ENVIRONMENTAL POWER CORP
Form 8-K
February 04, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): January 29, 2010

ENVIRONMENTAL POWER CORPORATION

(Exact name of Company as specified in its charter)

Delaware	001-32393	75-3117389
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

120 White Plains Road, 6th Floor, Tarrytown, New York 10591

(Address of principal executive offices, including zip code)

(914) 631-1435

(Company s telephone number, including area code)

NONE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

As previously disclosed, Environmental Power Corporation (the Company) has been examining various strategic alternatives over the last several months in support of the build-out of its project pipeline. In connection with these efforts, the Company and its subsidiary, Microgy, Inc. (Microgy), have formed a joint development company with Homeland Renewable Energy Inc (HRE) whereby Microgy contributed certain assets, as more fully described below, as its equity contribution for a 30% ownership position, and HRE will contribute $1,500,000 in cash as its equity contribution for its 70% ownership position.

As a result, on January 29, 2010, Microgy entered into the following agreements relating to the joint venture with HRE:

- a Contribution Agreement, dated January 29, 2010 (the Microgy Contribution Agreement), among Microgy, HMI Energy, LLC (HMI) and the Company;

- a Contribution Agreement, dated January 29, 2010 (the HRE Contribution Agreement), between HRE and HMI; and

- a Limited Liability Company Agreement of HMI, dated January 29, 2010 (the LLC Agreement and, together with the Contribution Agreement and the Purchase Agreement, the JV Agreements), between Microgy and HRE.

Pursuant to the Microgy Contribution Agreement, Microgy contributed to HMI (a) certain assets relating to its proposed Bar 20 project in California and its proposed Weld County project in Colorado, (b) rights to up to five additional future projects, (c) Microgy s right to receive net revenues from its Wisconsin projects and the rights and obligations relating to such projects, and (d) Microgy s right to net receipts from sales of carbon credits available to Microgy, other than those owned or otherwise available to the Company s other subsidiaries, Microgy Holdings, LLC (and its subsidiaries) and Microgy Grand Island, LLC (collectively, the Contributed Assets). In exchange for the Contributed Assets, Microgy received 30% of the outstanding membership interests in HMI and will receive payments from HMI totaling $1,500,000, payable in installments of $500,000 on February 1, 2010, $600,000 on March 1, 2010 and $400,000 on March 29, 2010. Under the Microgy Contribution Agreement, Microgy made certain customary representations and warranties to HMI about itself and the Contributed Assets, and Microgy and the Company agreed jointly and severally to indemnify the Company for breaches of such representations and warranties. Pursuant to the terms of the HRE Contribution Agreement, HRE agreed to contribute the sum of $1,500,000 to HMI in exchange for 70% of the outstanding membership interests in HMI.

In connection with the transactions contemplated by the Microgy Contribution Agreement and the HRE Contribution Agreement, Microgy and HRE entered into the LLC Agreement, which sets forth:

- customary terms for the governance of HMI, consistent with HRE s majority ownership but providing for certain minority protections for Microgy;

- provisions relating to capital calls for financing the joint venture s projects, including provision for an effective 12% carried interest for Microgy in any project for which it does not meet the capital call and an effective 21% carried interest for HRE in any project for which it does not meet the capital call;

- provisions relating to the negotiation of a Management Services Agreement, pursuant to which Microgy would provide customary management services to HMI, and an Operations and Maintenance Agreement, pursuant to which Microgy would provide customary operations and maintenance services to projects developed by HMI, each to be on commercially reasonably terms, including reimbursement of costs and market-based fees;

- (a) rights of first refusal on the part of HMI with respect to the development and ownership of Microgy s next five projects and (b) Microgy s obligation to use its development efforts exclusively for the benefit of HMI, which rights of refusal and exclusivity obligations terminate upon the earlier to occur of (i) Microgy obtaining all necessary site and manure supply agreements, construction permits and approvals and commercially reasonable offtake agreements for all five such projects or (ii) the expiration or termination of the management services agreement and operations and maintenance agreement; and

the limited right to buy out HRE s ownership in HMI for 120% of the purchase price paid for the membership interests in HMI in certain circumstances.

The Contributed Assets do not include the Huckabay Ridge facility or other projects in Texas and California that are subject to security interests in favor of the holders of the tax-exempt bonds that were issued in 2006 and 2008, respectively. As previously reported, those bondholders have accelerated the obligations of Microgy Holdings, LLC, relating to the bonds. The Company is in ongoing discussions with bondholders regarding Huckabay Ridge and the balance of the secured portfolio, to determine next steps. While Huckabay Ridge continues to operate during the pendency of those discussions, its continued operation will be dependent upon realizing stable operating costs and the prospect of potential revenue enhancements, such as those anticipated by means of the previously announced combined heat-and-power installation, which will require external funding. Further development/construction of the balance of the secured projects are on hold pending negotiations with the bondholders. The Company cannot determine the outcome of discussions with holders of the Texas and California tax-exempt bonds regarding the future of Huckabay Ridge and other projects securing the bonds.

HRE specializes in large scale animal waste remediation in the United States, through the development, construction and operation of renewable energy power plants fueled by poultry litter and other agricultural residues. In addition, HRE markets the ash residue from poultry litter combustion as a nutrient rich fertilizer and develops woody biomass fueled power plants through a joint venture with Laidlaw Energy (OTC: LLEG.PK). Microgy believes that entering into the JV Agreements with HRE will provide it with a business partner that can assist Microgy in accelerating the development of the projects contributed by Microgy to the joint venture.

SIGNATURES

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

ENVIRONMENTAL POWER CORPORATION

By: /s/ MICHAEL E. THOMAS
Michael E. Thomas
Senior Vice President, Chief Financial Officer and Treasurer

Dated: February 4, 2010

le="font-family:times;margin-left:20pt;text-indent:-10pt;"> Net operating losses 1,732 2,822

Valuation allowance

(16,788) (16,312)

Total deferred tax asset

23,776 9,702

Deferred tax liabilities:

Property, plant and equipment, net

$58,521 $23,866

Intangible assets, net

38,034 11,245

Market discount

2,280

Pension

598 205

Total deferred tax liabilities

99,433 35,316

Net deferred tax liabilities

$75,657 $25,614

Deferred tax assets and liabilities are reflected in the accompanying consolidated balance sheets as follows (in thousands):

	2012	2013
Deferred tax assets:		
Current	$ 8,349	$ 1,994
Long term		
Total deferred tax asset	$ 8,349	$ 1,994
Deferred tax liabilities:		
Current	$	$ 1,601
Long term	84,006	26,007
Total deferred tax liabilities	$ 84,006	$ 27,608
Net deferred tax liabilities	$ 75,657	$ 25,614

As of December 31, 2013, the Company estimated that it had state and foreign net operating loss carryforwards of $1.2 million and $1.6 million respectively that begin to expire in 2023 and 2014, respectively.

Similar to prior years, the Company re-examined its projected mix of foreign source and U.S.-source earnings and concluded it is more likely than not that it will not generate enough foreign source income to utilize its existing foreign tax credits prior to their expiration date. As a result, the Company

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

has placed a full valuation allowance against those credits during 2010. As of December 31, 2013, the Company continued to maintain a full valuation allowance against those credits.

The undistributed earnings of the Company's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce a portion of the U.S. tax liability.

Company had net unrecognized tax benefits of $14.0 million as of December 31, 2013, $10.3 million as of December 31, 2012 and $7.0 million as of December 31, 2011. During the third quarter of 2013, the net reserve for uncertain tax positions was reduced by $0.4 million as a result of a settlement with the Internal Revenue Service. The remainder of the change in the reserve during 2013 is due to various additions for uncertain tax positions taken in the current and prior years, reductions resulting from the lapse of statutes of limitations and other settlements with taxing authorities.

The following shows the activity related to unrecognized tax benefits during the three years ended December 31, 2013 (in thousands):

Gross unrecognized tax benefits at December 31, 2010		6,412
Increase in uncertain tax positions		590
Lapse in statute of limitations		(50)
Gross unrecognized tax benefits at December 31, 2011		6,952
Increase in uncertain tax positions		3,384
Lapse in statute of limitations		
Gross unrecognized uncertain tax benefits at December 31, 2012		10,336
Increase in uncertain tax positions		4,137
Lapse in statute of limitations		
Settlements		(423)
Gross unrecognized uncertain tax benefits at December 31, 2013	$	14,050

ATN's accounting policy is to classify interest and penalties related to income tax matters as part of income tax expense. The accrued amounts for interest and penalties are $0.4 million as of December 31, 2013, $0.5 million as of December 31, 2012 and $0.1 million as of December 31, 2011.

All $14.0 million of unrecognized tax benefits would affect the effective tax rate if recognized. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes, if material.

The Company and its subsidiaries file income tax returns in the U.S. and in various state and local jurisdictions. The statute of limitations related to the consolidated U.S. federal income tax return is closed for all tax years up to and including 2007. The expiration of the statute of limitations related to the various state income tax returns that the Company and subsidiaries file varies by state. The Company's State of Massachusetts tax return is currently being audited for the years 2009 and 2010. The Company does not expect that the amount of unrecognized tax benefits relating to U.S. tax matters will change significantly within the next 12 months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. INCOME TAXES (Continued)

The Company also files an income tax return in Guyana. See Note 14 relating to certain tax matters pertaining to those filings. There is no expected settlement date of those matters and upon settlement, which might not occur in the near future, the payment may vary significantly from the amounts currently recorded. The Company will continue to update amounts recorded as new developments arise.

On September 13, 2013 the U.S. Department of the Treasury and Internal Revenue Service released final tangible property regulations that provide guidance on the tax treatment regarding the deduction and capitalization of expenditures related to tangible property. While early adoption is available, the effective date to implement these regulations is for tax years beginning on or after January 1, 2014. The Company is currently assessing these rules and the impact to its financial statements, if any, but believes adoption of these regulations will not have a material impact on its consolidated results of operations, cash flows or financial position.

13. RETIREMENT PLANS

The Company has a noncontributory defined benefit pension plan for eligible employees of GT&T who meet certain age and employment criteria. Company contributions to fund the plan are intended to provide not only for benefits attributed for service to date but also for those expected to be earned in the future. The Company's funding policy is to contribute to the plan such amounts as are actuarially determined to meet funding requirements. The benefits are based on the participants' average salary or hourly wages during the last three years of employment and credited service years.

The weighted-average rates assumed in the actuarial calculations for the pension plan are as follows as of December 31, 2011, 2012 and 2013:

	2011	2012	2013
Discount rate	6.25%	6.00%	5.75%
Annual salary increase	7.50%	7.50%	7.50%
Expected long-term return on plan assets	8.00%	8.00%	7.00%

The expected long-term rate of return on pension plan assets was determined based on several factors including input from pension investment consultants, projected long-term returns of equity and bond indices in Guyana and elsewhere, including the United States, and historical returns over the life of the related obligations of the fund. The Company, in conjunction with its pension investment consultants, reviews its asset allocation periodically and rebalances its investments when appropriate in an effort to earn the expected long-term returns. The Company will continue to evaluate its long-term rate of return assumptions at least annually and will adjust them as necessary.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. RETIREMENT PLANS (Continued)

Changes during the year in the projected benefit obligations and in the fair value of plan assets are as follows for 2012 and 2013 (in thousands):

	2012	2013
Projected benefit obligations:		
Balance at beginning of year:	$ 13,355	$ 11,660
Service cost	612	543
Interest cost	810	665
Benefits and settlements paid	(674)	(1,444)
Actuarial (loss) gain	(2,443)	1,127
Exchange rate adjustment		(314)
Actuarial loss	$ 11,660	$ 12,237

	2012	2013
Plan net assets:		
Balance at beginning of year:	$ 11,994	$ 12,932
Actual return on plan assets	759	657
Company contributions	853	854
Benefits and settlements paid	(674)	(1,444)
Exchange rate adjustment		(326)
Balance at end of year	$ 12,932	$ 12,673
Over funded status of plan	$ 1,272	$ 436

The Company's investment policy for its pension assets is to have a reasonably balanced investment approach, with a long-term bias toward debt investments. The Company's strategy allocates plan assets among equity, debt and other assets in both Guyana and the United States to achieve long-term returns without significant risk to principal. The fund is prohibited under Guyana law from investing in the equity, debt or other securities of the employer, its subsidiaries or associates of the employer or any company of which the employer is a subsidiary or an associate. Furthermore, the plan must invest between 70%-80% of its total plan assets within Guyana.

The fair values for the pension plan's net assets, by asset category, at December 31, 2013 are as follows (in thousands):

Asset Category	Total	Level 1	Level 2	Level 3
Cash, cash equivalents, money markets and other	$ 10,008	$ 9,331	$	$
Equity securities	1,438	1,438		

Fixed income securities	1,552	841	1,388	
Total	$ 12,998	$ 11,610	$ 1,388	$

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. RETIREMENT PLANS (Continued)

The plan's weighted-average asset allocations at December 31, 2012 and 2013, by asset category are as follows:

	2012	2013
Cash, cash equivalents, money markets and other	78.7%	77.0%
Equity securities	9.2	11.1
Fixed income securities	12.1	11.9
Total	100.0%	100%

Amounts recognized on the Company's consolidated balance sheets consist of (in thousands):

	As of December 31,	
	2012	2013
Other assets	$ 1,272	$ 436
Accumulated other comprehensive loss, net of tax	(1,318)	(1,949)

Amounts recognized in accumulated other comprehensive loss consist of (in thousands):

	2012	2013
Net actuarial loss	$ (2,918)	$ (2,154)
Prior service cost		
Accumulated other comprehensive loss, pre-tax	$ (2,918)	$ (2,154)
Accumulated other comprehensive loss, net of tax	$ (1,318)	$ (1,949)

Components of the plan's net periodic pension cost are as follows for the years ended December 31, 2011, 2012 and 2013 (in thousands):

	2011	2012	2013
Service cost	$ 617	$ 612	$ 543
Interest cost	865	810	665
Expected return on plan assets	(961)	(972)	(949)
Amortization of unrecognized net actuarial loss	229	242	150
Amortization of prior service costs	11		

Net periodic pension cost	$	761	$	692	$	409

For 2014, the Company expects to contribute approximately $518,000 to its pension plan.

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. RETIREMENT PLANS (Continued)

The following estimated pension benefits, which reflect expected future service, as appropriate, are expected to be paid over the next ten years as indicated below (in thousands):

Fiscal Year	Pension Benefits
2014	$ 355
2015	492
2016	534
2017	562
2018	730
2019 - 2023	4,401
	$ 7,074

14. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are subject to certain regulatory and legal proceedings and other claims arising in the ordinary course of business, some of which involve claims for damages and taxes that are substantial in amount. The Company believes that, except for the items discussed below, for which the Company is currently unable to predict the final outcome, the disposition of proceedings currently pending will not have a material adverse effect on the Company's financial position or results of operations.

The Company had previously amended its Amended Credit Facility to provide for an additional $55 million letter of credit sub-facility to its revolver loan to be available for issuance in connection with the Company's Mobility Fund Grant obligations. On June 17, 2013, the Company issued approximately $29.8 million in letters of credit to the Universal Service Administrative Company to secure a portion of the pending awards of approximately $68.8 million of Mobility Fund Grants to certain of its subsidiaries. In connection with the Company's sale of its Alltel business on September 20, 2013, it notified the FCC and USAC that it would no longer be eligible to perform under the terms and conditions of the Alltel Mobility Funds. At that time, USAC chose not to draw any amounts under our letter of credit securing the Alltel Mobility Funds and the Company terminated $19.9 million in letters of credit on November 14, 2013. See Note 10 for further information about the Mobility Fund. The letters of credit accrue a fee at a rate of 1.75% per annum on the outstanding amounts. As of December 31, 2013 the Company had approximately $9.9 million in letters of credit payable to USAC outstanding to cover its Mobility Fund obligations and there were no draw downs against these letters of credit. If the Company fails to comply with certain terms and conditions upon which the Mobility Fund Grants are to be granted, or if it loses eligibility for Mobility Fund support, USAC will be entitled to draw the entire amount of the letter of credit applicable to the affected project including penalties. The results of the Company's Mobility Fund projects, once initiated, will be included in the Company's "U.S. Wireless" segment.

Currently, the Company's Guyana subsidiary, GT&T, holds a license to provide domestic fixed services and international voice and data services in Guyana on an exclusive basis until December 2030. Since 2001, the Government of Guyana has stated its intention to introduce additional competition into Guyana's telecommunications sector. Since that time, the Company and GT&T have met on several occasions with officials of the Government of Guyana to discuss potential modifications of GT&T's

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. COMMITMENTS AND CONTINGENCIES (Continued)

exclusivity and other rights under the existing agreement and license. In 2012, the Government of Guyana introduced draft legislation in Parliament that, if enacted, would have the effect of terminating the Company's exclusive license rights by permitting other telecommunications carriers to receive licenses to provide domestic fixed services and international voice and data services in Guyana. Along with the draft legislation, the Government also released drafts of new regulations and licenses (collectively, the "Draft Laws"). These Draft Laws would also introduce material changes to many other features of Guyana's existing telecommunications regulatory regime. While no substantive actions were taken on the Draft Laws in 2013, the Company cannot predict when or if the proposed legislation will be adopted by Parliament or, if adopted and then signed into law by the President, the manner in which it would be implemented by the Minister of Telecommunications and the PUC. Although the Company believes that it would be entitled to damages or other compensation for any involuntary termination of its contractual exclusivity rights, it cannot guarantee that the Company would prevail in a proceeding to enforce its rights or that its actions would effectively halt any unilateral action by the Government.

Historically, GT&T has been subject to other litigation proceedings and disputes in Guyana that, while not conclusively resolved, to the Company's knowledge have not been the subject of discussions or other significant activity in the last five years. It is possible, but not likely, that these disputes, as discussed below, may be revived. The Company believes that none of these additional proceedings would, in the event of an adverse outcome, have a material impact on the Company's consolidated financial position, results of operation or liquidity.

In a letter dated September 8, 2006, the National Frequency Management Unit ("NFMU") agreed that total spectrum fees in Guyana should not increase for the years 2006 and 2007. However, that letter implied that spectrum fees in 2008 and onward may be increased beyond the amount GT&T agreed to with the Government. GT&T has objected to the NFMU's proposed action and reiterated its position that an increase in fees prior to development of an acceptable methodology would violate the Government's prior agreement. In 2011, GT&T paid the NFMU $2.6 million representing payments in full for 2008, 2009 and 2010. However, by letter dated November 23, 2011, the NFMU stated that it did not concur with GT&T's inference that the amount was payment in full for the specified years as it was their continued opinion that the final calculation for GSM spectrum fees was not agreed upon and was still an outstanding issue. By further letter dated November 24, 2011, the NFMU further rejected a proposal that was previously submitted jointly by GT&T and Digicel which outlined a recommended methodology for the calculation of these fees. The NFMU stated that it would prepare its own recommendation which it would send to the Minister of Telecoms for decision of the matter. There have been no further discussions on this subject and GT&T has not had the opportunity to review any recommendation made to the Minister.

In November 2007, Caribbean Telecommunications Limited ("CTL") filed a complaint in the U.S. District Court for the District of New Jersey against GT&T and ATN claiming breach of an interconnection agreement for domestic cellular services in Guyana and related claims. CTL asserted over $200 million in damages. GT&T and ATN moved to dismiss the complaint on procedural and jurisdictional grounds. On January 26, 2009, the court granted the motions to dismiss the complaint on the grounds asserted. On November 7, 2009 and again on April 4, 2013, CTL filed a similar claim against GT&T and the PUC in the High Court of Guyana. The Company believes these claims are without merit and are duplicative of a previous claim filed by CTL in Guyana that was dismissed. There has been no action on these matters since the April 2013 filing.

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. COMMITMENTS AND CONTINGENCIES (Continued)

On May 8, 2009, Digicel filed a lawsuit in Guyana challenging the legality of GT&T's exclusive license rights under Guyana's constitution. Digicel initially filed this lawsuit against the Attorney General of Guyana in the High Court. On May 13, 2009, GT&T petitioned to intervene in the suit in order to oppose Digicel's claims and that petition was granted on May 18, 2009. GT&T filed an answer to the charge on June 22, 2009 and the case is pending. The Company believes that any legal challenge to GT&T's exclusive license rights granted in 1990 is without merit and the Company intends to vigorously defend against such a legal challenge.

On February 17, 2010, GT&T filed a lawsuit in the High Court of Guyana asserting that, despite its denials, Digicel is engaged in international bypass in violation of GT&T's exclusive license rights, the interconnection agreement between the parties, and the laws of Guyana. GT&T is seeking, among other things, injunctive relief to stop the illegal bypass activity, actual damages in excess of US$9 million and punitive damages of approximately US$5 million. Digicel filed counterclaims alleging that GT&T has violated the terms of the interconnection agreement and Guyana laws. GT&T intends to vigorously prosecute this suit.

On July 20, 2012 a trial court in Guyana made findings calling into question the validity of GT&T's exclusive license to provide international voice and data service in Guyana and the applicability of that license to telecommunications services using Voice over Internet Protocol ("VoIP"). The findings were made in a breach of contract case brought originally in 2007 against GT&T by a subscriber to its Internet service and are now temporarily stayed pending further court proceedings. Digicel, our main competitor in Guyana, in response to the trial court's findings, began connecting its own international traffic out of Guyana without receiving an international license and at rates which had not been approved by the Guyana Public Utilities Commission. In response, the Guyana Public Utilities Commission ordered Digicel to cease providing service at these rates and the government of Guyana notified us that they have undertaken to advise Digicel that its activities are in contravention of Guyana law. The Guyana courts also granted GT&T an interim injunction restraining Digicel from bypassing GT&T's network. GT&T has also appealed the case, not only with respect to the contract claim, but also as to the court's findings regarding the exclusivity of GT&T's license and its application to VoIP services.

GT&T is also involved in several legal claims regarding its tax filings with the Guyana Revenue Authority dating back to 1991 regarding the deductibility of intercompany advisory fees as well as other tax assessments. Should GT&T be held liable for any of the disputed tax assessments, totaling $33.2 million, the Company believes that the Government of Guyana would then be obligated to reimburse GT&T for any amounts necessary to ensure that GT&T's return on investment was no less than 15% per annum for the relevant periods.

The term of the Company's telecommunications license to operate in Aruba expired on January 15, 2014. The government of Aruba informed the Company earlier in January 2014 that a renewed license would be issued only upon payment by the Company of a fee in the amount of Afl 7.2 million (or approximately US$4 million). While the Company has contested the assessment of such fee, it is continuing to operate and is actively working with the Aruba government to reach a resolution with respect to the fees, if any, to be paid with respect to a renewed license. The amount sought is not expected to be paid nor is the Company willing to pay such amounts.

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. COMMITMENTS AND CONTINGENCIES (Continued)

Lease Commitments and Other Obligations

The Company leases approximately 1.7 million square feet for its operations centers, administrative offices and retail stores as well as certain tower sites under non-cancelable operating leases. The Company's obligations for payments under these leases are as follows at December 31, 2013 (in thousands):

2014	13,790
2015	10,827
2016	7,579
2017	5,974
2018	4,095
Thereafter	6,049
Total obligations under operating leases	$ 48,314

Rent expense for the years ended December 31, 2011, 2012 and 2013 was $13.7 million, $13.7 million and $12.7 million, respectively.

15. RELATED-PARTY TRANSACTIONS

Aruba

In June 2010, the Company entered into a joint venture to purchase a controlling interest in a wireless telecommunications enterprise in bankruptcy proceedings and operating on the island of Aruba. The joint venture, which is consolidated in the Company's financial statements, is conducted through a newly-created company named Caribbean Telecom Partners, LLC ("CTP"), in which it invested $3.1 million in exchange for a 51% controlling interest. CTP is governed by a three-member board of directors, which consists of two members designated by the Company and one member designated by a former member of the Company's Board of Directors, Brian A. Schuchman, who, through a company wholly-owned by him, owns the remaining 49% interest. Mr. Schuchman had historically overseen the day-to-day management of CTP and, through CTP, the day-to-day management of the underlying Aruba telecommunications business. While he remains involved in the Company's Aruba operations, Mr. Schuchman no longer serves as principal operating officer of CTP, effective July 1, 2012 and no longer serves on the Company's Board of Directors, effective June 18, 2013. The Audit Committee of the Company's Board approved the above-described arrangement with Mr. Schuchman after review in accordance with the Company's Related Person Transaction policy.

16. SEGMENT REPORTING

The Company has four reportable segments for separate disclosure in accordance with the FASB's authoritative guidance on disclosures about segments of an enterprise. Those four segments are: i) U.S. Wireless, which generates all of its revenues in and has all of its assets located in the United States, ii) International Integrated Telephony, which generates all of its revenues in and has all of its assets located in Guyana, iii) Island Wireless, which generates a majority of its revenues in, and has a majority of its assets located in, Bermuda and which also generates revenues in and has assets located in the U.S. Virgin Islands, Aruba and Turks and Caicos and iv) U.S. Wireline, which generates all of its

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. SEGMENT REPORTING (Continued)

revenues in and has all of its assets located in the United States. The operating segments are managed separately because each offers different services and serves different markets.

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

For the Year Ended December 31, 2011	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. Wireless	$ 98,704	$	$	$	$	$ 98,704
International Wireless		27,138	45,866			73,004
Wireline	556	64,471		19,930		84,957
Equipment and Other		832	5,310			6,142
Total Revenue	99,260	92,441	51,176	19,930		262,807
Depreciation and amortization	18,266	18,058	9,855	3,182	1,889	51,250
Non-cash stock-based compensation					2,766	2,766
Operating income (loss)	41,021	26,734	(7,728)	255	(16,920)	43,362

For the Year Ended December 31, 2012	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. Wireless	$ 102,817	$	$	$	$	$ 102,817
International Wireless		27,084	54,379			81,463
Wireline	603	65,313		19,608		85,524
Equipment and Other	348	1,738	5,717	189		7,992
Total Revenue	103,768	94,135	60,096	19,797		277,796
Depreciation and amortization	16,072	17,963	11,067	2,860	2,625	50,587
Non-cash stock-based compensation					3,324	3,324
Operating income (loss)	60,290	23,203	(3,334)	(2,481)	(21,040)	56,638

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. SEGMENT REPORTING (Continued)

	For the Year Ended December 31, 2013					
	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
Revenue						
U.S. Wireless	$ 107,930	$	$	$	$	$ 107,930
International Wireless		30,334	61,098			91,432
Wireline	610	61,475		22,500		84,585
Equipment and Other	465	1,637	6,555	231		8,888
Total Revenue	109,005	93,446	67,653	22,731		292,835
Depreciation and amortization	14,308	17,975	10,305	3,182	2,967	48,737
Non-cash stock-based compensation					3,805	3,805
Operating income (loss)	54,867	28,212	8,610	(1,076)	(25,978)	64,085

	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
December 31, 2012:						
Net fixed assets	$ 47,148	$ 127,988	$ 33,745	$ 17,489	$ 11,954	$ 238,324
Goodwill	32,148		5,438	7,491		45,077
Total assets	161,038	193,153	77,120	30,888	448,676(1)	910,875
December 31, 2013:						
Net fixed assets	$ 73,592	$ 118,917	$ 29,310	$ 26,082	$ 6,731	$ 254,632
Goodwill	32,148		5,438	7,491		45,077
Total assets	146,346	197,903	74,427	45,351	395,692(1)	859,719

(1) Includes $380,765 and $4,748 of assets associated with our discontinued operations as of December 31, 2012 and 2013 respectively.

	Capital Expenditures					
Year Ended December 31,	U.S. Wireless	International Integrated Telephony	Island Wireless	U.S. Wireline	Reconciling Items	Consolidated
2011	7,773	19,317	7,485	3,336	3,420	41,331
2012	9,792	14,369	4,529	10,508	2,956	42,154
2013	34,895	12,452	5,536	12,552	3,881	69,316

Reconciling items refer to corporate overhead matters and consolidating adjustments.

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Following is a summary of the Company's quarterly results of operations for the years ended December 31, 2012 and 2013 (in thousands):

	2012 Consolidated for the Three Months Ended			
	March 31	June 30	September 30	December 31
Total revenue	$ 65,745	$ 68,827	$ 73,312	$ 69,912
Operating expenses	57,331	57,894	57,141	48,792
Income from operations	8,414	10,933	16,171	21,120
Other income (expense), net	(3,826)	(4,435)	(2,936)	(645)
Income from continuing operations before income taxes	4,588	6,498	13,235	20,475
Income tax provision	2,214	2,673	4,145	11,799
Income from continuing operations	2,374	3,825	9,090	8,676
Income from discontinued operations:				
Income (loss) from discontinued operations, net of tax	6,563	7,942	8,922	5,775
Income from discontinued operations, net of tax	6,563	7,942	8,922	5,775
Net income	8,937	11,767	18,012	14,451
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	522	(856)	(1,681)	(1,130)
Discontinued operations	(138)	(382)	(365)	(205)
Disposal of discontinued operations				
	384	(1,238)	(2,046)	(1,335)
Net income attributable to Atlantic Tele-Network, Inc. stockholders	9,321	10,529	15,966	13,116
Net income per weighted average basic share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	0.19	0.19	0.48	0.48
Discontinued operations:				
Discontinued operations	0.42	0.49	0.55	0.36
Gain on Sale of discontinued operations				
Total discontinued operations	0.42	0.49	0.55	0.36
Total	0.61	0.68	1.03	0.84

Net income per weighted average diluted share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	0.19	0.19	0.47	0.48
Discontinued operations:				
Discontinued operations	0.41	0.48	0.55	0.36
Gain on Sale of discontinued operations				
Total discontinued operations	0.41	0.48	0.55	0.36
Total	0.60	0.67	1.02	0.84

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ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)

	2013 Consolidated for the Three Months Ended			
	March 31	June 30	September 30	December 31
Total revenue	$ 64,832	$ 71,625	$ 79,350	77,028
Operating expenses	52,754	55,719	59,312	60,965
Income from operations	12,078	15,906	20,038	16,063
Other income (expense), net	(2,249)	(2,707)	(13,042)	386
Income from continuing operations before income taxes	9,829	13,199	6,996	16,449
Income taxes	3,945	4,868	2,481	(1,758)
Income from continuing operations	5,884	8,331	4,515	18,207
Income from discontinued operations:				
Income (loss) from discontinued operations, net of tax	4,034	3,092	(1,960)	
Gain on sale of discontinued operations, net of tax			305,197	1,905
Income from discontinued operations, net of tax	4,034	3,092	303,237	1,905
Net income	9,918	11,423	307,752	20,112
Net income attributable to non-controlling interests, net of tax:				
Continuing operations	(1,055)	(1,934)	(2,945)	(2,055)
Discontinued operations	(87)	(630)	116	
Disposal of discontinued operations			(28,699)	(200)
	(1,142)	(2,564)	(31,528)	(2,255)
Net income attributable to Atlantic Tele-Network, Inc. stockholders	8,776	8,859	276,224	17,857
Net income per weighted average basic share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	0.31	0.41	0.10	1.02
Discontinued operations:				
Discontinued operations	0.25	0.16	(0.12)	
Gain on sale of discontinued operations			17.57	0.15
Total discontinued operations	0.25	0.16	17.45	0.15
Total	0.56	0.57	17.55	1.17

Net income per weighted average diluted share attributable to Atlantic Tele-Network, Inc. stockholders				
Continuing operations	0.31	0.40	0.10	1.02
Discontinued operations:				
Discontinued operations	0.25	0.16	(0.12)	
Gain on Sale of discontinued operations			17.45	0.14
Total discontinued operations	0.25	0.16	17.33	0.14
Total	0.56	0.56	17.43	1.16

Certain revisions to correct profit and loss classifications have been made in prior period financial statements. See Note 2 for additional information. The effect on the quarters ended March 31, 2013, June 30, 2013, and September 30, 2013 was an understatement of revenue of $0.8 million, $0.8 million and $0.2 million, respectively.

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SCHEDULE II

ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

(Amounts in Thousands)

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions	Balance at End of Year
YEAR ENDED, December 31, 2011				
Description:				
Valuation allowance on foreign tax credit carryforwards	$ 16,983	$	$ 228	$ 16,755
Valuation allowance on foreign net operating losses		560		560
Allowance for doubtful accounts	4,318	3,647	905	7,060
	$ 21,301	$ 4,207	$ 1,133	$ 24,375
YEAR ENDED, December 31, 2012				
Description:				
Valuation allowance on foreign tax credit carryforwards	$ 16,755	$	$ 1,359	$ 15,396
Valuation allowance on foreign net operating losses	560	338		898
Valuation allowance on state net operating losses		494		494
Allowance for doubtful accounts	7,060	1,490	646	7,904
	$ 24,375	$ 2,322	$ 2,005	$ 24,692
YEAR ENDED, December 31, 2013				
Description:				
Valuation allowance on foreign tax credit carryforwards	$ 15,396	$	$ 1,820	$ 13,576
Valuation allowance on foreign net operating losses	898	712		1,610
Valuation allowance on state net operating losses	494	632		1,126
Allowance for doubtful accounts	7,904	1,462	361	9,005
	$ 24,692	$ 2,806	$ 2,181	$ 25,317

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EXHIBIT INDEX
to Form 10-K for the Year Ended December 31, 2013

2.1	Purchase Agreement, dated January 21, 2013, by and among AT&T Mobility LLC, Atlantic Tele-Network, Inc. and Allied Wireless Communications Corporation. (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on January 24, 2013).
3.1	Restated Certificate of Incorporation of Atlantic Tele-Network, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (File No. 333-62416) filed June 6, 2001).
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Atlantic Tele-Network, Inc., as filed with the Delaware Secretary of State on August 14, 2006 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-12593) for the quarterly period ended June 30, 2006 filed August 14, 2006).
3.3	By-Laws of Atlantic Tele-Network, Inc., as amended and restated on September 12, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-12593) for the quarterly period ended September 30, 2013 filed November 12, 2013).
10.1*	Offer Letter by and between Atlantic Tele-Network, Inc. and Leonard Q. Slap, dated May 27, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on May 27, 2010).
10.2*	Offer Letter by and between Atlantic Tele-Network, Inc. and Karl D. Noone, dated August 9, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on August 11, 2010).
10.3*	Atlantic Tele-Network, Inc. 1998 Stock Option Plan (as amended May 24, 2007 incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A (File No. 001-12593) filed April 30, 2007).
10.4*	Director's Remuneration Plan as amended as of November 2, 1999 (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-8 (File No. 333-62416) filed June 6, 2001).
10.5*	Form of Incentive Stock Option Agreement under 1998 Stock Option Plan (incorporated by reference to Exhibit 4.8 to the Company's Registration Statement on Form S-8 (File No. 333-62416) filed June 6, 2001).
10.6*	2005 Restricted Stock and Incentive Plan (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 (File No. 333-62416) filed May 24, 2005).
10.7*	Atlantic Tele-Network, Inc. 2008 Equity Incentive Plan, as amended and restated (incorporated by reference to Appendix C of the Definitive Proxy Statement on Schedule 14A (File No. 001-12593) filed on May 2, 2011).
10.8*	Form of Notice of Grant of Restricted Stock and Restricted Stock Agreement under 2008 Equity Incentive Plan (Non-Employee Directors) (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on May 21, 2008).
10.9*	Form of Notice of Grant of Restricted Stock and Restricted Stock Agreement under 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on May 21, 2008).

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10.10*	Form of Notice of Grant of Incentive Stock Option and Option Agreement under 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on May 21, 2008).
10.11*	Form of Notice of Grant of Nonqualified Stock Option and Option Agreement under 2008 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K (File No. 001-12593) filed on May 21, 2008).
10.12*	Deferred Compensation Plan for Select Employees of Atlantic Tele-Network, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-12593) filed January 6, 2009).
10.13	Third Amended and Restated Agreement dated as of May 18, 2012 by and among Atlantic Tele-Network, Inc., as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, the Guarantors named therein, and the other Lenders named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-12593) filed on May 21, 2012).
10.14	First Amendment to Third Amended and Restated Agreement dated as of October 29, 2012 by and among Atlantic Tele-Network, Inc., as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, the Guarantors named therein, and the other Lenders named therein (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-12593) filed on November 9, 2012).
10.15	Consent to Third Amended and Restated Agreement dated as of February 28, 2013, by and among the Company, as Borrower, CoBank, ACB, as Administrative Agent, Lead Arranger, Swingline Lender, an Issuing Lender and a Lender, the Guarantors named therein, and the other Lenders named therein (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K (File No. 001-12593) for the year ended December 31, 2012 filed on March 18, 2013).
10.16	Agreement between the Government of the Co-Operative Republic of Guyana and Atlantic Tele-Network, Inc., dated June 18, 1990 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-12593) for the quarterly period ended March 31, 2006 filed on May 15, 2006).
10.20	Amendment to the Agreement between the Government of the Co-Operative Republic of Guyana and Atlantic Tele-Network, Inc., dated November 2, 2012 (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K (File No. 001-12593) for the year ended December 31, 2012 filed on March 18, 2013).
10.21	Allied Wireless Communications Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K (File No. 001-12593) for the year ended December 31, 2010 filed on March 16, 2011).
10.22	Form of Restricted Stock Grant Agreement under Allied Wireless Communications Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K (File No. 001-12593) for the year ended December 31, 2010 filed on March 16, 2011).
10.23	Form of Option Agreement under Allied Wireless Communications Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K (File No. 001-12593) for the year ended December 31, 2010 filed on March 16, 2011).

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10.24	Allied Wireless Communications Corporation Form of Shareholder Agreement (incorporated by reference to Appendix A of the Definitive Proxy Statement on Schedule 14A (File No. 001-12593) filed on May 2, 2011).
21**	Subsidiaries of Atlantic Tele-Network, Inc.
23.1**	Consent of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP.
31.1**	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Rule 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Rule 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement.

** Filed herewith.