

Hawaiian Telcom Holdco, Inc.
Form 10-Q
August 15, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34686

Hawaiian Telcom Holdco, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1659868
(I.R.S. Employer Identification No.)

1177 Bishop Street

Honolulu, Hawaii 96813

(Address of principal executive offices)

808-546-4511

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: Hawaiian Telcom Holdco, Inc. - Form 10-Q

As of August 15, 2011, 10,138,600 shares of the registrant's common stock were outstanding.

Table of Contents

Table of Contents

		Page
<u>Part I</u>	<u>Financial Information</u>	
<u>Item 1</u>	<u>Financial Statements</u>	3
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4</u>	<u>Controls and Procedures</u>	28
<u>Part II</u>	<u>Other Information</u>	
<u>Item 1</u>	<u>Legal Proceedings</u>	29
<u>Item 5</u>	<u>Other Information</u>	29
<u>Item 6</u>	<u>Exhibits</u>	29

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Hawaiian Telcom Holdco, Inc.****Condensed Consolidated Statements of Operations****(Unaudited, dollars in thousands, except per share amounts)**

	Successor		Predecessor	
	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Operating revenues	\$ 100,744	\$ 199,250	\$ 99,621	\$ 199,874
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	41,960	82,530	39,426	79,614
Selling, general and administrative	30,382	60,518	30,937	63,511
Depreciation and amortization	15,212	30,517	42,367	84,671
Total operating expenses	87,554	173,565	112,730	227,796
Operating income (loss)	13,190	25,685	(13,109)	(27,922)
Other income (expense):				
Interest expense (contractual interest was \$19,002 and \$37,595 for the three and six months ended June 30, 2010, respectively)	(6,235)	(12,494)	(7,147)	(13,905)
Interest income and other	17	30	35	30
Total other expense	(6,218)	(12,464)	(7,112)	(13,875)
Income (loss) before reorganization items and income tax provision	6,972	13,221	(20,221)	(41,797)
Reorganization items	239	950	2,080	3,827
Income (loss) before income tax provision	6,733	12,271	(22,301)	(45,624)
Income tax provision				
Net income (loss)	\$ 6,733	\$ 12,271	\$ (22,301)	\$ (45,624)
Net income (loss) per common share -				
Basic	\$ 0.66	\$ 1.21	\$ (52.11)	\$ (106.60)
Diluted	\$ 0.61	\$ 1.12	\$ (52.11)	\$ (106.60)

Edgar Filing: Hawaiian Telcom Holdco, Inc. - Form 10-Q

Weighted average shares used to compute
net income (loss) per common share -

Basic	10,138,572	10,138,137	428,000	428,000
Diluted	11,023,118	10,978,578	428,000	428,000

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Hawaiian Telcom Holdco, Inc.****Condensed Consolidated Balance Sheets****(Unaudited, dollars in thousands, except per share amounts)**

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 77,309	\$ 81,647
Receivables, net	41,212	39,222
Material and supplies	7,138	8,431
Prepaid expenses	6,147	5,707
Other current assets	1,179	4,566
Total current assets	132,985	139,573
Property, plant and equipment, net	469,739	459,781
Intangible assets, net	42,265	43,315
Other assets	3,688	3,367
Total assets	\$ 648,677	\$ 646,036
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 22,511	\$ 24,162
Accrued expenses	22,054	28,752
Advance billings and customer deposits	14,394	14,948
Other current liabilities	3,673	2,810
Total current liabilities	62,632	70,672
Long-term debt	300,000	300,000
Employee benefit obligations	91,230	94,453
Other liabilities	2,745	2,119
Total liabilities	456,607	467,244
Commitments and contingencies (Note 15)		
Stockholders equity		
Common stock, par value of \$0.01 per share, 245,000,000 shares authorized and 10,138,600 and 10,135,063 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	101	101
Additional paid-in capital	163,190	162,169
Accumulated other comprehensive income	13,379	13,393
Retained earnings	15,400	3,129
Total stockholders equity	192,070	178,792
Total liabilities and stockholders equity	\$ 648,677	\$ 646,036

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Hawaiian Telcom Holdco, Inc.****Condensed Consolidated Statements of Cash Flows****(Unaudited, dollars in thousands)**

	Successor Six Months Ended June 30, 2011	Predecessor Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income (loss)	\$ 12,271	\$ (45,624)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	30,517	84,671
Employee retirement benefits	(3,223)	2,935
Provision for uncollectibles	790	3,104
Stock based compensation	972	39
Interest cost added to loan principal		6,906
Reorganization items	950	3,827
Changes in operating assets and liabilities:		
Receivables	(4,279)	1,283
Material and supplies	1,293	(1,500)
Prepaid expenses and other current assets	2,947	(5,118)
Accounts payable and accrued expenses	(8,267)	2,927
Advance billings and customer deposits	(554)	598
Other current liabilities	863	173
Other	(962)	316
Net cash provided by operating activities before reorganization items	33,318	54,537
Operating cash flows used by reorganization items	(2,292)	(11,933)
Net cash provided by operating activities	31,026	42,604
Cash flows used in investing activities:		
Capital expenditures	(35,413)	(28,950)
Net cash used in investing activities	(35,413)	(28,950)
Cash provided by financing activities:		
Proceeds from sale of common stock	49	
Net cash provided by financing activities	49	
Net change in cash and cash equivalents	(4,338)	13,654
Cash and cash equivalents, beginning of period	81,647	96,550
Cash and cash equivalents, end of period	\$ 77,309	\$ 110,204
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 12,569	\$ 6,546
Non-cash investing activities - receipt of equipment for settlement of receivable or for capital lease	2,250	

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Hawaiian Telcom Holdco, Inc.****Condensed Consolidated Statement of Changes in Stockholders Equity (Deficiency)**

(Unaudited, dollars in thousands)

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-In	Other	Earnings	Stockholders
			Capital	Comprehensive	(Accumulated	Equity
				Income (Loss)	Deficit)	(Deficiency)
Successor						
Balance, January 1, 2011	10,135,063	\$ 101	\$ 162,169	\$ 13,393	\$ 3,129	\$ 178,792
Stock based compensation			972			972
Sale of common stock under warrant agreement	3,537		49			49
Net income					12,271	12,271
Other comprehensive income unrealized loss on investments				(14)		(14)
Balance, June 30, 2011	10,138,600	\$ 101	\$ 163,190	\$ 13,379	\$ 15,400	\$ 192,070
Predecessor						
Balance, January 1, 2010	428,000	\$ 4	\$ 428,993	\$ (33,191)	\$ (576,070)	\$ (180,264)
Stock based compensation			39			39
Net loss					(45,624)	(45,624)
Other comprehensive income (loss)						
Reclassification adjustment for recognition of loss on interest rate swap				276		276
Unrealized loss on investments				(9)		(9)
Balance, June 30, 2010	428,000	\$ 4	\$ 429,032	\$ (32,924)	\$ (621,694)	\$ (225,582)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Hawaiian Telcom Holdco, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Business Description

Hawaiian Telcom Holdco, Inc. and subsidiaries (the Company) is the incumbent local exchange carrier for the State of Hawaii with an integrated telecommunications network servicing approximately 429,000 voice access lines as of June 30, 2011. The Company also served approximately 220,000 long distance lines and 101,000 High-Speed Internet (HSI) connections as of that date.

As a result of the adoption of fresh-start reporting, the financial statements before and on October 31, 2010 are not comparable to the financial statements for the period after October 31, 2010. References to Successor refer to the Company after October 31, 2010 after giving effect to the adoption of fresh-start reporting. References to Predecessor refer to the Company prior to and on October 31, 2010. See Note 2 for further details.

Organization

The Company has one direct wholly-owned subsidiary, Hawaiian Telcom Communications, Inc. which has two direct wholly-owned subsidiaries Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. Hawaiian Telcom, Inc. operates the regulated local exchange carrier and Hawaiian Telcom Services Company, Inc. operates all other businesses.

2. Chapter 11

On December 1, 2008, Hawaiian Telcom Holdco, Inc. and its subsidiaries, with the exception of Hawaiian Telcom Insurance Company, Incorporated (the Non-Debtor), filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware. The cases were transferred to the District of Hawaii on December 22, 2008 (the Bankruptcy Court). The Debtors continued to operate as debtors-in-possession under the jurisdiction of the Bankruptcy Court and orders of the Bankruptcy Court. In general, as debtors-in-possession, the Debtors were authorized under Chapter 11 to continue to operate as an ongoing business but could not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

Edgar Filing: Hawaiian Telcom Holdco, Inc. - Form 10-Q

On June 3, 2009, the Debtors filed a plan of reorganization with the Bankruptcy Court together with the disclosure statement. On August 28, 2009, the Bankruptcy Court approved distribution of the disclosure statement for vote by the prepetition creditors. On November 13, 2009, the judge of the Bankruptcy Court ruled that the plan as presented was approved. The final confirmation order was issued by the Court on December 30, 2009. The plan of reorganization, including the proposed debt and equity structure, was subject to approval of the Hawaii Public Utilities Commission (HPUC) and Federal Communications Commission. Approvals were obtained in September 2010 and relevant appeal periods expired in October 2010. After satisfying all conditions precedent to emergence under the Plan, the Company emerged from Chapter 11 effective as of October 28, 2010 (Emergence Date).

Table of Contents

3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles