ATLANTIC TELE NETWORK INC /DE
Form 10-Q
November 09, 2007

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, 2007

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	**47-0728886**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10 Derby Square

Salem, MA 01970

(978) 619-1300

(Address of principal executive offices,

including zip code and telephone

number and 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer o Accelerated filer x Non-accelerated filer 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 9, 2007, the registrant had outstanding 15,220,546 shares of its common stock ($.01 par value).

ATLANTIC TELE-NETWORK, INC.

FORM 10-Q
Quarter Ended September 30, 2007

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, including the relative contributions of the Company s subsidiaries; demand for our services and industry trends; the pace of our network expansion and improvement, including our realization of the benefits of capital expenditures; 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 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, including the rates Commnet charges its wholesale customers; (8) economic, political and other risks facing our foreign political 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 any 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; (16) the possible reduction of our economic interest in our Bermuda affiliate in 2008; and (17) 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2006, 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. 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.

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, 2006	September 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 60,543	$ 60,967
Accounts receivable, net of allowances of $1.4 million and $2.2 million, respectively	20,510	25,302
Materials and supplies	7,578	5,719
Prepayments and other current assets	2,508	3,325
Assets held for sale		13,324
Total current assets	91,139	108,637
FIXED ASSETS:		
Property, plant, and equipment	237,006	260,472
Less accumulated depreciation	(98,433)	(114,946)
Net fixed assets	138,573	145,526
INTANGIBLE ASSETS:		
Licenses	20,641	14,563
Goodwill	35,583	39,326
Customer relationships, net	3,509	2,628
INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES	12,004	12,168
OTHER ASSETS	1,165	2,605
Total assets	$ 302,614	$ 325,453
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 19,252	$ 16,669
Dividends payable	2,146	2,460
Accrued taxes	7,301	9,977
Advance payments and deposits	3,813	3,646
Other current liabilities	2,529	2,961
Liabilities held for sale		1,305
Total current liabilities	35,041	37,018
DEFERRED INCOME TAXES	12,871	13,153
LONG-TERM DEBT	50,000	50,000
Total liabilities	97,912	100,171
MINORITY INTERESTS	25,932	25,931
COMMITMENTS AND CONTINGENCIES (See Note 12)		
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value per share; 10,000,000 shares authorized, none issued and outstanding		

Common stock, $.01 par value per share; 50,000,000 shares authorized; 15,651,018 and 15,672,393 shares issued, respectively, and 15,170,707 and 15,217,421 shares outstanding on December 31, 2006 and September 30, 2007, respectively		157		157
Treasury stock, at cost		(3,557)		(3,403)
Additional paid-in capital		104,356		105,713
Retained earnings		79,599		98,258
Accumulated other comprehensive loss		(1,785)		(1,374)
Total stockholders equity		178,770		199,351
Total liabilities and stockholders equity	$	302,614	$	325,453

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

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 and 2007

(Unaudited)

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2007
REVENUE:				
Wireless	$ 17,050	$ 21,453	$ 44,595	$ 58,741
Local telephone and data	11,532	11,816	31,574	35,019
International long distance	11,833	12,649	34,513	37,898
Other	932	1,043	2,682	3,054
Total revenues	41,347	46,961	113,364	134,712
OPERATING EXPENSES (excluding depreciation and amortization unless otherwise indicated):				
Termination and access fees	6,077	6,811	17,317	19,740
Internet and programming	940	857	2,571	2,524
Engineering and operations	5,013	5,420	14,000	16,893
Sales and marketing	2,487	3,614	6,328	12,352
General and administrative	5,832	5,804	16,645	17,292
Depreciation and amortization	6,133	6,815	18,033	19,975
Total operating expenses	26,482	29,321	74,894	88,776
Income from operations	14,865	17,640	38,470	45,936
OTHER INCOME (EXPENSE):				
Interest expense	(926)	(720)	(2,814)	(1,596)
Interest income	528	713	933	1,814
Other income, net	21	24	619	2,969
Other income (expense), net	(377)	17	(1,262)	3,187
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS AND EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES	14,488	17,657	37,208	49,123
Income taxes	6,286	7,863	18,976	21,778
INCOME BEFORE MINORITY INTERESTS AND EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES	8,202	9,794	18,232	27,345
Minority interests, net of tax of $1.1 million and $0.9 million for the three months ended September 30, 2006 and 2007, respectively and $3.1 million and $2.7 million for the nine months ended September 30, 2006 and 2007, respectively	(1,307)	(1,060)	(3,614)	(3,762)
Equity in earnings of unconsolidated affiliates	708	668	2,010	1,766
NET INCOME	$ 7,603	$ 9,402	$ 16,628	$ 25,349
NET INCOME PER SHARE:				
Basic	$ 0.53	$ 0.62	$ 1.27	$ 1.67
Diluted	$ 0.53	$ 0.61	$ 1.26	$ 1.66
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	14,262	15,175	13,053	15,162
Diluted	14,353	15,317	13,223	15,295
DIVIDENDS PER SHARE APPLICABLE TO COMMON STOCK	$ 0.14	$ 0.16	$ 0.38	$ 0.44

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

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2007

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30, 2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,628	$ 25,349
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	18,033	19,975
Bad debt for amounts due from Bridge International Communications, Inc.	255	
Gain on sale of investments in affiliates		(133)
Loss on sale of assets of affiliates		258
Gain on sale of Commnet Wireless related assets		(1,043)
Stock-based compensation	610	631
Deferred income taxes	1,090	282
Minority interests	3,614	3,762
Equity in earnings of unconsolidated affiliates	(2,010)	(1,766)
Dividends received from Bermuda Digital Communications, Ltd.	1,244	1,451
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable, net	(3,129)	(4,792)
Materials and supplies, prepayments, and other current assets	(2,988)	1,022
Other assets	(458)	(1,029)
Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities	1,241	(1,370)
Accrued taxes	1,648	2,073
Net cash provided by operating activities	35,778	44,670
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(19,862)	(31,212)
Acquisitions of businesses, net of cash acquired of $1,687 and $0, respectively	(20,026)	(6,721)
Investments made by minority shareholders in consolidated subsidiaries	1,400	
Proceeds from sale of investments in affiliates	1,991	276
Proceeds from sale of assets of affiliates		522
Proceeds from sale of Commnet Wireless related assets		1,507
Net cash used in investing activities	(36,497)	(35,628)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from underwritten public offering of common stock, net of expenses	46,338	
Dividends paid on common stock	(4,512)	(6,379)
Distributions to minority shareholders	(3,090)	(2,396)
Proceeds from stock option exercises		157
Proceeds from long-term debt	22,000	
Repayment of long-term debt	(26,120)	
Purchase of common stock	(85)	
Net cash provided by (used in) financing activities	34,531	(8,618)
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,812	424
CASH AND CASH EQUIVALENTS, beginning of the period	26,493	60,543
CASH AND CASH EQUIVALENTS, end of the period	$ 60,305	$ 60,967

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

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BUSINESS OPERATIONS

Atlantic Tele-Network, Inc. (ATN or the 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. GT&T generated approximately 58% and 53% of the Company s consolidated revenues for the three months ended September 30, 2006 and 2007, respectively and approximately 60% and 57% of the Company s consolidated revenues for the nine months ended September 30, 2006 and 2007, respectively.

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. The Company completed its acquisition of 95% of Commnet on September 15, 2005 and the remaining 5% on January 1, 2007.

Sovernet, Inc., (Sovernet), a facilities-based integrated voice, broadband data communications and dial-up service provider in New England, primarily in Vermont. ATN acquired all of the outstanding common stock of Sovernet, Inc. on February 10, 2006 and, at the closing of the transaction, issued shares of common stock of Sovernet, Inc. amounting to 4% of Sovernet s outstanding capital stock to Sovernet s Chief Executive Officer, subject to vesting requirements and other restrictions.

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. The Company currently owns 43% of the equity of BDC.

Choice Communications, LLC (Choice Communications or Choice), a provider of fixed wireless broadband data and wireless digital television services, as well as 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.

In the third quarter of 2006, the Company completed the sale of 3.84 million shares of common stock at $19.00 per share in an underwritten public offering (the 2006 Equity Offering) consisting of the sale by the Company of an aggregate of 2.64 million shares (2.4 million shares in July 2006 and an additional 0.24 million shares purchased by the underwriters as a part of their over-allotment option in August 2006) and 1.2 million shares by our Chairman, Cornelius B. Prior, Jr., and his related entities. The net proceeds to the Company of this offering, which were approximately $46.3 million, were used to repay a portion of the Company s outstanding indebtedness, and will fund capital expenditures, acquisitions and/or strategic investments and general corporate purposes. The Company did not receive any proceeds from the sale of shares of the selling stockholders.

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 2006 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.

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159). This standard is effective for periods beginning after November 15, 2007, therefore, the Company will adopt the provisions of the standard on January 1, 2008. SFAS 159 permits the Company to elect to measure certain of its financial instruments at either historical cost or fair value. The Company is in the process of determining what method it will choose upon adoption and, once determined, the impact, if any, adoption will have on the financial results or position of the Company.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in the Company s financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The adoption did not have a material impact on the results of operations or financial position of the Company.

The Company evaluated its uncertain tax positions relating to its various tax matters and rulings in Guyana and determined that no adjustment was to be recorded to the estimated settlement amounts previously recorded prior to the adoption of FIN 48. As noted in Note 11 to the 2006 Form 10-K, due to various arrangements and relationships in place with the government of Guyana, there is no expectation that interest and penalties will be assessed upon reaching final settlement of the matters. There is no expected settlement date and upon settlement, which might not occur in the near future, the payment may vary significantly from the amounts currently recorded. The Company will continue to update amounts recorded as new developments arise.

Reclassifications

Certain conforming revisions have been made to the 2006 statement of operations to conform to the 2007 presentation.

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

a) *Acquisition of Minority Interest in Commnet*

In connection with the Commnet merger agreement of September 2005, the Company also entered into a put and call agreement with Brian A. Schuchman, the 5% minority shareholder of Commnet. Under the terms of this agreement, the Company was obligated to acquire the remaining 5% ownership interest from Mr. Schuchman between April 15, 2007 and October 15, 2007. The purchase price was based on a fixed multiple to earnings as calculated during the 12-month period prior to the exercise of the put and call. The Company reached an agreement with Mr. Schuchman on January 1, 2007 to purchase his ownership interest for $7.1 million, consisting of $6.5 million in cash and 21,000 shares of the Company s common stock, valued at approximately $0.6 million. Effective January 1, 2007, Commnet is a wholly-owned subsidiary of the Company. Effective May 24, 2007, Mr. Schuchman became a member of the Company s Board of Directors.

The acquisition of the 5% minority interest in Commnet was accounted for using the purchase method. After eliminating the $1.3 million minority interest in Commnet, the Company allocated $1.7 million to property and equipment, $1.1 million to licenses and the residual balance of $3.0 million was recorded to goodwill. In accordance with current accounting standards, the goodwill will not be amortized and will be tested for impairment at least annually as required by SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). For tax purposes, the Company elected to step up the basis of Commnet s assets to fair market value, and therefore, the goodwill is deductible for tax purposes.

b) *Sovernet, Inc.*

On February 10, 2006, the Company completed the acquisition of Sovernet, a facilities-based provider of communications services to business and residential customers in Vermont, including bundled voice and high-speed Internet access, as well as traditional dial-up Internet services. In connection with the acquisition, ATN acquired all of the outstanding common stock of Sovernet for approximately $13.2 million, including the repayment of approximately $1.4 million in Sovernet debt and the payment of transaction expenses of $0.5 million. At the closing of the transaction, the Company issued shares of Sovernet s common stock amounting to 4% of Sovernet s outstanding capital stock to Sovernet s new chief executive, subject to vesting requirements and other restrictions. The Company funded the transaction through a combination of cash on hand and borrowings under its existing credit facility (see Note 5). The acquisition of Sovernet allows the Company to expand its local telephone and data business into the under-served, smaller markets of Vermont and northern New England.

The acquisition of Sovernet was accounted for using the purchase method and Sovernet s results of operations since February 10, 2006, the date of acquisition, have been included in the financial statements of the Company. The total purchase consideration was allocated to the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition as determined by management. Included in this allocation was $5.0 million attributable to Sovernet s relationships with its existing customers as of the date of acquisition. The excess of the purchase price over the amounts allocated to assets acquired and liabilities assumed has been recorded as goodwill. The Company originally recorded $8.1 million of goodwill in connection with the acquisition of Sovernet. However, such amount was reduced by $1.7 million (net of tax) during 2006 as a result of the Company s recording of certain transactions which related to a pre-acquisition period. 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 Sovernet as a retail provider of Internet and telephone services as well as a network operator, Sovernet 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 will not be amortized and will be tested for impairment at least annually as required by SFAS 142. The customer relationships will be amortized, on an accelerated basis, over the expected period during which their economic benefits are to be realized over a period of approximately five years. For tax purposes, the goodwill and amortization of the customer relationships are not deductible. Proforma information has not been presented for this acquisition as it is not considered material.

9

5. CREDIT FACILITIES

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

	December 31, 2006	September 30, 2007
Note payable to CoBank, ACB under a $50 million term loan	$ 50,000	$ 50,000
Line of Credit, payable to CoBank, ACB under a $20 million revolving credit facility		
Total long term debt	$ 50,000	$ 50,000

On September 15, 2005, ATN, as borrower, entered into a credit agreement with CoBank, ACB (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 subsidiary and is collateralized by, among other things, a security interest in substantially all of the assets of and stock owned by ATN and Commnet. 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%, less any patronage payments received by the Company from the bank. Amounts outstanding under the Revolver Facility 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%.

On August 31, 2007, the Company and its lenders under the CoBank Credit Agreement amended the CoBank Credit Agreement to (i) reduce the amount of GT&T stock pledged by ATN, (ii) provide for up to $1.0 million in Letters of Credit under the Revolver Facility and (iii) increase the amount of investments (including permitted acquisitions and dispositions) the Company can make in other communications companies without approval by the agent of lenders thereunder.

The CoBank Credit Agreement contains certain affirmative and negative covenants of ATN and its subsidiaries (including Commnet). 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, as defined) 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 that changes over time. As of September 30, 2007, the Company was in compliance with the covenants of the CoBank Credit Facility.

6. STOCK-BASED COMPENSATION

During the three months ended September 30, 2006 and 2007, the Company recognized $195,000 and $213,000, respectively, of non-cash compensation expense relating to grants under the 1998 Stock Option Plan and 2005 Atlantic Tele-Network Restricted Stock Plan and Incentive Plan (the Share Based Plans). During the nine months ended September 30, 2006 and 2007, the Company recognized $610,000 and $631,000, respectively, of non-cash compensation expense relating to grants under the Share Based Plans.

In September 2007, the Company s Board of Directors approved the grant, to certain employees, of options to acquire 175,000 shares of the Company s common stock at an exercise price equal to the fair value of the Company s common stock on the date of grant. Also in September 2007, the Company s Board of Directors approved the issuance of 10,000 shares of restricted stock at a price equal to the fair value of the Company s common stock at the date of grant to an employee. In connection with the grant of the options and the restricted shares, the Company recognized $1.4 million of deferred compensation which will be amortized over the vesting period of four years.

7. OTHER INCOME

During the second quarter of 2007, Commnet recorded a gain of $1.0 million in connection with the disposition of certain assets and recorded other income of $1.25 million for cash received in a license settlement. Both of these amounts are included in other income within the accompanying statement of operations for the nine months ended September 30, 2007.

During August 2007, the Company sold all of its assets in Haiti to Access Haiti, S.A., a Haitian company in which the Chairman of the Company s Board of Directors is a significant equity holder. After taking into account outstanding claims, legal and other related expenses incurred in connection with the transaction and the dissolution of the Company's Haitian Subsidiaries the Company recognized a loss of approximately $258,000 which is included in other income in the accompanying statement of operations for both the three and nine months ended September 30, 2007 (see Note 10).

8. NET INCOME PER SHARE

Net income per share is computed in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*. Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period and does not include any other potentially dilutive securities. Diluted net income per share gives effect to all potentially dilutive securities using the treasury stock method.

For the three and nine months ended September 30, 2006 and 2007, the stock options and restricted common shares issued under the Share Based Plans were the only potentially dilutive securities.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Basic weighted average common shares outstanding	14,262	15,175	13,053	15,162
Unvested shares issued under the Company s 2005 Restricted Stock Plan	61	37	57	43
Stock options issued under the Company s 1998 Stock Option Plan	30	105	113	90
Diluted weighted average common shares outstanding	14,353	15,317	13,223	15,295

9. SEGMENT REPORTING

The Company has four reportable segments which are considered material for separate disclosure under Statement of Financial Accounting Standards No. 131, *Disclosures About Segments of and Enterprise Related Information.* Those four segments are: i) Integrated Telephony-International, which generates all of its revenues in Guyana and has all of its assets located in Guyana (GT&T), ii) Integrated Telephony-Domestic, which generates all of its revenues and has all of its assets located in the United States (Sovernet), iii) Wireless Television and Data, which generates all of its revenues in and has all of its assets located in the U.S Virgin Islands (Choice), and iv) Rural Wireless, which generates all of its revenues in the United States and has all of its assets located in the United States (Commnet). The operating segments are managed separately because each offers different services and serves different markets. Certain elements of the 2006 segment information have been revised to conform to the current format of financial information reviewed by the Company s chief operating decision makers.

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

	For the Three Months Ended September 30, 2006					
	Integrated Telephony-International	Integrated Telephony-Domestic	Wireless Television and Data	Rural Wireless	Reconciling Items	Consolidated
Revenues	$ 24,030	$ 3,812	$ 1,764	$ 11,741	$	$ 41,347
Depreciation and amortization	3,444	517	588	1,432	152	6,133
Non-cash stock-based compensation		32			163	195
Operating income (loss)	12,646	686	(671)	4,687	(2,483)	14,865
Interest expense			(790)	(170)	34	(926)
Interest income	127	43		29	329	528
Income taxes	4,648	301	(235)	1,819	(247)	6,286
Equity in earnings of unconsolidated affiliates, net of tax					708	708
Net income (loss)	$ 5,606	$ 410	$ (1,333)	$ 2,551	369	$ 7,603

For the Three Months Ended September 30, 2007

	Integrated Telephony-International	Integrated Telephony-Domestic	Wireless Television and Data	Rural Wireless	Reconciling Items	Consolidated
Revenues	$ 25,101	$ 3,661	$ 2,237	$ 15,962	$	$ 46,961
Depreciation and amortization	3,905	431	522	1,879	78	6,815
Non-cash stock-based compensation		32			181	213
Operating income (loss)	11,479	508	(404)	7,938	(1,881)	17,640
Interest expense			(880)	(195)	355	(720)
Interest income	168	90		81	374	713
Income taxes	4,768	157	(142)	2,874	206	7,863
Equity in earnings of unconsolidated affiliates, net of tax					668	668
Net income (loss)	$ 4,394	$ 283	$ (1,282)	$ 4,253	$ 1,754	$ 9,402

For the Nine Months Ended September 30, 2006

	Integrated Telephony-International	Integrated Telephony-Domestic	Wireless Television and Data	Rural Wireless	Reconciling Items	Consolidated
Revenues	$ 68,565	$ 9,560	$ 4,970	$ 30,269	$	$ 113,364
Depreciation and amortization	10,268	1,377	1,768	4,162	458	18,033
Non-cash stock-based compensation		85			525	610
Operating income (loss)	35,914	1,694	(2,268)	10,206	(7,076)	38,470
Interest expense			(2,233)	(427)	(154)	(2,814)
Interest income	411	55		85	382	933
Income taxes	14,573	717	(795)	3,951	530	18,976
Equity in earnings of unconsolidated affiliates, net of tax					2,010	2,010
Net income (loss)	$ 14,576	$ 991	$ (4,011)	$ 5,475	$ (403)	$ 16,628

For the Nine Months Ended September 30, 2007

	Integrated Telephony-International	Integrated Telephony-Domestic	Wireless Television and Data	Rural Wireless	Reconciling Items	Consolidated
Revenues	$ 76,597	$ 10,987	$ 6,410	$ 40,718	$	$ 134,712
Depreciation and amortization	11,671	1,332	1,608	5,132	232	19,975
Non-cash stock-based compensation		95			536	631
Operating income (loss)	33,949	1,444	(1,255)	18,134	(6,336)	45,936
Interest expense		7	(2,622)	(530)	1,549	(1,596)
Interest income	483	228		165	938	1,814
Income taxes	14,133	501	(439)	7,429	154	21,778
Equity in earnings of unconsolidated affiliates, net of tax					1,766	1,766
Net income (loss)	$ 12,853	$ 709	$ (3,861)	$ 10,304	5,344	$ 25,349

	Assets					
As of	Integrated Telephony-International	Integrated Telephony-Domestic	Wireless Television and Data	Rural Wireless	Reconciling Items	Consolidated
December 31, 2006						