ATLANTIC TELE NETWORK INC /DE
Form 10-Q
August 11, 2008
Table of Contents

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 June 30, 2008

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 0-191551

Atlantic Tele-Network, Inc.

(Exact name of registrant as specified in its charter)

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

10 Derby Square

Salem, MA 01970

(978) 619-1300

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (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 August 8, 2008, the registrant had outstanding 15,201,110 shares of its common stock ($.01 par value).

Table of Contents

ATLANTIC TELE-NETWORK, INC.

FORM 10-Q
Quarter Ended June 30, 2008

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

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

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

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

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share amounts)

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

Common stock, $0.01 par value per share; 50,000,000 shares authorized; 15,675,518 and 15,697,557 shares issued, respectively, and 15,220,546 and 15,201,110 shares outstanding, respectively		
Treasury stock, at cost; 454,972 and 496,447 shares, respectively	(3,403)	(4,560)
Additional paid-in capital	106,038	106,990
Retained earnings	108,414	121,614
Accumulated other comprehensive loss	(2,235)	(2,235)
Total stockholders equity	208,971	221,966
Total liabilities, minority interests and stockholders equity	$ 344,626	$ 350,245

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

Table of Contents

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 and 2008

(Unaudited)

(Dollars in thousands, except per share amounts)

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

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

Table of Contents

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2008

(Unaudited)

(Dollars in thousands)

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

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

Table of Contents

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS OPERATIONS

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

- Guyana Telephone & Telegraph Company, Ltd. (GT&T), the national and international telephone company in the Republic of Guyana and the largest wireless service provider in that country. The Company has owned 80% of the stock of GT&T since January 1991.

- Commnet Wireless, LLC (Commnet), an owner and operator of wholesale wireless networks in rural areas of the United States. Commnet provides wireless voice and data communications roaming services primarily to national, regional and local wireless carriers. We acquired 95% of the equity of Commnet in September 2005 and the remaining 5% in January 2007.

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

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

- Choice Communications, LLC (Choice Communications or Choice), is a leading provider of fixed wireless broadband data, wireless digital television services and dial-up internet services to retail and business customers in the U.S. Virgin Islands. Choice is a wholly owned subsidiary of the Company.

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

2. BASIS OF PRESENTATION

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

Consolidation

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

Table of Contents

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

Reclassifications

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

3. USE OF ESTIMATES

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

4. ACQUISITIONS

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

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

Table of Contents

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

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

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

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

5. FAIR VALUE MEASUREMENTS

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

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

6. DEPOSIT FOR ACQUISITION OF SPECTRUM

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

7. CREDIT FACILITIES

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

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

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

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

Table of Contents

8. STOCK-BASED COMPENSATION

In May 2008, at the Company s Annual Meeting of Stockholders, the Company s stockholders approved the 2008 Equity Incentive Plan (the 2008 Plan). The 2008 Plan replaced the 1998 Stock Option Plan, the 2005 Restricted Stock Plan and the Director s Remuneration Plan (collectively and including the 2008 Plan the Share Based Plans), under which no further awards will be made. The 2008 Plan allows for the