

**REDACTED—FOR PUBLIC INSPECTION**

March 10, 2016

**BY ECFS AND HAND DELIVERY**

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

Re: *Applications Filed for the Transfer of Control of the Innovative Companies to Atlantic Tele-Network, Inc. (WC Docket No. 15-264)*

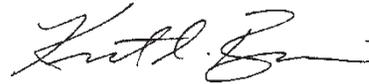
Dear Ms. Dortch:

National Rural Utilities Cooperative Finance Corporation (“CFC”), the transferor, and Atlantic Tele-Network, Inc. (“ATN”), the transferee (collectively, the “Applicants”), hereby respond to the information request regarding the above-referenced transaction (“Transaction”) that was sent to the Applicants by Daniel Kahn of the Wireline Competition Bureau on February 24, 2016. Each question set forth in the information request is repeated below and is followed by the Applicants’ response. This response also is accompanied by a Request for Confidential Treatment covering the Applicants’ response to Questions 3(a), 3(c), and 4.

If you have any questions about the information set forth below, please contact the undersigned.

Sincerely,

/s/ Phil Marchesiello  
Phil Marchesiello  
WILKINSON BARKER KNAUER, LLP  
*Counsel for Atlantic Tele-Network, Inc.,  
Transferee*



Kent Bressie  
HARRIS, WILTSHIRE & GRANNIS LLP  
*Counsel for National Rural Utilities  
Cooperative Finance Corporation*

Attachment

cc: Daniel Kahn  
Dennis Johnson  
Jodie May Donovan  
Alex Minard

**ATTACHMENT**

**APPLICANTS' RESPONSE TO FEBRUARY 24 QUESTIONS**

- 1. *What effect, if any, will this transaction have on the Connect America Phase II service obligations proposed by Virgin Islands Telephone Corporation d/b/a Innovative Telephone (Vitelco)? See Vitelco comments, WC Docket No. 10-90, filed Aug. 8, 2015, <http://apps.fcc.gov/ecfs/document/view?id=7521752416>, and Letter from Russell M. Blau, Counsel, Vitelco, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 10-90, filed Sept. 24, 2015, <http://apps.fcc.gov/ecfs/document/view?id=60001325158>.***

- a. *Will ATN maintain Vitelco's current broadband speed offerings or offer different ones?***

Although ATN may modify some of Vitelco's broadband speed offerings, ATN will maintain broadband plans in the same range of speeds that Vitelco offers today. Specifically, Vitelco will offer a broadband plan with an uplink/downlink speed at or near 3 Mbps / 1 Mbps on the low end and, on the upper end, a broadband offering with a downlink/uplink speed of at least 50 Mbps / 5 Mbps. (See *infra* the Applicants' response to Question 5(d).) ATN may modify some of Vitelco's mid-tier broadband plans that fall between these minimum and maximum broadband speeds. For example, ATN may offer fewer or somewhat different mid-tier broadband plans, but Vitelco will continue to offer multiple broadband speed offerings between 3 Mbps / 1 Mbps (or higher) and 50 Mbps / 5 Mbps, and these offerings will be priced at or below Vitelco's existing broadband speed offerings in terms of dollars per Mbps downlink speed.

- b. *If different, specify the terms of both service quality (minimum speeds, usage allowances, latency) and rates.***

As set forth above, after ATN has an opportunity to evaluate Vitelco's business and infrastructure, as well as the United States Virgin Islands ("USVI") broadband market, following the closing, ATN may modify some of Vitelco's broadband plans. However, any such new or different broadband plans will be priced at or below Vitelco's existing broadband speed offerings in terms of dollars per Mbps downlink speed. In particular, ATN will evaluate post-closing the infrastructure used by the hybrid fiber-coaxial ("HFC") network of Vitelco and its affiliates, including the submarine cable assets used to connect the USVI with the mainland United States, to determine whether there are cost-effective means of relieving any speed or capacity constraints affecting the HFC network's performance. These efforts may result in service improvements.

- c. *Would the offerings meet or exceed the minimum service obligations proposed by the Commission in April 2014 for non-contiguous carriers that elected to receive Connect America Phase II frozen support in lieu of model-based support (e.g., 10/1 Mbps, 100 GB/month usage allowance, 100 millisecond latency roundtrip, reasonably comparable rates)?***

The broadband offerings of Vitelco and its affiliates currently meet or exceed the minimum service obligations previously proposed by the Commission for non-contiguous carriers that

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ATTACHMENT: APPLICANTS' RESPONSE TO FEBRUARY 24 QUESTIONS

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elected to receive Connect America Phase II frozen support in lieu of model-based support. (Vitelco and its affiliates currently offer a 50 Mbps / 5 Mbps service, with no caps on data usage and latency of 32 to 40 milliseconds.) ATN will continue to meet or exceed these proposed minimum service obligations following the consummation of the Transaction.

**2. ATN is purchasing CFC's interest for \$145 million.**

**a. How did Vitelco finance the capital expenditures for its hybrid fiber-coaxial (HFC) deployment? If Vitelco financed those expenditures through one or more loans, how will the proposed transaction address any outstanding balance(s)?**

Vitelco used a combination of internal financing and loans from its immediate parent company, DTR Holdings, LLC ("DTR"), to fund its capital program of which the HFC network deployment is a major portion. DTR is a directly, wholly owned subsidiary of Caribbean Asset Holdings, LLC ("CAH"), which in turn is a direct, wholly owned subsidiary of CFC.

As set forth in the Applicants' response to Questions 2(d) and (e) below, the September 30, 2015 purchase agreement pursuant to which ATN has agreed to purchase Vitelco and other CFC subsidiaries from CFC ("Purchase Agreement") calls for Vitelco to be free of all liens, including Vitelco's existing debt to DTR, at the time that the Transaction closes. Although CFC is still considering the particular mechanism by which Vitelco's debt will be eliminated, CFC will likely accomplish this by a contribution to Vitelco's capital.

However, the cost to deploy the HFC network will not have been fully recouped by Vitelco as a result of the elimination prior to closing of the Vitelco-DTR debt initially used to construct the network. As an accounting matter, ATN expects a portion of the purchase price to be allocated to Vitelco's assets, including the HFC network, and subsequently amortized over the expected life of the network. Further, ATN may take on additional debt secured by the Vitelco assets which effectively will replace the Vitelco-DTR loan.

Specifically, ATN may utilize the Vitelco assets, as well as other assets being acquired via the Transaction, as a form of collateral for debt that may be incurred at or after consummation of the Transaction. ATN has the option (but not the obligation) under the transaction documents to have CAH take on a \$60 million loan from CFC's affiliate, Rural Telephone Finance Cooperative ("RTFC"), at the Transaction closing. This is one of many options available to ATN by which to appropriately capitalize the CAH assets, including Vitelco, post-closing. ATN has not yet determined which method of debt capitalization it will utilize.

**b. How much was the original loan(s)?**

The original loan amounts for HFC network financing totaled \$48,250,000.00.

**c. What is the current outstanding balance(s)?**

As of January 31, 2016, the amount outstanding is \$45,879,286.11.

**d. *Will any portion remain after the purchase?***

No, not in the form of any loans from DTR to Vitelco, as CFC will eliminate that debt prior to closing. However, as set forth in response to Question 2(a), RTFC has executed a commitment letter for debt financing which provides ATN an option to finance \$60 million of the purchase price that ATN will pay to CFC in connection with the Transaction.<sup>1</sup> In addition, Vitelco's assets may be used to secure future debt that is intended to offset the cost of the HFC network and support continued expansion, maintenance and upgrades of the network.

**e. *Who will be responsible for paying the loan(s) if the proposed transaction is approved?***

As noted above, CFC will eliminate Vitelco's existing debt to DTR, likely by treating it as a capital contribution, but ATN may replace that debt with new financing arrangements.

**f. *How much are monthly payments?***

Vitelco currently makes interest-only payments at an interest rate of 2.9 percent per month, which equates to a monthly payment of \$110,874.94.

**3. *ATN projected "that it will spend in the range of \$65 to \$75 million in capital expenditures in 2015 to upgrade and enhance the services and networks of its existing telecommunications businesses."***

**a. *What were Vitelco's projected capital expenditures in 2016 for its HFC network?***

See Confidential Exhibit A.

**b. *Does ATN expect to make any adjustments to those capital expenditures if the proposed transaction is approved?***

The USVI presents an exceptionally challenging environment for infrastructure deployment, maintenance, upgrade, and expansion. Due to rough topography, extreme heat and humidity, the salt air, frequent tropical storms, and electrical grid issues, as well as the extraordinary costs

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<sup>1</sup> This financing option is described in ATN's most recent Security and Exchange Commission 8-K filing. See ATN 8-K (filed October 1, 2015) available at [https://www.sec.gov/Archives/edgar/data/879585/000110465915068517/a15-20552\\_18k.htm](https://www.sec.gov/Archives/edgar/data/879585/000110465915068517/a15-20552_18k.htm).

associated with transporting goods and technically skilled employees to and between the four scattered, primary islands that comprise the USVI, ATN anticipates that it will incur substantial costs operating, maintaining, and further expanding and upgrading the HFC network. Consequently, ATN expects its Connect America Fund Phase II (“CAF”) capital expenditures in connection with the HFC network during the portion of 2016 following closing, and going forward thereafter, to be in line with the capital expenditures planned by CFC as set forth in Confidential Exhibit A.<sup>2</sup>

***c. What does ATN project as its capital expenditures in 2017 for Vitelco's HFC network, assuming the transaction is approved?***

ATN expects to make capital expenditures in connection with the HFC network in 2017 that are in line with CFC's projected 2017 Vitelco CAF-funded capital expenditures.<sup>3</sup>

***4. What are Vitelco's current operating expenses? Is Vitelco audited in the normal course of business? If so, produce audited 2014 financial statements, and produce audited 2015 financial statements when they are available.***

For operating expenses for 2015, please see Confidential Exhibit B. For audited 2014 financial statements, please see Confidential Exhibit C. For audited 2015 financial statements, please see Confidential Exhibit D.

***5. ATN states that it is committed to improving broadband access in the U.S. Virgin Islands post-transaction. It states that “the HFC network being deployed by Vitelco is the best and most cost-effective means of closing [the broadband deployment gap] due to the higher data rates and lower operating costs of an HFC***

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<sup>2</sup> ATN's statement in the transfer of control application “that it will spend in the range of \$65 to \$75 million in capital expenditures in 2015 to upgrade and enhance the services and networks of its existing telecommunications businesses” was not in reference to projected capital expenditures in connection with Vitelco and its affiliates, in which ATN had no ownership interest in 2015. The statement merely was intended to demonstrate ATN's historical commitment to making investments in its ten telecommunications businesses generally. In certain instances, as is the case with Vitelco, private investment is not a financially viable alternative to universal service funding.

<sup>3</sup> In a letter from Vitelco to the Virgin Island Public Services Commission (“PSC”) in connection with the PSC's annual review of Vitelco's use of universal service funds, Vitelco provided projected capital expenditures, operating expenditures, and other financial information relating to its use of universal service funds. See Letter from Shawn O'Donnell, Chief Executive Officer, Vitelco (dba Innovative Telephone), to Donald Cole, Executive Director, Virgin Islands Public Service Commission, dated July 30, 2015, at Appendix 1 (Innovative Telephone Planned Federal High Cost Support Expenditures for Five-Year Period Fiscal Years 2016-2020). A copy of the letter has been attached hereto as Confidential Exhibit E.

***network,” and “to the extent not completed before consummation of the Proposed Transaction, ATN will complete deployment of the network, continue the migration of Vitelco’s customers to the HFC network, and initiate a migration of Choice customers to the HFC network.” (Public Interest Statement at 31-32). Provide with as much specificity as possible:***

- a. the number of households Vitelco’s HFC network currently passes, and indicate what percentage of households this represents in Vitelco’s service territory;***

The HFC network of Vitelco and its affiliates, which supports the offering of telephone, video and broadband services, currently passes 99.9 percent of the 48,700 households in the USVI.

- b. if the HFC network is not expected to be completed before consummation of the proposed transaction, as referenced in the Public Interest Statement, when will it be completed;***

Vitelco and its affiliates have completed the deployment of the HFC network backbone and are in the process of, among other things, connecting individual households and businesses to the network backbone as part of the ongoing migration of Vitelco customers to the HFC network, as well as deploying the latest version of customer premises equipment to allow for continued speed upgrades in the future. In addition, within the next five years, Vitelco expects to expend significant capital to upgrade and increase the on-island and off-island transmission capacity of the HFC network to meet increased customer bandwidth requirements; upgrade and enhance the networks’ IP core to meet customer needs; diversify the on-island fiber network to enhance reliability; extend the core network to new customers to provide broadband speeds; and for continued plant replacement.

There are five areas where, due to low population density, remoteness and topography, and cost, Vitelco did not deploy HFC. These areas include:

1. Water Island
2. Botany Bay (west end of St. Thomas)
3. North Shore (St. John)
4. Annaly/Northside (St. Croix)
5. Estate Cottage (St. Croix)

Vitelco and its affiliates are 80-percent complete in deploying ADSL2 systems to provide broadband access to residents in these areas, which include approximately 239 households. To the extent that Vitelco and its affiliates do not complete the HFC network and the ADSL2 system deployment prior to the consummation of the transaction, ATN anticipates that it will do so following the closing.

- c. *if the HFC network is not currently completed, how many more households will have access to the network post-transaction and when;***

As set forth in response to Question 5(a), 99.9 percent of the 48,700 households in the USVI ultimately will be able to receive service over the HFC network. Vitelco is in the process of connecting individual households and businesses to the HFC network backbone as part of the ongoing migration of Vitelco customers to the HFC network and expects to complete this process for residential customers in 2016.

- d. *at what speeds are services currently available over the HFC network, and does ATN expect to take steps to improve the currently available speeds;***

Vitelco and its affiliates offer the following Internet speeds for downlink/uplink:

- 3 Mbps / 1 Mbps
- 6 Mbps / 1 Mbps
- 12 Mbps / 2 Mbps
- 18 Mbps / 5 Mbps
- 25 Mbps / 5 Mbps
- 50 Mbps / 5 Mbps

As set forth above in response to Questions 1(a) and (b), ATN may modify some of Vitelco's mid-tier broadband plans post-closing, while retaining a low-end plan at or near 3 Mbps / 1 Mbps and a high-end plan at or above 50 Mbps / 5 Mbps. Any new or different broadband plans will be priced at or below Vitelco's existing broadband speed offerings in terms of dollars per Mbps downlink speed.

- e. *whether customers of the HFC network are subject to any data usage allowance (or "cap" or similar measure), and if so, at what level; and***

No, Vitelco and its affiliates do not subject HFC users to data usage allowances, caps, or similar measures. Innovative has adopted an acceptable use policy that prohibits intentional misuse of HFC services.

- f. *how many Vitelco and Choice customers does ATN expect to migrate to the HFC network, and when?***

ATN will seek to migrate to the HFC network all Vitelco customers that are passed by the HFC network and that have not yet been migrated as of the consummation of the Transaction. ATN also intends to seek to similarly migrate Choice's fixed wireless customers passed by the HFC network. Although ATN has not yet established a specific timeframe for completing the migration of Choice's fixed wireless customers to the HFC network, ATN intends to conclude the migration of the vast majority of its customers as early as practicable and is targeting the end of 2017.

ATN expects that Vitelco's HFC network will provide passed households with the highest broadband speeds at the most cost-effective rates. Therefore, ATN intends to migrate Choice's fixed wireless customers and Vitelco's customers to the HFC network. However, to the extent that it is not technically or economically feasible for certain Vitelco or Choice customers to be served by the HFC network, ATN will ensure that such customers maintain access to an alternative high-speed Internet access service, which ultimately will include a mobile LTE 4G service, and no Vitelco or Choice customer will face a diminution in service.

- 6. *ATN states it will be able to improve data coverage in the U.S. Virgin Islands by combining high-speed broadband offered by Vitelco's HFC network with the mobile LTE services that ATN will deploy post-closing. (Public Interest Statement at 19-20). ATN states that the combined company will provide the customer base and spectrum resources needed to warrant ATN's deployment of a new 4G mobile network. ATN states that it expects to commence deployment of a 4G LTE mobile broadband data network "following consummation of the Proposed Transaction, and ATN expects the network to be completed within one year following the closing." (Public Interest Statement at 26). To how many customers in Vitelco's footprint does ATN expect to offer 4G LTE services post-transaction? Will ATN offer 4G LTE service to customers who have access to the HFC network?***

ATN is in the process of designing the new 4G mobile LTE network that ATN will deploy in the U.S. Virgin Islands following the consummation of the Transaction. Consequently, ATN currently does not know the exact placement of the wireless infrastructure that will comprise the network or the exact geographic footprint of the network. As a result, ATN currently does not know exactly how many USVI households will be covered by the new network's footprint. ATN expects, however, that the network will provide coverage to all urban areas and most populated rural areas on St. Thomas, St. Croix, and St. John. Therefore, ATN expects that its mobile 4G LTE network will significantly improve mobile high-speed data availability for the vast majority of USVI residents.

ATN will offer 4G mobile LTE service on its newly deployed network to all requesting customers, including customers who receive wireline service from Vitelco over the HFC network.

## LIST OF EXHIBITS\*

<u>Confidential Exhibit A:</u>	2016 Projected Capital Expenditures
<u>Confidential Exhibit B:</u>	2015 Operating Expenses
<u>Confidential Exhibit C:</u>	2014 Audited Financial Statement
<u>Confidential Exhibit D:</u>	2015 Audited Financial Statement
<u>Confidential Exhibit E:</u>	Letter from Shawn O'Donnell, Chief Executive Officer, to Donald Cole, Executive Director, Virgin Islands Public Services Commission, dated July 30, 2015

- \* Each of the Confidential Exhibits has been redacted from this public-inspection version of the Applicants' response.

## **Confidential Exhibit A**

**REDACTED IN ITS ENTIRETY  
PURSUANT TO CONFIDENTIAL TREATMENT REQUEST**

## **Confidential Exhibit B**

**REDACTED IN ITS ENTIRETY  
PURSUANT TO CONFIDENTIAL TREATMENT REQUEST**

## **Confidential Exhibit C**

**REDACTED IN ITS ENTIRETY  
PURSUANT TO CONFIDENTIAL TREATMENT REQUEST**

## **Confidential Exhibit D**

**REDACTED IN ITS ENTIRETY  
PURSUANT TO CONFIDENTIAL TREATMENT REQUEST**

## **Confidential Exhibit E**

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PURSUANT TO CONFIDENTIAL TREATMENT REQUEST**