T is also involved in several legal claims regarding its tax filings with the Guyana Revenue Authority dating back to 1991 regarding the deductibility of intercompany advisory fees as well as other tax assessments. Should GT&T be held liable for any of the disputed tax assessments, totaling $32.4 million, the Company believes that the Government of Guyana would then be obligated to reimburse GT&T for any amounts necessary to ensure that GT&T's return on investment was no less than 15% per annum for the relevant periods. The Company believes that some adverse outcome is probable and has accordingly accrued $5.0 million as of December 31, 2015 for these matters

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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 Afl 7.2 million (or approximately US$4 million). The Company is continuing to operate as it is actively contesting the assessment of such fee.

Lease Commitments and Other Obligations

The Company leases approximately 2.6 million square feet for its operations centers, administrative offices and retail stores as well as certain tower sites under non cancelable operating leases. The Company's obligations for payments under these leases are as follows at December 31, 2015 (in thousands):

2016	25,046
2017	21,919
2018	16,754
2019	10,080
2020	6,999
Thereafter	13,560
Total obligations under operating leases	$ 94,358

Rent expense for the years ended December 31, 2013, 2014 and 2015 was $12.7 million, $15.0 million and $17.0 million, respectively.

16. RELATED PARTY TRANSACTIONS

In October 2014, the Company's U.S. Virgin Islands business, Choice Communications, LLC ("Choice"), entered into a tower lease with Tropical Tower Ltd ("Tropical Tower"), an entity 90% owned by Cornelius B. Prior, Jr., the Chairman of the Company's Board of Directors. When aggregated with amounts that Choice currently pays to Tropical Tower for an existing tower lease entered into in April 2012, Choice will pay approximately $117,000 per year in rental payments to Tropical Tower. Each tower lease has an initial term of five years, with two additional five year renewal periods and has provisions for an increase in rent by 5% each year. Our Audit Committee reviewed the specific structure and terms of the October 2014 lease, as negotiated by Choice management, and unanimously approved the arrangement described above in accordance with the terms of our Related Person Transaction Policy.

17. SEGMENT REPORTING

For the year ended December 31, 2013, the Company had four reportable segments for separate disclosure in accordance with the FASB's authoritative guidance on disclosures about segments of an enterprise. Those four segments were: 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. With the Ahana Acquisition on December 24, 2014, the Company added a fifth reportable segment, Renewable

Energy, which generates all of its revenues in and has all of its assets located in the United States. Segment presentation for 2013 was not impacted by the change in segments in 2014. The segment presentation in 2015 is unchanged from 2014. The operating segments are managed separately because each offers different services and serves different markets.

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

For the Year Ended December 31, 2013

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Renewable Energy	Reconciling Items	Consolidated
Revenue							
U.S. Wireless	$ 107,930	$ —	$ —	$ —	$ —	$ —	$ 107,930
International Wireless	—	30,334	61,098	—	—	—	91,432
Wireline	610	61,475	—	22,500	—	—	84,585
Equipment and Other	465	1,637	6,555	231	—	—	8,888
Total Revenue	109,005	93,446	67,653	22,731	—	—	292,835
Depreciation and amortization	14,308	17,975	10,305	3,182	—	2,967	48,737
Non-cash stock-based compensation	—	—	—	—	—	4,454	4,454
Operating income (loss)	54,867	27,662	8,610	(1,076)	—	(25,978)	64,085

For the Year Ended December 31, 2014

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Renewable Energy	Reconciling Items	Consolidated
Revenue							
U.S. Wireless	$ 153,040	$ —	$ —	$ —	$ —	$ —	$ 153,040
International Wireless	—	26,819	61,831	—	—	—	88,650
Wireline	609	59,129	—	25,546	—	—	85,284
Equipment and Other	943	984	6,744	253	449	—	9,373
Total Revenue	154,592	86,932	68,575	25,799	449	—	336,347
Depreciation and amortization	14,345	17,408	10,671	4,725	105	3,980	51,234
Non-cash stock-based compensation	—	—	—	—	—	4,323	4,323
Operating income (loss)	89,187	19,628	9,046	(3,668)	(2,218)	(26,399)	85,576

For the Year Ended December 31, 2015

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Renewable Energy	Reconciling Items	Consolidated
Revenue							
U.S. Wireless	$ 155,390	$ —	$ —	$ —	$ —	$ —	$ 155,390
International Wireless	—	25,706	55,946	—	—	—	81,652
Wireline	613	61,244	—	24,628	—	—	86,485
Renewable energy	—	—	—	—	21,040	—	21,040
Equipment and Other	2,125	1,943	6,504	230	—	—	10,802
Total Revenue	158,128	88,893	62,450	24,858	21,040	—	355,369
Depreciation and amortization	17,605	16,470	8,413	4,635	4,820	4,947	56,890
Non-cash stock-based compensation	—	—	—	—	267	4,708	4,975
Operating income (loss)	78,357	15,738	12,462	(3,898)	6,720	(30,784)	78,595

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Renewable Energy	Reconciling Items	Consolidated
December 31, 2014							
Net fixed assets	$ 79,910	$ 108,972	$ 26,590	$ 28,113	$ 111,342	$ 14,655	$ 369,582
Goodwill	32,148	—	5,438	7,491	—	—	45,077
Total assets	188,377	202,171	74,563	42,446	130,124	287,349(1)	925,030
December 31, 2015							
Net fixed assets	$ 89,466	$ 110,063	$ 23,199	$ 30,130	$ 106,560	$ 14,085	$ 373,503
Goodwill	32,148	—	5,438	7,491	—	—	45,077
Total assets	182,669	207,023	71,747	45,038	122,788	315,740	945,004

(1) Includes $175 of assets associated with our discontinued operations as of December 31, 2014.

	Capital Expenditures						
Year ended December 31,	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Renewable Energy	Reconciling Items	Consolidated
2014	$ 33,446	$ 10,646	$ 6,064	$ 4,680	$ —	$ 3,464	$ 58,300
2015	29,741	14,549	8,255	7,847	38	4,323	64,753

Reconciling items refer to corporate overhead matters and consolidating adjustments.

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18. QUARTERLY FINANCIAL DATA (UNAUDITED)

Following is a summary of the Company's quarterly results of operations for the years ended December 31, 2014 and 2015 (in thousands):

	2014 Consolidated for the Three Months Ended			
	March 31	June 30	September 30	December 31
Total revenue	$ 75,174	$ 83,269	$ 89,393	$ 88,511
Operating expenses	58,926	61,662	61,235	68,948
Income from operations	16,248	21,607	28,158	19,563
Other income (expense), net	(295)	53	325	509
Income from continuing operations before income taxes	15,953	21,660	28,483	20,072
Income taxes	5,552	7,338	9,569	5,689
Income from continuing operations	10,401	14,322	18,914	14,383
Income from discontinued operations:				
Income (loss) from discontinued operations, net of tax	—	—	—	—
Gain on sale of discontinued operations, net of tax	—	—	—	1,102
Income from discontinued operations, net of tax	—	—	—	1,102
Net income	10,401	14,322	18,914	15,485
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(2,560)	(2,809)	(2,747)	(2,854)
Discontinued operations	—	—	—	—
Disposal of discontinued operations	—	—	—	—
	(2,560)	(2,809)	(2,747)	(2,854)
Net income attributable to Atlantic Tele-Network, Inc. stockholders	7,841	11,513	16,167	12,631
Net income per weighted average basic share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	0.50	0.72	1.02	0.72
Discontinued operations:				
Discontinued operations	—	—	—	—
Gain on sale of discontinued operations	—	—	—	0.07
Total discontinued operations	—	—	—	0.07
Total	0.50	0.72	1.02	0.79
Net income per weighted average diluted share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	0.49	0.72	1.01	0.72
Discontinued operations:				
Discontinued operations	—	—	—	
Gain on Sale of discontinued operations	—	—	—	0.07
Total discontinued operations	—	—	—	0.07
Total	0.49	0.72	1.01	0.79

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	2015 Consolidated for the Three Months Ended			
	March 31	June 30	September 30	December 31
Total revenue	$ 85,345	$ 90,326	$ 96,782	$ 82,916
Operating expenses	66,187	61,594	74,258	74,735
Income from operations	19,158	28,732	22,524	8,181
Other income (expense), net	(20,528)	(706)	(742)	(418)
Income (Loss)from continuing operations before income taxes	(1,370)	28,026	21,782	7,763
Income taxes	(487)	13,008	10,134	1,482
Income (Loss) from continuing operations	(883)	15,018	11,648	6,281
Income from discontinued operations:				
Gain on sale of discontinued operations, net of tax	389	—	—	702
Income from discontinued operations, net of tax	390	—	—	702
Net income	(493)	15,018	11,648	6,983
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(2,777)	(5,568)	(5,072)	(2,799)
Discontinued operations	—	—	—	—
Disposal of discontinued operations	—	—	—	—
	(3,270)	9,450	6,576	4,184
Net income attributable to Atlantic Tele-Network, Inc. stockholders				
Net income per weighted average basic share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	(0.18)	0.59	0.41	0.17
Discontinued operations:				
Discontinued operations	0.07	—	—	—
Gain on sale of discontinued operations	—	—	—	—
Total discontinued operations	0.07	—	—	—
Total	(0.11)	0.59	0.41	0.17
Net income per weighted average diluted share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	(0.18)	0.59	0.41	0.16
Discontinued operations:				
Discontinued operations	0.07	—	—	—
Gain on Sale of discontinued operations	—	—	—	—
Total discontinued operations	0.07	—	—	—
Total	(0.11)	0.59	0.41	0.16

During the year ended December 31, 2014, the Company recognized approximately $0.8 million in general and administrative expenses to correct for an understatement of transactional tax liabilities generated primarily in the three months ended March 31, 2014 and $1.1 million in other income to correct for an understatement of foreign exchange gains generated in period during 2013.

During the three months ended December 31, 2015, the Company recognized an approximate $0.7million benefit to correct for tax basis differences and expense recognition related to prior periods. Of these errors, $0.7 million primarily related to the three months ended September 30, 2015 and $0.1 million related to the year ended December 31, 2014. The Company determined that the impact of the correction of these errors was not material to the current or any prior period financial statements.

19. SUBSEQUENT EVENTS

On January 11, 2016, the Company entered into an Amendment, Consent and Confirmation Agreement (the "Amendment") to its Amended Credit Facility, providing for lender consent to, among other actions, (i) the contribution by the Company of all of its equity interests in ATN Bermuda Holdings, Ltd. to ATN Overseas Holdings, Ltd. in connection with the KeyTech Transaction, and subject to the closing of the KeyTech Transaction, a one-time, non-pro rata cash distribution by KeyTech Limited in an aggregate amount not to exceed $13.0 million to certain of KeyTech Limited's shareholders; and (ii) the incurrence by certain subsidiaries of the Company of secured debt in an aggregate principal amount not to exceed $60.0 million in connection with the Innovative Transaction.

The Amendment also increases the amount the Company is permitted to invest in "unrestricted" subsidiaries of the Company, which are not subject to the covenants of the Amended Credit Facility, from $275.0 million to $400.0 million (as such increased amount shall be reduced from time to time by the aggregate amount of certain dividend payments to the Company's stockholders).The Amendment also provides for the incurrence by the Company of incremental term loan facilities, when combined with increases to revolving loan commitments under the Amended Credit Facility, in an aggregate amount not to exceed $200.0 million which facilities shall be subject to certain conditions, including pro forma compliance with the total net leverage ratio financial covenant under the Amended Credit Facility.

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SCHEDULE II

ATLANTIC TELE NETWORK, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(Amounts in Thousands)

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions	Balance at End of Year
YEAR ENDED, December 31, 2013				
Description:				
Valuation allowance on foreign tax credit carryforwards	$ 15,396	$ —	$ 1,820	$ 13,576
Valuation allowance on foreign net operating losses	898	712	—	1,610
Valuation allowance on state net operating losses	494	632	—	1,126
Allowance for doubtful accounts	7,904	1,462	361	9,005
	$ 24,692	$ 2,806	$ 2,181	$ 25,317
YEAR ENDED, December 31, 2014				
Description:				
Valuation allowance on foreign tax credit carryforwards	$ 13,576	$ —	$ 2,999	$ 10,577
Valuation allowance on foreign net operating losses	1,610	—	110	1,500
Valuation allowance on state net operating losses	1,126	561	—	1,687
Allowance for doubtful accounts	9,005	2,417	80	11,342
	$ 25,317	$ 2,978	$ 3,189	$ 25,106
YEAR ENDED, December 31, 2015				
Description:				
Valuation allowance on foreign tax credit carryforwards	$ 10,577	$ —	$ 6,397	$ 4,180
Valuation allowance on foreign net operating losses	1,500	172	—	1,672
Valuation allowance on state net operating losses	1,687	275	—	1,962
Allowance for doubtful accounts	11,342	857	2,906	9,293
	$ 25,106	$ 1,304	$ 9,303	$ 17,107

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EXHIBIT INDEX

to Form 10 K for the Year Ended December 31, 2015

2.1	Purchase Agreement, dated January 21, 2013, by and among AT&T Mobility LLC, Atlantic Tele Network, Inc. and Allied Wireless Communications Corporation. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on January 24, 2013).
2.2	Membership Interest Purchase Agreement, dated as of December 24, 2014, by and among Ahana Operations, LLC, Green Lake Capital, LLC, Walsin Lihwa Corp. and the Companies named therein (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on December 29, 2014).
2.3	Purchase Agreement, effective as of September 30, 2015, by and among Caribbean Asset Holdings, LLC, National Rural Utilities Cooperative Finance Corporation, ATN VI Holdings, LLC and Atlantic Tele-Network, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-12593) for the quarterly period ended September 30, 2015 filed on November 9, 2015).
2.4	Transaction Agreement, dated as of October 5, 2015, by and among Atlantic Tele-Network, Inc., ATN Caribbean Holdings, Ltd., ATN Bermuda Holdings Ltd., KeyTech Limited and Chancery Holdings Limited (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K (File No. 001-12593) filed on October 6, 2015).
3.1	Restated Certificate of Incorporation of Atlantic Tele Network, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S 8 (File No. 333 62416) filed on June 6, 2001).
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Atlantic Tele Network, Inc., as filed with the Delaware Secretary of State on August 14, 2006 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10 Q (File No. 001 12593) for the quarterly period ended June 30, 2006 filed on August 14, 2006).
3.3	By Laws of Atlantic Tele Network, Inc., as amended and restated on September 12, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10 Q (File No. 001 12593) for the quarterly period ended September 30, 2013 filed on November 12, 2013).
10.1*	Atlantic Tele Network, Inc. 1998 Stock Option Plan (as amended May 24, 2007 incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A (File No. 001 12593) filed on April 30, 2007).
10.2*	Director's Remuneration Plan as amended as of November 2, 1999 (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S 8 (File No. 333 62416) filed on June 6, 2001).
10.3*	Form of Incentive Stock Option Agreement under 1998 Stock Option Plan (incorporated by reference to Exhibit 4.8 to the Company's Registration Statement on Form S 8 (File No. 333 62416) filed on June 6, 2001).
10.4*	2005 Restricted Stock and Incentive Plan (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S 8 (File No. 333 62416) filed on May 24, 2005).
10.5*	Atlantic Tele Network, Inc. 2008 Equity Incentive Plan, as amended and restated (incorporated by reference to Appendix C of the Definitive Proxy Statement on Schedule 14A (File No. 001 12593) filed on May 2, 2011).
10.6*	Form of Notice of Grant of Restricted Stock and Restricted Stock Agreement under 2008 Equity Incentive Plan (Non Employee Directors) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on May 21, 2008).

10.7*	Form of Notice of Grant of Restricted Stock and Restricted Stock Agreement under 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on May 21, 2008).
10.8*	Form of Notice of Grant of Incentive Stock Option and Option Agreement under 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on May 21, 2008).

10.9*	Form of Notice of Grant of Nonqualified Stock Option and Option Agreement under 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on May 21, 2008).
10.10*	Deferred Compensation Plan for Select Employees of Atlantic Tele Network, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on January 6, 2009).
10.11	Third Amended and Restated Agreement dated as of May 18, 2012 by and among Atlantic Tele Network, Inc., as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, the Guarantors named therein, and the other Lenders named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on May 21, 2012).
10.12	First Amendment to Third Amended and Restated Agreement dated as of October 29, 2012 by and among Atlantic Tele Network, Inc., as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, the Guarantors named therein, and the other Lenders named therein (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10 Q (File No. 001 12593) filed on November 9, 2012).
10.13	Consent to Third Amended and Restated Agreement dated as of February 28, 2013, by and among the Company, as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, the Guarantors named therein, and the other Lenders named therein (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10 K (File No. 001 12593) for the year ended December 31, 2012 filed on March 18, 2013).
10.14	Fourth Amended and Restated Credit Agreement dated as of December 19, 2014 by and among the Company, as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, Fifth Third Bank, as a Joint Lead Arranger, MUFG Union Bank, N.A., as a Joint Lead Arranger and an Issuing Lender, the Guarantors named therein and the other Lenders named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on December 23, 2014).
10.15	Amendment, Consent and Confirmation Agreement, dated January 11, 2016, by and among Atlantic Tele-Network, Inc., as Borrower, CoBank, ACB, as Administrative Agent, and the Guarantors and other Lenders named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K (File No. 001 12593) filed on January 15, 2016).
10.16	Amendment to the Agreement between the Government of the Co Operative Republic of Guyana and Atlantic Tele Network, Inc., dated November 2, 2012 (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10 K (File No. 001 12593) for the year ended December 31, 2012 filed on March 18, 2013).
10.17	Allied Wireless Communications Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10 K (File No. 001 12593) for the year ended December 31, 2010 filed on March 16, 2011).
10.18	Form of Restricted Stock Grant Agreement under Allied Wireless Communications Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10 K (File No. 001 12593) for the year ended December 31, 2010 filed on March 16, 2011).
10.19	Form of Option Agreement under Allied Wireless Communications Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10 K (File No. 001 12593) for the year ended December 31, 2010 filed on March 16, 2011).
10.20 *	Form of Severance Agreement executed between the Company and Mssrs. Benincasa, Slap and Kreisher, dated as of February 26, 2016 (filed herewith).
10.21 *	Severance Agreement between the Company and Mr. Michael Prior, dated as of February 26, 2016 (filed herewith).
21**	Subsidiaries of Atlantic Tele Network, Inc.

23.1** Consent of Independent Registered Public Accounting Firm—PricewaterhouseCoopers LLP.

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31.1**	Certification of Principal Executive Officer pursuant to Rule 13a 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Rule 302 of the Sarbanes Oxley Act of 2002.
31.2**	Certification of Principal Financial Officer pursuant to Rule 13a 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Rule 302 of the Sarbanes Oxley Act of 2002.
32.1**	Certification of Principal 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 Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
99.1**	Commitment Letter, dated September 24, 2015, from Rural Telephone Finance Cooperative to ATN VI Holdings, LLC.
99.2**	Rate Lock Option Letter, dated September 30, 2015, between Rural Telephone Finance Cooperative and ATN VI Holdings, LLC.
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

*Management contract or compensatory plan or arrangement.

**Filed herewith.

Ex-3