

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 Quarter ended June 30, 1999

OR

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

Commission File Number 0-19551

Atlantic Tele-Network, Inc.  
(exact name of issuer as specified in its charter)

Delaware 47-072886  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

19 Estate Thomas/Havensight  
P.O. Box 12030  
St. Thomas, U.S. Virgin Islands 00801  
(340) 777-8000

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 \_\_\_\_

As of June 30, 1999, the registrant had outstanding 4,659,000 shares of its common stock (\$.01 par value).

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(Columnar Amounts in Thousands)

	December 31, 1998	June 30, 1999 (Unaudited)
<hr style="border-top: 1px dashed black;"/>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$35,116	\$31,956
Accounts receivable, net	24,448	22,424
Materials and supplies	4,988	4,899
Prepayments and other current assets	1,861	3,210
Total current assets	66,413	62,489
Fixed assets:		
Property, plant and equipment	51,126	56,223
Less accumulated depreciation	(4,695)	(7,397)
Net fixed assets	46,431	48,826
Uncollected surcharges, net of current portion	1,802	1,619
Investment in and advances to Bermuda Digital Communications, Ltd.	3,944	4,650
Other assets	7,670	6,388
Total assets	\$126,260	\$123,972
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$11,863	\$12,767
Accrued taxes	8,636	5,252
Advance payments and deposits	969	987

Other current liabilities	1,924	2,056
Current portion of long-term debt	3,403	3,403
	-----	-----
Total current liabilities	26,795	24,465
Deferred income taxes	502	1,497
Long-term debt, excluding current portion	11,394	9,666
	-----	-----
Total liabilities	38,691	35,628
	-----	-----
Minority interests	18,695	19,170
	-----	-----
Contingencies and commitments (Notes 7 and 8)		
Stockholders' equity:		
Preferred stock, par value \$.01 per share; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock, par value \$.01 per share; 20,000,000 shares authorized; 4,909,000 shares issued and 4,909,000 and 4,659,000 outstanding, respectively	49	49
Treasury stock, at cost	(555)	(2,331)
Paid-in capital	54,195	54,195
Retained earnings	15,185	17,261
	-----	-----
Total stockholders' equity	68,874	69,174
	=====	=====
Total liabilities and stockholders' equity	\$126,260	\$123,972
	=====	=====

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

## ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
 THREE AND SIX MONTHS ENDED JUNE 30, 1998 AND 1999  
 (Columnar Amounts in Thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 1998	1999	June 30, 1998	1999
	(Unaudited)		(Unaudited)	
Telephone operations:				
Revenues:				
Local exchange service revenues	\$2,421	\$2,082	\$4,634	\$4,025
International long-distance revenues	21,081	15,811	40,982	34,263
Other revenues	240	408	488	754
Total revenues	23,742	18,301	46,104	39,042
Operating expenses:				
International long-distance expenses	10,302	8,083	21,275	17,493
Telephone operating expenses	5,612	4,927	10,290	10,020
General and administrative expenses	1,318	1,451	2,464	2,816
Total operating expenses	17,232	14,461	34,029	30,329
Income from telephone operations	6,510	3,840	12,075	8,713
Other operations:				
Revenues of other operations	-	385	-	717
Expenses of other operations	-	476	-	936
Loss from other operations	-	(91)	-	(219)
Other income (expense):				
Interest expense	(566)	(463)	(1,147)	(943)
Interest income	454	506	692	1,056
Other income (expense), net	-	(140)	3,750	(245)
Other income (expense), net:	(112)	(97)	3,295	(132)
Income before income taxes and minority interests	6,398	3,652	15,370	8,362
Income taxes	2,842	1,996	6,532	4,414
Income before minority interests	3,556	1,656	8,838	3,948
Minority interests	(461)	(195)	(872)	(474)
Net income	\$3,095	\$1,461	\$7,966	\$3,474
Net income per share:				
Basic	\$0.63	\$0.31	\$1.62	\$0.74
Diluted	\$0.63	\$0.31	\$1.62	\$0.74
Weighted average common stock outstanding:				
Basic	4,909	4,659	4,909	4,709
Diluted	4,909	4,659	4,909	4,709

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

## ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
 SIX MONTHS ENDED JUNE 30, 1998, AND 1999  
 (Columnar Amounts in Thousands)

	Six months ended June 30,	
	1998	1999
	(Unaudited)	
Net cash flows provided by operating activities:	\$15,246	\$7,770
Cash flows from investing activities:		
Capital expenditures	(4,509)	(5,097)
Acquisition of Digicom, S.A., net of cash received	(1,819)	-
Advances to Bermuda Digital Communications, Ltd.	-	(931)
Net cash flows used in investing activities	(6,328)	(6,028)
Cash flows from financing activities:		
Repayment of long-term debt	(1,650)	(1,728)
Purchase of common stock	-	(1,776)
Dividends declared on common stock	-	(1,398)
Net cash flows used in financing activities	(1,650)	(4,902)
Net change in cash and cash equivalents	7,268	(3,160)
Cash and cash equivalents, beginning of period	15,803	35,116
Cash and cash equivalents, end of period	\$23,071	\$31,956
Supplemental cash flow information:		
Interest paid	\$872	\$719
Income taxes paid	\$3,445	\$1,429
Depreciation and Amortization Expense	\$1,932	\$2,702

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

Atlantic Tele-Network, Inc. and Subsidiaries

Notes to Consolidated Condensed  
Financial Statements  
Three and Six Months Ended June 30, 1998 and 1999

(Columnar Amounts in Thousands, Except Per Share Data)  
(Unaudited)

1. ORGANIZATION AND BUSINESS OPERATIONS

Atlantic Tele-Network, Inc. (the "Company" or "ATN"), a Delaware corporation, is engaged principally through its 80%-owned subsidiary, Guyana Telephone & Telegraph Company, Limited ("GT&T"), in providing telecommunications services, including local telephone service, long-distance services and cellular service in the Cooperative Republic of Guyana ("Guyana") and international telecommunications service to and from Guyana. The Company also owns a 75% interest in Digicom S.A. ("Digicom"), a Haitian corporation principally engaged in dispatch radio, mobile telecommunications and paging and a 30% interest (plus warrants which would enable the Company to increase its investment to 45% under certain circumstances in Bermuda Digital Communications, Ltd., ("BDC"), a Bermuda corporation which operates under the name "Cellular One" and is the sole cellular and PCS competitor in Bermuda to the Bermuda Telephone Company. ATN provides management, technical, financial, regulatory and marketing services for GT&T, Digicom and BDC for a management fee equal to 6% of gross revenues.

2. BASIS OF PRESENTATION

The consolidated condensed balance sheet of ATN and subsidiaries at December 31, 1998 has been taken from audited financial statements at that date. All of the other accompanying consolidated condensed financial statements are unaudited. These consolidated condensed financial statements have been prepared by the management of ATN in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures usually found in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In the opinion of the management of the Company, all adjustments (consisting only of normal recurring adjustments) considered necessary for fair presentation of the consolidated condensed financial statements have been included, and the accompanying condensed consolidated financial statements present fairly the financial position and the results of operations for the interim periods presented. The consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's 1998 Annual Report on Form 10-K, as filed with the SEC.

3. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In determining revenue, the Company estimates the country of origin of traffic it receives from foreign carriers to determine the appropriate rate to apply to minutes of long distance traffic carried by the Company. Additionally, the Company establishes reserves for possible "refiling" or mislabeling of the origin of traffic, possible unreported or uncollectible minutes from foreign carriers and doubtful accounts from customers. The amounts the Company will ultimately realize upon settlement could differ significantly in the near term from the amounts assumed in estimating these revenues and the related accounts receivable.

#### 4. NET INCOME PER SHARE

In 1997, the Company adopted SFAS No. 128, "Earnings Per Share". That statement requires the disclosure of basic net income per share and diluted net income per share. Basic net income per share is computed by dividing net income available to common shareholders 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. There is no difference between basic net income per share and diluted net income per share for any period presented as the Company's only dilutive security, stock options, is antidilutive to the calculation as of June 30, 1999. There were no dilutive securities outstanding as of June 30, 1998.

#### 5. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivatives and hedging. It requires that all derivatives be recognized as either assets or liabilities at fair value and establishes specific criteria for the use of hedge accounting. The Company's original required adoption date was January 1, 2000. SFAS No. 133 is not to be applied retroactively to financial statements of prior periods. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", which amends SFAS No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 15, 2001 for Companies with calendar year fiscal years. The Company expects no material impact to its financial position upon adoption of SFAS No. 137

"Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," provides guidance on accounting for the costs of computer software developed or obtained for internal use and is required to be adopted no later than the Company's 1999 fiscal year. Also, in June 1998, the American Institute of Certified Public Accountants issued SOP 98-5, "Reporting on the Costs of Start-up Activities." SOP 98-5 requires costs of start-up activities and organizational costs, as defined, to be expensed as incurred. The Company expects no material impact to its financial position upon adoption of SOP 98-1 or SOP 98-5.

## 6. ACQUISITIONS

Effective June 2, 1998, the Company acquired a 75% interest in Digicom, a Haitian corporation principally engaged in dispatch radio mobile telecommunications and paging, for \$1.7 million in cash and a commitment to issue in the future 15,873 shares of ATN common stock. The Company has signed an advisory fee contract with Digicom compensating it at 6% of gross revenues for management services provided, effective from the acquisition date. The acquisition has been accounted for as a purchase in accordance with Accounting Principles Board No. 16, "Business Combinations." Accordingly, the purchase price has been allocated to the assets acquired based on the estimated fair values as of the acquisition date. The excess of the cost over the estimated fair value of the net tangible assets acquired amounted to \$874,000 and has been included in other assets in the accompanying consolidated balance sheet and is being amortized on a straight-line basis over 15 years.

On July 17, 1998, the Company acquired a 30% equity interest, plus certain warrants in BDC for \$1 million in cash. The Company has signed an advisory fee contract with BDC compensating it at 6% of gross revenues for management services provided, effective from the acquisition date. BDC is a Bermuda corporation which operates under the name "Cellular One", and is the sole cellular and PCS competitor to the Bermuda Telephone Company.

## 7. REGULATORY MATTERS

On December 31, 1997, GT&T applied to the Guyana Public Utilities Commission ("PUC") for a significant increase in rates for local and outbound international long-distance service so as to enable GT&T to earn a 15% return on its rate base. Effective February 1, 1998, GT&T was awarded an interim increase in rates which represented a substantial increase over the rates in effect during 1997 and earlier years. Subsequently, on March 27, 1998, the PUC reduced the interim rate increase effective in part on April 1, 1998 and in part on May 1, 1998. On October 27, 1998, to reflect changed conditions since December 31, 1997, GT&T filed for an additional rate increase designed to generate \$19.0 million in additional revenues over and above the interim rates currently in effect. GT&T's two applications for a permanent rate increase are still pending before the PUC. In January 1999, after the chairman of the PUC held a press conference which dealt extensively with the rate issues under consideration by the PUC, GT&T applied to the Guyana High Court for an order prohibiting the chairman from further participation in the rate case on the grounds that this press conference and his statements at the press conference revealed a predetermination and bias by the chairman against GT&T on the pending issues. In response to this application, the Guyana High Court issued an order directing the chairman and the PUC to show cause why such an order of prohibition should not be issued. The Guyana High Court's order has the legal effect of barring the chairman from further participation in the rate case pending a determination by the Guyana High Court of the merits of GT&T's application and, thus, is likely to further delay a decision by the PUC on GT&T's pending applications. In April 1999, the PUC furnished to GT&T a preliminary report of the PUC's staff to the Commissioners for a response by GT&T. In this report, the staff challenged GT&T's computation of rate base and expense in several respects and concluded with a recommendation that the temporary rates currently in effect for local service should be reduced by approximately \$2.7 million, rather than being increased as GT&T is seeking. GT&T has filed a response to the PUC disputing the staff's conclusions. GT&T and the Company are also involved in discussions with officials at the highest levels in the Guyana government seeking to resolve all outstanding PUC and Guyana tax issues affecting GT&T. There can be no assurance as to how or when any or all of these issues will be resolved.

In October 1995, the PUC issued an order that rejected the request of GT&T for substantial increases in all telephone rates and temporarily reduced rates for outbound long-distance calls to certain countries. In most cases, the existing rates were already less than GT&T's payment obligations to foreign carriers. In January 1997, on an appeal by GT&T, the Guyana High Court voided the PUC's order in regard to rates and the rates were returned to the rates in existence in October 1995. The lost revenue was approximately \$9.5 million for the period when the order was effective. GT&T initially instituted a surcharge effective May 1, 1997 to collect the lost revenue, but temporarily withdrew it when the Guyana Consumers Advisory Bureau (a non-governmental group in Guyana) instituted a suit to block it. The consumer advisory bureau's suit is still pending. Effective on October 1, 1997, GT&T put into effect a surcharge to recover the approximately \$9.5 million of lost revenues from the period of October 1995 to January 1997 pending an ultimate trial on the merits of the Consumer Advisory Bureau's suit and the Company recognized the approximately \$9.5 million of lost revenues in the third quarter of 1997. As of June 30, 1999, GT&T had collected approximately \$8.5 million of the lost revenues. The 1997 PUC Act, which has not yet come into effect, (and under a bill pending in the Guyana legislature may never come into effect), contains provisions which appear to prohibit GT&T from collecting any portion of the lost revenues which remain uncollected on the effective date of the Act and may require GT&T to refund all amounts previously collected in excess of the rates in effect on January 1, 1996.

In January 1997, the PUC ordered GT&T to cease paying management fees to the Company and to recover from the Company approximately \$25 million of such fees paid by GT&T to the Company since January 1991. GT&T appealed the PUC's order to the Guyana High Court. In July 1999 the Court found that the PUC's procedure violated principles of natural justice and ordered the PUC to conduct a new hearing in the matter.

At December 31, 1996, GT&T owed the Company approximately \$23 million for advances made from time to time for the working capital and capital expenditure needs of GT&T. GT&T's indebtedness to the Company was evidenced by a series of promissory notes. In March 1997, the PUC voided substantially all of the promissory notes then outstanding for its' alleged failure to comply with certain provisions of the PUC law. The PUC ordered that no further payments be made on any of the outstanding notes and that GT&T recover from the Company all amounts theretofore paid. The order also provided that the PUC would be willing to authorize the payment of any amounts properly proven to the satisfaction of the PUC to be due and payable from GT&T to the Company. As of December 31, 1998 GT&T had fully paid to the Company all of the amounts at issue. GT&T appealed the PUC's order to the Guyana High Court. In July 1999 the Court found that the PUC's procedure violated principles of natural justice and ordered the PUC to conduct a new hearing in the matter.

In April 1997, the PUC applied to the Guyana High Court for orders prohibiting GT&T from paying any monies to the Company on account of intercompany debt, advisory fees or otherwise pending the determination of GT&T's appeals from the January 1997 and March 1997 orders mentioned above. The PUC's application is still pending.



In October 1997, the PUC ordered GT&T to increase the number of telephone lines in service to a total of 69,278 lines by the end of 1998, 89,054 lines by the end of 1999 and 102,126 by the end of the year 2000, to allocate and connect an additional 9,331 telephone lines before the end of 1998 and to provide to subscribers who request them facilities for call diversion, call waiting, reminder call and three-way calling by the end of the year 1998. In issuing this order, the PUC did not hear evidence or make any findings on the cost of providing these lines and services, the adjustment in telephone rates which may be necessary to give GT&T a fair return on its investment or the ways and means of financing the requirements of the PUC's order. GT&T has filed a motion against the PUC's order in the Guyana High Court and has appealed the order on different grounds to the Guyana Court of Appeal. No stay currently exists against this order.

In July 1998, the PUC gave notice that it would hold a public hearing on August 25, 1998 in respect of the following matters; (i) "the validity of the grant of monopoly rights to any owner or provider of services in the public utility sector, having regard to the laws in force in Guyana at the relevant time;" and (ii) "whether the Commission has power to request the Government to issue a license to a new provider of services in the public utility sector, where the existing provider in that sector fails or refuses to meet reasonable demands for service in that public utility sector. "While the PUC's notice did not name GT&T as the service provider in question, the Company believes that GT&T is the service provider which will be the subject of the hearing. This intended hearing has been stayed by an order issued by the Guyana High Court on an application by GT&T pending a hearing on the merits of GT&T's application.

On October 30, 1998, the U.S. Federal Trade Commission ("FTC") issued for comments a proposed rule which would expand the definition of "pay-per-call" services to include audiotext services such as those which GT&T terminates in Guyana. The FTC previously received comments and conducted a workshop in 1997 in an earlier phase of this proceeding. If adopted in its present form the FTC's proposed rule would require, among other things, that a caller must receive a short preamble at the beginning of the call advising the caller of the cost of the call and permitting the caller to terminate the call without charge if terminated immediately. Although GT&T has not completed its study of the ways and means of possibly complying with this requirement, it may be technically impossible for recipients of international audiotext traffic, such as GT&T, to separate audiotext traffic from other incoming international traffic and permit a free preamble for audiotext calls. The FTC's proposed rule would have the effect of prohibiting a local telephone company from disconnecting a subscriber's telephone service for failure to pay charges for an international audiotext call. This requirement currently applies to area code 900 domestic audiotext but not to international audiotext, and provides a collection advantage for international audiotext over domestic audiotext. The proposed rule would also include several requirements which, if adopted, could make it more difficult to bill and collect for international audiotext calls. If the proposed regulations are adopted, the provisions described above may have a significant adverse impact on international audiotext traffic from the United States to Guyana and other non-U.S. termination points.

## 8. CONTINGENCIES AND COMMITMENTS

The Company is subject to lawsuits and claims which arise out of the normal course of business, some of which involve claims for damages that are substantial in amount. The Company believes, except for the items discussed below for which the Company is currently unable to predict the outcome, the disposition of claims currently pending will not have a material adverse effect on the Company's financial position or results of operations.

Upon the acquisition of GT&T in January 1991, ATN entered into an agreement with the government of Guyana to expand significantly GT&T's existing facilities and telecommunications operations and to improve service within a three-year period pursuant to an expansion and service improvement plan (the Plan). The government agreed to permit rate increases in the event of currency devaluation within the 3 year period, but GT&T was unable to get timely increases when the Guyana currency suffered a sharp decline in March 1991. The Plan was modified in certain respects and the date for completion of the Plan was extended to February 1995. The government has referred to the PUC the failure of GT&T to complete the Plan by February 1995. The PUC has commenced but not concluded hearings on this matter. If the PUC were to find that GT&T was not excused from fulfilling the terms of the Plan by February 1995, GT&T could be subject to monetary penalties, cancellation of the License, or other action by the PUC or the government which could have a material adverse affect on the Company's business and prospects. The requirements of the Plan were substantially completed during 1998.

In May 1997, GT&T received a letter from the Commissioner of Inland Revenue indicating that GT&T's tax returns for 1992 through 1996 had been selected for an audit under the direct supervision of the Trade Minister with particular focus on the withholding tax on payments to international audiotext providers. In March and April 1997, the Guyanese Trade Minister publicly announced that he had appointed a task force to probe whether GT&T should pay withholding taxes on fees paid by GT&T to international audiotext providers. The Minister announced that if GT&T were found guilty of tax evasion it could owe as much as \$40 million in back taxes. In July 1997, GT&T applied to the Guyana High Court for an order prohibiting this audit on the grounds that the decision of the Minister of Trade to set up this task force and to control and direct its investigation was beyond his authority, violated the provisions of the Guyanese Income Tax Act, interfered with the independence of the Commissioner of Inland Revenue and was done in bad faith, and the court issued an order effectively staying the audit pending a determination by the court of the merits of GT&T's application.

In June 1997, GT&T received an assessment of the current equivalent of approximately \$3 million from the Commissioner of Inland Revenue for taxes for 1997 based on the disallowance as a deduction for income tax purposes of five-sixths of the advisory fees payable by GT&T to the Company and for the timing of the taxation on certain surcharges to be billed by GT&T. The deductibility of these advisory fees and the deferral of these surcharges until they are actually billed had been upheld for an earlier year in a decision of the High Court in August 1995. In July 1997, GT&T applied to the High Court for an order prohibiting the Commissioner of Inland Revenue from further proceeding with this assessment on the grounds that the assessment was arbitrary and unreasonable and capriciously contrary to the August 1995 decision of the Guyana High Court, and GT&T obtained an order of the High Court effectively prohibiting any action on the assessment pending the determination by the court of the merits of GT&T's application.

In November 1997, GT&T received assessments of the current equivalent of approximately \$11 million from the Commissioner of Inland Revenue for taxes for the years 1991 through 1996. It is GT&T's understanding that these assessments stem from the same audit commenced in May 1997 which the Guyana High Court stayed in its July 1997 order referred to above. Apparently because the audit was cut short as a result of the Court's July 1997 order, GT&T did not receive notice of and an opportunity to respond to the proposed assessments as is the customary practice in Guyana, and substantially all of the issues raised in the assessments appear to be based on mistaken facts. GT&T has applied to the Guyana High Court for an order prohibiting the Commissioner of Inland Revenue from enforcing the assessments on the grounds that the origin of the audit with the Minister of Trade and the failure to give GT&T notice of and opportunity to respond to the proposed assessments violated Guyana law. The Guyana High Court has issued an order effectively prohibiting any action on the assessments pending the determination by the Court of the merits of GT&T's application.

The Federal Communications Commission ("FCC") has issued a Report and Order in a rule making proceeding in which it adopted mandatory international accounting and settlement rate benchmarks for many countries, including Guyana. The FCC classified countries as low-income, middle-income, high-income based upon World Bank data. Guyana is classified as a low-income country. The FCC adopted a mandatory settlement rate benchmark of \$.23 per minute for low-income countries and required that settlement rates between the U.S. and low-income countries be reduced to \$.23 per minute by January 1, 2002. The current settlement rate is \$.85 per minute. The FCC stated in the Report and Order that it expects U.S. licensed carriers to negotiate proportionate annual reductions. AT&T recently sought a \$.125 per minute decrease in the settlement rate for traffic between Guyana and the United States. GT&T has declined to agree to this reduction, and AT&T has given GT&T notice terminating the current operating agreement between AT&T and GT&T effective December 31, 1999. Any significant reduction in the settlement rates for U.S. - Guyana traffic could have a significant adverse impact on GT&T's earnings. While such an event would also provide GT&T with a basis to seek a rate increase from the PUC so as to permit GT&T to earn its contractually provided 15% rate of return, there can be no assurances to when or whether GT&T would receive such a rate increase.

Atlantic Tele-Network, Inc. and Subsidiaries

Management Discussion and Analysis of Financial  
Conditions and Results of Operations

Forward Looking Statements and Analysts' Reports

This report contains forward looking statements within the meaning of the federal securities laws, including statements concerning future rates, revenues, costs, capital expenditures, and financing needs and availability and statements of management's expectations and beliefs. Actual results could differ materially from these statements as a result of many factors, including future economic and political conditions in Guyana, the matters discussed in the Regulatory Considerations section of Management's Discussion and Analysis of Financial Condition and Results of Operations in this Report and matters discussed in the Company's Form 10K Annual Report for the fiscal year ended December 31, 1998.

Investors should also be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material non-public information or other confidential information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by an analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

Introduction

The Company's revenues and income from operations are derived principally from the operations of its telephone subsidiary, Guyana Telephone & Telegraph Company, Ltd. ("GT&T"). GT&T derives substantially all of its revenues from local exchange, cellular and international telephone services. The Company also owns a 75% interest (acquired in June 1998) in Digicom S.A., a Haitian corporation principally engaged in dispatch radio, mobile telecommunications and paging and a 30% interest (acquired in July 1998) plus warrants which would enable the Company to increase that interest to 45% in certain circumstances in Bermuda Digital Communications, Ltd., a Bermuda corporation which operates under the name "Cellular One" and is the sole cellular and PCS competitor to the Bermuda Telephone Company. The Company has signed advisory fee contracts with both Digicom and Bermuda Digital Communications Ltd. compensating it at 6% of gross revenues for management services provided, effective from the acquisition dates. The assets, liabilities, and operations of Digicom and Bermuda Digital Communications are not material to the assets, liabilities, and operations of the Company on a consolidated basis.

The principal components of operating expenses for the Company are international long-distance expenses, telephone operating expenses, and general and administrative expenses. International long-distance expenses consist principally of charges from international carriers for outbound international calls from Guyana and payments to audiotext providers from whom GT&T derives international audiotext traffic. Telephone operating expenses consist of plant specific operations, plant non-specific operations (which includes depreciation and amortization), customer operations, corporate operations expenses of GT&T, and taxes other than income taxes. General and administrative expenses consist principally of expenses of the parent company.

In connection with the split-off transaction effective December 30, 1997 in which the Company was divided into two separate companies, and in accordance with Accounting Principles Board Opinion No. 29 entitled Accounting for Nonmonetary Transactions and Emerging Issues Task Force 96-4 entitled Accounting for Reorganizations Involving a Non-Pro Rata Split-off of Certain Nonmonetary Assets to Owners, the balance sheet of the Company at December 31, 1997 was adjusted to fair value as determined by the market capitalization of the Company immediately after the consummation of the transaction. This adjustment includes an approximately \$60 million reduction in the Company's consolidated net fixed assets, and an approximately \$45 million reduction in the Company's consolidated stockholder's equity. The fair value adjustment reduced the carrying value on the Company's consolidated financial statements of its fixed assets significantly below their historical cost and replacement value. Therefore, depreciation expense for periods after December 31, 1997 is not a reliable indicator of the Company's cost of replenishing its assets.

#### RESULTS OF OPERATIONS

Three and Six Months ended June 30, 1998 and 1999

The Company had earnings of \$1.5 million (\$0.31 per share) and \$3.5 million (\$0.74 per share) for the three and six months ended June 30, 1999. This compares to \$3.1 million (\$0.63 per share) and \$8.0 million (\$1.62 per share) for the corresponding periods of the prior year.

Telephone operating revenues for the three and six months ended June 30, 1999 were \$18.3 million and \$39.0 million as compared to \$23.7 million and \$46.1 million for 1998, decreases of \$5.4 million (23%) and \$7.1 million (15%). The decreases in revenue were due primarily to the expected drop in audiotext traffic and to an increase in the "refiling" or mislabeling of foreign traffic from the United States and the United Kingdom to Guyana.

Telephone operating expenses were \$14.5 million and \$30.3 million for the three and six months ended June 30, 1999 as compared to \$17.2 million and \$34.0 million for 1998, decreases of \$2.8 million (16%) and \$3.7 million (11%). These decreases were due to reductions in audiotext traffic which resulted in reduced international long-distance expense.

Income from telephone operations was \$3.8 million and \$8.7 million as compared to \$6.5 million and \$12.1 million for 1998, decreases of \$2.7 million (41%) and \$3.4 million (28%). These decreases were due to the factors affecting telephone operating revenues and expenses discussed above.

Loss from other operations, which represent the operations of Digicom S.A, was \$91,000 and \$219,000 for the three and six months ended June 30, 1999. No figures are included for the six months ended June 30, 1998 as the purchase was treated as having been completed at June 30, 1998.

Interest expense was \$463,000 and \$943,000 for the three and six months ended June 30, 1999 as compared to \$566,000 and \$1,147,000 for the corresponding periods of the prior year. These decreases were primarily due to the decreased level of debt.

Interest income was \$506,000 and \$1.1 million for the three and six months ended June 30, 1999 as compared to \$454,000 and \$692,000 for 1998, increases of \$52,000 (11%) and \$364,000 (53%). These increases are due to higher overall cash balances.

Other income (expense) was (\$140,000) and (\$245,000) for the three and six months ended June 30, 1999 as compared to \$0 and \$3.8 million for the same periods of 1998. The amounts for 1999 represent the 30% equity interest in Bermuda Digital Communications, Ltd. which was purchased in July 1998. Bermuda Digital Communications, Ltd. commenced operations July 2, 1999. The amount for the six month period in 1998 represents the settlement of a claim arising from the cancellation of an insurance policy. The settlement was intended to compensate the Company for the increased cost of replacement insurance coverage over the remaining term of the cancelled insurance policy, which was approximately 10 years. The increased cost of the Company's replacement insurance coverage will be accounted for as an expense over the remaining term and should not be material to the Company's results of operation in any period.

Income taxes are \$2.0 million and \$4.4 million for the three and six months ended June 30, 1999 as compared to \$2.8 million and \$6.5 million for 1998, decreases of \$846,000 (30%) and \$2.1 million (32%) over the prior year. These decreases are due to lower taxable income.

The Company's effective tax rate for the three and six months ended June 30, 1999 was 55% and 53% as compared to 44% and 43% for the corresponding periods of the prior year. The change in the effective tax rate is due primarily to \$2.9 million of the \$3.8 million from the settlement of a claim with an insurance carrier, discussed above, being taxed at the United States statutory rate of 35% for 1998 rather than the Guyana statutory rate of 45%. The 1999 effective tax rate is also increased because the Company's equity in losses at Digicom S.A. and Bermuda Digital Communications, Ltd. do not generate a tax benefit to the Company for 1999 since the tax jurisdictions are separate and distinct from either the United States or Guyana.

The minority interest in earnings consists primarily of the Guyana government's 20% interest in GT&T.

#### Regulatory and Tax Issues

The Company is involved in a number of regulatory and tax proceedings. See notes 7 and 8 to the Company's Consolidated Condensed Financial Statements included in this Report. A material and adverse outcome in one or more of these proceedings could have a material adverse impact on the Company's financial condition and future operations.

#### Liquidity and Capital Resources

The Company believes its existing liquidity and capital resources will be adequate to meet its current operating and capital needs. The Company's current primary source of funds is advisory fees from GT&T. If and when the tax and regulatory issues discussed in Notes 7 and 8 to the Consolidated Condensed Financial Statements included in this Report are resolved, the Company anticipates that GT&T may begin paying dividends to its stockholders, which are the Company and the government of Guyana. GT&T is not subject to any contractual restrictions on the payment of dividends.

If and when the Company settles outstanding issues with the Guyana government and the Public Utilities Commission of Guyana ("PUC") with regard to GT&T's Expansion Plan and its rates for service, GT&T may require additional external financing to enable GT&T to further expand its telecommunications facilities. The Company has not estimated the cost to comply with the October 1997 PUC order to increase the number of telephone lines in service, but believes such a project would require significant capital expenditures that would require external financing. There can be no assurance that the Company will be able to obtain any such financing.

The continued expansion of GT&T's network is dependent upon the ability of GT&T to purchase equipment with U.S. dollars. A portion of GT&T's taxes in Guyana may be payable in U.S. dollars or other hard currencies. However as a result of the rate increases recently awarded to and currently sought by GT&T and the efforts of the U.S. FCC, AT&T and carriers in other countries to reduce international accounting rates, it is likely that an increasing portion of the Company's revenues will be earned in Guyana currency. The Company believes that the majority of GT&T's revenues will continue to be denominated in U.S. dollars or other hard currencies. While there are no legal restrictions on the conversion of Guyana currency into U.S. dollars or other hard currencies, or in the expatriation of Guyana currency or foreign currency from Guyana, there is little liquidity in the foreign currency markets in Guyana. GT&T had some difficulty in converting significant amounts of Guyana currency into U.S. dollars during 1998. While the Company believes that it has, and will continue to have, adequate cash flows denominated in hard currency to meet its current operating, debt service and capital requirements for the foreseeable future, there can be no assurance that GT&T will be able to convert its Guyana currency earnings into hard currency to meet such obligations. At June 30, 1999, approximately \$2.3 million of the Company's total cash balances consisted of balances denominated in the Guyana dollar.

The Company is currently exploring several opportunities to acquire communications properties or licenses in the Caribbean and elsewhere. The Company believes it has adequate capital resources to acquire these properties and licenses without any external financing. However, there can be no assurance as to whether, when or on what terms the Company will be able to acquire any of the businesses or licenses it is currently seeking.

#### Impact of Devaluation and Inflation

Although the majority of GT&T's revenues and expenditures are transacted in U.S. dollars or other hard currencies, the results of operations nevertheless may be affected by changes in the value of the Guyana dollar. From February 1991 until early 1994, the Guyana dollar remained relatively stable at the rate of approximately 125 to the U.S. dollar. In 1994, the Guyana dollar declined in value to approximately 142 to the U.S. dollar, and it remained relatively stable at approximately that rate through 1997. In 1998, the Guyana dollar declined in value to approximately 180 to the U.S. dollar.

The effect of devaluation and inflation on the Company's financial results has not been significant in the periods presented.

## Year 2000 Compliance

The inability of computer hardware, software and other equipment utilizing microprocessors to recognize and properly process data fields containing a 2-digit year is commonly referred to as the Year 2000 Compliance issue. As the year 2000 approaches, such systems may be unable to accurately process certain databased information.

The Company believes it has identified all significant applications in its systems that will require modification or replacement to ensure Year 2000 Compliance. Internal and external resources are being used to make the required modifications and replacements and test Year 2000 Compliance. The modification process of all significant applications is under way. The Company plans on completing the testing process of all significant applications by August 31, 1999.

In addition, the Company has communicated with others with whom it does significant business to determine their Year 2000 Compliance readiness and the extent to which the Company is vulnerable to any third party Year 2000 issues. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

The total cost to the Company of these Year 2000 Compliance activities has not been and is not anticipated to be material to its financial position or results of operations in any given year. These costs and the date on which the Company plans to complete the Year 2000 modification and testing processes are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ from those plans.



Atlantic Tele-Network, Inc. and Subsidiaries

Other Information

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

Not applicable.

Atlantic Tele-Network, Inc. and Subsidiaries

Signatures

Pursuant to the Securities Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Atlantic Tele-Network, Inc.

Date: August 12, 1999

/s/ Cornelius B. Prior, Jr.

-----  
Cornelius B. Prior, Jr.  
Secretary

Date: August 12, 1999

/s/ Steven M. Ross

-----  
Steven M. Ross  
Chief Financial Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
 THE ACCOMPANYING FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY  
 BY REFERENCE TO SUCH FINANCIAL STATEMENT.

\*\*\*\* (COLUMNAR AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA) \*\*\*\*

6-MOS	DEC-31-1999	JUN-30-1999
		31,956
		0
	22,424	0
		4,899
	62,489	56,223
	7,397	
	123,972	
24,465		9,666
0		0
		49
		69,125
123,972		39,759
	39,759	31,265
		31,265
	245	
		0
	943	
	8,362	
		4,414
3,474		0
		0
		0
	3,474	
	.74	
	.74	