Hawaiian Telcom Holdco, Inc.
Form 10-Q
May 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2015

OR

o 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	**16-1710376**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x No o

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No o

As of May 4, 2015, 10,757,666 shares of the registrant s common stock were outstanding.

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PART I FINANCIAL STATEMENTS

Item 1. Condensed Consolidated Financial Statements (Unaudited)

Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Income

(Unaudited, dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating revenues	$ 97,114	$ 97,072
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization)	40,183	40,948
Selling, general and administrative	29,732	29,266
Depreciation and amortization	21,280	18,720
Total operating expenses	91,195	88,934
Operating income	5,919	8,138
Other income (expense):		
Interest expense	(4,337)	(4,188)
Interest income and other	7	10
Total other expense	(4,330)	(4,178)
Income before income tax provision	1,589	3,960
Income tax provision	614	1,592
Net income	$ 975	$ 2,368
Net income per common share -		
Basic	$ 0.09	$ 0.22
Diluted	$ 0.09	$ 0.21
Weighted average shares used to compute net income per common share -		
Basic	10,692,198	10,528,039
Diluted	11,272,922	11,271,827

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited, dollars in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net income	$ 975	$ 2,368
Other comprehensive income (loss) -		
Unrealized holding gains (losses) arising during period	2	(3)
Retirement plan loss	(2,018)	(289)
Income tax credit on comprehensive loss	779	117
Other comprehensive loss, net of tax	(1,237)	(175)
Comprehensive income (loss)	$ (262)	$ 2,193

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Balance Sheets

(Unaudited, dollars in thousands, except per share amounts)

	March 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 26,940	$ 39,885
Receivables, net	32,357	32,662
Material and supplies	9,791	9,337
Prepaid expenses	3,688	3,598
Deferred income taxes	6,840	6,840
Other current assets	3,512	3,481
Total current assets	83,128	95,803
Property, plant and equipment, net	568,169	565,956
Intangible assets, net	36,704	37,328
Goodwill	12,104	12,104
Deferred income taxes	81,568	81,626
Other assets	10,554	9,151
Total assets	$ 792,227	$ 801,968
Liabilities and Stockholders Equity		
Current liabilities		
Current portion of long-term debt	$ 3,000	$ 3,000
Accounts payable	45,218	50,499
Accrued expenses	14,956	19,399
Advance billings and customer deposits	15,170	14,686
Other current liabilities	5,901	6,790
Total current liabilities	84,245	94,374
Long-term debt	288,863	289,423
Employee benefit obligations	99,432	99,366
Other liabilities	15,968	14,271
Total liabilities	488,508	497,434
Commitments and contingencies (Note 11)		
Stockholders equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 10,757,666 and 10,673,292 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	108	107
Additional paid-in capital	169,967	170,521
Accumulated other comprehensive loss	(25,184)	(23,947)
Retained earnings	158,828	157,853
Total stockholders equity	303,719	304,534
Total liabilities and stockholders equity	$ 792,227	$ 801,968

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited, dollars in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities:		
Net income	$ 975	$ 2,368
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	21,280	18,720
Employee retirement benefits	(1,952)	(3,475)
Provision for uncollectibles	1,248	513
Stock based compensation	375	1,074
Deferred income taxes	837	1,685
Changes in operating assets and liabilities:		
Receivables	(943)	957
Material and supplies	(91)	459
Prepaid expenses and other current assets	(121)	810
Accounts payable and accrued expenses	(3,782)	(10,010)
Advance billings and customer deposits	484	(210)
Other current liabilities	(185)	89
Other	808	390
Net cash provided by operating activities	18,933	13,370
Cash flows from investing activities:		
Capital expenditures	(29,172)	(23,939)
Net cash used in investing activities	(29,172)	(23,939)
Cash flows from financing activities:		
Repayments of capital lease and installment financing	(1,382)	(489)
Repayment of debt	(750)	(750)
Proceeds from installment financing	354	
Taxes paid related to net share settlement of equity awards	(928)	(1,005)
Net cash used in financing activities	(2,706)	(2,244)
Net change in cash and cash equivalents	(12,945)	(12,813)
Cash and cash equivalents, beginning of period	39,885	49,551
Cash and cash equivalents, end of period	$ 26,940	$ 36,738
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	$ 3,953	$ 3,824

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statement of Changes in Stockholders Equity

(Unaudited, dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders Equity
Balance, January 1, 2015	10,673,292	$ 107	$ 170,521	$ (23,947)	$ 157,853	$ 304,534
Stock based compensation			375			375
Exercise of warrant agreement	12,300					
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	72,074	1	(929)			(928)
Net income					975	975
Other comprehensive loss, net of tax				(1,237)		(1,237)
Balance, March 31, 2015	10,757,666	$ 108	$ 169,967	$ (25,184)	$ 158,828	$ 303,719
Balance, January 1, 2014	10,495,856	$ 105	$ 167,869	$ (4,716)	$ 149,754	$ 313,012
Stock based compensation			1,074			1,074
Exercise of warrant agreement	13,511					
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	74,824	1	(1,006)			(1,005)
Net income					2,368	2,368
Other comprehensive loss, net of tax				(175)		(175)
Balance, March 31, 2014	10,584,191	$ 106	$ 167,937	$ (4,891)	$ 152,122	$ 315,274

See accompanying notes to condensed consolidated financial statements.

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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. The Company offers a variety of telecommunication services to residential and business customers in Hawaii including local telephone, network access and data transport, long distance, Internet, television and wireless phone service. The Company also provides communications equipment sales and maintenance, data center colocation and network managed services.

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. 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 and pursuant to rules and regulations of the U.S. Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed. In the opinion of the Company s management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the results of operations, comprehensive income, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company s audited consolidated financial statements as of and for the year ended December 31, 2014.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market accounts with maturities at acquisition of three months or less. The majority of cash balances at March 31, 2015 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $15.2 million and $13.3 million at March 31, 2015 and 2014, respectively, for additions to property, plant and equipment.

Taxes Collected from Customers

The Company presents taxes collected from customers and remitted to governmental authorities on a gross basis, including such amounts in the Company s reported operating revenues. Such amounts represent primarily Hawaii state general excise taxes and Hawaii Public Utility Commission fees. Such taxes and fees amounted to $2.0 million and $1.8 million for the three months ended March 31, 2015 and 2014, respectively.

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Earnings per Share

Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing earnings by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing earnings, adjusted for the effect, if any, from assumed conversion of all potentially dilutive common shares outstanding, by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. The denominator used to compute basic and diluted earnings per share was as follows:

	Three Months Ended March 31,	
	2015	**2014**
Basic earnings per share - weighted average shares	10,692,198	10,528,039
Effect of dilutive securities:		
Employee and director restricted stock units	73,457	124,012
Warrants	507,267	619,776
Diluted earnings per share - weighted average shares	11,272,922	11,271,827

The computation of weighted average dilutive shares outstanding excluded grants of restricted stock units convertible into 86,608 shares of common stock for the three month periods ended March 31, 2014. The unrecognized compensation on a per unit basis for these restricted stock units was greater than the average market price of the Company s common stock for the period presented. Therefore, the effect would be anti-dilutive. For the three months ended March 31, 2015, there were no restricted stock units that were anti-dilutive to earnings per share.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard which provides guidance for revenue recognition. The new accounting standard will supersede the current revenue recognition requirements and most industry-specific guidance. The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard will be effective for the Company in the first quarter of 2017 and either full retrospective or modified retrospective adoption is permitted. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this accounting standard on the Company s financial position, results of operations and cash flows.

In August 2014, the FASB issued an accounting standard with new guidance on management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related disclosures. Management must evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions or events are identified, the standard requires management s mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity s ability to continue as a going concern to be disclosed in the financial statements. The standard is effective for fiscal years and interim periods beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of adoption of this accounting standard.

In April 2015, the FASB issued an accounting standard simplifying the presentation of debt issuance costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability which is consistent with debt discounts. The standard requires retrospective adoption and will be effective beginning in the first quarter of 2017 for the Company. Early adoption is permitted. The Company is currently evaluating the impact and timing of adopting this new accounting standard.

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3. Receivables

Receivables consisted of the following (dollars in thousands):

	March 31, 2015	December 31, 2014
Customers and other	$ 36,546	$ 36,417
Allowance for doubtful accounts	(4,189)	(3,755)
	$ 32,357	$ 32,662

4. Long-Lived Assets

Property, plant and equipment consisted of the following (dollars in thousands):

	March 31, 2015	December 31, 2014
Property, plant and equipment	$ 865,592	$ 843,589
Less accumulated depreciation	(297,423)	(277,633)
	$ 568,169	$ 565,956

Depreciation expense amounted to $20.7 million and $18.0 million for the three months ended March 31, 2015 and 2014, respectively.

The gross carrying amount and accumulated amortization of identifiable intangible assets are as follows (dollars in thousands):

	March 31, 2015			December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization						
Customer relationships	$ 21,709	$ 12,408	$ 9,301	$ 21,709	$ 11,799	$ 9,910
Trade name and other	320	217	103	320	202	118
	22,029	12,625	9,404	22,029	12,001	10,028
Not subject to amortization						
Brand name	27,300		27,300	27,300		27,300
	27,300		27,300	27,300		27,300

	$	49,329	$	12,625	$	36,704	$	49,329	$	12,001	$	37,328

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Amortization expense amounted to $0.6 million and $0.7 million for the three months ended March 31, 2015 and 2014, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

2015 (remaining months)	$	1,874
2016		2,101
2017		1,703
2018		1,308
2019		1,188
Thereafter		1,230
	$	9,404

5. Accrued Expenses and Other Current Liabilities

Accrued expenses consisted of the following (dollars in thousands):

		March 31, 2015		December 31, 2014
Salaries and benefits	$	11,491	$	15,910
Interest		2,462		2,550
Other taxes		1,003		939
	$	14,956	$	19,399

Other current liabilities consisted of the following (dollars in thousands):

		March 31, 2015		December 31, 2014
Other postretirement benefits, current	$	2,660	$	2,660
Installment financing contracts, current		1,902		2,787
Other		1,339		1,343
	$	5,901	$	6,790

6. Long-Term Debt

Long-term debt consisted of the following (dollars in thousands):

	Interest Rate at March 31, 2015	Final Maturity	March 31, 2015	December 31, 2014
Term loan	5.00%	June 6, 2019	$ 295,388	$ 296,138
Original issue discount			(3,525)	(3,715)
			291,863	292,423
Current			3,000	3,000
Noncurrent			$ 288,863	$ 289,423

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The term loan outstanding at March 31, 2015 provides for interest at the Alternate Base Rate, a rate which is indexed to the prime rate with certain adjustments as defined, plus a margin of 3.00% or a Eurocurrency rate on deposits of one, two, three or six months but no less than 1.00% per annum plus a margin of 4.00%. The Company has selected the Eurocurrency rate as of March 31, 2015 resulting in an interest rate currently at 5.00%.

The term loan provides for interest payments no less than quarterly. In addition, quarterly principal payments of $0.8 million are required. The balance of the loan is due at maturity on June 6, 2019. The Company must prepay, generally within three months after year end, 50% or 25% of excess cash flow, as defined. The percent of excess cash flow required is dependent on the Company s leverage ratio. The excess cash flow payment due for the year ended December 31, 2014 was not significant. The Company must also make prepayments on loans in the case of certain events such as large asset sales.

The Company also has a revolving credit facility which was extended on April 9, 2015 to mature on December 6, 2018. The facility has an available balance of $30.0 million with no amounts drawn as of or for the periods ended March 31, 2015 and 2014. A commitment fee is payable quarterly to the lender under the facility. Interest on amounts outstanding is based on, at the Company s option, the bank prime rate plus a margin of 3.0% to 6.0% or the Eurocurrency rate for one, two, three or six month periods plus a margin of 4.0% to 5.5%. The margin is dependent on the Company s leverage, as defined in the agreement, at the time of the borrowing.

Maturities

The annual requirements for principal payments on long-term debt as of March 31, 2015 are as follows (dollars in thousands):

Year ended December 31,		
2015 (remainder of year)	$	2,250
2016		3,000
2017		3,000
2018		3,000
2019		284,138
	$	295,388

Capitalized Interest

Interest capitalized by the Company amounted to $0.3 million and $0.2 million for the three months ended March 31, 2015 and 2014, respectively.

7. Employee Benefit Plans

The Company sponsors a defined benefit pension plan, with benefits frozen as of March 1, 2012, and postretirement health and life insurance benefits for union employees. The Company also sponsors a cash balance pension plan for nonunion employees, with benefits frozen as of April 1, 2007, and certain management employees receive postretirement health and life insurance under grandfathered provisions of a terminated plan.

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The following provides the components of benefit costs (income) for the three months ended March 31, 2015 and 2014 (dollars in thousands):

Pension

	Three Months Ended March 31, 2015	2014
Interest cost	$ 2,073	$ 2,208
Expected asset return	(3,394)	(3,178)
Amortization of loss	22	29
Net periodic benefit income	(1,299)	(941)
Settlement loss	850	
Net benefit income	$ (449)	$ (941)

Other Postretirement Benefits

	Three Months Ended March 31, 2015	2014
Service cost	$ 259	$ 230
Interest cost	589	602
Amortization of loss	149	15
Net periodic benefit cost	$ 997	$ 847

During the three months ended March 31, 2015, the Company s pension plans paid lump-sum benefits to plan participants in full settlement of obligations due amounting to $6.6 million. This resulted in the recognition of a loss on settlement for both the union and management pension plans amounting to $0.9 million for the three months ended March 31, 2015. Because of the settlements, the Company measured its pension plan obligations and plan assets as of March 31, 2015 in determining its employee benefit obligations as of that date. The Company used discount rates of 3.54% to 3.57% to measure the plan obligations as of that date. Plan assets were measured at fair value also as of March 31, 2015. The new measurement resulted in a charge to other comprehensive loss of $2.2 million for the three months ended March 31, 2015.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2014 that it expected to contribute $10.0 million to its pension plan in 2015. As of March 31, 2015, the Company has contributed $2.0 million. The Company presently anticipates contributing the full amount during the remainder of 2015.

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8. Income Taxes

Income tax expense differs from the amounts determined by applying the statutory federal income tax rate of 34% to the income before income tax provision for the following reasons (dollars in thousands):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Income tax at federal rate	$ 540	$ 1,346
Increase (decrease) resulting from:		
State income taxes, net of federal income tax	67	167
Compensation deduction limitation	124	118
Other permanent differences	106	62
Capital goods excise tax credit	(223)	(101)
Total income tax expense	$ 614	$ 1,592

The Company evaluates its tax positions for liability recognition. As of March 31, 2015, the Company had no unrecognized tax benefits. No interest or penalties related to tax assessments were recognized in the Company s condensed consolidated statements of operations for the three months ended March 31, 2015 or 2014. All tax years from 2011 remain open for both federal and Hawaii state purposes.

9. Stock Compensation

The Company has an equity incentive plan. The Compensation Committee of the Company s Board of Directors may grant awards under the plan in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The maximum number of shares issuable under the equity incentive plan is 1,400,000 shares. All grants under the equity incentive plan will be issued to acquire shares at the fair value on date of grant.

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As of March 31, 2015, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the three months ended March 31, 2015 and 2014 was as follows:

	Shares		Weighted-Average Grant-Date Fair Value
2015			
Nonvested at January 1, 2015	245,752	$	27
Granted	120,973		26
Vested	(107,788)		28
Forfeited	(17,827)		27
Nonvested at March 31, 2015	241,110	$	26
2014			
Nonvested at January 1, 2014	260,734	$	18
Granted	157,481		29
Vested	(109,399)		25
Nonvested at March 31, 2014	308,816	$	23

The Company recognized compensation expense of $0.4 million and $1.1 million for the three months ended March 31, 2015 and 2014, respectively. The fair value as of the vesting date for the restricted stock units that vested during the three months ended March 31, 2015 and 2014 was $2.5 million and $2.7 million, respectively. Upon vesting, unit holders have the option to net share-settle to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. The total shares withheld were 35,714 and 34,573 for the three months ended March 31, 2015 and 2014, respectively, and were based on the value of the restricted stock units as determined by the Company s closing stock price on the date of vesting. Total payments for the employees tax obligations to the tax authorities amounted to $0.9 million and $1.0 million for the three months ended March 31, 2015 and 2014, respectively. Other than reimbursements for tax withholdings, there was no cash received under all share-based arrangements. In March 2014, the terms of certain restricted stock units were modified which resulted in the restricted stock units vesting as of the date of the modification. The Company recognized the incremental value of $0.6 million as additional expense in the first quarter of 2014.

10. Stockholders Equity

Warrants

In 2010, the Company issued warrants to purchase 1,481,055 shares of common stock for $14.00 per share. The warrants to purchase shares may be exercised anytime from January 26, 2011 to the maturity on October 28, 2015. The warrants may be exercised on a cashless basis whereby a portion of the exercised warrants are tendered in lieu of payment for the exercise price. During the three months ended March 31, 2015 and 2014, warrants were exercised on a cashless basis resulting in the issuance of 12,300 shares and 13,511 shares of common stock, respectively.

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Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows (dollars in thousands):

	Unrealized Gain (Loss) on Investments	Retirement Plans	Total
2015			
January 1, 2015	$ (64)	$ (23,883)	$ (23,947)
Other comprehensive income (loss) for 2015	2	(1,239)	(1,237)
March 31, 2015	$ (62)	$ (25,122)	$ (25,184)
2014			
January 1, 2014	$ (60)	$ (4,656)	$ (4,716)
Other comprehensive loss for 2014	(3)	(172)	(175)
March 31, 2014	$ (63)	$ (4,828)	$ (4,891)

Reclassifications out of accumulated other comprehensive income (loss) for the three months ended March 31, 2015 and 2014 were as follows (dollars in thousands):

	Three Months Ended March 31, 2015	2014
Retirement plans		
Amortization of (gain) loss and settlement loss	$ 1,021	$ (289)
Income tax credit (charge) on comprehensive income	(388)	117
Net of tax	$ 633	$ (172)

The amortization of (gain) loss was recognized primarily in selling, general and administrative expense for the periods ended March 31, 2015 and 2014.

11. Commitments and Contingencies

Trans-Pacific Submarine Cable

In August 2014, the Company entered into an agreement with several other telecommunication companies to build and operate a trans-Pacific submarine cable system. The total system cost is expected to be $245 million and is primarily composed of a supply contract with the lead contractor. The Company will contribute $25 million over the multi-year construction period for a fractional ownership in the system. In addition, the Company will construct a cable landing station in Hawaii and provide cable landing services. The system is expected to be completed in December 2016. As of March 31, 2015, the Company had paid $2.3 million to the cable contractor for the cable build.

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The Company anticipates having excess capacity on its share of the trans-Pacific cable that it will make available to other carriers for a fee. The Company is in the process of contracting with other carriers for long-term indefeasible right of use, or IRU, agreements for fiber circuit capacity. The Company may receive up-front payments for services to be delivered over a period of up to 25 years. The Company has entered into an agreement for the sale of capacity for $5.0 million. As of March 31, 2015, the Company had received up-front payments, as provided for in the agreement, which are held in escrow amounting to $2.0 million. The funds in escrow will be released to the Company when the trans-Pacific cable is ready for service. The restricted cash is reflected in other assets in the condensed consolidated balance sheet. A liability to provide services in the future for the same amount is included in other liabilities.

Collective Bargaining Agreement

The Company has a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 (IBEW) that expires on December 31, 2017. The agreement covers approximately half of the Company s work force.

Third Party Claims

In the normal course of conducting its business, the Company is involved in various disputes with third parties, including vendors and customers. The outcome of such disputes is generally uncertain and subject to commercial negotiations. The Company periodically assesses its liabilities in connection with these matters and records reserves for those matters where it is probable that a loss has been incurred and the loss can be reasonably estimated. Based on management s most recent assessment, the Company believes that the risk of loss in excess of liabilities recorded is not material for all outstanding claims and disputes and the ultimate outcome of such matters will not have a material adverse effect on the Company s results of operations, cash flows or financial position.

Litigation

The Company is involved in litigation arising in the normal course of business. The outcome of litigation is not expected to have a material adverse impact on the Company s condensed consolidated financial statements.

12. Fair Value of Financial Instruments

The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate the fair value.

Cash and cash equivalents, accounts receivable and accounts payable The carrying amount approximates fair value. The valuation is based on settlements of similar financial instruments all of which are short-term in nature and generally settled at or near cost. Cash is measured at Level

1.

Investment securities The fair value of investment securities is based on quoted market prices. Investment securities are included in other assets on the condensed consolidated balance sheets.

Debt The fair value of debt is based on the value at which the debt is trading among holders.

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The estimated fair value of financial instruments is as follows (dollars in thousands):

	Carrying Value	Fair Value
March 31, 2015		
Assets - investment in U.S. Treasury obligations	$ 811	$ 811
Liabilities - long-term debt (carried at cost)	291,863	296,496
December 31, 2014		
Assets - investment in U.S. Treasury obligations	$ 808	$ 808
Liabilities - long-term debt (carried at cost)	292,423	296,908

Fair Value Measurements

Fair value for accounting purposes is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Accounting standards establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Assets measured at fair value on a recurring basis represent investment securities included in other assets. Liabilities carried at amortized cost with fair value disclosure on a recurring basis represent long-term debt. A summary is as follows (dollars in thousands):

	March 31, 2015	December 31, 2014
Asset value measurements using:		
Quoted prices in active markets for identical assets (Level 1)	$ 811	$ 808
Signficant other observable inputs (Level 2)		
Significant unobservable inputs (Level 3)		
	$ 811	$ 808
Liability value measurements using:		
Quoted prices in active markets for identical liabilities (Level 1)	$	$
Signficant other observable inputs (Level 2)	296,496	296,908
Significant unobservable inputs (Level 3)		
	$ 296,496	$ 296,908

13. Segment Information

The Company operates in two reportable segments of telecommunications and data center colocation. This conclusion is based on how resources are allocated and performance is assessed by the Chief Executive Officer, the Company s chief operating decision maker. The telecommunications segment provides local voice services, long distance voice services, high-speed internet and video. In addition, the segment provides network access which includes data transport. Various related telephony services are provided including equipment and managed services. The data center colocation segment provides physical colocation, virtual colocation and various related telephony services.

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The following table provides operating financial information for the Company s reportable segments for the three months ended March 31, 2015 and 2014 (dollars in thousands):

	Tele-communications	Data Center Colocation	Intersegment Elimination	Total
March 31, 2015				
Operating revenues	$ 94,836	$ 2,597	$ (319)	$ 97,114
Depreciation and amortization	20,728	552		21,280
Operating income (loss)	6,246	(327)		5,919
Capital expeditures	22,752	479		23,231
March 31, 2014				
Operating revenues	$ 94,876	$ 2,405	$ (209)	$ 97,072
Depreciation and amortization	18,313	407		18,720
Operating income	8,042	96		8,138
Capital expeditures	23,061	345		23,406

Intersegment revenue represents primarily network access services provided by the telecommunications segment for data center colocation. For the three months ended March 31, 2015 and 2014, total operating income above reconciles to the condensed consolidated statement of income as follows (dollars in thousands):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating income	$ 5,919	$ 8,138
Corporate other expense	(4,330)	(4,178)
Income before income tax provision	$ 1,589	$ 3,960

The following table provides information on the Company s revenue, net of intersegment eliminations, by product group (dollars in thousands):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Local voice and other retail services	$ 63,210	$ 62,936
Network access services	31,307	31,731
Data center colocation	2,597	2,405
	$ 97,114	$ 97,072

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Item 2. Management s Discussion and Analysis of

Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report contains forward-looking statements. These statements relate to future events or our future financial performance (including our anticipated cost structure) and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continues, assumption or the ne other comparable terminology. These statements (including statements related to our anticipated cost structure) are only predictions. Actual events or results may differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to:

- failures in critical back-office systems and IT infrastructure or a breach of our data security systems;
- our ability to provide customers with reliable and uninterrupted service;
- our ability to fund capital expenditures for network enhancements;
- our ability to maintain arrangements with third-party service providers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- a reduction in rates we are allowed to charge our customers as dictated by regulatory authorities;
- changes in demand for our products and services;
- technological changes affecting the telecommunications industry;
- economic conditions in Hawaii;
- our ability to retain experienced personnel;
- our ability to utilize net operating loss carryforwards or fund tax payments;
- our indebtedness could adversely affect our financial condition;
- risks of severe weather and natural disasters;
- the ability of shareholders to influence corporate decisions; and

- future sales of a substantial amount of common stock may depress our stock price.

These and other factors may cause our actual results to differ materially from any forward-looking statement. Refer to our Annual Report on Form 10-K for a detailed discussion of risks that could materially adversely affect our business, financial condition and results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of issuance of these quarterly condensed consolidated financial statements, we assume no obligation to update or revise them or to provide reasons why actual results may differ.

We do not undertake any responsibility to release any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of issuance of these quarterly condensed consolidated financial statements. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this quarterly report.

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Background

In the following discussion and analysis of financial condition and results of operations, unless the context otherwise requires, we, us or the Company refers, collectively, to Hawaiian Telcom Holdco, Inc. and its subsidiaries.

Segments and Sources of Revenue

We operate in two reportable segments (telecommunication and data center colocation) based on how resources are allocated and performance is assessed by our chief operating decision maker. Our chief operating decision maker is our Chief Executive Officer.

Telecommunications

The telecommunications segment derives revenue from the following sources:

Local Telephone Services We receive revenue from providing local exchange telephone services. These revenues include monthly charges for basic service, local private line services and enhanced calling features such as voice mail, caller ID and 3-way calling.

Network Access Services We receive revenue for access to our network for wholesale carrier data, business customer data including Dedicated Internet Access, switched carrier access and subscriber line charges imposed on end users. Switched carrier access revenue compensates us for origination, transport and termination of calls for long distance and other interexchange carriers.

Long Distance Services We receive revenue from providing long distance services to our customers.

High-Speed Internet (HSI) Services We provide HSI to our residential and business customers.

Video Services Our video services marketed as Hawaiian Telcom TV is an advanced entertainment service.

Equipment and managed services We provide installation and maintenance of customer premise equipment as well as managed service for customer telephone and IT networks.

Wireless We receive revenue from wireless services, including the sale of wireless handsets and other wireless accessories.

Data Center Colocation

The data center colocation segment provides physical colocation, virtual colocation and various related telephony services.

Results of Operations for the Three Months Ended March 31, 2015 and 2014

Operating Revenues

The following tables summarize our volume information (lines or subscribers) as of March 31, 2015 and 2014, and our operating revenues for the three months ended March 31, 2015 and 2014. For comparability, we also present volume information as of March 31, 2015 compared to December 31, 2014.

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Volume Information

As of March 31, 2015 compared to March 31, 2014

	March 31, 2015	March 31, 2014	Change Number	Change Percentage
Voice access lines				
Residential	165,074	182,375	(17,301)	-9.5%
Business	187,300	192,202	(4,902)	-2.6%
Public	3,733	4,073	(340)	-8.3%
	356,107	378,650	(22,543)	-6.0%
High-Speed Internet lines				
Residential	93,090	91,429	1,661	1.8%
Business	19,624	19,404	220	1.1%
Wholesale	796	936	(140)	-15.0%
	113,510	111,769	1,741	1.6%
Long distance lines				
Residential	104,527	115,019	(10,492)	-9.1%
Business	76,916	79,108	(2,192)	-2.8%
	181,443	194,127	(12,684)	-6.5%
Video services				
Subscribers	29,721	20,279	9,442	46.6%
Homes Enabled	166,000	130,000	36,000	27.7%

As of March 31, 2015 compared to December 31, 2014

	March 31, 2015	December 31, 2014	Change Number	Change Percentage
Voice access lines				
Residential	165,074	169,488	(4,414)	-2.6%
Business	187,300	188,534	(1,234)	-0.7%
Public	3,733	3,830	(97)	-2.5%
	356,107	361,852	(5,745)	-1.6%
High-Speed Internet lines				
Residential	93,090	92,875	215	0.2%
Business	19,624	19,589	35	0.2%
Wholesale	796	814	(18)	-2.2%
	113,510	113,278	232	0.2%
Long distance lines				
Residential	104,527	107,342	(2,815)	-2.6%
Business	76,916	77,899	(983)	-1.3%

181,443	185,241