

Hawaiian Telcom Holdco, Inc.  
Form 10-Q  
August 09, 2012  
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**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, 2012

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)

**16-1710376**  
(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

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

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  No

As of August 9, 2012, 10,246,635 shares of the registrant's common stock were outstanding.

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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)

|   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2012                           | 2011       | 2012                         | 2011       |
| Operating revenues  | \$ 94,689                      | \$ 100,744 | \$ 192,263                   | \$ 199,250 |
| Operating expenses:   |                                |            |                              |            |
| Cost of revenues (exclusive of depreciation and amortization) | 39,432                         | 41,960     | 80,231                       | 82,530     |
| Selling, general and administrative                           | 26,994                         | 30,382     | 56,020                       | 60,518     |
| Depreciation and amortization                                 | 17,354                         | 15,212     | 33,942                       | 30,517     |
| Total operating expenses                                      | 83,780                         | 87,554     | 170,193                      | 173,565    |
| Operating income  | 10,909                         | 13,190     | 22,070                       | 25,685     |
| Other income (expense):                                       |                                |            |                              |            |
| Interest expense  | (5,414)                        | (6,235)    | (11,400)                     | (12,494)   |
| Loss on early extinguishment of debt                          |                                |            | (5,112)                      |            |
| Interest income and other                                     | 6                              | 17         | 18                           | 30         |
| Total other expense   | (5,408)                        | (6,218)    | (16,494)                     | (12,464)   |
| Income before reorganization items and income tax benefit     | 5,501                          | 6,972      | 5,576                        | 13,221     |
| Reorganization items  |                                | 239        |                              | 950        |
| Income before income tax benefit                              | 5,501                          | 6,733      | 5,576                        | 12,271     |
| Income tax benefit  | (20)                           |            | (152)                        |            |
| Net income  | \$ 5,521                       | \$ 6,733   | \$ 5,728                     | \$ 12,271  |
| Net income per common share -                                 |                                |            |                              |            |
| Basic   | \$ 0.54                        | \$ 0.66    | \$ 0.56                      | \$ 1.21    |
| Diluted   | \$ 0.51                        | \$ 0.61    | \$ 0.54                      | \$ 1.12    |

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

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 10,241,073 | 10,138,572 | 10,221,056 | 10,138,137 |
| Diluted | 10,730,095 | 11,023,118 | 10,616,201 | 10,978,578 |

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 |          | Six Months Ended |           |
|---|--------------------|----------|------------------|-----------|
|   | 2012               | 2011     | 2012             | 2011      |
| Net income  | \$ 5,521           | \$ 6,733 | \$ 5,728         | \$ 12,271 |
| Other comprehensive income (loss), net of tax -         |                    |          |                  |           |
| Unrealized holding gains (losses) arising during period | 2                  | 10       | (1)              | (14)      |
| Retirement plan   |                    |          | 33,388           |           |
| Other comprehensive income (loss), net of tax -         | 2                  | 10       | 33,387           | (14)      |
| Comprehensive income                                    | \$ 5,523           | \$ 6,743 | \$ 39,115        | \$ 12,257 |

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)**

|   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|--------------------------|------------------------------|
| <b>Assets</b>   |                          |                              |
| Current assets  |                          |                              |
| Cash and cash equivalents   | \$ 65,758                | \$ 82,063                    |
| Receivables, net  | 33,091                   | 37,712                       |
| Material and supplies   | 10,317                   | 8,190                        |
| Prepaid expenses  | 5,832                    | 4,107                        |
| Other current assets  | 2,467                    | 2,127                        |
| Total current assets  | 117,465                  | 134,199                      |
| Property, plant and equipment, net  | 489,994                  | 482,371                      |
| Intangible assets, net  | 39,380                   | 40,745                       |
| Other assets  | 9,693                    | 4,457                        |
| Total assets  | \$ 656,532               | \$ 661,772                   |
| <b>Liabilities and Stockholders Equity</b>  |                          |                              |
| Current liabilities   |                          |                              |
| Current portion of long-term debt   | \$ 2,250                 | \$ 2,600                     |
| Accounts payable  | 26,472                   | 24,785                       |
| Accrued expenses  | 17,721                   | 23,811                       |
| Advance billings and customer deposits  | 16,006                   | 14,672                       |
| Other current liabilities   | 3,860                    | 3,649                        |
| Total current liabilities   | 66,309                   | 69,517                       |
| Long-term debt  | 293,512                  | 297,400                      |
| Employee benefit obligations  | 117,022                  | 155,428                      |
| Other liabilities   | 3,583                    | 3,231                        |
| Total liabilities   | 480,426                  | 525,576                      |
| Commitments and contingencies (Note 12)   |                          |                              |
| Stockholders equity   |                          |                              |
| Common stock, par value of \$0.01 per share, 245,000,000 shares authorized and 10,245,773 and 10,190,526 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | 102                      | 102                          |
| Additional paid-in capital  | 165,123                  | 164,328                      |
| Accumulated other comprehensive loss  | (24,131)                 | (57,518)                     |
| Retained earnings   | 35,012                   | 29,284                       |
| Total stockholders equity   | 176,106                  | 136,196                      |
| Total liabilities and stockholders equity   | \$ 656,532               | \$ 661,772                   |

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)**

|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2012</b>                          | <b>2011</b> |
| <b>Cash flows from operating activities:</b>  |                                      |             |
| Net income  | \$ 5,728                             | \$ 12,271   |
| Adjustments to reconcile net income to net cash provided by operating activities                    |                                      |             |
| Depreciation and amortization   | 33,942                               | 30,517      |
| Loss on early extinguishment of debt  | 5,112                                |             |
| Employee retirement benefits  | (5,018)                              | (3,223)     |
| Provision for uncollectibles  | 1,905                                | 790         |
| Reorganization items  |                                      | 950         |
| Stock based compensation  | 840                                  | 972         |
| Changes in operating assets and liabilities:  |                                      |             |
| Receivables   | 2,716                                | (4,279)     |
| Material and supplies   | (2,127)                              | 1,293       |
| Prepaid expenses and other current assets   | (2,065)                              | 2,947       |
| Accounts payable and accrued expenses   | (3,367)                              | (8,267)     |
| Advance billings and customer deposits  | 1,334                                | (554)       |
| Other current liabilities   | 211                                  | 863         |
| Other   | 394                                  | (962)       |
| Net cash provided by operating activities before reorganization items                               | 39,605                               | 33,318      |
| Operating cash flows used by reorganization items   |                                      | (2,292)     |
| Net cash provided by operating activities   | 39,605                               | 31,026      |
| <b>Cash flows from investing activities:</b>  |                                      |             |
| Capital expenditures  | (41,235)                             | (35,413)    |
| Net cash used in investing activities   | (41,235)                             | (35,413)    |
| <b>Cash flows from financing activities:</b>  |                                      |             |
| Repayment of debt including premium   | (306,000)                            |             |
| Proceeds from borrowing   | 295,500                              |             |
| Loan refinancing costs  | (4,130)                              |             |
| Taxes paid related to net share settlement of equity awards   | (45)                                 |             |
| Proceeds from sale of common stock  |                                      | 49          |
| Net cash provided by (used in) financing activities   | (14,675)                             | 49          |
| Net change in cash and cash equivalents   | (16,305)                             | (4,338)     |
| Cash and cash equivalents, beginning of period  | 82,063                               | 81,647      |
| Cash and cash equivalents, end of period  | \$ 65,758                            | \$ 77,309   |
| <b>Supplemental disclosure of cash flow information:</b>  |                                      |             |
| Interest paid, net of amounts capitalized   | \$ 12,067                            | \$ 12,569   |
| Non-cash investing activities - receipt of equipment for settlement of receivable 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****(Unaudited, dollars in thousands)**

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Total<br>Stockholders<br>Equity |
|---|------------------------|------------------------|----------------------------------|--|----------------------|---------------------------------|
| Balance, January 1, 2012  | 10,190,526             | \$ 102                 | \$ 164,328                       | \$ (57,518)  | \$ 29,284            | \$ 136,196                      |
| Stock based compensation  |                        |                        | 840                              |  |                      | 840                             |
| Common stock issued for stock<br>compensation plans, net of shares<br>withheld and withholding paid for<br>employee taxes | 55,247                 |                        | (45)                             |  |                      | (45)                            |
| Net income  |                        |                        |                                  |  | 5,728                | 5,728                           |
| Other comprehensive income, net of<br>tax   |                        |                        |                                  | 33,387   |                      | 33,387                          |
| Balance, June 30, 2012  | 10,245,773             | \$ 102                 | \$ 165,123                       | \$ (24,131)  | \$ 35,012            | \$ 176,106                      |
| 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<br>agreement   | 3,537                  |                        | 49                               |  |                      | 49                              |
| Net income  |                        |                        |                                  |  | 12,271               | 12,271                          |
| Other comprehensive income (loss),<br>net of tax  |                        |                        |                                  | (14)   |                      | (14)                            |
| Balance, June 30, 2011  | 10,138,600             | \$ 101                 | \$ 163,190                       | \$ 13,379  | \$ 15,400            | \$ 192,070                      |

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, 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. 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 financial position, the results of operations 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, 2011.

***Cash and Cash Equivalents***

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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 June 30, 2012 are held in one bank in demand deposit accounts.

### *Supplemental Non-Cash Investing and Financing Activities*

Accounts payable included \$3.0 million and \$2.2 million at June 30, 2012 and 2011, 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 HPUC fees. Such taxes and fees amounted to \$1.8 million and \$3.7 million for the three and six months ended June 30, 2012 and \$1.9 million and \$3.4 million for the three and six months ended June 30, 2011, respectively.

Table of Contents***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<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2012                           | 2011       | 2012                         | 2011       |
| Basic earnings per share - weighted average shares   | 10,241,073                     | 10,138,572 | 10,221,056                   | 10,138,137 |
| Effect of dilutive securities:                       |                                |            |                              |            |
| Employee and director restricted stock units         | 106,246                        | 155,399    | 110,931                      | 144,142    |
| Warrants   | 382,776                        | 729,147    | 284,214                      | 696,299    |
| Diluted earnings per share - weighted average shares | 10,730,095                     | 11,023,118 | 10,616,201                   | 10,978,578 |

The computation of weighted average dilutive shares outstanding excluded restrictive stock units to acquire 19,917 shares and 19,919 shares of common stock for the three and six month period ended June 30, 2012, respectively. 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.

**3. Reorganization Items**

Reorganization items represent expense or income amounts that were recognized as a direct result of the Company's Chapter 11 filing and are presented separately in the condensed consolidated statements of operations. Such items consist of professional fees related to legal, financial advisory and other professional costs directly associated with the reorganization process and amounted to \$0.2 million and \$1.0 million for the three and six months ended June 30, 2011. The Company emerged from Chapter 11 in October 2010 but continued to incur reorganization related expenses until December 2011 as the Chapter 11 cases were not closed until January 2012.

Net cash paid for reorganization items, consisting of professional and other fees, amounted to \$2.3 million for the six months ended June 30, 2011.

**4. Receivables**

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Receivables consisted of the following (dollars in thousands):

|                                 | <b>June 30,<br/>2012</b> |    | <b>December 31,<br/>2011</b> |
|---------------------------------|--------------------------|----|------------------------------|
| Customers and other             | \$ 37,633                | \$ | 40,636                       |
| Allowance for doubtful accounts | (4,542)                  |    | (2,924)                      |
|                                 | \$ 33,091                | \$ | 37,712                       |

Table of Contents**5. Long-Lived Assets**

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

|  | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|--------------------------|------------------------------|
| Property, plant and equipment                  | \$ 588,028               | \$ 548,838                   |
| Less accumulated depreciation and amortization | (98,034)                 | (66,467)                     |
|  | \$ 489,994               | \$ 482,371                   |

Depreciation expense amounted to \$16.7 million and \$32.6 million for the three and six months ended June 30, 2012, respectively. Depreciation expense amounted to \$14.4 million and \$29.5 million for the three and six months ended June 30, 2011, respectively.

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

|   | <b>June 30, 2012</b>                |                                     |                               | <b>December 31, 2011</b>            |                                     |                               |
|---|-------------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
|   | <b>Gross<br/>Carrying<br/>Value</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Carrying<br/>Value</b> | <b>Gross<br/>Carrying<br/>Value</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Carrying<br/>Value</b> |
| Subject to amortization<br>customer relationships | \$ 17,000                           | \$ 4,920                            | \$ 12,080                     | \$ 17,000                           | \$ 3,555                            | \$ 13,445                     |
| Not subject to amortization<br>brand name         | 27,300                              |                                     | 27,300                        | 27,300                              |                                     | 27,300                        |
|   | \$ 44,300                           | \$ 4,920                            | \$ 39,380                     | \$ 44,300                           | \$ 3,555                            | \$ 40,745                     |

Amortization expense amounted to \$0.7 million and \$1.4 million for the three and six months ended June 30, 2012, respectively. Amortization expense amounted to \$0.8 million and \$1.1 million for the three and six months ended June 30, 2011, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

|                         |           |
|-------------------------|-----------|
| 2012 (remaining months) | \$ 1,365  |
| 2013                    | 2,421     |
| 2014                    | 2,112     |
| 2015                    | 1,803     |
| 2016                    | 1,494     |
| Thereafter              | 2,885     |
|                         | \$ 12,080 |



Table of Contents**6. Accrued Expenses**

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

|                       | June 30,<br>2012 | December 31,<br>2011 |
|-----------------------|------------------|----------------------|
| Salaries and benefits | \$ 13,038        | \$ 17,519            |
| Interest              | 3,617            | 4,875                |
| Other taxes           | 1,066            | 1,417                |
|                       | \$ 17,721        | \$ 23,811            |

**7. Long-Term Debt**

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

|                         | Interest Rate<br>at June 30,<br>2012 | Final<br>Maturity | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------|--------------------------------------|-------------------|------------------|----------------------|
| Term loan               | 7.00%                                | February 28, 2017 | \$ 300,000       | \$ 300,000           |
| Term loan repaid        | NA                                   | NA                |                  | 300,000              |
| Original issue discount |                                      |                   | (4,238)          | 300,000              |
|                         |                                      |                   | 295,762          | 300,000              |
| Current                 |                                      |                   | 2,250            | 2,600                |
| Noncurrent              |                                      |                   | \$ 293,512       | \$ 297,400           |

The term loan outstanding at June 30, 2012 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 4.75% or a Eurocurrency rate on deposits of one, two, three or six months but no less than 1.25% per annum plus a margin of 5.75%. The Company has selected the Eurocurrency rate as of June 30, 2012 resulting in a nominal interest rate currently at 7.00%.

The term loan provides for interest payments no less than quarterly. In addition, quarterly principal payments are required beginning December 2012 of \$0.8 million with the balance of the loan due at maturity on February 28, 2017. 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 Company must also make prepayments on loans in the case of certain events such as large asset sales.

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In connection with the February 2012 refinancing of the term loan debt, the Company paid a premium on the repayment of the old term loan of \$6.0 million. In addition, the Company paid \$4.1 million in underwriting fees and legal costs. The premium on repayment of debt, and 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 capitalized \$5.0 million of the premium on the repayment of debt and refinancing fees and expensed the remainder resulting in a loss on early extinguishment of debt of \$5.1 million.

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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 ending June 30, 2012 and 2011. 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.

The obligations under the bank facilities are guaranteed by the Company and each subsidiary with certain exceptions. In addition, the bank credit facilities are collateralized by substantially all of the Company's assets.

The bank credit facilities contain various negative and affirmative covenants that restrict, among other things, incurrence of additional indebtedness, payment of dividends, redemptions of stock, other distributions to shareholders and sales of assets. In addition, there are financial covenants consisting of an interest coverage ratio, leverage ratio and a maximum level of capital expenditures.

***Maturities***

The annual requirements for principal payments on long-term debt as of June 30, 2012 are as follows (dollars in thousands):

| <b>Year ended December 31,</b> |            |
|--------------------------------|------------|
| 2012 (remainder of year)       | \$ 750     |
| 2013                           | 3,000      |
| 2014                           | 3,000      |
| 2015                           | 3,000      |
| 2016                           | 3,000      |
| 2017                           | 287,250    |
|                                | \$ 300,000 |

**8. Employee Benefit Plans**

The Company sponsors a defined benefit pension plan and postretirement medical and life insurance benefits for union employees. The Company also sponsors a cash balance pension plan for nonunion employees.

As further discussed in Note 12, the Company implemented new terms of employment for union employees effective January 1, 2012. The terms of employment include a provision for a freeze of pension benefits related to service and wage increases effective March 1, 2012. In January 2012, the union filed an unfair labor practices charge with the National Labor Relations Board ( NLRB ) regarding the implementation of the terms of employment. In May 2012, the NLRB dismissed the complaint. The union has appealed the dismissal of the complaint to the NLRB General Counsel. If it is found there was an unfair labor practice, the Company believes the remedy would be an order to continue good faith bargaining with the IBEW and to reinstate the benefits and terms and conditions of employment existing prior to the unilateral

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implementation of the last best and final offer. Therefore, in such case, the Company could be required to delay or reverse the March 1, 2012 freeze of pension benefits.

The Company amended its union pension plan on January 24, 2012 for the freeze of benefits effective March 1, 2012. This resulted in a reduction of the projected benefit obligation by \$30.2 million which is the difference between the accumulated benefit obligation and projected benefit obligation at that date. The liability as of January 24, 2012 was measured using a discount rate of 4.54%. The union pension trust assets were also measured as of this date. The reduction in the net recorded liability of \$33.4 million was used to offset actuarial losses previously recognized in the accumulated other comprehensive loss. In addition, the periodic benefit cost was reduced to reflect that there is no future service cost for the union pension plan beginning March 1, 2012.

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The Company accrues the costs of pension and postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits. The following provides the components of benefit costs for the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

Pension

|                           | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---------------------------|--------------------------------|----------|------------------------------|----------|
|                           | 2012                           | 2011     | 2012                         | 2011     |
| Service cost              | \$ (12)                        | \$ 1,821 | \$ 1,538                     | \$ 3,642 |
| Interest cost             | 2,440                          | 2,708    | 4,936                        | 5,416    |
| Expected asset return     | (2,882)                        | (2,943)  | (5,711)                      | (5,886)  |
| Amortization of loss      | 20                             |          | 242                          |          |
| Net periodic benefit cost | \$ (434)                       | \$ 1,586 | \$ 1,005                     | \$ 3,172 |

Other Postretirement Benefits

|                             | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|-----------------------------|--------------------------------|--------|------------------------------|----------|
|                             | 2012                           | 2011   | 2012                         | 2011     |
| Service cost                | \$ 251                         | \$ 229 | \$ 503                       | \$ 458   |
| Interest cost               | 598                            | 514    | 1,196                        | 1,028    |
| Amortization of (gain) loss | 40                             | (99)   | 81                           | (198)    |
| Net periodic benefit cost   | \$ 889                         | \$ 644 | \$ 1,780                     | \$ 1,288 |

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2011 that it expected to contribute \$16.1 million to its pension plan in 2012. As of June 30, 2012, the Company has contributed \$6.9 million. The Company presently anticipates contributing the full amount during the remainder of 2012.

**9. Income Taxes**

The income tax provision 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):

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|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2012                           | 2011     | 2012                         | 2011     |
| Income tax provision at statutory rate        | \$ 1,870                       | \$ 2,289 | \$ 1,896                     | \$ 4,172 |
| Increase (decrease) resulting from:           |                                |          |                              |          |
| State income taxes, net of federal income tax | 200                            | 269      | 71                           | 491      |
| Valuation allowance                           | (2,090)                        | (2,558)  | (2,119)                      | (4,663)  |
| Income tax benefit                            | \$ (20)                        | \$       | \$ (152)                     | \$       |

A valuation allowance has been provided at June 30, 2012 and December 31, 2011 for the deferred tax assets because of the uncertainty of future realization of such amounts. The Company has a short history as a new entity (post Chapter 11). Although the Company's ability to achieve profitability was enhanced by the costs and liability reductions that occurred as a result of the Chapter 11 process, its historical operating results remain relevant. The fundamental business and inherent risks in which the Company operates did not change. As such, subsequent to the Chapter 11 process, due primarily to

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historical pre-tax losses, at June 30, 2012 the Company determined that it was still more likely than not that the deferred income tax assets would not be realized. If additional positive evidence becomes available, the conclusion regarding the need for full valuation allowances may change resulting in the reversal of some or all of the valuation allowances.

The Company evaluates its tax positions for liability recognition. As of June 30, 2012, 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 or six months ended June 30, 2012 or 2011. All tax years from 2007 remain open for both federal and Hawaii state purposes.

**10. Stock Option Plan**

The Company has an equity incentive plan that became effective on October 28, 2010. 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 new 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.

As of June 30, 2012, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the six months ended June 30, 2012 and 2011 was as follows:

|                              | Shares   |    | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|------------------------------|----------|----|--|
| <b>2012</b>                  |          |    |  |
| Nonvested at January 1, 2012 | 248,951  | \$ | 17   |
| Granted                      | 116,987  |    | 16   |
| Vested                       | (57,957) |    | 26   |
| Forfeited                    | (1,539)  |    | 26   |
| Nonvested at June 30, 2012   | 306,442  | \$ | 15   |
| <b>2011</b>                  |          |    |  |
| Nonvested at January 1, 2011 | 246,778  | \$ | 12   |
| Granted                      | 82,126   |    | 27   |
| Vested                       |          |    |  |
| Forfeited                    | (49,723) |    | 15   |
| Nonvested at June 30, 2011   | 279,181  | \$ | 16   |

The Company recognized compensation expense of \$0.5 million and \$0.8 million for the three and six months ended June 30, 2012, respectively. The Company recognized compensation expense of \$0.7 million and \$1.0 million for the three and six months ended June 30, 2011, respectively. The fair value as of the vesting date for the restricted stock units that vested during the three and six months ended June 30, 2012 was \$0.1 million and \$1.0 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 2,715 for the six months ended June 30, 2012 and were based on the value of the restricted stock units as determined by the Company's closing stock price. Total payments for the employees' tax obligations to the tax authorities were less than \$0.1 million for the six months ended June 30,

2012. Other than reimbursements for tax withholdings, there was no cash received under all share-based arrangements.

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**11. Restructuring**

In the second quarter of 2011, the Company recorded a restructuring expense of \$1.9 million included in selling, general and administrative expenses in conjunction with a cost reduction plan in the wireline segment. The plan was primarily to align the Company's operations to its strategic plan and resulted in the termination of approximately six percent of the Company's workforce. The related severance cost amounted to \$1.5 million. The restructuring included closure of the Company's remaining retail stores, outsourcing of toll operators and downsizing of various other legacy functions. In conjunction with closure of the retail stores, the Company recognized a liability of \$0.4 million for the termination of three retail space leases. All liabilities recognized have been settled with cash payments.

**12. Commitments and Contingencies**

*Collective Bargaining Agreement*

On October 24, 2011, after several extensions beyond the original September 12, 2011 expiration date, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 (IBEW) expired. The agreement covers approximately half of the Company's work force. On October 31, 2011 the IBEW announced that a majority of union-represented employees rejected the Company's last, best and final offer. On December 13, 2011, the IBEW announced that a revised last, best and final offer was also rejected. The Company has concluded that it has bargained in good faith and reached an impasse. As such, the Company implemented the terms of employment of its revised last, best and final offer as of January 1, 2012, which included a freeze of pension benefits effective March 1, 2012 as discussed in Note 8. In January 2012, the IBEW filed an unfair labor practices charge with the National Labor Relations Board (NLRB) regarding the implementation of the terms of employment. In May 2012, the NLRB dismissed the complaint. The IBEW has appealed the dismissal of the complaint to the NLRB General Counsel. If it is found that there was an unfair labor practice, the Company believes the remedy would be an order to continue good faith bargaining with the IBEW and to reinstate the benefits and terms and conditions of employment existing prior to the unilateral implementation of the last best and final offer. Therefore, in such case, the Company could be required to reverse the March 1, 2012 freeze of pension benefits.

*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*

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

### 13. 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.

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Cash and cash equivalents, accounts receivable and accounts payable The carrying amount approximates the 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 as 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.

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

|  | <b>Carrying<br/>Value</b> | <b>Fair<br/>Value</b> |
|--|---------------------------|-----------------------|
| <b>June 30, 2012</b>                                       |                           |                       |
| Assets - investment in U.S. Treasury obligations (Level 1) | \$ 1,692                  | \$ 1,692              |
| Liabilities - long-term debt (carried at cost, Level 2)    | 300,000                   | 297,000               |
| <b>December 31, 2011</b>                                   |                           |                       |
| Assets - investment in U.S. Treasury obligations (Level 1) | \$ 1,718                  | \$ 1,718              |
| Liabilities - long-term debt (carried at cost, Level 2)    | 300,000                   | 306,000               |

***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.

Table of Contents**14. Segment Information**

The Company operates in two reportable segments (Wireline Services and Wireless) based on how resources are allocated and performance is assessed by the Company's Chief Executive Officer, the Company's chief operating decision maker. The Wireline Services segment provides local telephone service including voice and data transport, enhanced custom calling features, network access, directory assistance and private lines. In addition, the Wireline Services segment provides Internet, long distance services, television, managed services, customer premise equipment, data solutions, billing and collection, and pay telephone services. The other segment consists primarily of wireless services.

The following table provides operating financial information for the Company's two reportable segments (dollars in thousands):

|  | Wireline<br>Services | Wireless | Intersegment<br>Elimination | Total      |
|--|----------------------|----------|-----------------------------|------------|
| For the three months ended June 30, 2012 |                      |          |                             |            |
| Operating revenues                       |                      |          |                             |            |
| Local voice and other retail services    | \$ 61,578            | \$ 1,232 | \$ (376)                    | \$ 62,434  |
| Network access services                  | 32,255               |          |                             | 32,255     |
|  | \$ 93,833            | \$ 1,232 | \$ (376)                    | \$ 94,689  |
| Depreciation and amortization            | \$ 17,354            |          | \$                          | \$ 17,354  |
| Net income                               | 5,366                | 155      |                             | 5,521      |
| For the six months ended June 30, 2012   |                      |          |                             |            |
| Operating revenues                       |                      |          |                             |            |
| Local voice and other retail services    | \$ 125,085           | \$ 2,484 | \$ (719)                    | \$ 126,850 |
| Network access services                  | 65,413               |          |                             | 65,413     |
|  | \$ 190,498           | \$ 2,484 | \$ (719)                    | \$ 192,263 |
| Depreciation and amortization            | \$ 33,942            |          | \$                          | \$ 33,942  |
| Net income                               | 5,363                | 365      |                             | 5,728      |
| Capital expenditures                     | 40,200               |          |                             | 40,200     |
| Assets as of December 31, 2011           | \$ 661,101           | \$ 671   | \$                          | \$ 661,772 |
| For the three months ended June 30, 2011 |                      |          |                             |            |
| Operating revenues                       |                      |          |                             |            |
| Local voice and other retail services    | \$ 66,325            | \$ 1,414 | \$ (317)                    | \$ 67,422  |
| Network access services                  | 33,322               |          |                             | 33,322     |
|  | \$ 99,647            | \$ 1,414 | \$ (317)                    | \$ 100,744 |
| Depreciation and amortization            | \$ 15,212            |          | \$                          | \$ 15,212  |
| Net income (loss)                        | 7,771                | (1,038)  |                             | 6,733      |
| For the six months ended June 30, 2011   |                      |          |                             |            |
| Operating revenues                       |                      |          |                             |            |
| Local voice and other retail services    | \$ 129,443           | \$ 2,869 | \$ (663)                    | \$ 131,649 |
| Network access services                  | 67,601               |          |                             | 67,601     |
|  | \$ 197,044           | \$ 2,869 | \$ (663)                    | \$ 199,250 |

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|                               |    |        |         |    |        |
|-------------------------------|----|--------|---------|----|--------|
| Depreciation and amortization | \$ | 30,517 | \$      | \$ | 30,517 |
| Net income (loss)             |    | 14,331 | (2,060) |    | 12,271 |
| Capital expenditures          |    | 36,674 |         |    | 36,674 |

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**15. Wavecom Acquisition**

On July 12, 2012, the Company, through its Hawaiian Telcom, Inc. subsidiary, entered into a share purchase agreement with Wavecom Solutions Corporation ( Wavecom ) to acquire all outstanding shares for \$13.0 million in cash with certain adjustments determined at the time of closing. Wavecom provides telecommunication services in the State of Hawaii which are complementary to the Company s operations. After elimination of certain intercompany and non-recurring transactions, Wavecom s current annual revenues are estimated at \$7 million. Closing of the transaction is subject to regulatory approval which is expected to take 90 to 120 days.

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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 use of 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:

- our ability to execute our strategic plan;
- failures in critical back-office systems and IT infrastructure;
- our ability to operate as a stand-alone telecommunications provider;
- our ability to close and integrate the pending Wavecom acquisition;
- our ability to maintain arrangements with third-party service providers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- changes in demand for our products and services;
- technological changes affecting the telecommunications industry; and
- our indebtedness could adversely affect our financial condition.

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 or 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

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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.

### **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.

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**Segments and Sources of Revenue**

We operate in two reportable segments (Wireline Services and Wireless) 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.

***Wireline Services***

The Wireline Services segment derives revenue from the following sources:

**Local Voice 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 offered to customers in select areas.

**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.

**Wavecom Acquisition**

On July 12, 2012, we entered into a share purchase agreement with Wavecom Solutions Corporation ( Wavecom ) to acquire all outstanding shares for \$13.0 million in cash with certain adjustments determined at the time of closing. Wavecom provides telecommunication services in the State of Hawaii which are complementary to our operations. After elimination of certain intercompany and non-recurring transactions, Wavecom s annual revenues are estimated at \$7 million. After certain transition costs, we do not expect the acquisition to significantly impact our cost structure. Closing of this transaction is subject to regulatory approval which is expected to take 90 to 120 days.

Table of Contents**Results of Operations for the Three and Six Months Ended June 30, 2012 and 2011***Operating Revenues*

The following tables summarize our volume information as of June 30, 2012 and 2011, and our operating revenues for the three and six months ended June 30, 2012 and 2011. For comparability, we also present customer activity as of June 30, 2012 compared to March 31, 2012.

**Volume Information**

June 2012 compared to June 2011

|                                  | June 30,<br>2012 | June 30,<br>2011 | Number   | Change | Percentage |
|----------------------------------|------------------|------------------|----------|--------|------------|
| <b>Voice access lines</b>        |                  |                  |          |        |            |
| Residential                      | 212,668          | 232,344          | (19,676) |        | -8.5%      |
| Business                         | 185,574          | 191,466          | (5,892)  |        | -3.1%      |
| Public                           | 4,493            | 4,717            | (224)    |        | -4.7%      |
|                                  | 402,735          | 428,527          | (25,792) |        | -6.0%      |
| <b>High-Speed Internet lines</b> |                  |                  |          |        |            |
| Residential                      | 86,021           | 83,242           | 2,779    |        | 3.3%       |
| Business                         | 17,990           | 16,934           | 1,056    |        | 6.2%       |
| Wholesale                        | 1,122            | 1,173            | (51)     |        | -4.3%      |
|                                  | 105,133          | 101,349          | 3,784    |        | 3.7%       |
| <b>Long distance lines</b>       |                  |                  |          |        |            |
| Residential                      | 131,082          | 142,416          | (11,334) |        | -8.0%      |
| Business                         | 75,763           | 77,775           | (2,012)  |        | -2.6%      |
|                                  | 206,845          | 220,191          | (13,346) |        | -6.1%      |
| <b>Video</b>                     |                  |                  |          |        |            |
| Subscribers                      | 6,354            |                  | 6,354    |        | NA         |
| Homes Enabled                    | 50,149           |                  | 50,149   |        | NA         |

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June 2012 compared to March 2012

|                                  | June 30,<br>2012 | March 31,<br>2012 | Number  | Change | Percentage |
|----------------------------------|------------------|-------------------|---------|--------|------------|
| <b>Voice access lines</b>        |                  |                   |         |        |            |
| Residential                      | 212,668          | 217,470           | (4,802) |        | -2.2%      |
| Business                         | 185,574          | 186,854           | (1,280) |        | -0.7%      |
| Public                           | 4,493            | 4,559             | (66)    |        | -1.4%      |
|                                  | 402,735          | 408,883           | (6,148) |        | -1.5%      |
| <b>High-Speed Internet lines</b> |                  |                   |         |        |            |
| Residential                      | 86,021           | 85,518            | 503     |        | 0.6%       |
| Business                         | 17,990           | 17,714            | 276     |        | 1.6%       |
| Wholesale                        | 1,122            | 1,126             | (4)     |        | -0.4%      |
|                                  | 105,133          | 104,358           | 775     |        | 0.7%       |
| <b>Long distance lines</b>       |                  |                   |         |        |            |
| Residential                      | 131,082          | 133,648           | (2,566) |        | -1.9%      |
| Business                         | 75,763           | 76,197            | (434)   |        | -0.6%      |
|                                  | 206,845          | 209,845           | (3,000) |        | -1.4%      |
| <b>Video</b>                     |                  |                   |         |        |            |
| Subscribers                      | 6,354            | 3,866             | 2,488   |        | 64.4%      |
| Homes Enabled                    | 50,149           | 41,200            | 8,949   |        | 21.7%      |

**Operating Revenues (dollars in thousands)**

For Three Months

|                                | Three Months Ended |                  | Amount   | Change | Percentage |
|--------------------------------|--------------------|------------------|----------|--------|------------|
|                                | 2012               | June 30,<br>2011 |          |        |            |
| <b>Wireline Services</b>       |                    |                  |          |        |            |
| Local voice services           | \$ 35,730          | \$ 36,690        | \$ (960) |        | -2.6%      |
| <b>Network access services</b> |                    |                  |          |        |            |
| Business data                  | 4,791              | 4,562            | 229      |        | 5.0%       |
| Wholesale carrier data         | 15,457             | 15,892           | (435)    |        | -2.7%      |
| Subscriber line access charge  | 9,756              | 10,043           | (287)    |        | -2.9%      |
| Switched carrier access        | 2,251              | 2,475            | (224)    |        | -9.1%      |
|                                | 32,255             | 32,972           | (717)    |        | -2.2%      |
| Long distance services         | 7,159              | 8,013            | (854)    |        | -10.7%     |
| High-Speed Internet            | 8,959              | 8,779            | 180      |        | 2.1%       |
| Video                          | 1,035              |                  | 1,035    |        | NA         |
| Equipment and managed services | 6,380              | 10,689           | (4,309)  |        | -40.3%     |
| Other                          | 2,316              | 2,504            | (188)    |        | -7.5%      |
|                                | 93,834             | 99,647           | (5,813)  |        | -5.8%      |

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|                |           |            |            |        |
|----------------|-----------|------------|------------|--------|
| Wireless       | 855       | 1,097      | (242)      | -22.1% |
|                | \$ 94,689 | \$ 100,744 | \$ (6,055) | -6.0%  |
| <b>Channel</b> |           |            |            |        |
| Business       | \$ 39,766 | \$ 44,392  | \$ (4,626) | -10.4% |
| Consumer       | 34,044    | 34,384     | (340)      | -1.0%  |
| Wholesale      | 17,708    | 18,367     | (659)      | -3.6%  |
| Other          | 3,171     | 3,601      | (430)      | -11.9% |
|                | \$ 94,689 | \$ 100,744 | \$ (6,055) | -6.0%  |

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For Six Months

|                                | Six Months Ended |                  | Amount     | Change | Percentage |
|--------------------------------|------------------|------------------|------------|--------|------------|
|                                | 2012             | June 30,<br>2011 |            |        |            |
| <b>Wireline Services</b>       |                  |                  |            |        |            |
| Local voice services           | \$ 71,427        | \$ 74,078        | \$ (2,651) |        | -3.6%      |
| <b>Network access services</b> |                  |                  |            |        |            |
| Business data                  | 9,552            | 8,926            | 626        |        | 7.0%       |
| Wholesale carrier data         | 31,634           | 32,679           | (1,045)    |        | -3.2%      |
| Subscriber line access charge  | 19,592           | 20,263           | (671)      |        | -3.3%      |
| Switched carrier access        | 4,635            | 5,041            | (406)      |        | -8.1%      |
|                                | 65,413           | 66,909           | (1,496)    |        | -2.2%      |
| Long distance services         | 14,607           | 16,651           | (2,044)    |        | -12.3%     |
| High-Speed Internet            | 17,935           | 17,546           | 389        |        | 2.2%       |
| Video                          | 1,532            |                  | 1,532      |        | NA         |
| Equipment and managed services | 14,889           | 16,586           | (1,697)    |        | -10.2%     |
| Other                          | 4,696            | 5,274            | (578)      |        | -11.0%     |
|                                | 190,499          | 197,044          | (6,545)    |        | -3.3%      |
| Wireless                       | 1,764            | 2,206            | (442)      |        | -20.0%     |
|                                | \$ 192,263       | \$ 199,250       | \$ (6,987) |        | -3.5%      |
| <b>Channel</b>                 |                  |                  |            |        |            |
| Business                       | \$ 81,863        | \$ 84,341        | \$ (2,478) |        | -2.9%      |
| Consumer                       | 67,671           | 69,709           | (2,038)    |        | -2.9%      |
| Wholesale                      | 36,269           | 37,720           | (1,451)    |        | -3.8%      |
| Other                          | 6,460            | 7,480            | (1,020)    |        | -13.6%     |
|                                | \$ 192,263       | \$ 199,250       | \$ (6,987) |        | -3.5%      |

The operating revenue information above for 2012 includes additional detail not previously provided for 2011 including components of network access services revenue, television revenue, and equipment and managed services revenue. These changes were made to provide additional insight into our operations and to reflect the strategic emphasis on potential growth products such as business data and video. Certain reclassifications were made to the 2011 information to conform to the 2012 presentation. To provide further insight, we have provided revenue information by channel as well.

The decrease in local services revenues was caused primarily by the decline in voice access lines of 6.0%. Continued competition in the telecommunications industry has increasingly resulted in customers using technologies other than traditional phone lines for voice and data. Residential customers are increasingly moving local voice service to VoIP technology offered by cable providers, as well as using wireless services in place of traditional wireline phone service. Generally, VoIP technology offered by competitors is less expensive than traditional wireline phone service, requiring us to respond with more competitive pricing. Additionally, Competitive Local Exchange Carriers (CLECs) and our cable competitor continue to focus on business customers and selling services to our customer base.

In an effort to slow the rate of line loss, we are continuing retention and acquisition programs, and are increasingly focusing efforts on bundling of services. We have instituted various saves campaigns designed to focus on specific circumstances where we believe customer churn is controllable. These campaigns include targeted offers to at risk customers as well as other promotional tools designed to enhance customer retention. We are also continuing to emphasize win-back and employee referral programs. Additionally, we are intensifying our efforts relative to developing tools and training to enhance our customer service capability to improve customer retention.



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Network access services revenue for the three and six months ended June 30, 2012 decreased as compared to the same periods in the prior year because certain wireless carriers disconnected lower bandwidth circuits replaced with new more efficient higher bandwidth circuits resulting in a \$0.4 million and \$1.0 million reduction in wholesale carrier data revenue. We anticipate the data volume and related revenue will increase in future periods as wireless carriers deploy their enhanced wireless networks. In addition, the impact of the decline in voice access lines is reflected in subscriber line access charges and switched carrier access revenue. These reductions were partially offset by growth in business data revenue.

The decrease in long distance revenue was primarily because of the decline in long distance lines and customers moving to wireless and VoIP based technologies for long distance calling.

HSI revenues increased when compared to the prior year primarily because an approximate 3.7% growth in our HSI subscribers (\$0.3 million and \$0.6 million of the increase in revenue for the three and six month periods, respectively) offset by the impact of certain promotional rates. We are continuing to focus on upgrading our network to expand the reach of our higher bandwidth premium services.

On July 1, 2011, we commercially launched our video service on the island of Oahu. We are deploying Hawaiian Telcom TV gradually to selected areas to ensure delivery of superior service and an ongoing excellent customer experience. We have initiated targeted marketing efforts resulting in subscriber penetration rates exceeding expectations. Our volume is anticipated to continue to ramp up as more homes become enabled for video service. We expect to expand both the availability and the capabilities of our Hawaiian Telcom TV service over the next several years through additional capital investment and innovation.

Equipment and managed services sales have decreased because of fewer sales and installations of customer premise equipment for certain large government customers during the three and six months ended June 30, 2012 compared to the same periods in the prior year. Revenue from equipment sales varies from period to period based on the volume of large installation projects. The volume of such projects in future periods is uncertain.

Wireless revenues decreased as we attempted to focus our marketing efforts on other segments of our business.

***Operating Costs and Expenses***

The following tables summarize our costs and expenses for the three and six months ended June 30, 2012 compared to the costs and expenses for the three and six months ended June 30, 2011 (dollars in thousands):

For Three Months

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|   | Three Months Ended |                  | Amount     | Change | Percentage |
|---|--------------------|------------------|------------|--------|------------|
|   | 2012               | June 30,<br>2011 |            |        |            |
| Cost of revenues (exclusive of depreciation and amortization) | \$ 39,432          | \$ 41,960        | \$ (2,528) |        | -6.0%      |
| Selling, general and administrative expenses                  | 26,994             | 30,382           | (3,388)    |        | -11.2%     |
| Depreciation and amortization                                 | 17,354             | 15,212           | 2,142      |        | 14.1%      |
|   | \$ 83,780          | \$ 87,554        | \$ (3,774) |        | -4.3%      |

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For Six Months

|   | Six Months Ended<br>June 30, |            |            | Change     |  |
|---|------------------------------|------------|------------|------------|--|
|   | 2012                         | 2011       | Amount     | Percentage |  |
| Cost of revenues (exclusive of depreciation and amortization) | \$ 80,231                    | \$ 82,530  | \$ (2,299) | -2.8%      |  |
| Selling, general and administrative expenses                  | 56,020                       | 60,518     | (4,498)    | -7.4%      |  |
| Depreciation and amortization                                 | 33,942                       | 30,517     | 3,425      | 11.2%      |  |
|   | \$ 170,193                   | \$ 173,565 | \$ (3,372) | -1.9%      |  |

The Company's total headcount as of June 30, 2012 was 1,345 compared to 1,382 as of June 30, 2011. Employee related costs are included in both cost of revenues and selling, general and administrative expenses.

Cost of revenues consists of costs we incur to provide our products and services including those for operating and maintaining our networks, installing and maintaining customer premise equipment, and cost of goods sold directly associated with various products. The decrease for the three and six months ended June 30, 2012 compared to the same period in the prior year was because of lower customer premise equipment costs of \$4.4 million and \$2.3 million, respectively, as a result of reduced customer premise equipment installations and revenue. In addition, for the three months ended June 30, 2012, this was offset by increased operational costs such as video content costs of \$0.8 million with additional subscribers and electricity costs of \$0.3 million.

Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. The decrease for the three and six months ended June 30, 2012 compared to the same period in the prior year was because of reduced labor costs on lower headcount of \$0.9 and \$3.4 million, respectively. In addition, in the second quarter of 2011, we incurred restructuring expense of \$1.9 million included in selling, general and administrative expenses in conjunction with a cost reduction plan.

Depreciation and amortization increased because of new property additions placed into service.

***Other Income and (Expense)***

The following tables summarize other income (expense) for the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

For Three Months

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|                           | Three Months Ended<br>June 30, |            |        | Change     |  |
|---------------------------|--------------------------------|------------|--------|------------|--|
|                           | 2012                           | 2011       | Amount | Percentage |  |
| Interest expense          | \$ (5,414)                     | \$ (6,235) | \$ 821 | -13.2%     |  |
| Interest income and other | 6                              | 17         | (11)   | -64.7%     |  |
|                           | \$ (5,408)                     | \$ (6,218) | \$ 810 | -13.0%     |  |

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For Six Months

|                                      | Six Months Ended |                  | Amount     | Change | Percentage |
|--------------------------------------|------------------|------------------|------------|--------|------------|
|                                      | 2012             | June 30,<br>2011 |            |        |            |
| Interest expense                     | \$ (11,400)      | \$ (12,494)      | \$ 1,094   |        | -8.8%      |
| Loss on early extinguishment of debt | (5,112)          |                  | (5,112)    |        | NA         |
| Interest income and other            | 18               | 30               | (12)       |        | -40.0%     |
|                                      | \$ (16,494)      | \$ (12,464)      | \$ (4,030) |        | 32.3%      |

Interest expense decreased for the three and six months ended June 30, 2012 compared to the same periods in the prior year primarily because of the lower interest rates on the refinanced debt.

In connection with the refinancing of debt in the first quarter of 2012, we incurred a \$5.1 million charge to income which consisted of the premium on the repayment of the old debt and certain refinancing costs.

***Income Tax Benefit***

A valuation allowance has been provided at June 30, 2012 and December 31, 2011 for our deferred tax assets because of the uncertainty as to the realization of such assets. We will continue to assess the recoverability of deferred tax assets and the related valuation allowance. To the extent that we generate taxable income in future years and it is determined that such valuation allowance is no longer required, the tax benefit of the remaining deferred tax assets will be recognized at such time.

**Liquidity and Capital Resources**

As of June 30, 2012, we had cash of \$65.8 million. From an ongoing operating perspective, our cash requirements in 2012 consist of supporting the development and introduction of new products, our purchase of Wavecom, capital expenditure projects, pension funding obligations and other changes in working capital. A combination of cash-on-hand and cash generated from operating activities will be used to fund our cash requirements.

We have continued to take actions to conserve cash and improve liquidity. Efforts have also been taken to generate further operating efficiencies and focus on expense management. We have focused on improving operating results, including efforts to simplify product offerings, improve our customer service experience and increase our revenue enhancement activities. There can be no assurance that these additional actions will result in improved overall cash flow. We continue to have sizable retirement obligations for our existing employee base. Sustained declines in the value of pension trust assets and relatively high levels of pension lump sum benefit payments will increase the magnitude of future plan contributions.

Agreements with the Hawaii Public Utilities Commission and the debt agreements of Hawaiian Telcom Communications, Inc. limit the ability of our subsidiaries to pay dividends to the parent company and restrict the net assets of all of our subsidiaries. This can limit our ability to pay dividends to our shareholders. As the parent company has no operations, debt or other obligations, this restriction has no other immediate impact on our operations.

*Cash Flows for Six Months Ended June 30, 2012 and 2011*

Our primary source of funds continues to be cash generated from operations. We use the net cash generated from operations to fund network expansion and modernization. We expect that our capital spending requirements will continue to be financed through internally generated funds. We also expect to use cash generated in future periods for debt service. Additional debt or equity financing may be needed to fund additional development activities or to maintain our capital structure to ensure financial flexibility.

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Net cash provided by operations amounted to \$39.6 million for the six months ended June 30, 2012. Our cash flows from operations are impacted by our results of operations, changes in working capital and payments on certain long-term liabilities. Net cash provided by operations amounted to \$31.0 million for the six months ended June 30, 2011. The increase in cash provided by operations was because of improved management of working capital.

Cash used in investing activities was comprised of \$41.2 million and \$35.4 million of capital expenditures for the six months ended June 30, 2012 and 2011, respectively. The level of capital expenditures for 2012 is expected to be comparable to 2011 as we invest in our network and systems to support new product introductions and to enable next-generation technologies.

Cash used in financing activities for the six months ended June 30, 2012 was related primarily to the refinancing of our debt. Cash provided by financing activities for the six months ended June 30, 2011 was related to proceeds from the sale of common stock under our warrant agreements.

***Outstanding Debt and Financing Arrangements***

As of June 30, 2012, we had outstanding \$300.0 million in aggregate long-term debt. The term loan has a maturity date of 2017. We do not expect to generate the necessary cash flow from operations to repay the facility in its entirety by the maturity date and repayment is dependent on our ability to refinance the credit facility at reasonable terms. The ability to refinance the indebtedness at reasonable terms before maturity cannot be assured.

***Contractual Obligations***

During the six months ended June 30, 2012, the Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2011 in our Form 10-K other than related to our new debt which are as follows (dollars in thousands):

|                    | 2012 (remainder)<br>to 2014 | 2015 and<br>2016 | 2017 and<br>Thereafter | Total      |
|--------------------|-----------------------------|------------------|------------------------|------------|
| Term loan facility | \$ 6,750                    | \$ 6,000         | \$ 287,250             | \$ 300,000 |
| Debt interest      | 52,028                      | 40,688           | 3,250                  | 95,966     |
|                    | \$ 58,778                   | \$ 46,688        | \$ 290,500             | \$ 395,966 |

We do not maintain any off balance sheet financing or other arrangements.

**Critical Accounting Policies and Estimates**

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on the condensed consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. The Company's critical accounting policies that require the use of estimates and assumptions were discussed in detail in our Annual Report on Form 10-K for the year ended December 31, 2011, and have not changed materially from that discussion.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of June 30, 2012, our floating rate obligations consisted of \$300.0 million of debt outstanding under our term loan facility. Accordingly, our earnings and cash flow are affected by changes in interest rates. Based on our borrowings at June 30, 2012 and assuming a 1.0 percentage point increase in the average interest rate under these borrowings, we estimate that our annual interest expense would increase by approximately \$3.0 million.

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**Item 4. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Eric K. Yeaman, Chief Executive Officer, and Robert F. Reich, Chief Financial Officer, have evaluated the disclosure controls and procedures of Hawaiian Telcom Holdco, Inc. (the Company) as of June 30, 2012. Based on their evaluations, as of June 30, 2012, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective in ensuring that information required to be disclosed by the Company in reports the Company files or submits under the Securities Exchange Act of 1934:

(1) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and

(2) is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have been no changes in internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Certifications**

The certifications attached hereto as Exhibits 31.1, 31.2, 32.1 and 32.2 should be read in conjunction with the disclosures set forth herein.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Other than ordinary routine litigation incidental to the business, we are not involved in any material pending legal proceedings that are likely to have a material adverse effect on us.

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**Item 5. Other Information.**

**Earnings Release**

Hawaiian Telcom Holdco, Inc. issued a press release on August 9, 2012 announcing its 2012 second quarter earnings. This information, attached as Exhibit 99.1, is being furnished to the SEC pursuant to Item 2.02 of Form 8-K.

**Trading Restrictions on Common Stock**

As described in more detail below, recent trading in the common stock, par value \$0.01 per share ( Common Stock ) of the Company has caused the trading restrictions contained in Article VII of the Company s Amended and Restated Certificate of Incorporation ( Article VII ) to go into effect.

Article VII is intended to minimize the likelihood of an ownership change (as defined in Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury regulations thereunder (collectively, Section 382 )). An ownership change could cause potentially adverse tax consequences to the Company. The following summary provides only a general description of Article VII and therefore should be read together with the entire Article VII, which is attached hereto as Exhibit 99.2 and is incorporated herein by reference. The following summary is qualified in its entirety by reference to such exhibit.

Pursuant to Article VII, in the event that at least 30 percentage points of owner shift has occurred with respect to the Company s equity for purposes of Section 382, then restrictions on trading in the Common Stock shall automatically go into effect. Such trading restrictions provide that the acquisition of Common Stock by a person or entity that is not a 4.75% stockholder of the Company will be null and void ab initio as to the purchaser to the extent such acquisition causes the person or entity to become a 4.75% stockholder of the Company, unless such acquisition (a) has been approved by the Company s board of directors or (b) will not result in an increase in an owner shift for purposes of Section 382 in excess of any owner shift that would have occurred if the seller had sold the same amount of Common Stock through general public market transactions (a Permitted Acquisition ). For purposes of these restrictions, all references to a 4.75% stockholder shall be interpreted to be consistent with the definition of a 5-percent stockholder under Section 382. Any stockholder of the Company seeking to use the Permitted Acquisition exception shall, prior to such Permitted Acquisition, notify the Company in writing of such transaction and provide relevant factual information sufficient to establish that the acquisition will qualify as a Permitted Acquisition.

The trading restrictions contained in Article VII do not subject any stockholder to any limitations on the disposition of Common Stock.

With respect to any stockholder of the Company that has filed or would be required to file a Schedule 13D or 13G with Securities and Exchange Commission with respect to the Company, such stockholder is required to provide the following information to the Company: (A) the dates of the acquisition and disposition of all such Common Stock and (B) the amounts of such acquisitions and dispositions. Such information shall be provided by the stockholder to the Company on a confidential basis within five business days (i) after such stockholder has acquired an amount of stock of the Company that would require such stockholder to later file a Schedule 13D or 13G (assuming it continued to hold such stock

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through the end of the year) and (ii) from time to time thereafter upon increasing its direct or indirect beneficial ownership by more than two percent of the Company's Common Stock.

All notices required by Article VII from a current or prospective stockholder to the Company should be sent to Hawaiian Telcom Holdco, Inc., P.O. Box 2200, Honolulu, HI 96841, Attn: Robert F. Reich, Senior Vice President and Chief Financial Officer.

The trading restrictions will expire on October 28, 2012, the second anniversary of the date on which the Company emerged from Chapter 11 bankruptcy protection; provided, however, that the Company's board of directors may determine to extend the trading restrictions for an additional period of time and, if so, will announce such extension by press release and the filing of a Form 8-K.

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**Item 6. Exhibits**

See Exhibit Index following the signature page of this Report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HAWAIIAN TELCOM HOLDCO, INC.

August 9, 2012

/s/ Eric K. Yeaman  
Eric K. Yeaman  
Chief Executive Officer

August 9, 2012

/s/ Robert F. Reich  
Robert F. Reich  
Senior Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

|         |  |
|---------|--|
| 31.1    | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2    | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1    | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2    | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 99.1    | Press Release dated August 9, 2012 announcing second quarter earnings.   |
| 99.2    | Article VII of the Amended and Restated Certificate of Incorporation of Hawaiian Telcom Holdco, Inc. (incorporated by reference from Exhibit 99.1 to the Company's Form 8-K dated May 10, 2012). |
| 101.INS | XBRL Instance Document*  |
| 101.SCH | XBRL Taxonomy Extension Schema Document*   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document*  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*  |

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\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.