ATLANTIC TELE NETWORK INC /DE
Form 10-Q
November 10, 2014
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 September 30, 2014

OR

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

For the transition period from to

Commission File Number 001-12593

Atlantic Tele-Network, Inc.

(Exact name of registrant as specified in its charter)

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

600 Cummings Center

Beverly, MA 01915

(Address of principal executive offices, including zip code)

(978) 619-1300

(Registrant s telephone number, including area code)

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 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 November 10, 2014, the registrant had outstanding 15,919,318 shares of its common stock ($.01 par value).

Table of Contents

ATLANTIC TELE-NETWORK, INC.

FORM 10-Q

Quarter Ended September 30, 2014

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (or the Report) contains forward-looking statements relating to, among other matters, our future financial performance and results of operations; the competitive environment in our key markets, demand for our services and industry trends; the outcome of litigation and regulatory matters; our continued access to the credit and capital markets; the pace of our network expansion and improvement, including our level of estimated future capital expenditures and our realization of the benefits of these investments; and management s plans and strategy for the future. These forward-looking statements are based on estimates, projections, beliefs, and assumptions and are not guarantees of future events or results. Actual future events and results could differ materially from the events and results indicated in these statements as a result of many factors, including, among others, (1) the general performance of our operations, including operating margins, wholesale revenues, and the future growth and retention of our subscriber base; (2) government regulation of our businesses, which may impact our FCC and other telecommunications licenses; (3) economic, political and other risks facing our foreign operations; (4) our ability to maintain favorable roaming arrangements; (5) our ability to efficiently and cost-effectively upgrade our networks and IT platforms to address rapid and significant technological changes in the telecommunications industry; (6) the loss of or our inability to recruit skilled personnel in our various jurisdictions, including key members of management; (7) our ability to find investment or acquisition or disposition opportunities that fit our strategic goals for the Company; (8) increased competition; (9) our reliance on a limited number of key suppliers and vendors for timely supply of equipment and services relating to our network infrastructure; (10) the adequacy and expansion capabilities of our network capacity and customer service system to support our customer growth; (11) the occurrence of severe weather, natural catastrophes and cyber attacks; (12) our continued access to capital and credit markets; and (13) our ability to realize the value that we believe exists in our businesses. These and other additional factors that may cause actual future events and results to differ materially from the events and results indicated in the forward-looking statements contained herein are set forth more fully under Item 1A Risk Factors of this Report and of the Company s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 17, 2014 and the other reports we file from time to time with the SEC. The Company undertakes no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors that may affect such forward-looking statements.

In this Report, the words the Company , we, our, ours, us and ATN refer to Atlantic Tele-Network, Inc. and its subsidiaries. This Report c trademarks, service marks and trade names that are the property of, or licensed by, ATN, and its subsidiaries.

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

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share amounts)

	December 31, 2013	September 30, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 356,607	$ 384,426
Restricted cash	39,000	39,293
Accounts receivable, net of allowances of $9.7 million and $10.8 million, respectively	37,680	44,197
Materials and supplies	7,269	9,352
Deferred income taxes	1,994	2,504
Prepayments and other current assets	24,705	12,450
Assets of discontinued operations	4,748	175
Total current assets	472,003	492,397
Fixed Assets:		
Property, plant and equipment	606,912	639,172
Less: accumulated depreciation	(352,280)	(385,664)
Net fixed assets	254,632	253,508
Telecommunication licenses, net	39,687	44,245
Goodwill	45,077	45,077
Trade name license	417	417
Customer relationships, net	1,807	1,572
Restricted cash	39,000	
Other assets	7,096	6,215
Total assets	$ 859,719	$ 843,431
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 41,709	$ 42,209
Dividends payable	4,279	4,628
Accrued taxes	36,081	3,331
Advance payments and deposits	8,327	7,945
Deferred income taxes	1,601	1,601
Other current liabilities	17,889	10,302
Liabilities of discontinued operations	11,187	2,002
Total current liabilities	121,073	72,018
Deferred income taxes	26,007	27,554
Other liabilities	12,784	18,940
Total liabilities	159,864	118,512
Commitments and contingencies (Note 12)		
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; 16,494,982 and 16,631,797 shares issued, respectively, and 15,816,189 and 15,915,010 shares outstanding, respectively		164		165
Treasury stock, at cost; 678,793 and 716,787 shares, respectively		(13,389)		(15,239)
Additional paid-in capital		139,106		143,592
Retained earnings		519,651		541,950
Accumulated other comprehensive loss		(2,202)		(2,199)
Total Atlantic Tele-Network, Inc. stockholders equity		643,330		668,269
Non-controlling interests		56,525		56,650
Total equity		699,855		724,919
Total liabilities and equity	$	859,719	$	843,431

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

Table of Contents

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 and 2014

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
REVENUE:				
U.S wireless	$ 32,796	$ 44,306	$ 80,597	$ 110,153
International wireless	22,895	21,557	66,162	67,127
Wireline	21,504	21,531	62,945	64,344
Equipment and other	2,155	1,999	6,103	6,212
Total revenue	79,350	89,393	215,807	247,836
OPERATING EXPENSES (*excluding depreciation and amortization unless otherwise indicated*):				
Termination and access fees	14,112	16,018	40,768	48,110
Engineering and operations	9,509	9,788	28,349	28,939
Sales and marketing	4,370	5,489	13,646	15,440
Equipment expense	2,549	2,912	8,050	8,897
General and administrative	13,827	14,213	38,856	42,343
Transaction-related charges	2,610	(27)	2,674	341
Depreciation and amortization	12,335	12,842	36,517	37,752
Gain on disposition of long lived assets			(1,076)	
Total operating expenses	59,312	61,235	167,784	181,822
Income from operations	20,038	28,158	48,023	66,014
OTHER INCOME (EXPENSE):				
Interest expense, net	(7,141)	(13)	(12,126)	(220)
Unrealized loss on interest rate swap contracts	(5,675)		(5,675)	
Other income (expense), net	(226)	338	(198)	302
Other income (expense), net	(13,042)	325	(17,999)	82
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	6,996	28,483	30,024	66,096
Income tax expense	2,481	9,569	11,294	22,460
INCOME FROM CONTINUING OPERATIONS	4,515	18,914	18,730	43,636
Income (loss) from discontinued operations, net of tax	(1,960)		5,166	
Gain on sale of discontinued operations, net of tax	305,197		305,197	
Income from discontinued operations, net of tax	303,237		310,363	
NET INCOME	307,752	18,914	329,093	43,636
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(2,945)	(2,747)	(5,934)	(8,116)
Discontinued operations	116		(601)	
Disposal of discontinued operations	(28,699)		(28,699)	
	(31,528)	(2,747)	(35,234)	(8,116)

NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS	$	276,224		16,167	$	293,859		35,520
NET INCOME PER WEIGHTED AVERAGE BASIC SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS:								
Continuing operations	$	0.10	$	1.02	$	0.82	$	2.24
Discontinued operations :								
Discontinued operations		(0.12)				0.29		
Gain on sale of discontinued operations		17.57				17.64		
Total discontinued operations		17.45				17.93		
Total	$	17.55	$	1.02	$	18.75	$	2.24
NET INCOME PER WEIGHTED AVERAGE DILUTED SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS:								
Continuing operations	$	0.10	$	1.01	$	0.81	$	2.22
Discontinued operations								
Discontinued operations		(0.12)				0.29		
Gain on sale of discontinued operations		17.45				17.51		
Total discontinued operations		17.33				17.80		
Total	$	17.43	$	1.01	$	18.61	$	2.22
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:								
Basic		15,738		15,923		15,678		15,890
Diluted		15,845		16,030		15,789		16,001
DIVIDENDS PER SHARE APPLICABLE TO COMMON STOCK	$	0.27	$	0.29	$	0.77	$	0.83

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

Table of Contents

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2014

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
Net income	$ 329,093	43,636
Other comprehensive income:		
Unrealized gain on interest rate swap, net of tax expense of $2.0 million and $0.0 million, respectively	6,985	
Other comprehensive income, net of tax	6,985	
Comprehensive income	336,078	43,636
Less: Comprehensive income attributable to non-controlling interests	(35,234)	(8,116)
Comprehensive income attributable to Atlantic Tele-Network, Inc.	$ 300,844	35,520

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 NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2014

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 329,093	$ 43,636
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	36,517	37,752
Provision for doubtful accounts	880	1,313
Amortization of debt discount and debt issuance costs	6,657	72
Stock-based compensation	2,898	3,381
Unrealized loss on interest rate derivative contracts	5,675	
Income from discontinued operations, net of tax	(5,166)	
Gain on disposition of long-lived assets	(1,076)	
Gain on sale of discontinued operations	(305,197)	
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(3,832)	(7,830)
Materials and supplies, prepayments, and other current assets	(3,470)	(1,921)
Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities	11,623	1,444
Accrued taxes	(23,668)	(18,401)
Other	7,828	(3,785)
Net cash provided by operating activities of continuing operations	58,762	55,661
Net cash provided by (used in) operating activities of discontinued operations	25,751	(4,612)
Net cash provided by operating activities	84,513	51,049
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, net	(55,171)	(41,699)
Proceeds from disposition of long-lived assets	1,500	1,371
Decrease in restricted cash		38,707
Net cash used in investing activities of continuing operations	(53,671)	(1,621)
Net cash provided by investing activities of discontinued operations	711,541	
Net cash provided by (used in) investing activities	657,870	(1,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid on common stock	(7,839)	(12,873)
Distributions to non-controlling interests	(3,321)	(7,932)
Payment of debt issuance costs	(12)	
Principal repayments of term loan	(272,137)	
Proceeds from stock option exercises	1,450	610
Purchases of common stock	(1,288)	(1,355)
Repurchases of non-controlling interests		(59)
Investments made by minority shareholders in consolidated affiliates	135	
Net cash used in financing activities of continuing operations	(283,012)	(21,609)
Net cash used in financing activities of discontinued operations	(1,678)	
Net cash used in financing activities	(284,690)	(21,609)

NET CHANGE IN CASH AND CASH EQUIVALENTS		457,693	27,819
CASH AND CASH EQUIVALENTS, beginning of the period		136,647	356,607
CASH AND CASH EQUIVALENTS, end of the period	$	594,340	384,426

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

Table of Contents

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS OPERATIONS

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

The Company offers the following principal services:

- ***Wireless.*** In the United States, the Company offers wholesale wireless voice and data roaming services to national, regional, local and selected international wireless carriers in rural markets located principally in the Southwest and Midwest. The Company also offers wireless voice and data services to retail customers in Bermuda, Guyana, the Caribbean and smaller markets in the United States.

- ***Wireline.*** The Company s local telephone and data services include its operations in Guyana and the mainland United States. The Company is the exclusive licensed provider of domestic wireline local and long-distance telephone services in Guyana and international voice and data communications into and out of Guyana. The Company also offers facilities-based integrated voice and data communications services to enterprise and residential customers in New England, primarily in Vermont, and wholesale transport services in Vermont and New York State. In addition, the Company offers wholesale long-distance voice services to telecommunications carriers.

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

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

The Company is actively evaluating potential acquisitions, investment opportunities or 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 11 to the Condensed Consolidated Financial Statements.

2. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The financial information included herein is unaudited; however, the Company believes such information and the disclosures herein are adequate to make the information presented not misleading and reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair statement of the Company s financial position and results of operations for such periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Results of interim periods may not be indicative of results for the full year. These condensed consolidated financial statements and related notes should be read in conjunction with the Company s 2013 Annual Report on Form 10-K.

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

Consolidation

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

Table of Contents

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

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

The Company s effective tax rate declined in 2014 as the result of increased income in lower taxed jurisdictions, such as Bermuda, as compared to 2013. The Company s effective tax rate in 2013 was higher than the statutory federal income tax rate of 35% (plus applicable statutory state income tax rates) due primarily to (i) the portion of our earnings that are taxed in Guyana at 45%, and (ii) a portion of the Company s earnings that include losses generated in foreign jurisdictions for which we receive no tax benefit since these are non-tax jurisdictions. The Company s effective tax rates for the three months ended September 30, 2013 and 2014 were 35.5% and 33.6%, respectively. The Company s effective tax rates for the nine months ended September 30, 2013 and 2014 were 37.6% and 33.9%, respectively.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, *Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. ASU 2014-15 will explicitly require management to assess an entity s ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. The Company does not expect ASU No. 2014-15 to have a material impact on the consolidated financial position, results of operations, or cash flows.

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

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

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

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

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

3. USE OF ESTIMATES

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

Table of Contents

4. DISCONTINUED OPERATIONS SALE OF U.S. RETAIL WIRELESS BUSINESS

On September 20, 2013, the Federal Communications Commission announced its approval of the previously announced proposed sale of the Company s U.S. retail wireless business operated under the Alltel name to AT&T Mobility for approximately $780.0 million in cash plus $16.8 million in working capital adjustments. The Company previously reported the operations of this business within its U.S. Wireless segment. As a result of that approval, the Company completed the sale of certain U.S. retail wireless assets on that date.

The $796.8 million in cash proceeds included $78.0 million of cash to be held in a general indemnity escrow account. Subject to the terms and conditions of the purchase agreement between AT&T Mobility and the Company governing the sale, the restrictions on $19.5 million of these funds expired March 2014 and September 2014, respectively, for a total of $39.0 million year to date. The remaining $39.0 million has been recorded as restricted cash on the Company s September 30, 2014 balance sheet and classified as a current asset since $39.0 million and is expected to be released, subject to any indemnity claims, to the Company in March 2015.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Revenue from discontinued operations	$ 88,036	$	$ 299,519	$
Income from discontinued operations, net of tax expense (benefit) of ($1.9) and $5.2 million for the three and nine months ended September 30, 2013 respectively	(1,960)		5,166	

5. FAIR VALUE MEASUREMENTS

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

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

Level 1 Quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset and liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets and liabilities include money market funds, debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes corporate obligations and non-exchange traded derivative contracts.

Table of Contents

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

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

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

	September 30, 2014		
Description	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Total**
Certificate of deposit	$	$ 363	$ 363
Money market funds	$ 2,407	$	$ 2,407
Total assets measured at fair value	$ 2,407	$ 363	$ 2,770

Certificate of Deposit

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

Money Market Funds

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

6. LONG-TERM DEBT

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

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

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

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

Table of Contents

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

Note Payable   Other

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

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

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

Three Months Ended	Derivative in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in Other	Location of Gain or (Loss) Reclassified from Accumulated	Amount of Gain or (Loss) Reclassified from Accumulated

September 30,		Comprehensive Income on Derivative (Effective Portion)		Other Comprehensive Income into Income (Effective Portion)		Other Comprehensive Income into Income (Effective Portion)
2013	Interest Rate Swap	$		Interest expense	$	
2014	Interest Rate Swap	$		Interest expense	$	

Nine Months Ended September 30,	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)
2013	Interest Rate Swap	$	6,255	Interest expense	$	6,255
2014	Interest Rate Swap	$		Interest expense	$	

Table of Contents

8. GOVERNMENT GRANTS

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

Stimulus Grants

The Company was awarded several federal stimulus grants in 2009 and 2010 by the U.S. Government under provisions of the American Recovery and Reinvestment Act of 2009 intended to stimulate the deployment of broadband infrastructure and services to rural, unserved and underserved areas. As of September 30, 2014, the Company has spent (i) $35.8 million in capital expenditures (of which $27.5 million has been funded by the federal stimulus grant) in connection with the Company s build of ten new segments of fiber-optic, middle-mile broadband infrastructure in upstate New York and parts of Pennsylvania and Vermont; (ii) $7.6 million in capital expenditures (of which $5.3 million has been funded by the federal stimulus grant) in connection with the Company s last-mile broadband infrastructure buildout in the Navajo Nation across Arizona, New Mexico and Utah; and (iii) $47.8 million in capital expenditures (of which $33.0 million has been or is expected to be funded by the federal stimulus grant) in connection with the Company s fiber-optic middle mile network buildout to provide broadband and transport services to over 340 community anchor institutions in Vermont. The results of the Company s New York and Vermont stimulus projects are included in the Company s U.S. Wireline segment and the results of the Company s Navajo stimulus project are included in the Company s U.S. Wireless segment. The New York and Navajo Stimulus projects were completed during 2013. The Vermont stimulus project will be completed during the latter half of 2014 and the Company anticipates that it will incur an additional nominal amount of capital expenditures of which none is expected to be funded by the federal stimulus grants.

Mobility Fund Grants

As part of the Federal Communications Commission s (FCC) reform of its Universal Service Fund (USF) program, which previously provided support to carriers seeking to offer telecommunications services in high-cost areas and to low-income households, the FCC created the Mobility Fund and the Tribal Mobility Fund, each a one-time award meant to support wireless coverage in underserved geographic areas in the United States. In August 2013, the Company received FCC final approval for approximately $21.7 million of Mobility Fund support and in June 2014, approximately $2.4 million of Tribal Mobility fund support to its wholesale wireless business (collectively the Mobility Funds) to expand voice and broadband networks in certain geographic areas in order to offer either 3G or 4G coverage. As part of the receipt of the Mobility Funds, the Company committed to comply with certain additional FCC construction and other requirements. A portion of these funds will be used to offset network capital costs and a portion is used to offset the costs of supporting the networks for a period of five years. In connection with the Company s application for the Mobility Funds, the Company has posted approximately $10.5 million in letters of credit to the Universal Service Administrative Company (USAC) to secure these obligations. If the Company fails to comply with any of the terms and conditions upon which the Mobility Funds were granted, or if it loses eligibility for the Mobility Funds, USAC will be entitled to draw the entire amount of the letter of credit applicable to the affected project plus penalties and may disqualify the Company from the receipt of additional Mobility Fund support. As of September 30, 2014, all of the letters of credit remain outstanding and no amounts have been drawn thereon.

The Company began the construction of its Mobility Funds projects during the third quarter of 2013 and its results are included in the Company s U.S. Wireless segment. As of September 30, 2014, the Company has received approximately $7.4 million in Mobility Funds. Of these funds, $1.3 million was recorded as an offset to the cost of the property, plant, and equipment associated with these projects and, consequentially, a reduction of future depreciation expense and $6.1million was recorded as a liability to reduce future operating expenses. The balance sheet presentation is based on the timing of the expected recognition of the funds and accordingly, $2.3 million is recorded within other current liabilities while the remaining $3.8 million is recorded within other long-term liabilities.

Table of Contents

9. EQUITY

Total equity was as follows (in thousands):

	Nine Months Ended September 30,					
	2013			2014		
	Atlantic Tele-Network, Inc.	Non-Controlling Interests	Total Equity	Atlantic Tele-Network, Inc.	Non-Controlling Interests	Total Equity
Equity, beginning of period	$ 334,146	$ 60,094	$ 394,240	$ 643,330	$ 56,525	$ 699,855
Stock-based compensation	3,419		3,419	3,381		3,381
Comprehensive income:						
Net income	293,859	35,234	329,093	35,520	8,116	43,636
Other comprehensive income-Gain on interest rate swap (net of tax)	6,985		6,985			
Total comprehensive income	300,844	35,234	336,078	35,520	8,116	43,636
Issuance of common stock upon exercise of stock options	6,778		6,778	1,106		1,106
Dividends declared on common stock	(11,982)		(11,982)	(13,218)		(13,218)