Hawaiian Telcom Holdco, Inc.
Form 10-Q
November 10, 2014
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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 September 30, 2014

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 November 10, 2014, 10,673,103 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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Operating revenues	$ 97,252	$ 97,682	$ 291,109	$ 290,643
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	42,621	41,829	124,858	122,073
Selling, general and administrative	28,294	27,965	86,280	84,860
Gain on sale of property				(6,546)
Depreciation and amortization	19,717	19,974	57,321	58,532
Total operating expenses	90,632	89,768	268,459	258,919
Operating income	6,620	7,914	22,650	31,724
Other income (expense):				
Interest expense	(4,103)	(4,089)	(12,401)	(14,712)
Loss on early extinguishment of debt				(3,660)
Interest income and other	13	7	27	28
Total other expense	(4,090)	(4,082)	(12,374)	(18,344)
Income before income tax provision	2,530	3,832	10,276	13,380
Income tax provision	1,014	1,771	4,155	5,521
Net income	$ 1,516	$ 2,061	$ 6,121	$ 7,859
Net income per common share -				
Basic	$ 0.14	$ 0.20	$ 0.58	$ 0.76
Diluted	$ 0.13	$ 0.18	$ 0.54	$ 0.71
Weighted average shares used to compute net income per common share -				
Basic	10,586,690	10,337,488	10,567,036	10,321,905
Diluted	11,311,691	11,206,159	11,329,328	11,096,177

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, dollars in thousands)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$ 1,516	$ 2,061	$ 6,121	$ 7,859
Other comprehensive income (loss) -				
Unrealized holding gains (losses) arising during period	(3)	6	(4)	(22)
Retirement plan (gain) loss	43	222	(202)	667
Income tax credit (charge) on comprehensive income	(17)	(88)	83	(263)
Other comprehensive income (loss), net of tax	23	140	(123)	382
Comprehensive income	$ 1,539	$ 2,201	$ 5,998	$ 8,241

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)

	September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 31,693	$ 49,551
Receivables, net	33,378	34,521
Material and supplies	10,146	15,939
Prepaid expenses	4,779	3,724
Deferred income taxes	7,968	8,146
Other current assets	3,218	2,851
Total current assets	91,182	114,732
Property, plant and equipment, net	553,467	524,375
Intangible assets, net	38,051	40,225
Goodwill	12,104	12,104
Deferred income taxes	70,765	75,274
Other assets	9,935	11,305
Total assets	$ 775,504	$ 778,015
Liabilities and Stockholders Equity		
Current liabilities		
Current portion of long-term debt	$ 3,000	$ 3,000
Accounts payable	45,378	40,228
Accrued expenses	15,877	18,787
Advance billings and customer deposits	16,072	16,122
Other current liabilities	7,222	6,412
Total current liabilities	87,549	84,549
Long-term debt	289,985	291,679
Employee benefit obligations	69,966	80,321
Other liabilities	6,949	8,454
Total liabilities	454,449	465,003
Commitments and contingencies (Note 12)		
Stockholders equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 10,587,105 and 10,495,856 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	106	105
Additional paid-in capital	169,913	167,869
Accumulated other comprehensive loss	(4,839)	(4,716)
Retained earnings	155,875	149,754
Total stockholders equity	321,055	313,012
Total liabilities and stockholders equity	$ 775,504	$ 778,015

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)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flows from operating activities:		
Net income	$ 6,121	$ 7,859
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	57,321	58,532
Loss on early extinguishment of debt		3,660
Gain on sale of property		(6,546)
Employee retirement benefits	(10,557)	(10,324)
Provision for uncollectibles	2,493	2,003
Stock based compensation	3,066	1,886
Deferred income taxes	4,770	6,018
Changes in operating assets and liabilities:		
Receivables	(1,350)	(4,142)
Material and supplies	(685)	(3,916)
Prepaid expenses and other current assets	(1,421)	(1,064)
Accounts payable and accrued expenses	1,296	(2,064)
Advance billings and customer deposits	(50)	323
Other current liabilities	(568)	106
Other	1,380	2,446
Net cash provided by operating activities	61,816	54,777
Cash flows from investing activities:		
Capital expenditures	(76,474)	(69,809)
Acquisitions		(11,858)
Proceeds on sale of property		13,118
Net cash used in investing activities	(76,474)	(68,549)
Cash flows from financing activities:		
Repayment of capital lease and installment financing	(2,014)	(406)
Repayment of debt including premium	(2,250)	(302,333)
Proceeds from installment financing	2,085	
Proceeds from borrowing		298,500
Loan refinancing costs		(3,442)
Taxes paid related to net share settlement of equity awards	(1,021)	(426)
Net cash used in financing activities	(3,200)	(8,107)
Net change in cash and cash equivalents	(17,858)	(21,879)
Cash and cash equivalents, beginning of period	49,551	66,993
Cash and cash equivalents, end of period	$ 31,693	$ 45,114
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	$ 11,033	$ 14,416

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, 2014	10,495,856	$ 105	$ 167,869	$ (4,716)	$ 149,754	$ 313,012
Stock based compensation			3,066			3,066
Exercise of warrant	15,361					
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	75,888	1	(1,022)			(1,021)
Net income					6,121	6,121
Other comprehensive loss, net of tax				(123)		(123)
Balance, September 30, 2014	10,587,105	$ 106	$ 169,913	$ (4,839)	$ 155,875	$ 321,055
Balance, January 1, 2013	10,291,897	$ 103	$ 165,941	$ (28,450)	$ 139,266	$ 276,860
Stock based compensation			1,886			1,886
Exercise of warrant	297					
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	46,543		(426)			(426)
Net income					7,859	7,859
Other comprehensive income, net of tax				382		382
Balance, September 30, 2013	10,338,737	$ 103	$ 167,401	$ (28,068)	$ 147,125	$ 286,561

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, 2013.

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 September 30, 2014 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $15.1 million and $6.2 million at September 30, 2014 and 2013, 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 $1.9 million and $5.5 million for the three and nine months ended September 30, 2014 and $1.9 million and $5.6 million for the three and nine months ended September 30, 2013, 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 September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Basic earnings per share - weighted average shares	10,586,690	10,337,488	10,567,036	10,321,905
Effect of dilutive securities:				
Employee and director restricted stock units	122,530	173,405	153,752	166,461
Warrants	602,471	695,266	608,540	607,811
Diluted earnings per share - weighted average shares	11,311,691	11,206,159	11,329,328	11,096,177

No restricted stock units were deemed anti-dilutive and excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2014 and 2013.

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 consolidated financial statements.

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 adoption of this standard is not expected to impact the consolidated financial statements.

3. SystemMetrics Corporation Acquisition

On September 30, 2013, the Company completed its acquisition of all of the voting stock of SystemMetrics Corporation (SystemMetrics) for $16.3 million in cash, net of cash acquired and purchase price adjustments. Of the total purchase price, $11.9 million was paid at closing with the balance subject to an earn-out over a three year period. Payment of the earn-out is contingent on SystemMetrics meeting certain performance metrics and continued employment of the SystemMetrics key executive. For financial reporting purposes, the earn-out is accounted for as compensation expense as earned.

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SystemMetrics provides virtual and physical data center colocation services in the State of Hawaii along with other telecommunication services that are complementary to the Company s operations.

The Company followed the acquisition method of accounting and allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their provisional fair values, and the estimates and assumptions were subject to change within the measurement period. There were no changes made to the allocation of the purchase price in 2014. The measurement period was considered closed as of June 30, 2014.

For the three months ended September 30, 2014, SystemMetrics revenue amounted to $2.5 million and the net loss amounted to $0.2 million. For the nine months ended September 30, 2014, SystemMetrics revenue amounted to $7.2 million and the net loss was $0.4 million.

The following unaudited pro forma results of operations are provided for the three and nine months ended September 30, 2013 as if the acquisition of SystemMetrics occurred on January 1, 2012. The pro forma combined results of operations have been prepared by adjusting the historical results of the Company to include the historical results of SystemMetrics. Adjustments were made to the historical results for the purchase price allocation to adjust depreciation and amortization, to eliminate the interest on certain debt financing which was not assumed in the purchase, to eliminate certain intercompany revenue between the entities and to reallocate the transaction related expenses from the 2013 to the 2012 periods.

These supplemental pro forma results of operations are provided for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the combined company for the periods presented or that may be achieved by the combined company in the future. The pro forma results of operations do not include any costs savings or synergies that resulted, or will result, from the acquisition or any estimated costs that will be incurred to integrate SystemMetrics. Future results may vary significantly from the results reflected in this pro forma financial information because of future events and transactions as well as other factors.

The pro forma results are as follows (dollars in thousands):

	For the Three Months Ended September 30, 2013	**For the Nine Months Ended September 30, 2013**
Revenues	$ 99,649	$ 296,443
Expenses	91,610	264,808
Operating income	8,039	31,635
Other income (expense)	(4,082)	(18,344)
Income before income tax benefit	3,957	13,291
Income tax expense	1,301	4,970
Net income	$ 2,656	$ 8,321

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4. Receivables

Receivables consisted of the following (dollars in thousands):

	September 30, 2014	December 31, 2013
Customers and other	$ 37,252	$ 38,463
Allowance for doubtful accounts	(3,874)	(3,942)
	$ 33,378	$ 34,521

5. Long-Lived Assets

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

	September 30, 2014	December 31, 2013
Property, plant and equipment	$ 812,423	$ 729,364
Less accumulated depreciation	(258,956)	(204,989)
	$ 553,467	$ 524,375

Depreciation expense amounted to $19.0 million and $55.1 million for the three and nine months ended September 30, 2014, respectively. Depreciation expense amounted to $19.3 million and $56.5 million for the three and nine months ended September 30, 2013, respectively.

In February 2013, the Company entered into an agreement to sell a parcel of land and warehouse not actively used in the Company s operations for a purchase price, as amended, of $13.9 million. The sale was subject to due diligence by the buyer and approval of the Hawaii Public Utilities Commission (HPUC). The HPUC approval was received in May 2013 and the sale was consummated in June 2013. The net proceeds, net of commissions and other costs paid through escrow of $0.8 million, amounted to $13.1 million. A gain on the sale of $6.5 million was recognized in the second quarter of 2013 as management concluded the land sold was not grouped with the assets subject to the composite depreciation method. The HPUC approval requires the Company to spend $0.3 million on training employees on broadband telecommunication deployment and operation. In addition, the HPUC approval provides for the Company to make improvements to its broadband network in an amount equal to the net proceeds less the training cost commitment. The planned training expenses and network capital spending are being recognized as the costs are incurred.

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

	September 30, 2014			December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization						
Customer relationships	$ 21,709	$ 11,096	$ 10,613	$ 21,709	$ 8,983	$ 12,726
Trade name and other	320	182	138	320	121	199
	22,029	11,278	10,751	22,029	9,104	12,925
Not subject to amortization						
Brand name	27,300		27,300	27,300		27,300
	27,300		27,300	27,300		27,300
	$ 49,329	$ 11,278	$ 38,051	$ 49,329	$ 9,104	$ 40,225

Amortization expense amounted to $0.7 million and $2.2 million for the three and nine months ended September 30, 2014, respectively. Amortization expense amounted to $0.7 million and $2.0 million for the three and nine months ended September 30, 2013, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

2014 (remaining months)	$ 722
2015	2,498
2016	2,101
2017	1,703
2018	1,308
Thereafter	2,419
	$ 10,751

6. Accrued Expenses

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

	September 30, 2014	December 31, 2013
Salaries and benefits	$ 12,317	$ 15,160
Interest	2,557	2,576
Other taxes	1,003	1,051
	$ 15,877	$ 18,787

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7. Long-Term Debt

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

	Interest Rate at September 30, 2014	Final Maturity		September 30, 2014		December 31, 2013
Term loan	5.00%	June 6, 2019	$	296,888	$	299,138
Original issue discount				(3,903)		(4,459)
				292,985		294,679
Current				3,000		3,000
Noncurrent			$	289,985	$	291,679

The term loan outstanding at September 30, 2014 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 September 30, 2014 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. No excess cash flow payment was due for the year ended December 31, 2013. 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 matures on October 3, 2015. The facility has an available balance of $30.0 million with no amounts drawn as of or for the periods ended September 30, 2014 and 2013. 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.

Refinancing

In June 2013, the Company refinanced its term loan debt. The Company paid a premium on the repayment of the old term loan of $3.0 million. In addition, the Company paid $3.4 million in underwriting fees and legal costs. The premium on repayment of debt, existing original issue discount, existing deferred financing costs, underwriting fees and legal costs were accounted for in accordance with accounting standards for modification of debt instruments with different terms. The Company compared each syndicated lenders loan under the old term loan with the syndicated lenders loan under the new term loans. For loans under the new term loan that were substantially different, the Company recognized the exchange of debt instruments as a debt extinguishment. For loans under the new term loan that were not substantially different, the Company accounted for the exchange of debt instruments as a modification. As a result of the refinancing, the Company deferred $2.7 million of financing related costs and recognized a loss on early extinguishment of debt of $3.7 million.

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Maturities

The annual requirements for principal payments on long-term debt as of September 30, 2014 are as follows (dollars in thousands):

Years ended December 31,		
2014 (remainder of year)	$	750
2015		3,000
2016		3,000
2017		3,000
2018		3,000
Thereafter		284,138
	$	296,888

Capitalized Interest

Interest capitalized by the Company amounted to \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2014, respectively. Interest capitalized by the Company amounted to \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2013, respectively.

8. 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.

The following provides the components of benefit costs (income) for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

Pension

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**

Interest cost	$	2,208	$	2,055	$	6,624	$	6,166
Expected asset return		(3,178)		(2,934)		(9,534)		(8,804)
Amortization of loss		29		148		87		444
Net periodic benefit income	$	(941)	$	(731)	$	(2,823)	$	(2,194)

Other Postretirement Benefits

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
Service cost	$	230	$	277	$	691	$	832
Interest cost		602		516		1,805		1,548
Amortization of loss		15		74		45		223
Net periodic benefit cost	$	847	$	867	$	2,541	$	2,603

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The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2013 that it expected to contribute $13.1 million to its pension plan in 2014. As of September 30, 2014, the Company has contributed $8.7 million. The Company contributed an additional $1.0 million in October 2014 for a total of $9.7 million for the year. No additional contributions are expected for 2014. The amount contributed for the year is less than originally anticipated because of recent changes in the plan funding rules.

9. 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 September 30, 2014		Nine Months Ended September 30, 2014	
	2014	**2013**	**2014**	**2013**
Income tax at federal rate	$ 860	$ 1,303	$ 3,494	$ 4,549
Increase (decrease) resulting from:				
State income taxes, net of federal income tax	101	33	411	461
Permanent differences	178	539	780	850
Capital goods excise tax credit	(125)	(104)	(530)	(339)
Total income tax expense	$ 1,014	$ 1,771	$ 4,155	$ 5,521

The Company evaluates its tax positions for liability recognition. As of September 30, 2014, 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 and nine months ended September 30, 2014 or 2013. All tax years from 2010 remain open for both federal and Hawaii state purposes.

10. 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 September 30, 2014, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the nine months ended September 30, 2014 and 2013 was as follows:

	Shares		Weighted-Average Grant-Date Fair Value
2014			
Nonvested at January 1, 2014	260,734	$	18
Granted	155,146		31
Vested	(111,037)		25
Forfeited	(7,221)		23
Nonvested at September 30, 2014	297,622	$	24
2013			
Nonvested at January 1, 2013	223,224	$	15
Granted	181,330		20
Vested	(67,233)		17
Forfeited	(22,918)		17
Nonvested at September 30, 2013	314,403	$	17

The Company recognized compensation expense of $1.0 million and $3.1 million for the three and nine months ended September 30, 2014, respectively. The Company recognized compensation expense of $0.7 million and $1.9 million for the three and nine months ended September 30, 2013, respectively. The fair value as of the vesting date for the restricted stock units that vested during the nine months ended September 30, 2014 and 2013 was $2.7 million and $1.3 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 35,147 and 20,692 for the nine months ended September 30, 2014 and 2013, 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 $1.0 million and $0.4 million for the nine months ended September 30, 2014 and 2013, 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.

11. 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 additional warrants are tendered in lieu of payment for the exercise price. During the nine months ended September 30, 2014 and 2013, warrants were exercised on a cashless basis resulting in the issuance of 15,361 shares and 297 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
2014			
January 1, 2014	$ (60)	$ (4,656)	$ (4,716)
Other comprehensive income (loss) for 2014	(4)	(119)	(123)
September 30, 2014	$ (64)	$ (4,775)	$ (4,839)
2013			
January 1, 2013	$ (36)	$ (28,414)	$ (28,450)
Other comprehensive income (loss) for 2013	(22)	404	382
September 30, 2013	$ (58)	$ (28,010)	$ (28,068)

Reclassifications out of other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013 were as follows (dollars in thousands):

Three Months Ended