Hawaiian Telcom Holdco, Inc. (HCOM)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 08/09/2012
Filed Period 06/30/2012

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	**16-1710376**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1177 Bishop Street
Honolulu, Hawaii 96813
(Address of principal executive offices)

808-546-4511
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☒
Non-Accelerated Filer ☐ (Do not check if smaller reporting company)	Smaller reporting company ☐

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

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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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 June 30,		Six Months Ended 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
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.

Hawaiian Telcom Holdco, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	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.

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

	June 30, 2012	December 31, 2011
Assets		
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
Liabilities and Stockholders' Equity		
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.

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:		
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
Cash flows from investing activities:		
Capital expenditures	(41,235)	(35,413)
Net cash used in investing activities	(41,235)	(35,413)
Cash flows from financing activities:		
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
Supplemental disclosure of cash flow information:		
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.

Hawaiian Telcom Holdco, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited, dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2012	10,190,526	$ 102	$164,328	$ (57,518)	$29,284	$ 136,196
Stock based compensation	—	—	840	—	—	840
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	55,247	—	(45)	—	—	(45)
Net income	—	—	—	—	5,728	5,728
Other comprehensive income, net of 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 agreement	3,537	—	49	—	—	49
Net income	—	—	—	—	12,271	12,271
Other comprehensive income (loss), 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.

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

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.

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 June 30,		Six Months Ended 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

Receivables consisted of the following (dollars in thousands):

	June 30, 2012	December 31, 2011
Customers and other	$ 37,633	$ 40,636
Allowance for doubtful accounts	(4,542)	(2,924)
	$ 33,091	$ 37,712

5. Long-Lived Assets

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

	June 30, 2012	December 31, 2011
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):

	June 30, 2012			December 31, 2011		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization – customer relationships	$ 17,000	$ 4,920	$ 12,080	$ 17,000	$ 3,555	$ 13,445
Not subject to amortization – 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

6. Accrued Expenses

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

	June 30, 2012	December 31, 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 at June 30, 2012	Final Maturity	June 30, 2012	December 31, 2011
Term loan	7.00%	February 28, 2017	$ 300,000	$ —
Term loan repaid	NA	NA	—	300,000
Original issue discount			(4,238)	—
			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.

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.

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):

Year ended December 31,		
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 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.

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 June 30,		Six Months Ended 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 June 30,		Six Months Ended 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):

	Three Months Ended June 30,		Six Months Ended 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 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-Average Grant-Date Fair Value
2012		
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
2011		
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.

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

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.

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):

	Carrying Value	Fair Value
June 30, 2012		
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
December 31, 2011		
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.

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 Services	Wireless	Intersegment 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
Depreciation and amortization	$ 30,517	$ —	$ —	$ 30,517
Net income (loss)	14,331	(2,060)	—	12,271
Capital expenditures	36,674	—	—	36,674

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.

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 negative of these terms or 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 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 Acquistion

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.

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, 2012	June 30, 2011	Change	
			Number	Percentage
Voice access lines				
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%
High-Speed Internet lines				
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%
Long distance lines				
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%
Video				
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, 2012	March 31, 2012	Change Number	Change Percentage
Voice access lines				
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%
High-Speed Internet lines				
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%
Long distance lines				
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%
Video				
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 June 30, 2012	Three Months Ended June 30, 2011	Change Amount	Change Percentage
Wireline Services				
Local voice services	$ 35,730	$ 36,690	$ (960)	-2.6%
Network access services				
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%
Wireless	855	1,097	(242)	-22.1%
	$ 94,689	$ 100,744	$ (6,055)	-6.0%
Channel				
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 June 30, 2012	Six Months Ended June 30, 2011	Change Amount	Change Percentage
Wireline Services				
Local voice services	$ 71,427	$ 74,078	$ (2,651)	-3.6%
Network access services				
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%
Channel				
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.

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

	Three Months Ended June 30,		Change	
	2012	**2011**	**Amount**	**Percentage**
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%

For Six Months

	Six Months Ended 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

	Three Months Ended 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 June 30, 2012	Six Months Ended June 30, 2011	Change Amount	Change Percentage
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.

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) to 2014	2015 and 2016	2017 and 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.

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.

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.

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.

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 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.

Item 6. Exhibits

See Exhibit Index following the signature page of this Report.

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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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.

Exhibit 31.1

Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric K. Yeaman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian Telcom Holdco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 9, 2012	/s/ Eric K. Yeaman
	Eric K. Yeaman Chief Executive Officer

Exhibit 31.2

Certification Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert F. Reich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian Telcom Holdco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 9, 2012

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

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C.§1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hawaiian Telcom Holdco, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric K. Yeaman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C.§1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 9, 2012	/s/ Eric K. Yeaman
	Eric K. Yeaman
	Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C.§1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hawaiian Telcom Holdco, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert F. Reich, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C.§1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 9, 2012	/s/ Robert F. Reich
	Robert F. Reich
	Senior Vice President and Chief Financial Officer

Exhibit 99.1

Hawaiian Telcom

Investor Relations Contact:
Brian Tanner, Hawaiian Telcom
(808) 546-3442
brian.tanner@hawaiiantel.com

Media Contact:
Scott Simon, Hawaiian Telcom
(808) 546-5466
scott.simon@hawaiiantel.com

For Immediate Release

Hawaiian Telcom Reports Second Quarter 2012 Results

Strong Demand for Hawaiian Telcom TV Drives Sequential Growth in Consumer Revenues

HONOLULU (Thursday, August 9, 2012) — Hawaiian Telcom Holdco, Inc. (NASDAQ: HCOM) reported financial results for its second quarter ended June 30, 2012. The highlights and other recent developments are as follows:

- Revenue totaled $94.7 million, resulting in Adjusted EBITDA(1) of $29.2 million.
- Generated net income of $5.5 million, or $0.51 per diluted share, down by $1.2 million, primarily attributable to an increase in depreciation and amortization due to significant investments in its broadband network.
- Business data revenue increased 5 percent year-over-year driven by growth in switched Ethernet, IP-VPN and dedicated Internet access revenues.
- Consumer revenues increased 1 percent sequentially, driven by video revenue more than doubling.
- Hawaiian Telcom TV subscriber penetration increased to over 12 percent of the approximately 50,000 households enabled, up from over 9 percent of the approximately 41,000 households enabled at the end of the first quarter.
- High-speed Internet ("HSI") subscribers increased 3.7 percent year-over-year to 105,000, driven by video bundle sales and enhancements to the broadband network.
- Recently awarded a contract for over 100 new fiber-to-the-tower sites to continue to support the 4G rollout of the large national wireless carriers.
- Announced the acquisition of Wavecom Solutions Corporation ("Wavecom"), in a move to enhance its network capabilities and strengthen its ability to deliver next generation, end-to-end solutions to customers.

"I am pleased with the momentum we are starting to build in key growth areas of our business," said Eric K. Yeaman, Hawaiian Telcom's president and CEO. "Most notable is our sequential growth in consumer revenues during the quarter driven primarily by the successful commercial launch of Hawaiian Telcom TV only one year ago. Our video subscribers increased to approximately 6,400, up 64 percent sequentially, driving subscriber penetration to over 12 percent of the approximately 50,000 household enabled footprint. After only a year in the market, we are already reaching subscriber penetration rates over 20 percent in certain neighborhoods. Our early success demonstrates the strong customer demand for our video product and positions us well to drive further growth in consumer revenues."

"In the business markets, we continued to see growth in our IP-based services driven by a 5 percent year-over-year increase in business data revenue. With the acquisition of Wavecom, we will further enhance our network capabilities through increased fiber capacity and diversity and be better positioned to deliver next generation, end-to-end solutions for customers throughout Hawaii. In addition, our wholesale business was recently awarded a contract to build out fiber facilities to over 100 new cell sites to continue to support the 4G rollout of the large national wireless carriers.

"We passed a key inflection point in our consumer business this quarter, and we expect to build on this positive momentum going forward. At the same time, we remain focused on executing our overall strategic plan and driving long-term value for our shareholders," concluded Yeaman.

Second Quarter 2012 Results

Second quarter revenue was $94.7 million, compared to $100.7 million in the second quarter of 2011. The decrease in revenue was primarily due to a significant sale of customer premise equipment to a single government customer in the second quarter of 2011, and a 6 percent decline in access lines, partially offset by revenue growth from video, HSI and business data services. Adjusted EBITDA was $29.2 million, a decrease of $2.6 million year-over-year, due primarily to a $1.5 million recovery of fully reserved receivables in the second quarter of 2011, as well as a $1.0 million settlement benefit in the second quarter of 2011 as a result of the resolution of a vendor contract dispute. The Company generated net income of $5.5 million, or $0.51 per diluted share for the quarter, recording its seventh consecutive quarter of profitability

Business Revenue

Second quarter business revenue totaled $39.8 million, down $4.6 million from the same period a year ago, primarily due to a $4.3 million year-over-year decrease in equipment and managed services revenue, mostly related to the high level of sales of customer premise equipment to a single government customer in the second quarter of 2011. Additionally, the decline in business revenue related to the 3.1 percent and 2.6 percent year-over-year secular decline in business access and long distance lines, respectively. These decreases were partially offset by a 5 percent year-over-year increase in business data revenue driven by demand for IP-based data services. Also contributing to the offset was higher business HSI revenue as a result of a 6.2 percent year-over-year increase in business HSI subscribers to approximately 18,000.

Consumer Revenue

Second quarter consumer revenue totaled $34.0 million, down 1 percent year-over-year due to an anticipated decline from certain legacy services, but up 1 percent from the first quarter, driven by video revenue more than doubling. The sequential growth in consumer revenues marks a key turning point for the Company as it reverses long-standing secular declines from legacy services and positions it to drive overall organic revenue growth.

Video revenue doubled to $1 million from $0.5 million in the first quarter driven by a 64 percent sequential increase in the number of subscribers in the quarter to approximately 6,400. For the quarter, approximately 9,000 additional homes were enabled, increasing the number of homes enabled to approximately 50,000, resulting in subscriber penetration of over 12 percent, up from over 9 percent at the end of the first quarter.

Consumer HSI revenue was also up for the quarter led by a 3.3 percent year-over-year increase in consumer HSI subscribers to 86,000. HSI subscriber growth was driven by high HSI pull through rates for new video subscribers and enhancements to the broadband network. Approximately 60 percent of total video subscribers have a triple-play and 86 percent have a double-play. Increases driven by its next-generation services were offset by the decline in consumer revenue related to the 8.5 percent and 8.0 percent year-over-year secular decline in consumer access and long distance lines, respectively.

Wholesale Revenue

Second quarter wholesale revenue totaled $17.7 million, down 3.6 percent from the same period a year ago. Wholesale carrier data revenue declined 2.7 percent year-over-year to $15.4 million, due to certain wireless carriers disconnecting lower bandwidth legacy circuits, which were replaced with new, more efficient fiber-based, higher bandwidth Ethernet circuits. Switched carrier access revenue declined 9.1 percent year-over-year to $2.3 million, largely attributable to the overall decline in access lines.

Operating Expenses, Capital Expenditures and Liquidity

Operating expenses, exclusive of depreciation and amortization and one-time charges, decreased 5 percent to $66.0 million, primarily due to decreased direct cost of goods related to lower equipment sales, and a decline in wages and employee benefit costs on lower headcount, partially offset by increased direct cost of goods related to video, higher energy costs and higher bad debt expense as a result of the $1.5 million recovery of fully reserved receivables in the second quarter of 2011.

Capital expenditures totaled $41.2 million for the six-months ended June 30, 2012, up from $35.4 million for the six-month period a year ago due primarily to investments in broadband network infrastructure and expansion of video enabled households. Overall, total capital expenditures for 2012 are expected to be consistent with 2011 levels.

At the end of second quarter 2012, the Company had $65.8 million in cash and cash equivalents compared to $82.1 million at the end of 2011. The reduction is primarily related to $14.7 million of costs associated with the refinancing of its $300 million term loan in February 2012, temporary uses of working capital and higher capital expenditures. Net Debt(2) was $230.0 million, resulting in a Net Debt to Adjusted EBITDA ratio as of June 30, 2012 of 1.94x.

Conference Call

The Company will host a conference call to discuss its second quarter 2012 results at 8:00 a.m. (Hawaii Time), or 2:00 p.m. (Eastern Time) on Thursday, August 9, 2012.

To access the call, participants should dial (800) 259-0251 (US/Canada), or (617) 614-3671 (International) ten minutes prior to the start of the call and enter passcode 99524365.

A live webcast of the conference call, including a slide presentation, will be available from the Investor Relations section of the Company's website at http://hawaiiantel.com. The webcast will be archived at the same location.

A telephonic replay of the conference call will be available one hour after the conclusion of the call until 11:59 p.m. (Eastern Time) August 16, 2012. Access the replay by dialing (888) 286-8010 and entering passcode 18532018. Alternatively, the replay can be accessed by dialing (617) 801-6888 and entering passcode 18532018.

Use of Non-GAAP Financial Measures

This press release contains information about adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), Pro-forma Net Income and Net Debt. These are non-GAAP financial measures used by Hawaiian Telcom management when evaluating results of operations. Management believes these measures also provide users of the financial statements with additional and useful comparisons of current results of operations with past and future periods. Non-GAAP financial measures should not be construed as being more important than comparable GAAP measures. Detailed reconciliations of Adjusted EBITDA, Pro-forma Net Income and Net Debt to comparable GAAP financial measures have been included in the tables distributed with this release and are available in the Investor Relations section of www.hawaiiantel.com.

Forward-Looking Statements

In addition to historical information, this release includes certain statements and predictions that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, any statement, projection or estimate that includes or references the words "believes", "anticipates", "intends", "expected", or any similar expression falls within the safe harbor of forward-looking statements contained in the Reform Act. Actual results or outcomes may differ materially from those indicated or suggested by any such forward-looking statement for a variety of reasons, including, but not limited to, Hawaiian Telcom's ability to maintain its market position in communications services, including wireless, wireline and Internet services; general economic trends affecting the purchase or supply of communication services; world and national events that may affect the ability to provide services; changes in the regulatory environment; any rulings, orders or decrees that may be issued by any court or arbitrator; restrictions imposed under various credit facilities; work stoppages caused by labor disputes; adjustments resulting from year-end audit procedures; Hawaiian Telcom's ability to develop and launch new products and services, including video services; and risks relating to the proposed Wavecom acquisition. More information on potential risks and uncertainties is available in recent filings with the Securities and Exchange Commission, including Hawaiian Telcom's 2011 Annual Report on Form 10-K. The information contained in this release is as of August 9, 2012. It is anticipated that subsequent events and developments may cause estimates to change.

About Hawaiian Telcom

Hawaiian Telcom Holdco, Inc., headquartered in Honolulu, is Hawaii's leading provider of integrated communications solutions for business and residential customers. With roots in Hawaii beginning in 1883, the Company offers a full range of services including voice, video, Internet, data, wireless, and advanced communication and network services supported by the reach and reliability of its network and Hawaii's only 24/7 state-of-the-art network operations center. With employees statewide sharing a commitment to innovation and a passion for delivering superior service, Hawaiian Telcom provides an Always On℠ customer experience. For more information, visit www.hawaiiantel.com.

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(1) Adjusted EBITDA is EBITDA plus non-recurring costs not expected to occur regularly in the ordinary course of business. EBITDA is defined as net income plus interest expense (net of interest income and other), income taxes, depreciation and amortization, and non-cash stock compensation. The Company believes both of these non-GAAP measures, Adjusted EBITDA and EBITDA, are meaningful performance measures for investors because they are used by our Board and management to evaluate performance, enhance comparability between periods and make operating decisions. Our use of Adjusted EBITDA and EBITDA may not be comparable to similarly titled measures used by other companies in the telecommunications industry. A detailed reconciliation of Adjusted EBITDA to comparable GAAP financial measures has been included in the tables distributed with this release.

(2) Net Debt provides a useful measure of liquidity and financial health. The Company defines Net Debt as the sum of the face amount of short-term and long-term debt and unamortized premium and/or discount, offset by cash and cash equivalents. A detailed reconciliation of Net Debt has been included in the tables distributed with this release.

Hawaiian Telcom Holdco, Inc.
Consolidated Statements of Operations
(Unaudited, dollars in thousands, except per share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 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
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

Hawaiian Telcom Holdco, Inc.
Consolidated Balance Sheets
(Unaudited, dollars in thousands, except per share amounts)

	June 30, 2012	December 31, 2011
Assets		
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
Liabilities and Stockholders' Equity		
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

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:		
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
Cash flows from investing activities:		
Capital expenditures	(41,235)	(35,413)
Net cash used in investing activities	(41,235)	(35,413)
Cash flows from financing activities:		
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
Supplemental disclosure of cash flow information:		
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

Hawaiian Telcom Holdco, Inc.
Quarterly Revenue by Category and Channel
(Unaudited, dollars in thousands)

For Three Months

	Three Months Ended June 30,		Change	
	2012	2011	Amount	Percentage
Wireline Services				
Local voice services	$ 35,730	$ 36,690	$ (960)	-2.6%
Network access services				
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%
Wireless	855	1,097	(242)	-22.1%
	$ 94,689	$ 100,744	$ (6,055)	-6.0%
Channel				
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%

For Six Months

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Change Amount	Change Percentage
Wireline Services				
Local voice services	$ 71,427	$ 74,078	$ (2,651)	-3.6%
Network access services				
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%
Channel				
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%

Hawaiian Telcom Holdco, Inc.
Schedule of Adjusted EBITDA Calculations
(Unaudited, dollars in thousands)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 5,521	$ 6,733	$ 5,728	$ 12,271
Income tax benefit	(20)	—	(152)	—
Interest expense and other income and expense, net	5,408	6,218	16,494	12,464
Reorganization items	—	239	—	950
Depreciation and amortization	17,354	15,212	33,942	30,517
Non-cash stock compensation	500	661	840	972
EBITDA	28,763	29,063	56,852	57,174
Non-recurring costs	458	560	961	1,048
Severance and lease termination costs	—	2,200	—	2,200
Adjusted EBITDA	$ 29,221	$ 31,823	$ 57,813	$ 60,422

Hawaiian Telcom Holdco, Inc.
Net Debt to LTM Adjusted EBITDA Ratio
(Unaudited, dollars in thousands)

Long-term debt as of June 30, 2012	$	295,762
Less cash on hand		(65,758)
Total Net Debt as of June 30, 2012	$	230,004
LTM Adjusted EBITDA as of June 30, 2012	$	118,462
Total Net Debt to Adjusted EBITDA		1.94x

Hawaiian Telcom Holdco, Inc.
Volume Information
(Unaudited)

June 2012 compared to June 2011

	June 30, 2012	June 30, 2011	Change	
			Number	Percentage
Voice access lines				
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%
High-Speed Internet lines				
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%
Long distance lines				
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%
Video				
Subscribers	6,354	—	6,354	NA
Homes Enabled	50,149	—	50,149	NA

June 2012 compared to March 2012

	June 30, 2012	March 31, 2012	Change Number	Change Percentage
Voice access lines				
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%
High-Speed Internet lines				
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%
Long distance lines				
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%
Video				
Subscribers	6,354	3,866	2,488	64.4%
Homes Enabled	50,149	41,200	8,949	21.7%