

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, 1998

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 incorporation or organization)	(I.R.S. Employer 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, 1998, the registrant had outstanding 4,909,000 shares of its common stock (\$.01 par value).

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Columnar Amounts in Thousands)

	December 31, 1997	June 30, 1998 (Unaudited)
ASSETS	-----	-----
Current assets:		
Cash	\$ 15,803	\$ 23,071
Accounts receivable, net	38,077	34,006
Materials and supplies	3,536	3,897
Prepayments and other current assets	1,039	2,243
	-----	-----
Total current assets	58,455	63,217
Fixed assets:		
Property, plant and equipment	39,042	45,499
Less accumulated depreciation	-	(2,402)
	-----	-----
Net fixed assets	39,042	43,097
Uncollected surcharges	5,941	3,462
Other assets	4,611	5,879
	-----	-----
	\$ 108,049	\$ 115,655
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,382	\$ 7,478
Accrued taxes	3,391	5,876
Advance payments and deposits	809	887
Other current liabilities	2,854	1,993
Current portion of long-term debt	3,298	3,400
	-----	-----
Total current liabilities	20,734	19,634
Deferred income taxes	2,464	3,456
Long-term debt, excluding current portion	14,536	13,073

Minority interest	16,071	17,282
Contingencies and commitments (Note C)		
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 outstanding	49	49
Paid-in capital	54,195	54,195
Retained earnings	-	7,966
	-----	-----
Total stockholders' equity	54,244	62,210
	-----	-----
	\$ 108,049	\$ 115,655
	=====	=====

See notes to consolidated condensed and combined financial statements.

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES  
CONSOLIDATED AND COMBINED CONDENSED  
STATEMENTS OF OPERATIONS  
(Columnar Amounts in Thousands, Except Per Share Data)

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	1997 Combined =====	1998 Consolidated =====	1997 Combined =====	1998 Consolidated =====
<b>Revenues:</b>				
International long-distance revenues	\$ 26,255	\$ 21,081	\$ 57,117	\$ 40,982
Local exchange service	739	2,421	1,385	4,634
Other revenues	166	240	400	488
	---	---	---	---
<b>Total revenues</b>	<b>27,160</b>	<b>23,742</b>	<b>58,902</b>	<b>46,104</b>
<b>Expenses:</b>				
International long-distance expenses	18,339	10,302	38,593	21,275
Telephone operating expenses	5,580	5,612	10,883	10,290
General and administrative	2,310	1,318	3,359	2,464
	-----	-----	-----	-----
<b>Total expenses</b>	<b>26,229</b>	<b>17,232</b>	<b>52,835</b>	<b>34,029</b>
 <b>Income from operations</b>	 <b>931</b>	 <b>6,510</b>	 <b>6,067</b>	 <b>12,075</b>
<b>Non-operating Revenues and Expenses:</b>				
Interest expense	(1,010)	(566)	(1,991)	(1,147)
Interest income	672	370	1,301	608
Other income	-	84	-	3,834
	-----	-----	-----	-----
<b>Non-operating revenues and expenses, net</b>	<b>(338)</b>	<b>(112)</b>	<b>(690)</b>	<b>3,295</b>
 Income before income taxes and minority interest	 593	 6,398	 5,377	 15,370
Income taxes	347	2,842	2,391	6,532
	-----	-----	-----	-----
Income before minority interest	246	3,556	2,986	8,838
	---	---	---	---
Minority interest	(4)	(461)	(304)	(872)
	--	---	---	---
 <b>Net income</b>	 <b>\$ 242</b>	 <b>\$ 3,095</b>	 <b>\$ 2,682</b>	 <b>\$ 7,966</b>
	=====	=====	=====	=====
 Net income per share		 \$ 0.63		 \$ 1.62
		=====		=====
 Weighted average shares outstanding		 4,909		 4,909
		=====		=====

See notes to consolidated condensed and combined financial statements.

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES  
CONSOLIDATED AND COMBINED CONDENSED  
STATEMENTS OF CASH FLOWS  
(Columnar Amounts in Thousands)

	(Unaudited)	
	Six Months Ended	
	June 30,	
	1997	1998
	Combined	Consolidated
	=====	=====
Net cash flows provided by operating activities	\$ 4,729	\$ 15,246
Cash flows from investing activities:		
Capital expenditures	(3,744)	(4,509)
Acquisition of Digicom S.A., net of cash received	-	(1,819)
	-----	-----
Net cash used in investing activities	(3,744)	(6,328)
Cash flows from financing activities:		
Repayment of long-term debt	(2,634)	(1,650)
Net change in advances to affiliates	(1,256)	-
	-----	-----
Net cash flows provided (used) by financing activities	(3,890)	(1,650)
Net increase in cash	(2,905)	7,268
	-----	-----
Cash, Beginning of Period	8,182	15,803
Cash, End of Period	\$ 5,277	\$ 23,071
	=====	=====
Supplemental cash flow information:		
Interest paid	\$ 1,595	\$ 872
	-----	-----
Income taxes paid	\$ 3,487	\$ 3,445
	-----	-----
Depreciation and Amortization Expense	\$ 2,549	\$ 1,932
	-----	-----

See notes to consolidated condensed and combined financial statements.

Atlantic Tele-Network, Inc. and Subsidiaries  
Notes to Consolidated and Combined Condensed  
Financial Statements  
Three and Six Months Ended June 30, 1997 and 1998

(Columnar Amounts in Thousands, Except Per Share Data)

A. SIGNIFICANT ACCOUNTING POLICIES

GENERAL

The consolidated balance sheet of Atlantic Tele-Network, Inc. and subsidiaries (ATN or the Company) at December 31, 1997 has been taken from audited financial statements at that date. All other consolidated and combined condensed financial statements contained herein have been prepared by the Company and are unaudited. The consolidated and combined condensed financial statements should be read in conjunction with the consolidated and combined financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

The unaudited interim consolidated and combined condensed financial statements furnished herein reflect all adjustments, which are, in the opinion of management, necessary to fairly present the financial results for the interim periods presented. The results for the three and six months ended June 30, 1997 and 1998 are not necessarily indicative of the operating results for the full year not yet completed.

BASIS OF PRESENTATION

Effective December 30, 1997, Atlantic Tele-Network, Inc. split-off into two separate public companies (the Transaction). One, Emerging Communications, Inc. (ECI), contained all of the operations of the Company and its subsidiaries in the U.S. Virgin Islands. The other, ATN, continued the business and operations of the Company in Guyana, including ownership of its majority owned subsidiary, Guyana Telephone & Telegraph Company, Limited (GT&T). The combined financial statements of ATN for the three and six months ended June 30, 1997 included in this report are the separate financial statements relating to ATN's business and operations in Guyana, including its majority owned subsidiary GT&T, and ATN's activities as the parent company of all of its subsidiaries. ATN's investment in subsidiaries other than GT&T and operations of these other subsidiaries have been carved out of the combined financial statements. The combined financial statements of ATN present the results of operations and cash flows for the three and six months ended June 30, 1997 as if the business, operations and activities included in the combined financial statements were conducted by a separate entity. All material intercompany transactions and balances have been eliminated.

The Transaction was accounted for as a non-pro rata split-off of ATN from the consolidated Company as it previously existed. Accordingly, ATN assets and liabilities at December 31, 1997 have been accounted for 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" at values as determined by the market capitalization of ATN subsequent to the Transaction. The excess of original cost over such value has been allocated to reduce the values assigned to long-term assets, primarily property, plant and equipment and intangibles.

ACQUISITION

On June 2, 1998, the Company acquired a 75% interest in Digicom S.A., 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 acquisition is accounted for under the purchase method.

PRO FORMA NET INCOME PER SHARE

Combined historical income per share for the three and six months ended June 30, 1997 is not presented as the information is not considered meaningful. Pro forma net income per share as if the Transaction had occurred January 1, 1997 is calculated as follows

	Three Months Ended June 30, 1997 =====	Six Months Ended June 30, 1997 =====
Net income as reported	\$ 242	2,682
Reduction in depreciation	678	1,356
Elimination of interest income from subsidiary, net of interest expense on debt transferred to ECI	(429)	(858)
Tax effect	(160)	(319)
	-----	-----
Pro forma net income	\$ 331 =====	\$ 2,861 =====
Pro forma shares outstanding	4,909 =====	4,909 =====
Pro forma net income per share	\$ 0.07 =====	\$ 0.58 =====

Atlantic Tele-Network, Inc. and Subsidiaries  
Notes to Consolidated and Combined Condensed  
Financial Statements  
Three and Six Months Ended June 30, 1997 and 1998

(Columnar Amounts in Thousands, Except Per Share Data)

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted the provisions of SFAS No. 130 entitled "Reporting of Comprehensive Income". SFAS No. 130 establishes standards for the display of comprehensive income and its components in a full set of financial statements. Comprehensive income includes all changes in equity during a period except those resulting from the issuance of shares of stock and distributions to stockholders. There was no material differences between net income and comprehensive income during the three and six months ended June 30, 1997 and 1998.

B. 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 and was awarded an interim increase in rates effective February 1, 1998 which was 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. The interim rates currently in effect are intended to remain in effect while the PUC holds hearings and reaches a decision on GT&T's application, although the PUC may increase or decrease these interim rates before reaching a decision on GT&T's permanent rates.

In October 1995, the Guyana Public Utilities Commission 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 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. In September 1997, the Guyana High Court denied an order which the Consumer Advisory Bureau had sought to temporarily enjoin GT&T from putting into effect a surcharge to recover the approximately \$9.5 million over a period of 18 months. GT&T put such surcharge into effect on October 1, 1997 pending an ultimate trial on the merits, and the Company recognized the approximately \$9.5 million of lost revenues in the third quarter of 1997. On March 27, 1998, the PUC ordered GT&T to cease collecting this surcharge. GT&T appealed to the Guyana High Court and obtained a stay of the PUC's order pending determination of GT&T's appeal.

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 has appealed the PUC's order to the Guyana High Court and obtained a stay of the PUC's order pending determination of that appeal.

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 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. GT&T has appealed the PUC's order to the Guyana High Court and obtained a stay of the PUC's order pending determination of that appeal.

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. GT&T intends to take such steps as seem appropriate after the level of the demand for telephone service can be assessed in light of GT&T's current temporary rates.



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.

#### C. 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 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 is currently holding hearings on this matter. Failure to timely fulfill the terms of the Plan could result in 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.

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 approximately \$3.9 million from the Commissioner of Inland Revenue for taxes for the current year 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 in a decision of the High Court in August 1995 pertaining to an earlier year. 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 approximately \$14 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.

#### D. SUBSEQUENT EVENT

In July 1998, the Company concluded a combination debt and equity financing of \$4 million to acquire 30% equity ownership in Bermuda Digital communications Ltd. (BDC) with an option to buy an additional 10% under certain conditions. The acquisition will be accounted for under the equity method.

Atlantic Tele-Network, Inc. and Subsidiaries

Management Discussion and Analysis of Financial  
Conditions and Results of Operations

Forward Looking Statements

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, 1997.

Introduction

The Company's revenues and income from operations are derived principally from the operations of its telephone subsidiary, GT&T. GT&T derives substantially all of its revenues from international telephone services.

In June 1998, the Company acquired a 75% interest in Digicom S.A., a Haitian corporation principally engaged in dispatch radio mobile telecommunications and paging for \$1.7 million in cash and 15,873 shares of the Company's common stock. In July 1988, the Company acquired a 30% interest, with certain options to increase that interest to 40%, in Bermuda Digital Communications, Ltd., a Bermuda corporation which, when operational, will be the sole cellular and PCS competitor in Bermuda to the Bermuda Telephone Company for \$4.0 million in debt and equity. The assets, liabilities, and operations of Digicom and Bermuda Digital Communications, Ltd., individually and in the aggregate, are not currently 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, customer operations, corporate operations expenses of GT&T, and taxes other than income taxes. General and administrative expenses consist principally of parent company overheads.

For accounting purposes, the split-off transaction of the Company into two separate publicly held companies (the Company and the Emerging Communications, Inc.) has been treated as a non pro-rata split-off of the Company. 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 has been adjusted to values 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 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 after December 31, 1997 is not a reliable indicator of the Company's cost of replenishing its assets.

The financial statements for the three and six months ended June 30, 1997 included in this report are the separate financial statements relating to Atlantic Tele-Network, Inc.'s business and operations in Guyana including its majority owned subsidiary, GT&T, and ATN's activities as the parent company of all of its subsidiaries during the first six months of 1997. These financial statements do not reflect the valuation adjustment arising from the split-off transaction. Moreover, the statements of operations include interest income from indebtedness of subsidiaries which were transferred with such indebtedness to Emerging Communications, Inc. in the split-off transaction.

As a result of the decline in 1997 in GT&T's revenues and profits from audiotext traffic, GT&T filed on December 31, 1997 an application with the PUC seeking rates designed to generate approximately \$26 million in additional revenues in 1998 for local and outbound international long-distance service. In January 1998, GT&T was awarded an interim increase effective February 1, 1998 designed by the PUC to generate the equivalent of approximately \$18 million in additional annual revenues for GT&T. Subsequently, on March 27, 1998, the PUC modified the interim rate increase effective in part on April 1, 1998 and in part on May 1, 1998. As modified, the interim rates are designed to produce an annual increase in revenues of approximately \$14 million over the rates in effect in 1997. The interim rates are intended to remain in effect while the PUC holds hearings and reaches a decision on GT&T's application for permanent rates, although the PUC may increase or decrease these interim rates before reaching a decision on GT&T's permanent rates. No assurance can be given as to what permanent rates the PUC will award GT&T or as to what changes the PUC may make in the current interim rates.

#### RESULTS OF OPERATIONS

Three and Six Months ended June 30, 1997 and 1998

Operating revenues for the three months ended June 30, 1998 were \$23.7 million as compared to \$27.2 million for the corresponding period of the prior year, a decrease of \$3.4 million, or 13%. Operating revenues for the six months ended June 30, 1998 were \$46.1 million as compared to \$58.9 million for the corresponding period of the prior year, representing a decrease of \$12.8 million or 22%.

The decreases were principally due to a \$6.5 million and \$16.5 million decrease in audiotext traffic revenues at GT&T for the three and six months ended June 30, 1998, respectively. GT&T's volume of audiotext traffic fluctuated between 8 and 9 million minutes per month in the first three quarters of 1997. In the fourth quarter of 1997, the volume of audiotext traffic declined to approximately 6.6 million minutes per month. In the first and second quarters of 1998, audiotext traffic declined further to an average of approximately 5.3 million and 5.0 million minutes per month, respectively. The reduction in traffic volume is estimated to account for substantially all of the decrease in audiotext revenues for the three and six months ended June 30, 1998. The Company expects that audiotext traffic volumes will remain at least at their current level for the balance of 1998, although the Company is unable to predict future audiotext revenues with any degree of certainty.

The decrease in audiotext revenues was partially offset by an increase in local exchange services, which were \$2.4 million and \$4.6 million for the three and six months ended June 30, 1998 compared to \$739,000 and \$1.4 million for the corresponding periods in 1997. This represents an increase of \$1.7 million and \$3.2 million for the three and six months ended June 30, 1998, or an increase of 228% and 235%, respectively. This increase in local exchange services is primarily the result of the temporary rates granted by the Guyana Public Utilities Commission (PUC) in response to a tariff filed with the PUC on December 31, 1997. The increase is also partially attributable to an increase in access lines to 57,522 at June 30, 1998 from approximately 51,955 at June 30, 1997; an increase of 5,567 lines or 11%.

International long-distance inbound revenues other than audiotext increased to \$7.9 million and \$14.7 million for the three and six months ended June 30, 1998, as compared to \$6.0 million and \$12.9 million for the corresponding periods in 1997. This represents an increase of \$1.9 million and \$1.9 million, or 32% and 14% for the three and six months ended June 30, 1998 over the corresponding periods in 1997. This increase correlates to an increase in inbound minutes of traffic from 21.4 million for the six months ended June 30, 1997 to 23.9 million for the six months ended June 30, 1998; an increase of 2.4 million minutes or 11%. Management believes that this increase in inbound telephone traffic other than audiotext is indirectly the result of the increase in temporary rates for outbound long-distance granted by the PUC. Because a substantial portion of GT&T's international traffic, other than audiotext, consists of personal calls between Guyanese expatriates and their friends and families in Guyana, management believes that an increase in rates for outbound calls results not only in a decrease in the volume of outbound calls, but that decrease in outbound calls in turn stimulates an increase in the volume of inbound calls.

International long-distance outbound revenues decreased by \$253,000 and \$1.0 million for the three and six months ended June 30, 1998 to \$4.1 million and \$7.8 million, respectively. This compares to \$4.4 million and \$8.8 million for the corresponding periods in 1997. Again, the decrease is primarily related to the increased rates awarded by the PUC, as the volume of outbound international long-distance traffic declined approximately 32% and 36% for the three and six months ended June 30, 1998 over the corresponding period of the prior year. The rates awarded for local and outbound international long-distance service are temporary and they may be either increased or decreased as a result of hearings by the PUC. See "Regulatory Matters".

Operating expenses for the three and six months ended June 30, 1998 were \$17.2 million and \$34.0 million compared to \$26.2 million and \$52.8 million for the corresponding periods in 1997. This represents a decrease of \$9.0 million and \$18.8 million for the three and six month period of 1998 over the corresponding periods in 1997 or 34% and 36%, respectively. The decrease was due principally to a decrease in audiotext and outbound traffic expense at GT&T of \$8.0 million and \$17.3 million for the three and six months ended June 30, 1998, due to decreased traffic volumes. Operating expenses decreased to approximately 73% and 74% of operating revenues for the three and six months ended June 30, 1998 from approximately 97% and 90% of operating revenues for the corresponding periods in 1997.

Income from operations before interest expense, income taxes and minority interest for the three and six months ended June 30, 1998 was \$6.5 million and \$12.1 million, respectively; an increase of \$5.6 million and \$6.0 million or 59% and 99%, from income from operations before interest expense, income taxes and minority interest of \$931,000 and \$6.1 million for the corresponding periods in 1997. This increase is principally a result of the factors affecting revenues and operating expenses discussed above.

In the first three months of 1998, the Company recorded approximately \$3.8 million in other non-operating income resulting from 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.

The Company's effective tax rate for the three and six months ended June 30, 1998 were 44.4% and 42.5% as compared to 58.5% and 44.5% for the corresponding periods of the prior year.

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

## Regulatory Considerations

As discussed above under "Introduction," GT&T has applied to the PUC for a significant increase in rates for local and outbound international long-distance service and has received interim rates which substantially increase the rates over those in effect during 1997 and earlier years.

Upon the acquisition of GT&T in January 1991, GT&T 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 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 is currently holding hearings on this matter. It is GT&T's position that its failure to receive timely rate increases, to which GT&T was entitled, to compensate for the devaluation in Guyana currency which occurred in 1991 provides legal justification for GT&T's delay in completing the Expansion Plan. Failure to timely fulfill the terms of the Plan without legal justification could result in 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.

In October 1995, the PUC issued an order that rejected a request of GT&T for substantial increases in all telephone rates and temporarily reduced rates for outbound long-distance calls to certain countries. 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 such a surcharge effective May 1, 1997, 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. In September 1997, the Guyana High Court denied an order which the Consumer Advisory Bureau had sought to temporarily enjoin GT&T from putting into effect a surcharge to recover the approximately \$9.5 million over a period of 18 months. GT&T put such surcharge into effect on October 1, 1997 pending an ultimate trial on the merits, and the Company recognized the approximately \$9.5 million of lost revenues in the third quarter of 1997. On March 27, 1998, the PUC ordered GT&T to cease collecting this surcharge. GT&T appealed to the Guyana High Court and obtained a stay of the PUC's order pending determination of GT&T's appeal.

In January 1997, the PUC ordered GT&T to cease paying advisory 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 has appealed the PUC's order to the Guyana High Court and obtained a stay of the PUC's order pending determination of that appeal.

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 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. GT&T has appealed the PUC's order to the Guyana High Court and obtained a stay of the PUC's order pending determination of that appeal.

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 the 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. GT&T intends to take such steps to seek a stay or modification of this order as seem appropriate after the level of demand for telephone service can be assessed in light of GT&T's current temporary rates.

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.



In May 1997, GT&T received a letter from the Guyana 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 approximately \$3.9 million from the Commissioner of Inland Revenue for taxes for 1996 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 in a decision of the High Court in August 1995 pertaining to an earlier year. 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 approximately \$14 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.

There can be no assurance as to the ultimate outcome of any of the above described matters.

#### Liquidity and Capital Resources

The Company believes its existing liquidity and capital resources will be adequate to meet current operating and capital needs. Without external financing, the Company expended a total of \$5.7 million in cash to acquire a 75% interest in Digicom S.A. and a minority interest in Bermuda Digital Communications, Ltd. in June and July 1998. For the near-term, the Company's primary sources of funds will be advisory fees, repayment of loans, and interest from GT&T. The PUC orders in January, March, and October 1997, discussed above under "Regulatory Considerations," could have a material adverse impact on the Company's liquidity.

GT&T is not subject to any contractual restrictions on the payment of dividends. However, GT&T's own capital needs and debt service obligations have precluded GT&T in recent years, from paying any significant funds to the Company other than the advisory fees and principal and interest on intercompany debt mentioned above.

If and when the Company settles outstanding issues with the Guyana government and the 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. The Company anticipates that GT&T's foreign currency earnings will enable GT&T to service its debt and pay its hard currency tax obligations. There are no Guyana legal restrictions on the conversion of Guyana's currency into U.S. dollars or on the expatriation of foreign currency from Guyana.

While the Company believes its capital resources are adequate to meet current operating and capital needs, the Company is also exploring several opportunities to acquire communications properties or licenses in the Caribbean and elsewhere. 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 or whether it will obtain financing necessary to do so.

#### 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 has declined in value to approximately 150 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.

Atlantic Tele-Network, Inc. and Subsidiaries

Part II- 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 7, 1998

/s/ Craig A. Knock  
Craig A. Knock  
Chief Financial Officer and Vice-President  
signing both in his capacity as Vice-  
President on behalf of the Registrant and as  
Chief Financial Officer of the Registrant

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

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

6-MOS		
	DEC-31-1998	
	JUN-30-1998	
		23,071
		0
		34,006
		0
		3,897
	63,217	45,499
		2,402
		115,655
	19,634	13,073
		0
		0
		49
		62,161
115,655		46,104
	46,104	34,029
		34,029
		0
		0
	1,147	
		15,370
		6,532
	7,966	
		0
		0
		0
		7,966
		1.62
		1.62