

HUNGARIAN TELEPHONE & CABLE CORP

Form 10-Q

August 14, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

Commission file number 1-11484

HUNGARIAN TELEPHONE AND CABLE CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

13-3652685
(I.R.S. Employer Identification No.)

of incorporation or organization)

1201 Third Avenue, Suite 3400 Seattle, WA 98101-3034

(Address of principal executive offices)

(206) 654-0204

(Registrant's telephone number, including area code)

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

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to such filing requirements for the past ninety days. Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest possible date:

Common Stock, \$.001 par value
(Class)

16,410,500 Shares
(Outstanding at August 14, 2007)

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HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARIES

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Part I. Financial Information

HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARIES

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30,	December 31,
	2007 (unaudited)	2006 (unaudited) as restated (1)
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 46,003	18,794
Restricted cash		11,850
Accounts receivable, net of allowance of \$20,457 in 2007 and \$5,608 in 2006	61,915	38,336
Current deferred tax asset, net		1,685
Derivative financial instruments		1,138
Other current assets	12,788	7,785
Total current assets	120,706	79,588
Property, plant and equipment, net of depreciation of \$167,078 in 2007 and \$150,864 in 2006	655,997	180,329
Goodwill, net	71,906	9,622
Other intangibles, net of amortization of \$22,390 in 2007 and \$8,725 in 2006	184,212	49,364
Deferred costs	30,457	5,751
Deferred tax asset, net		2,936
Derivative financial instruments	347	1,818
Other assets	542	2,868
Total assets	\$ 1,064,167	332,276

(1) See Note 1(b) Restatements in Notes to Condensed Consolidated Financial Statements.
See accompanying notes to condensed consolidated financial statements.

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Part I. Financial Information

HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

Liabilities and Stockholders' Equity

	June 30, 2007 (unaudited)	December 31, 2006 (unaudited) as restated (1)
Current liabilities:		
Current installments of long-term debt	\$ 33,365	34,749
Short-term debt to related party		24,657
Current obligations under capital leases	665	469
Accounts payable and other accrued liabilities	103,739	43,758
Derivative financial instruments	24,807	
Warrants		13,050
Advance customer payment	1,443	2,310
Other current liabilities	7,694	7,573
Due to related parties	1,597	2,881
Total current liabilities	173,310	129,447
Long-term debt, excluding current installments	751,762	115,351
Long-term obligations under capital leases, excluding current portion	321	399
Derivative financial instruments	37,633	935
Deferred tax liabilities	13,918	
Other non-current liabilities	6,805	578
Total liabilities	983,749	246,710
Commitments and contingencies		
Minority interest		16
Stockholders' equity:		
Cumulative Convertible Preferred Stock, \$.01 par value; \$70.00 liquidation value. Authorized 200,000 shares; issued and outstanding 30,000 shares in 2007 and 2006		
Common Stock, \$.001 par value. Authorized 25,000,000 shares; issued and outstanding 16,410,500 shares in 2007 and 12,812,665 shares in 2006		
	15	14
Additional paid-in capital	216,286	148,054
Accumulated deficit	(159,378)	(88,538)
Accumulated other comprehensive income	23,479	26,036
Total stockholders' equity	80,402	85,566
Total liabilities and stockholders' equity	\$ 1,064,167	332,276

(1) See Note 1(b) Restatements in Notes to Condensed Consolidated Financial Statements.

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See accompanying notes to condensed consolidated financial statements.

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Part I. Financial Information

HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

For the Three and Six Month Periods Ended June 30, 2007 and 2006

(In thousands, except share and per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006 (unaudited)	June 30, 2007	2006 (unaudited)
		as restated (1)		as restated (1)
Revenue	\$ 92,850	\$ 47,236	\$ 141,988	\$ 92,694
Cost of Sales	41,710	24,272	66,854	46,823
Gross margin	51,140	22,964	75,134	45,871
Operating expenses				
Selling, general and administrative	23,691	9,902	33,556	18,218
Depreciation and amortization	17,979	6,269	25,423	12,563
Total operating expenses	41,670	16,171	58,979	30,781
Income from operations	9,470	6,793	16,155	15,090
Other income (expenses)				
Foreign exchange gains (losses), net	3,455	(8,416)	6,500	(15,735)
Interest expense	(14,403)	(3,707)	(18,153)	(7,118)
Interest income	185	300	482	491
Gains (losses) on derivative financial instruments	(21,841)	2,048	(65,901)	4,965
Gains (losses) from fair value changes of warrants		2,850	(15,075)	2,725
Loss on extinguishment of debt	(2,807)		(2,807)	
Other, net	28	356	(25)	539
Income before income taxes	(25,913)	224	(78,824)	957
Income tax benefit (expense)				
Current	(968)	(1,166)	(3,514)	(2,215)
Deferred	10,734	620	11,542	672
Total income tax benefit (expense)	9,766	(546)	8,028	(1,543)
Minority interest	8		8	
Net income (loss)	\$ (16,139)	\$ (322)	\$ (70,788)	\$ (586)
Cumulative convertible preferred stock dividends	(26)	(26)	(52)	(52)
Net income (loss) attributable to common stockholders	(16,165)	(348)	(70,840)	(638)
Foreign currency translation adjustment	(879)	(714)	2,557	(2,710)
Total comprehensive income (loss)	(17,044)	(1,062)	(68,283)	(3,348)

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Net income (loss) per common share:

Basic	\$	(1.00)	\$	(0.03)	\$	(4.87)	\$	(0.05)
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Diluted	\$	(1.00)	\$	(0.03)	\$	(4.87)	\$	(0.05)
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Weighted average number of common shares outstanding:

Basic	16,147,074	12,809,632	14,558,388	12,808,157
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Diluted	16,147,074	12,809,632	14,558,388	12,808,157
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(1) See Note 1(b) Restatements in Notes to Condensed Consolidated Financial Statements.
See accompanying notes to condensed consolidated financial statements.

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Part I. Financial Information

HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity

(In thousands, except share data)

(unaudited)

	Shares	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances at December 31, 2006 (as restated)	12,812,665	\$ 14		148,054	(88,538)	26,036	\$ 85,566
Conversion of notes to equity	2,500,000			53,125			53,125
Net settlement of stock option exercise	152,785	1					1
Stock based compensation	6,500			308			308
Cancellation of Directors' options				(250)			(250)
Issue of shares in connection with acquisition of subsidiaries	938,550			15,049			15,049
Cumulative convertible preferred stock dividends					(52)		(52)
Net loss					(70,788)		(70,788)
Foreign currency translation adjustment						(2,557)	(2,557)
Balances at June 30, 2007	16,410,500	15		216,286	(159,378)	23,479	80,402

See accompanying notes to condensed consolidated financial statements.

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Part I. Financial Information

HUNGARIAN TELEPHONE AND CABLE CORP. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

For the Six Month Periods Ended June 30, 2007 and 2006

(In thousands)

(unaudited)