ATLANTIC TELE NETWORK INC /DE
Form 10-Q
May 11, 2009
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

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

**For the quarterly period ended March 31, 2009**

**OR**

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

**For the transition period from to**

**Commission File Number 001-12593**

## Atlantic Tele-Network, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of<br>incorporation or organization) | **47-0728886**<br>(I.R.S. Employer<br>Identification Number) |

**10 Derby Square**

**Salem, MA 01970**

**(Address of principal executive offices, including zip code)**

**(978) 619-1300**

**(Registrant s telephone number, including area code)**

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

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

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

As of May 8, 2009, the registrant had outstanding 15,228,551 shares of its common stock ($.01 par value).

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**ATLANTIC TELE-NETWORK, INC.**

FORM 10-Q
Quarter Ended March 31, 2009

**Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q (or the Report ) contains forward-looking statements relating to, among other matters, the future financial performance and results of operations of the Company; demand for our services and industry trends; the pace of our network expansion and improvement, including our realization of the benefits of these investments; and management s plans and strategy for the future. These forward-looking statements are based on estimates, projections, beliefs, and assumptions and are not guarantees of future events or results. Actual future events and results could differ materially from the events and results indicated in these statements as a result of many factors, including, among others, (1) significant political and regulatory risk facing our exclusive license to provide local exchange and international voice and data services in Guyana; (2) any significant decline in the price or volume, including bypass activities, of international long distance calls to Guyana; (3) the regulation of rates that GT&T may charge for local wireline telephone service; (4) significant tax disputes between GT&T and the Guyanese tax authorities; (5) the derivation of a significant portion of our U.S. wireless revenue from a small number of customers and the extent to which our wholesale customers build or acquire overlapping networks; (6) our ability to maintain favorable roaming arrangements, including the rates Commnet charges its wholesale customers; (7) the current global economic recession, along with difficult and volatile conditions in the capital and credit markets; (8) increased competition; (9) economic, political and other risks facing our foreign operations; (10) regulatory changes affecting our businesses; (11) the loss of certain FCC licenses; (12) rapid and significant technological changes in the telecommunications industry; (13) our reliance on a limited number of key suppliers and vendors for timely supply of equipment and services relating to our network infrastructure; (14) any loss of any key members of management; (15) the adequacy and expansion capabilities of our network capacity and customer service system to support our customer growth; (16) dependence of our wireless and wireline revenues on the reliability and performance of our network infrastructure; (17) the occurrence of severe weather and natural catastrophes; and (18) our ability to realize the value that we believe exists in businesses that we acquire.

These and other factors that may cause actual future events and results to differ materially from the events and results indicated in the forward-looking statements above are set forth more fully under Item 1A Risk Factors of the Company s Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Form 10-K ), which is on file with the SEC. The Company undertakes no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors that may affect such forward-looking statements.

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

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

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## PART I FINANCIAL INFORMATION

### Item 1. Unaudited Condensed Consolidated Financial Statements

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**
**(Dollars in thousands, except per share amounts)**

| | December 31, 2008 | March 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 79,665 | $ 81,821 |
| Short term investments | 2,956 | 2,956 |
| Accounts receivable, net of allowances of $2.5 million and $3.0 million, respectively | 26,779 | 29,599 |
| Materials and supplies | 5,669 | 5,546 |
| Prepaid income taxes | 10,708 | 7,679 |
| Deferred income taxes | 1,443 | 1,443 |
| Prepayments and other current assets | 4,101 | 3,771 |
| Total current assets | 131,321 | 132,815 |
| Fixed Assets: | | |
| Property, plant, and equipment | 342,059 | 346,298 |
| Less accumulated depreciation | (143,829) | (148,370) |
| Net fixed assets | 198,230 | 197,928 |
| Licenses | 33,658 | 34,024 |
| Goodwill | 40,237 | 40,361 |
| Other intangibles, net | 2,456 | 2,285 |
| Deferred income taxes | 8,570 | 8,096 |
| Other assets | 5,349 | 5,340 |
| Total assets | $ 419,821 | $ 420,849 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities: | | |
| Current portion of long-term debt | $ 750 | $ 750 |
| Accounts payable and accrued liabilities | 28,707 | 24,254 |
| Dividends payable | 2,777 | 2,778 |
| Accrued taxes | 8,631 | 8,244 |
| Advance payments and deposits | 3,652 | 3,741 |
| Other current liabilities | 3,395 | 4,697 |
| Total current liabilities | 47,912 | 44,464 |
| Deferred income taxes | 28,736 | 28,736 |
| Other liabilities | 8,202 | 7,512 |
| Long-term debt, excluding current portion | 73,311 | 73,144 |
| Total liabilities | 158,161 | 153,856 |
| Commitments and contingencies (Note 11) | | |
| Atlantic Tele-Network, Inc. s 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; 15,725,057 shares issued; 15,228,610 and 15,228,551 shares outstanding at December 31, 2008 and March 31, 2009, respectively | | 157 | | 157 |
| Treasury stock, at cost; 496,447 and 496,506 shares at December 31, 2008 and March 31, 2009, respectively | | (4,560) | | (4,575) |
| Additional paid-in capital | | 107,312 | | 107,591 |
| Retained earnings | | 132,866 | | 138,926 |
| Accumulated other comprehensive loss | | (6,902) | | (6,487) |
| Total Atlantic Tele-Network, Inc.   s stockholders   equity | | 228,873 | | 235,612 |
| Non-controlling interests | | 32,787 | | 31,381 |
| Total stockholders   equity | | 261,660 | | 266,993 |
| Total liabilities and equity | $ | 419,821 | $ | 420,849 |

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

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**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2009**
**(Unaudited)**
**(Dollars in thousands, except per share amounts)**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2009 |
|---|---|---|
| **REVENUE:** | | |
| Wireless | $ 19,753 | $ 31,725 |
| Local telephone and data | 12,246 | 13,053 |
| International long distance | 12,556 | 10,401 |
| Other | 1,075 | 787 |
| Total revenues | 45,630 | 55,966 |
| **OPERATING EXPENSES** ***(excluding depreciation and amortization unless otherwise indicated):*** | | |
| Termination and access fees | 7,588 | 10,446 |
| Internet and programming | 899 | 789 |
| Engineering and operations | 5,856 | 6,947 |
| Sales and marketing | 2,674 | 3,592 |
| General and administrative | 5,882 | 8,215 |
| Depreciation and amortization | 7,077 | 9,200 |
| Total operating expenses | 29,976 | 39,189 |
| | | |
| Income from operations | 15,654 | 16,777 |
| **OTHER INCOME (EXPENSE):** | | |
| Interest expense | (653) | (1,157) |
| Interest income | 569 | 340 |
| Other, net | 225 | 26 |
| Other income (expense), net | 141 | (791) |
| | | |
| **INCOME BEFORE INCOME TAXES** | 15,795 | 15,986 |
| Income taxes | 7,390 | 6,956 |
| | | |
| **INCOME BEFORE EQUITY IN EARNINGS IN UNCONSOLIDATED AFFILIATES** | 8,405 | 9,030 |
| Equity in earnings of unconsolidated affiliates | 463 | |
| | | |
| **NET INCOME** | 8,868 | 9,030 |
| Less: Net income attributable to non-controlling interests, net of tax of $1.0 million and $0.7 million, respectively | (1,001) | (228) |
| **NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS** | $ 7,867 | $ 8,802 |
| | | |
| **NET INCOME PER WEIGHTED AVERAGE SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS:** | | |
| Basic | $ 0.52 | $ 0.58 |
| Diluted | $ 0.51 | $ 0.58 |
| **WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:** | | |
| Basic | 15,228 | 15,229 |
| Diluted | 15,303 | 15,250 |
| **DIVIDENDS PER SHARE APPLICABLE TO COMMON STOCK** | $ 0.16 | $ 0.18 |

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

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**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2009**
**(Unaudited)**
**(Dollars in thousands)**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2009 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 8,868 | $ 9,030 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Depreciation and amortization | 7,077 | 9,200 |
| Provision for doubtful accounts | 463 | 408 |
| Amortization of debt discount and debt issuance costs | 30 | 133 |
| Stock-based compensation | 273 | 300 |
| Deferred income taxes | 200 | 199 |
| Equity in earnings of unconsolidated affiliates | (463) | |
| Dividends received from Bermuda Digital Communications, Ltd. | 553 | |
| Changes in operating assets and liabilities, excluding the effects of acquisitions: | | |
| Accounts receivable | 177 | (3,228) |
| Materials and supplies, prepayments, and other current assets | (1,711) | 3,482 |
| Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities | 4,705 | (2,348) |
| Accrued taxes | (1,034) | (387) |
| Other | 34 | (43) |
| Net cash provided by operating activities | 19,172 | 16,746 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures | (11,647) | (9,980) |
| Acquisitions of businesses | (40) | (24) |
| Increase in deposits for acquisition of spectrum | (2,951) | |
| Purchase of short term investments | (66) | |
| Decrease in restricted cash | 1,524 | |
| Net cash used in investing activities | (13,180) | (10,004) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Dividends paid on common stock | (2,435) | (2,741) |
| Distributions to non-controlling interests | (326) | (1,634) |
| Repayments of long-term debt | | (188) |
| Purchase of common stock | | (23) |
| Proceeds from exercise of stock options | 157 | |
| Net cash used in financing activities | (2,604) | (4,586) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 3,388 | 2,156 |
| **CASH AND CASH EQUIVALENTS, beginning of the period** | 71,173 | 79,665 |
| **CASH AND CASH EQUIVALENTS, end of the period** | $ 74,561 | $ 81,821 |

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

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**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. ORGANIZATION AND BUSINESS OPERATIONS

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

- Guyana Telephone & Telegraph Company, Ltd. ( GT&T ), the national and international telephone company in the Republic of Guyana and the largest wireless service provider in that country. The Company has owned 80% of the stock of GT&T since January 1991. GT&T generated approximately 55% and 41% of the Company s consolidated revenues for the three months ended March 31, 2008 and 2009, respectively. The reduction in these percentages is principally due to the acquisitions noted below and the growth in those acquired operations.

- Commnet Wireless, LLC ( Commnet ), an owner and operator of wholesale wireless networks in rural areas of the United States. Commnet provides wireless voice and data communications roaming services principally to national, regional and local wireless carriers. Commnet generated approximately 32% and 39% of the Company s consolidated revenues for the three months ended March 31, 2008 and 2009, respectively.

- Bermuda Digital Communications, Ltd. ( BDC ), the largest wireless voice and data communications service provider in Bermuda, doing business under the name Cellular One . The Company acquired an equity interest in, and signed a management contract with, BDC in 1998. On May 15, 2008, BDC completed a share repurchase of its common stock. ATN did not tender any shares for repurchase, and, as a result of the transaction, increased its holdings from approximately 43% to approximately 58% of BDC s outstanding common stock. Prior to this increase in holdings, the Company accounted for its investment in BDC under the equity method and earnings from BDC did not appear in its income from operations, but were instead reflected in equity in earnings of unconsolidated affiliates. Effective with the completion of that share repurchase, the Company began consolidating BDC s balance sheet and results of operations. In September 2008, BDC began providing wireless services in Turks and Caicos through Islandcom Telecommunications, Ltd.

- Sovernet, Inc. ( Sovernet ), a facilities-based integrated voice, broadband data communications and dial-up service provider in New England and New York State. Sovernet s retail telecommunications service is delivered to business and residential customers in Vermont and New Hampshire. Through an acquisition made in 2008, Sovernet also delivers wholesale transport services in New York State through its subsidiary, ION. The Company has owned 96% of Sovernet since its acquisition in February 2006.

- Choice Communications, LLC ( Choice ), is a leading provider of fixed wireless broadband data and dial-up internet services to retail and business customers in the U.S. Virgin Islands. Choice is a wholly owned subsidiary of the Company. In March 2009, the Company notified its television customers that it was going to discontinue wireless television service on May 31, 2009 and focus solely on providing wireless broadband data and dialup internet services.

ATN provides management, technical, financial, regulatory, and marketing services for its subsidiaries and receives a management fee equal to approximately 3% to 6% of their respective revenues. Management fees from consolidated subsidiaries are eliminated in consolidation. Management fees from unconsolidated affiliates are included in Other Income in the accompanying statements of operations.

**2. BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). The financial information included herein is unaudited; however, the Company believes such information and the disclosures herein are adequate to make the information presented not misleading and reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company s financial position and results of operations for such periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Results of interim periods may not be indicative of results for the full year. These condensed consolidated financial statements and related notes should be read in conjunction with the Company s 2008 Annual Report on Form 10-K.

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***Consolidation***

The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries and certain entities, which are consolidated in accordance with the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation on Accounting Research Bulletin No. 51 , as revised in December 2003 ( FIN No. 46R ) since it is determined that the Company is the primary beneficiary of these entities. Revenue from these entities constitutes less than 1% of total Company revenue.

***Recent Accounting Pronouncements***

Effective January 1, 2009, the Company adopted the provisions of SFAS No. 141 (revised 2007), Business Combinations a replacement of FASB Statement No. 141 ( SFAS 141(R) ), which replaces SFAS No. 141, Business Combinations ( SFAS 141 ). Although SFAS 141(R) retains the underlying concept of SFAS 141 in that all business combinations are still required to be accounted for at fair value in accordance with the acquisition method, going forward, SFAS 141(R) will require the Company to revise its application of the acquisition method in a number of significant aspects such as requiring the Company to expense transaction costs and to recognize 100% of the acquiree s assets and liabilities rather than a proportional share for acquisitions of less than 100% of a business. In addition, SFAS 141(R) eliminates the step acquisition model and provides that all business combinations, whether full, partial, or step acquisitions, will result in all assets and liabilities of an acquired business being recorded at their fair values at the acquisition date.

In April 2009, the FASB issued FASB Staff Position FAS 141(R)-1, Accounting for Assets and Liabilities Assumed in a Business Combination That Arise from Contingencies ( FSP FAS 141(R)-1 ), which amends the initial and subsequent measurement guidance and disclosure requirements in SFAS 141(R) for assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ) which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 6, 2008, the FASB issued FSP FAS 157-2 which defers the effective date of SFAS 157 for one year for nonfinancial assets and nonfinancial liabilities except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis at least annually. For 2008, the Company did adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The partial adoption of SFAS 157 did not have a material impact on the Company s financial position, results of operations or cash flows. The adoption of FSB FAS 157-2 in 2009 did not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ( SFAS No. 160 ). SFAS No. 160 requires (i) that non-controlling (minority) interests be reported as a component of stockholders equity, (ii) that net income attributable to the parent and the non-controlling interest be separately identified in the consolidated statements of operations, (iii) that changes in a parent s ownership interest while the parent retains the controlling interest be accounted for as equity transactions, (iv) that any retained non-controlling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company adopted the provisions of SFAS No. 160 in the first quarter of 2009. As a result of the adoption, the Company has reported non-controlling interests as a component of equity in the condensed consolidated balance sheets and the net income attributable to non-controlling interests has been separately identified in the condensed consolidated statement of operations. The prior period presented have also been reclassified to conform to the current classification required by SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ). Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ( SFAS 161 ), amends and expands the disclosure requirements of FASB Statement No. 133 ( SFAS 133 ) with the intent to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. SFAS 161 is effective for the Company beginning January 1, 2009. The Company has provided the required disclosures regarding our interest rate swap derivative instrument in Note 6.

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In September 2008, the FASB issued FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP No. EITF 03-6-1 ). Under the provisions of this standard, unvested awards of share-based payments with non-forfeitable rights to receive dividends or dividend equivalents are considered participating securities for purposes of calculating earnings per share. FSP No. EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We adopted FSP No. EITF 03-6-1 in 2009. The adoption of FSP No. EITF 03-6-1 did not have a material impact on the consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP No. 142-3 ). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets ( FAS No. 142 ). The intent of FSP FAS No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141R and other U.S. generally accepted accounting principles. FSP FAS No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of FSP FAS No. 142-3 did not have a material impact on the consolidated financial statements.

In December 2008, the FASB issued an FSP on SFAS No. 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* ( FSP SFAS 132(R)-1 ). FSP SFAS 132(R)-1 provides additional guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The adoption of this interpretation will increase the disclosures in the financial statements related to the assets of an employers defined benefit pension plan. FSP SFAS 132(R)-1 is effective in 2010. The Company does not anticipate that FSP SFAS 132(R)-1 will have a material impact on the consolidated financial statements.

In January 2009, the FASB issued FASB Staff Position No. FSP FAS 107-1 and Accounting Principles Board ( APB ) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ( FSP FAS 107-1 and APB 28-1 ). FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. Additionally, FSP FAS 107-1 and APB 28-1 also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Company will amend our disclosures accordingly beginning with our 2009 second fiscal quarter Form 10-Q.

**3. USE OF ESTIMATES**

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

**4. FAIR VALUE MEASUREMENTS**

The Company s financial instruments at March 31, 2009 included cash and cash equivalents, short term investments, accounts receivable, accounts payable, debt and an interest rate swap agreement. As of March 31, 2009, the estimated fair values of all of the Company s financial instruments approximate their carrying values.

SFAS No. 157 provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. SFAS No. 157 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by SFAS No. 157, as well as the assets and liabilities that we value using those levels of inputs.

The following tables present information (in thousands) about our monetary assets and liabilities that are measured and recorded at fair value on a recurring basis as of March 31, 2009, and indicates the fair value hierarchy of the valuation and recorded

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techniques we utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that utilize observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability. As of March 31, 2009, the Company did not have any Level 3 assets or liabilities.

| Description | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Money market funds | $ 23,198 | $ | $ | $ 23,198 |
| Certificates of deposit | | 5,468 | | 5,468 |
| **Total assets measured at fair value** | $ 23,198 | $ 5,468 | $ | $ 28,666 |
| | | | | |
| Interest rate swap (Note 6) | $ | $ 7,329 | $ | $ 7,329 |
| **Total liabilities measured at fair value** | $ | $ 7,329 | $ | $ 7,329 |

## 5. LONG-TERM DEBT

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

| | December 31, 2008 | March 31, 2009 |
|---|---|---|
| Note payable- $75 million term loan | $ 74,625 | $ 74,438 |
| Less: current portion | (750) | (750) |
| Total long-term debt | 73,875 | 73,688 |
| Less: debt discount | (564) | (544) |
| Net carrying amount | $ 73,311 | $ 73,144 |

***2008 Loan Facility***

On September 10, 2008, the Company, as borrower, entered into a credit agreement with CoBank, ACB and other lenders as referenced within the credit agreement (the 2008 CoBank Credit Agreement ). The 2008 CoBank Credit Agreement replaced the 2005 Credit Agreement and provides a $75 million term loan (the 2008 Term Loan ) as well as a $75 million revolving credit facility (the 2008 Revolver Facility , together with the 2008 Term Loan, the 2008 Credit Facility ).

The 2008 Term Loan matures on September 10, 2015 and requires quarterly repayments of principal of $0.2 million through June 30, 2013 and quarterly repayments of principal of $1.4 million from September 30, 2013 to June 30, 2015. The remaining outstanding principal balance is to be repaid on September 10, 2015 when the 2008 Term Loan matures.

The 2008 Revolver Facility matures on September 10, 2014 and includes a $5 million letter of credit facility. At March 31, 2009, no amounts have been drawn under the 2008 Revolver Facility.

All borrowings under the 2008 Credit Facility bear interest at a rate, selected by the Company from one of the options set forth in the agreement, plus a margin. Such interest rate options include i) a base rate, defined as the greater of the prime rate or the federal funds rate plus 0.5%, or ii) a LIBOR rate. Margins for base rate borrowings range from 0% to 0.5%, depending upon the Company s leverage ratio, while margins for LIBOR borrowings range from 1.25% to 2% also depending upon the Company s leverage ratio. Borrowings as of March 31, 2009, including the interest rate swap agreement discussed in Note 6, were bearing a weighted average interest rate of 5.35%.

The 2008 Credit Facility is guaranteed by the Company s Commnet, Sovernet and Choice subsidiaries, along with certain of the Company s other domestic subsidiaries, and is collateralized by a security interest in substantially all of the assets of the Company and

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the guarantor subsidiaries, including Commnet, Sovernet and Choice, and a pledge of the stock of certain of the Company s direct and indirect, domestic and foreign, subsidiaries, including its principal operating subsidiaries, and stock owned by the Company.

The 2008 CoBank Credit Agreement contains certain affirmative and negative covenants of the Company and its subsidiaries. Among other things, these covenants restrict the Company s ability to incur additional debt in the future or to incur liens on its property. The 2008 Credit Agreement also requires the Company to maintain certain financial ratios including a net leverage ratio of less than or equal to 3.0 to 1, an interest coverage ratio of greater than or equal to 3.5 to 1 and an equity to assets ratio of greater than or equal to 0.4 to 1. As of March 31, 2009, the Company was in compliance with all of the financial covenants of the 2008 CoBank Credit Agreement.

See Note 6 for a discussion regarding the Company s interest rate swap that corresponds to a portion of our variable rate debt in order to effectively hedge interest rate risk.

**6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

As required by SFAS 133, the Company records 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. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. 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 under SFAS 133.

***Risk Management Objective of Using Derivatives***

The Company is exposed to certain risk 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 manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company s known or expected cash receipts and its known or expected cash payments principally related to the Company s investments and borrowings.

***Cash Flow Hedges of Interest Rate Risk***

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve 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 derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the three months ended March 31, 2009, a derivative was used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. No hedge ineffectiveness on cash flow hedges was recognized during the three months ended March 31, 2009.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. During the twelve months ending December 31, 2009, the Company estimates that an additional $2.3 million will be reclassified as an increase to interest expense.

As of March 31, 2009, the Company had one interest rate swap with a notional amount of $68 million that was designated as a cash flow hedge of interest rate risk.

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The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the consolidated balance sheet as of March 31, 2009 (in thousands).

| | Liability Derivatives as of March 31, 2009 | | |
|---|---|---|---|
| | **Balance Sheet Location** | | **Fair Value** |
| Derivatives designated as hedging instruments under SFAS 133: | | | |
| Interest Rate Swap | Other long-term liabilities | $ | 7,329 |
| Total derivatives designated as hedging instruments under SFAS 133 | | $ | 7,329 |

The tables below present the effect of the Company s derivative financial instruments on the statement of operations for the three months ended March 31, 2009 (in thousands):

| **Derivatives in SFAS 133 Cash Flow Hedging Relationships** | | **Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)** | **Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)** | | **Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)** |
|---|---|---|---|---|---|
| Interest Rate Swap | $ | 21 | Interest expense | $ | 659 |

***Credit-risk-related Contingent Features***

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of March 31, 2009, the fair value of the interest rate swap liability position, which includes accrued interest, related to these agreements was $7.3 million.  As of March 31, 2009, the Company has not posted any collateral related to this agreement. If the Company had breached any of these provisions at March 31, 2009, it would have been required to settle its obligation under the agreement at its termination value of $8.8 million.

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**7. RECONCILIATION OF TOTAL EQUITY**

Total equity was as follows:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2009 | | |
| | Atlantic Tele-Network, Inc. | Non-Controlling Interests | Total Equity | Atlantic Tele-Network, Inc. | Non-Controlling Interests | Total Equity |
| Equity, beginning of period | $ 208,971 | $ 27,236 | $ 236,207 | $ 228,873 | $ 32,787 | $ 261,660 |
| Stock based compensation | 273 | | 273 | 300 | | 300 |
| Comprehensive income: | | | | | | |
| Net income | 7,867 | 1,001 | 8,868 | 8,802 | 228 | 9,030 |
| Other comprehensive income- Gain on interest rate swap (net of tax) | | | | 401 | | 401 |
| Total comprehensive income | 217,111 | 28,237 | 245,348 | 238,376 | 33,015 | 271,391 |
| Issuance of common stock upon exercise of stock options | 158 | | 158 | | | |
| Dividends on common stock | (2,437) | (326) | (2,763) | (2,741) | (1,634) | |