

ATLANTIC TELE NETWORK INC /DE

Form 10-Q

August 10, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

Form 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from            to

Commission File Number 001-12593

---

Atlantic Tele-Network, Inc.

Edgar Filing: ATLANTIC TELE NETWORK INC /DE - Form 10-Q

(Exact name of registrant as specified in its charter)

|   |  |
|---|--|
| Delaware  | 47-0728886                                 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>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 No

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 No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes    No

As of August 10, 2015, the registrant had outstanding 16,406,436 shares of its common stock (\$.01 par value).

---

Table of Contents

ATLANTIC TELE-NETWORK, INC.

FORM 10-Q

Quarter Ended June 30, 2015

|  |       |
|--|-------|
| <u>CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS</u>   | 3     |
| <u>PART I—FINANCIAL INFORMATION</u>  | 4     |
| <u>Item 1 Unaudited Condensed Consolidated Financial Statements</u>  | 4     |
| <u>Condensed Consolidated Balance Sheets at December 31, 2014 and June 30, 2015</u>                              | 4     |
| <u>Condensed Consolidated Income Statements for the Three and Six Months Ended June 30, 2014 and 2015</u>        | 5     |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Six Months Ended June 30, 2014 and 2015</u> | 6     |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2015</u>           | 7     |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>  | 8     |
| <u>Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>              | 20-35 |
| <u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>   | 35    |
| <u>Item 4 Controls and Procedures</u>  | 35    |
| <u>PART II—OTHER INFORMATION</u>   | 37    |
| <u>Item 1 Legal Proceedings</u>  | 37    |
| <u>Item 1A Risk Factors</u>  | 37    |
| <u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 37    |
| <u>Item 5 Other Information</u>  | 37    |
| <u>Item 6 Exhibits</u>   | 38    |

SIGNATURES

39

CERTIFICATIONS

2

---

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 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, revenues, and the future growth and retention of our subscriber base and consumer demand for solar power; (2) government regulation of our businesses, which may impact our FCC and other telecommunications licenses or our renewables business; (3) economic, political and other risks facing our 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 an 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 ability to operate in the renewable energy industry; (10) our reliance on a limited number of key suppliers and vendors for timely supply of equipment and services relating to our network infrastructure; (11) the adequacy and expansion capabilities of our network capacity and customer service system to support our customer growth; (12) the occurrence of weather events and natural catastrophes; (13) our continued access to capital and credit markets; and (14) 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 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, 2014, filed with the SEC on March 16, 2015 and the other reports we file from time to time with the SEC. The Company undertakes no obligation and has no intention 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 contains 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,<br>2014 | June 30,<br>2015 |
|---|----------------------|------------------|
| <b>ASSETS</b>   |                      |                  |
| Current Assets:   |                      |                  |
| Cash and cash equivalents   | \$ 326,216           | \$ 391,805       |
| Restricted cash   | 39,703               | 789              |
| Accounts receivable, net of allowances of \$11.3 million and \$10.1 million, respectively | 52,873               | 47,693           |
| Materials and supplies  | 10,546               | 10,079           |
| Deferred income taxes   | 2,588                | 2,588            |
| Prepayments and other current assets  | 19,273               | 19,073           |
| Assets of discontinued operations   | 175                  | 71               |
| Total current assets  | 451,374              | 472,098          |
| Fixed Assets:   |                      |                  |
| Property, plant and equipment   | 763,417              | 770,589          |
| Less accumulated depreciation   | (393,835)            | (408,157)        |
| Net fixed assets  | 369,582              | 362,432          |
| Telecommunication licenses, net   | 44,090               | 43,778           |
| Goodwill  | 45,077               | 45,077           |
| Trade name license, net   | 417                  | 417              |
| Customer relationships, net   | 1,496                | 1,270            |
| Restricted cash   | 5,475                | 5,388            |
| Other assets  | 7,519                | 6,695            |
| Total assets  | \$ 925,030           | \$ 937,155       |
| <b>LIABILITIES AND EQUITY</b>   |                      |                  |
| Current Liabilities:  |                      |                  |
| Current portion of long-term debt   | \$ 6,083             | \$ 6,231         |
| Accounts payable and accrued liabilities  | 61,737               | 50,985           |
| Dividends payable   | 4,631                | 4,666            |
| Accrued taxes   | 5,667                | 9,967            |
| Advance payments and deposits   | 7,898                | 8,400            |
| Deferred income taxes   | 213                  | 199              |
| Other current liabilities   | 16,593               | 9,472            |
| Liabilities of discontinued operations  | 1,247                | 1,357            |



Edgar Filing: ATLANTIC TELE NETWORK INC /DE - Form 10-Q

|   |            |            |
|---|------------|------------|
| Total current liabilities   | 104,069    | 91,277     |
| Deferred income taxes   | 30,366     | 31,232     |
| Other liabilities   | 19,619     | 27,113     |
| Long-term debt, excluding current portion   | 32,794     | 29,649     |
| Total liabilities   | 186,848    | 179,271    |
| 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; 16,647,334 and 16,796,273 shares issued, respectively, and 15,925,748 and 16,406,436 shares outstanding, respectively | 166        | 166        |
| Treasury stock, at cost; 721,586 and 749,837 shares, respectively   | (15,549)   | (17,504)   |
| Additional paid-in capital  | 145,563    | 150,311    |
| Retained earnings   | 549,963    | 546,841    |
| Accumulated other comprehensive loss  | (2,921)    | (2,893)    |
| Total Atlantic Tele-Network, Inc. stockholders' equity  | 677,222    | 676,921    |
| Non-controlling interests   | 60,960     | 80,963     |
| Total equity  | 738,182    | 757,884    |
| Total liabilities and equity  | \$ 925,030 | \$ 937,155 |

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 SIX MONTHS ENDED JUNE 30, 2014 and 2015

(Unaudited)

(In thousands, except per share amounts)

|   | Three months<br>ended June 30, |               | Six months ended<br>June 30, |               |
|---|--------------------------------|---------------|------------------------------|---------------|
|   | 2014                           | 2015          | 2014                         | 2015          |
| <b>REVENUE:</b>   |                                |               |                              |               |
| U.S. wireless   | \$ 37,456                      | \$ 40,103     | \$ 65,848                    | \$ 75,946     |
| International wireless  | 22,422                         | 20,223        | 45,570                       | 41,395        |
| Wireline  | 21,283                         | 22,089        | 42,813                       | 42,681        |
| Renewable energy  | —                              | 5,290         | —                            | 10,579        |
| Equipment and other   | 2,108                          | 2,621         | 4,212                        | 5,069         |
| Total revenue   | 83,269                         | 90,326        | 158,443                      | 175,670       |
| <b>OPERATING EXPENSES (excluding depreciation and<br/>amortization unless otherwise indicated):</b> |                                |               |                              |               |
| Termination and access fees   | 19,713                         | 19,852        | 38,843                       | 39,484        |
| Engineering and operations  | 6,922                          | 7,668         | 13,980                       | 15,586        |
| Sales and marketing   | 5,293                          | 5,064         | 10,672                       | 10,518        |
| Equipment expense   | 3,273                          | 2,833         | 5,988                        | 6,661         |
| General and administrative  | 13,185                         | 14,391        | 25,828                       | 28,813        |
| Transaction-related charges   | 346                            | 137           | 367                          | 316           |
| Depreciation and amortization   | 12,930                         | 14,472        | 24,910                       | 29,223        |
| Gain on disposition of long-lived assets  | —                              | (2,823)       | —                            | (2,823)       |
| Total operating expenses  | 61,662                         | 61,594        | 120,588                      | 127,778       |
| Income from operations  | 21,607                         | 28,732        | 37,855                       | 47,892        |
| <b>OTHER INCOME (EXPENSE)</b>   |                                |               |                              |               |
| Interest expense, net   | (20)                           | (742)         | (207)                        | (1,359)       |
| Loss on deconsolidation of subsidiary (note 5)  | —                              | —             | —                            | (19,937)      |
| Other income (expense), net   | 73                             | 36            | (36)                         | 61            |
| Other income (expense), net   | 53                             | (706)         | (243)                        | (21,235)      |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE<br/>INCOME TAXES</b>                                    |                                |               |                              |               |
| Income taxes  | 21,660                         | 28,026        | 37,612                       | 26,657        |
| Income taxes  | 7,338                          | 13,008        | 12,890                       | 12,521        |
| <b>INCOME FROM CONTINUING OPERATIONS</b>  | <b>14,322</b>                  | <b>15,018</b> | <b>24,722</b>                | <b>14,136</b> |
| <b>INCOME FROM DISCONTINUED OPERATIONS:</b>   |                                |               |                              |               |
| Income from discontinued operations, net of tax   | —                              | —             | —                            | 390           |
| <b>NET INCOME</b>   | <b>14,322</b>                  | <b>15,018</b> | <b>24,722</b>                | <b>14,526</b> |
| Net income attributable to non-controlling interests, net of tax:                                   | (2,809)                        | (5,568)       | (5,368)                      | (8,345)       |

Edgar Filing: ATLANTIC TELE NETWORK INC /DE - Form 10-Q

|   |           |          |           |          |
|---|-----------|----------|-----------|----------|
| NET INCOME ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS                                     | \$ 11,513 | \$ 9,450 | \$ 19,354 | \$ 6,181 |
| NET INCOME PER WEIGHTED AVERAGE BASIC SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS:   |           |          |           |          |
| Continuing operations   | \$ 0.72   | \$ 0.59  | \$ 1.22   | \$ 0.36  |
| Discontinued operations:  | \$ —      | \$ —     | \$ —      | \$ 0.02  |
| Total   | \$ 0.72   | \$ 0.59  | \$ 1.22   | \$ 0.38  |
| NET INCOME PER WEIGHTED AVERAGE DILUTED SHARE ATTRIBUTABLE TO ATLANTIC TELE-NETWORK, INC. STOCKHOLDERS: |           |          |           |          |
| Continued operations  | \$ 0.72   | \$ 0.59  | \$ 1.21   | \$ 0.36  |
| Discontinued operations:  | \$ —      | \$ —     | \$ —      | \$ 0.02  |
| Total   | \$ 0.72   | \$ 0.59  | \$ 1.21   | \$ 0.38  |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:   |           |          |           |          |
| Basic   | 15,915    | 16,038   | 15,873    | 15,988   |
| Diluted   | 16,023    | 16,150   | 15,986    | 16,109   |
| DIVIDENDS PER SHARE APPLICABLE TO COMMON STOCK  | \$ 0.27   | \$ 0.29  | \$ 0.54   | \$ 0.58  |

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 SIX MONTHS ENDED JUNE 30, 2014 AND 2015

(Unaudited)

(In thousands)

|  | Six months ended |           |
|--|------------------|-----------|
|  | June 30,         |           |
|  | 2014             | 2015      |
| Net income   | \$ 24,722        | \$ 14,526 |
| Other comprehensive income:  |                  |           |
| Foreign currency translation adjustment                              | —                | 28        |
| Other comprehensive income, net of tax                               | —                | 28        |
| Comprehensive income   | 24,722           | 14,554    |
| Less: Comprehensive income attributable to non-controlling interests | (5,368)          | (8,345)   |
| Comprehensive income attributable to Atlantic Tele-Network, Inc.     | \$ 19,354        | \$ 6,209  |

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, 2014 AND 2015

(Unaudited)

(In thousands)

|   | Six months ended |           |
|---|------------------|-----------|
|   | June 30,         |           |
|   | 2014             | 2015      |
| Cash flows from operating activities:   |                  |           |
| Net income  | \$ 24,722        | \$ 14,526 |
| Adjustments to reconcile net income to net cash flows provided by operating activities:               |                  |           |
| Depreciation and amortization   | 24,910           | 29,223    |
| Provision for doubtful accounts   | 256              | 237       |
| Amortization and write off of debt discount and debt issuance costs                                   | 48               | 283       |
| Stock-based compensation  | 2,379            | 2,677     |
| Income from discontinued operations, net of tax   | —                | (390)     |
| Gain on disposition of long-lived assets  | —                | (2,823)   |
| Loss on deconsolidation of subsidiary   | —                | 19,937    |
| Changes in operating assets and liabilities, excluding the effects of acquisitions:                   |                  |           |
| Accounts receivable, net  | (7,174)          | 4,033     |
| Materials and supplies, prepayments, and other current assets   | (3,336)          | (4,275)   |
| Accounts payable and accrued liabilities, advance payments and deposits and other current liabilities | (641)            | 4,440     |
| Accrued taxes   | (23,952)         | 18,553    |
| Other   | (1,905)          | (5,879)   |
| Net cash provided by operating activities of continuing operations                                    | 15,307           | 80,542    |
| Net cash provided by operating activities of discontinued operations                                  | (3,255)          | 603       |
| Net cash provided by operating activities   | 12,052           | 81,145    |
| Cash flows from investing activities:   |                  |           |
| Capital expenditures  | (25,104)         | (28,031)  |
| Acquisition of business (Note 4)  | —                | (11,968)  |
| Change in restricted cash   | 19,206           | 39,001    |
| Proceeds from disposition of long-lived assets (Note 5)   | 1,371            | 5,873     |
| Net cash used in investing activities of continuing operations  | (4,527)          | 4,875     |
| Net cash provided by (used in) investing activities of discontinued operations                        | —                | —         |
| Net cash provided by (used in) investing activities   | (4,527)          | 4,875     |
| Cash flows from financing activities:   |                  |           |
| Dividends paid on common stock  | (8,574)          | (9,267)   |
| Distribution to minority stockholders   | (6,081)          | (9,160)   |

