UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2016

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 [X] 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 [X] 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 [X]	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 [X]

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

As of August 1, 2016, 11,511,591 shares of the registrant's common stock were outstanding.

Table of Contents

		Page
Part I	Financial Information	
Item 1	Condensed Consolidated Financial Statements (Unaudited)	3
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4	Controls and Procedures	30
Part II	Other Information	
Item 1	Legal Proceedings	31
Item 1A	Risk Factors	31
Item 5	Other Information	32
Item 6	Exhibits	33

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating revenues	$ 99,541	$ 96,187	$ 198,335	$ 193,303
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	40,605	39,219	83,084	79,402
Selling, general and administrative	29,554	29,767	59,419	59,499
Depreciation and amortization	22,493	21,941	44,443	43,221
Total operating expenses	92,652	90,927	186,946	182,122
Operating income	6,889	5,260	11,389	11,181
Other income (expense):				
Interest expense	(4,484)	(4,166)	(8,724)	(8,503)
Interest income and other	—	4	—	11
Total other expense	(4,484)	(4,162)	(8,724)	(8,492)
Income before income tax provision	2,405	1,098	2,665	2,689
Income tax provision	960	643	1,066	1,257
Net income	$ 1,445	$ 455	$ 1,599	$ 1,432
Net income per common share -				
Basic	$ 0.13	$ 0.04	$ 0.14	$ 0.13
Diluted	$ 0.13	$ 0.04	$ 0.14	$ 0.13
Weighted average shares used to compute net income per common share -				
Basic	11,511,591	10,797,111	11,493,712	10,744,944
Diluted	11,525,850	11,258,178	11,523,215	11,261,535

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 1,445	$ 455	$ 1,599	$ 1,432
Other comprehensive income (loss):				
Unrealized holding loss arising during period	—	(2)	—	—
Retirement plan gain	247	4,093	494	2,075
Income tax provision on comprehensive income	(94)	(1,571)	(188)	(792)
Other comprehensive income, net of tax	153	2,520	306	1,283
Comprehensive income	$ 1,598	$ 2,975	$ 1,905	$ 2,715

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, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 26,155	$ 30,312
Receivables, net	29,120	32,736
Material and supplies	8,603	8,499
Prepaid expenses	5,580	4,068
Other current assets	3,184	2,102
Total current assets	72,642	77,717
Property, plant and equipment, net	589,551	579,107
Intangible assets, net	33,779	34,828
Goodwill	12,104	12,104
Deferred income taxes, net	88,331	89,896
Other assets	6,193	6,043
Total assets	$ 802,600	$ 799,695
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 3,000	$ 3,000
Accounts payable	50,546	44,841
Accrued expenses	16,561	14,491
Advance billings and customer deposits	15,958	17,551
Other current liabilities	6,305	5,932
Total current liabilities	92,370	85,815
Long-term debt	282,161	283,046
Employee benefit obligations	100,207	104,597
Other liabilities	17,468	18,538
Total liabilities	492,206	491,996
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,511,591 and 11,466,398 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	115	115
Additional paid-in capital	178,809	178,019
Accumulated other comprehensive loss	(29,082)	(29,388)
Retained earnings	160,552	158,953
Total stockholders' equity	310,394	307,699
Total liabilities and stockholders' equity	$ 802,600	$ 799,695

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,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 1,599	$ 1,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,443	43,221
Deferred financing amortization	1,005	953
Employee retirement benefits	(3,896)	(3,565)
Provision for uncollectible receivables	2,139	1,634
Stock based compensation	1,141	900
Deferred income taxes	1,377	1,621
Changes in operating assets and liabilities:		
Receivables	1,477	(3,025)
Material and supplies	(104)	(92)
Prepaid expenses and other current assets	(2,594)	(1,944)
Accounts payable and accrued expenses	6,837	(2,037)
Advance billings and customer deposits	(1,593)	668
Other current liabilities	(385)	(465)
Other	(157)	492
Net cash provided by operating activities	51,289	39,793
Cash flows from investing activities:		
Capital expenditures	(52,898)	(52,916)
Funds released from restricted cash account	—	400
Net cash used in investing activities	(52,898)	(52,516)
Cash flows from financing activities:		
Proceeds from exercise of warrant	—	3,341
Proceeds from installment financing	1,698	2,279
Repayment of capital lease and installment financing	(1,707)	(1,976)
Repayment of debt	(1,500)	(1,500)
Refinancing and loan amendment costs	(688)	(150)
Taxes paid related to net share settlement of equity awards	(351)	(928)
Net cash used in financing activities	(2,548)	1,066
Net change in cash and cash equivalents	(4,157)	(11,657)
Cash and cash equivalents, beginning of period	30,312	39,885
Cash and cash equivalents, end of period	$ 26,155	$ 28,228
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	$ 6,350	$ 7,604

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		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2016	11,466,398	$ 115	$ 178,019	$ (29,388)	$ 158,953	$ 307,699
Stock based compensation	—	—	1,141	—	—	1,141
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	45,193	—	(351)	—	—	(351)
Net income	—	—	—	—	1,599	1,599
Other comprehensive income, net of tax	—	—	—	306	—	306
Balance, June 30, 2016	11,511,591	$ 115	$ 178,809	$ (29,082)	$ 160,552	$ 310,394
Balance, January 1, 2015	10,673,292	$ 107	$ 170,521	$ (23,947)	$ 157,853	$ 304,534
Stock based compensation	—	—	900	—	—	900
Exercise of warrant agreement	260,068	2	3,339	—	—	3,341
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	72,074	1	(929)	—	—	(928)
Net income	—	—	—	—	1,432	1,432
Other comprehensive income, net of tax	—	—	—	1,283	—	1,283
Balance, June 30, 2015	11,005,434	$ 110	$ 173,831	$ (22,664)	$ 159,285	$ 310,562

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, television, Internet, long distance and wireless phone service. The Company also provides communications equipment sales and maintenance, data center colocation and network managed services.

Organization

The Company has one direct wholly-owned subsidiary, Hawaiian Telcom Communications, Inc. which has two direct wholly-owned subsidiaries – Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. Hawaiian Telcom, Inc. operates the regulated local exchange carrier and Hawaiian Telcom Services Company, Inc. operates all other businesses.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and pursuant to rules and regulations of the U.S. Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the results of operations, comprehensive income, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2015.

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, 2016 are held in one bank in demand deposit accounts. During the six months ended June 30, 2015, funds amounting to $0.4 million in a restricted cash account, held in conjunction with a lease agreement provision, were released and deposited into unrestricted cash.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $21.5 million and $15.2 million at June 30, 2016 and 2015, respectively, for additions to property, plant and equipment.

Taxes Collected from Customers

The Company presents taxes collected from customers and remitted to governmental authorities on a gross basis, including such amounts in the Company's reported operating revenues. Such amounts represent primarily Hawaii state general excise taxes and Hawaii Public Utility Commission fees. Such taxes and fees amounted to $2.0 million and $4.3 million for the three and six months ended June 30, 2016, and $2.0 million and $4.0 million for the three and six months ended June 30, 2015, 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,	
	2016	2015	2016	2015
Basic earnings per share - weighted average shares	11,511,591	10,797,111	11,493,712	10,744,944
Effect of dilutive securities:				
Employee and director restricted stock units	14,259	25,878	29,503	72,367
Warrants	—	435,189	—	444,224
Diluted earnings per share - weighted average shares	11,525,850	11,258,178	11,523,215	11,261,535

The computation of weighted average dilutive shares outstanding excluded grants of restricted stock units convertible into 152,447 shares and 109,730 shares of common stock for the three and six months ended June 30, 2016, and 22,825 shares of common stock for the three months ended June 30, 2015. 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. For the six months ended June 30, 2015, there were no restricted stock units that were anti-dilutive to earnings per share.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued a new accounting standard which provides guidance for revenue recognition which was amended most recently in May 2016. The most recent amendments provide revised guidance on when to record revenue gross as the principal or net as the agent in accordance with the new revenue standard's control principal and, provide for narrow scope modifications and practical expedients. The new standard, along with the amendments which must be adopted at the same time as the new standard, is effective for the Company in the first quarter of 2018 with either full retrospective or modified retrospective adoption permitted. The modified retrospective approach requires a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period for which the new accounting guidance is effective. Early adoption is allowed from the first quarter of 2017. The Company is currently evaluating the impact of the adoption of this accounting standard on the Company's consolidated financial statements and financial statement disclosures. As this process is still ongoing, the effect of adoption is not yet known.

In February 2016, the FASB issued a new standard for accounting for leases. The new standard requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. The new standard must be adopted using the modified retrospective approach. The updated standard is effective for the Company beginning in the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the effect that the new standard will have on the Company's consolidated financial statements and financial statement disclosures.

In March 2016, the FASB issued a new standard that simplifies the accounting for employee share-based payment transactions. The new standard impacts the accounting for related income taxes, forfeitures and statutory tax withholding requirements as well as the classification of certain related payments in the statement of cash flows. The new accounting guidance is effective for the Company in the first quarter of 2017 with early adoption permitted. The adoption method required is specified as retrospective, modified retrospective or prospective for each of the various accounting provisions impacted by this new standard. The Company is evaluating the effect of the new guidance on the Company's consolidated financial statements and financial statement disclosures.

In June 2016, the FASB issued amended guidance on accounting for the impairment of financial instruments. The standard requires adoption of an impairment model known as the current expected credit loss model that is based on expected losses rather than incurred losses. For the Company, it is anticipated this will impact primarily the accounting for credit losses on trade receivables. The new standard is effective for the Company in the first quarter of 2020 with early adoption permitted from the first quarter of 2019. The provisions of the new standard expected to impact the Company must be adopted using the modified retrospective approach. The Company is evaluating the effect of the guidance on the Company's consolidated financial statements and financial statement disclosures.

3. Receivables

Receivables consisted of the following (dollars in thousands):

	June 30, 2016	December 31, 2015
Customers and other	$ 33,275	$ 36,667
Allowance for doubtful accounts	(4,155)	(3,931)
	$ 29,120	$ 32,736

4. Long-Lived Assets

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

	June 30, 2016	December 31, 2015
Property, plant and equipment cost	$ 989,256	$ 937,927
Less accumulated depreciation	399,705	358,820
	$ 589,551	$ 579,107

Depreciation expense amounted to $22.0 million and $43.3 million for the three and six months ended June 30, 2016, respectively. Depreciation expense amounted to $21.3 million and $42.0 million for the three and six months ended June 30, 2015, respectively.

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

	June 30, 2016			December 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization:						
Customer relationships	$ 21,709	$ 15,268	$ 6,441	$ 21,709	$ 14,238	$ 7,471
Trade name and other	320	282	38	320	263	57
	22,029	15,550	6,479	22,029	14,501	7,528
Not subject to amortization:						
Brand name	27,300	—	27,300	27,300	—	27,300
	27,300	—	27,300	27,300	—	27,300
	$ 49,329	$ 15,550	$ 33,779	$ 49,329	$ 14,501	$ 34,828

Amortization expense amounted to $0.5 million and $1.1 million for the three and six months ended June 30, 2016, respectively. Amortization expense amounted to $0.6 million and $1.2 million for the three and six months ended June 30, 2015, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

Year ended December 31,	
2016 (remaining months)	$ 1,051
2017	1,703
2018	1,307
2019	930
2020	574
Thereafter	914
	$ 6,479

5. Accrued Expenses and Other Current Liabilities

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

	June 30, 2016	December 31, 2015
Salaries and benefits	$ 12,889	$ 12,185
Interest	2,631	1,262
Other taxes	1,041	1,044
	$ 16,561	$ 14,491

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

	June 30, 2016	December 31, 2015
Other postretirement benefits, current	$ 2,929	$ 2,929
Installment financing contracts, current	2,370	1,849
Other	1,006	1,154
	$ 6,305	$ 5,932

6. Long-Term Debt

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

	Interest Rate at June 30, 2016	Final Maturity	June 30, 2016	December 31, 2015
Term loan	5.25 %	June 6, 2019	$ 291,638	$ 293,138
Debt issue costs and original issue discount			(6,477)	(7,092)
			285,161	286,046
Current			3,000	3,000
Noncurrent			$ 282,161	$ 283,046

The term loan outstanding at June 30, 2016 provides for interest at the Alternate Base Rate, a rate which is indexed to the prime rate with certain adjustments as defined, plus a margin of 3.25% or a Eurocurrency rate on deposits of one, two, three or six months but no less than 1.00% per annum plus a margin of 4.25%. The Company has selected the Eurocurrency rate as of June 30, 2016 resulting in an interest rate currently at 5.25%. The interest rate margin is subject to a further increase of 0.25% should there be a downgrade in the Company's credit rating.

The term loan provides for interest payments no less than quarterly. In addition, quarterly principal payments of $0.8 million are required. The balance of the loan is due at maturity on June 6, 2019. The Company must prepay, generally within three months after year end, up to 75% of excess cash flow, as defined. The percent of excess cash flow required is dependent on the Company's leverage ratio. There was no excess cash flow payment due for the year ended December 31, 2015. The Company must also make prepayments on loans in the case of certain events such as large asset sales.

In May 2016, the Company amended the term loan allowing for a revised leverage ratio financial covenant. The amendment modifies the maximum allowed leverage ratio, as defined, for the four consecutive fiscal quarters ended from June 30, 2016 to September 30, 2017 to 3.00:1.00, from December 31, 2017 to September 30, 2018 to 2.75:1.00, and from December 31, 2018 and each subsequent quarter to 2.50:1.00. In conjunction with the amendment, the Company paid a fee to the lenders of $0.4 million and such fee was deferred as financing related costs. The Company concluded that the amended lenders' term loans were not substantially different than the lenders' term loans prior to amendment. In addition, the Company paid an arrangement fee and legal costs amounting to $0.3 million. Such fees were expensed as incurred in the second quarter of 2016.

The Company also has a revolving credit facility which matures on December 6, 2018. The facility has an available balance of $30.0 million with no amounts drawn as of or for the periods ended June 30, 2016 and 2015. A commitment fee is payable quarterly to the lender under the facility. Interest on amounts outstanding is based on, at the Company's option, the bank prime rate plus a margin of 3.0% to 6.0% or the Eurocurrency rate for one, two, three or six month periods plus a margin of 4.0% to 5.5%. The margin is dependent on the Company's leverage, as defined in the agreement, at the time of the borrowing.

Maturities

The annual requirements for principal payments on long-term debt as of June 30, 2016 are as follows (dollars in thousands):

Year ended December 31,	
2016 (remaining months)	$ 1,500
2017	3,000
2018	3,000
2019	284,138
	$ 291,638

Capitalized Interest

Interest capitalized by the Company amounted to $0.4 million and $0.7 million for the three and six months ended June 30, 2016, and $0.3 million and $0.5 million for the three and six months ended June 30, 2015, respectively.

7. Employee Benefit Plans

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

The following provides the components of benefit costs (income) for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

Pension

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest cost	$ 1,996	$ 1,984	$ 3,992	$ 4,057
Expected asset return	(2,678)	(3,366)	(5,355)	(6,760)
Amortization of (gain) loss	129	39	257	(18)
Net periodic benefit income	(553)	(1,343)	(1,106)	(2,721)
Settlement loss	—	1,397	—	2,248
Total benefit (income) expense	$ (553)	$ 54	$ (1,106)	$ (473)

Other Postretirement Benefits

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	$ 259	$ 259	$ 518	$ 518
Interest cost	655	589	1,310	1,178
Amortization of loss	119	149	237	299
Total benefit cost	$ 1,033	$ 997	$ 2,065	$ 1,995

During the three and six months ended June 30, 2015, the Company's pension plan for union employees paid lump-sum benefits to plan participants in full settlement of obligations due amounting to $13.7 million and $19.7 million, respectively. During the six months ended June 30, 2015, the Company's pension plan for management employees paid lump sum benefits in full settlement amounting to $0.6 million. The Company's pension plan for management employees paid such benefits for the first quarter of 2015 only. This resulted in the recognition of a loss on settlement for both pension plans amounting to $1.4 million and $2.2 million for the three and six months ended June 30, 2015, respectively. Because of the settlements, the Company measured its union pension plan obligations and plan assets as of June 30, 2015. The Company had previously measured both its union and management pension plan obligations and plan assets as of March 31, 2015. The Company used a discount rate of 4.09% and 3.54% as of June 30, 2015 and March 31, 2015, respectively, to measure the union pension plan obligations. The Company used a discount rate of 3.57% to measure the management plan obligations as of March 31, 2015. The new measurements resulted in a retirement plan gain which was recognized in other comprehensive income of $3.9 million and $1.7 million for the three and six months ended June 30, 2015, respectively. For the six months ended June 30, 2016, lump sum benefits paid did not exceed the threshold requiring settlement accounting.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2015 that it expected to contribute $9.3 million to its pension plan in 2016. As of June 30, 2016, the Company has contributed $3.9 million. The Company presently expects to contribute the full amount during the remainder of 2016.

8. 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,	
	2016	2015	2016	2015
Income tax at federal rate	$ 818	$ 373	$ 906	$ 914
Increase (decrease) resulting from:				
State income taxes, net of federal income tax	134	46	146	113
Permanent difference for compensation limitation	—	104	—	228
Expense reflected in tax basis	144	211	160	211
Other permanent differences	101	49	105	154
Capital goods excise tax credit	(237)	(140)	(251)	(363)
Total income tax provision	$ 960	$ 643	$ 1,066	$ 1,257

The Company evaluates its tax positions for liability recognition. As of June 30, 2016, the Company had no unrecognized tax benefits. No interest or penalties related to income tax assessments were recognized in the Company's condensed consolidated statements of income for the three and six months ended June 30, 2016 and 2015. All tax years from 2012 remain open for both federal and Hawaii state tax purposes.

9. Stock Compensation

The Company has an equity incentive plan. The Compensation Committee of the Company's Board of Directors may grant awards under the plan in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The maximum number of shares issuable under the equity incentive plan is 1,400,000 shares with 639,000 shares remaining to be issued at June 30, 2016. 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, 2016, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the six months ended June 30, 2016 and 2015 was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
2016		
Nonvested at January 1, 2016	174,518	$ 26
Granted	121,724	25
Vested	(60,425)	25
Forfeited	(7,941)	26
Nonvested at June 30, 2016	227,876	$ 26
2015		
Nonvested at January 1, 2015	245,752	$ 27
Granted	140,909	26
Vested	(107,788)	28
Forfeited	(100,053)	25
Nonvested at June 30, 2015	178,820	$ 26

The Company recognized compensation expense of $0.6 million and $1.1 million for the three and six months ended June 30, 2016, respectively. The Company recognized compensation expense of $0.5 million and $0.9 million for the three and six months ended June 30, 2015, respectively The fair value as of the vesting date for the restricted stock units that vested during the six months ended June 30, 2016 and 2015 was $0.9 million and $2.5 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 15,234 and 35,714 for the six months ended June 30, 2016 and 2015, respectively, and were based on the value of the restricted stock units as determined by the Company's closing stock price on the date of vesting. Total payments for the employees' tax obligations to the tax authorities amounted to $0.4 million and $0.9 million for the six months ended June 30, 2016 and 2015, respectively. Other than reimbursements for tax withholdings, there was no cash received under the restricted stock unit arrangements.

The Company also has a performance based compensation plan. The incentive compensation is settled in March of each year for the prior year services and is based on Company performance relative to certain company specific metrics. The Company recognizes the expense during the performance period based on the expected compensation amount. The compensation for the performance period ended December 31, 2015 was settled in cash in March 2016. Beginning for the 2016 performance period, a specified portion of the compensation amount for certain employees will be settled in Company shares based on the share price at the date of settlement. Upon settlement, employees may 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 estimated performance based compensation to be settled in stock amounted to $0.2 million and $0.4 million for the three and six months ended June 30, 2016, respectively.

10. Stockholders' Equity

Warrants

In 2010, the Company issued warrants to purchase 1,481,055 shares of common stock for $14.00 per share. The warrants to purchase shares were exercisable anytime from January 26, 2011 to the maturity on October 28, 2015. The warrants could be exercised on a cashless basis whereby a portion of the exercised warrants were tendered in lieu of payment for the exercise price. During the six months ended June 30, 2015, warrants were exercised on a cashless basis resulting in the issuance of 21,371 shares of common stock. In addition, another 238,697 warrants were exercised for cash consideration of $3.3 million during the six months ended June 30, 2015.

Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Investments	Retirement Plans	Total
Three Months Ended June 30, 2016			
April 1, 2016	$ —	$ (29,235)	$ (29,235)
Other comprehensive income (loss) for 2016	—	153	153
June 30, 2016	$ —	$ (29,082)	$ (29,082)
Six Months Ended June 30, 2016			
January 1, 2016	$ —	$ (29,388)	$ (29,388)
Other comprehensive income (loss) for 2016	—	306	306
June 30, 2016	$ —	$ (29,082)	$ (29,082)
Three Months Ended June 30, 2015			
April 1, 2015	$ (62)	$ (25,122)	$ (25,184)
Other comprehensive income (loss) for 2015	(2)	2,522	2,520
June 30, 2015	$ (64)	$ (22,600)	$ (22,664)
Six Months Ended June 30, 2015			
January 1, 2015	$ (64)	$ (23,883)	$ (23,947)
Other comprehensive loss for 2015	—	1,283	1,283
June 30, 2015	$ (64)	$ (22,600)	$ (22,664)

Reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 were as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Retirement plans				
Amortization of loss and settlement loss	$ 247	$ 1,585	$ 494	$ 2,529
Income tax charge on comprehensive income	(94)	(602)	(188)	(961)
Total	$ 153	$ 983	$ 306	$ 1,568

The amortization of loss and settlement loss was recognized primarily in selling, general and administrative expense for the periods ended June 30, 2016 and 2015.

11. Commitments and Contingencies

Trans-Pacific Submarine Cable

In August 2014, the Company joined several other telecommunication companies to build and operate a trans-Pacific submarine cable system. The total system cost is expected to be $235 million and is primarily composed of a supply contract with the lead contractor. The Company will contribute $25 million over the multi-year construction period in exchange for a fractional ownership in the system. The Company will recognize its fractional share of the cost. In addition, the Company will construct a cable landing station in Hawaii and provide cable landing services. The system is expected to be completed in the first half of 2017. As of June 30, 2016, the Company had incurred capital costs of $10.6

million primarily to the cable contractor for construction with all such costs capitalized to telephone plant under construction.

The Company will have excess capacity on its share of the trans-Pacific cable that it will make available to other carriers for a fee. The Company is in the process of contracting with other carriers for long-term indefeasible right of use, or IRU, agreements for fiber circuit capacity. The Company may receive up-front payments for services to be delivered over a period of up to 25 years. The Company has entered into agreements for the sale of capacity for $27.0 million plus fees to activate assigned capacity, and for operations and maintenance. As of June 30, 2016, the Company had received up-front payments of $5.7 million. As provided for in one of the agreements, funds of $3.5 million were held in escrow. The funds in escrow will be released to the Company when the trans-Pacific cable is ready for service. The restricted cash is reflected in other assets in the condensed consolidated balance sheet. A liability to provide services in the future for all up-front payments is included in other liabilities. The Company will recognize revenue for the circuit, beginning upon activation of the services, on a straight-line basis over the contract term.

Connect America Fund Phase II

In conjunction with reforming the Universal Service Fund, the Federal Communications Commission ("FCC") established the Connect America Fund ("CAF") which provides incremental support to broadband service providers. CAF Phase II is the long-term component of the program. In August 2015, the Company notified the FCC that it was accepting CAF Phase II support which amounts to $4.4 million in annual funding. Support is retroactive through the beginning of 2015, net of certain other receipts from the Universal Service Fund, and will continue for six years. Under the terms of the CAF Phase II, the Company will offer broadband service at 10 Mbps downstream and 1 Mbps upstream or better to approximately 11,000 eligible locations in high-cost areas in the State of Hawaii and will provide voice and broadband services at reasonable rates.

For the three and six months ended June 30, 2016, the Company recognized $1.1 million and $2.2 million, respectively, in CAF Phase II funding as revenue.

Collective Bargaining Agreement

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

Third Party Claims

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

Litigation

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

12. Fair Value of Financial Instruments

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

Cash and cash equivalents, accounts receivable and accounts payable – The carrying amount approximates fair value. The valuation is based on settlements of similar financial instruments all of which are short-term in nature and generally settled at or near cost. Cash and cash equivalents is measured at Level 1.

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, 2016		
Liabilities - long-term debt (carried at cost)	285,161	292,367
December 31, 2015		
Liabilities - long-term debt (carried at cost)	286,046	291,306

Fair Value Measurements

The objective of the fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

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).

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

	June 30, 2016	December 31, 2015
Liability value measurements using:		
Quoted prices in active markets for identical liabilities (Level 1)	$ —	$ —
Significant other observable inputs (Level 2)	292,367	291,306
Significant unobservable inputs (Level 3)	—	—
	$292,367	$ 291,306

13. Segment Information

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

The following table provides operating financial information for the Company's reportable segments for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

	Tele-communications	Data Center	Intersegment Elimination	Total
Three Months Ended June 30, 2016				
Operating revenues	$ 96,855	$ 3,211	$ (525)	$ 99,541
Depreciation and amortization	21,964	529	—	22,493
Operating income (loss)	7,140	(251)	—	6,889
Capital expenditures	28,677	570	—	29,247
Three Months Ended June 30, 2015				
Operating revenues	$ 93,812	$ 2,784	$ (409)	$ 96,187
Depreciation and amortization	21,374	567	—	21,941
Operating income (loss)	5,570	(310)	—	5,260
Capital expenditures	23,625	99	—	23,724
Six Months Ended June 30, 2016				
Operating revenues	$ 193,040	$ 6,268	$ (973)	$198,335
Depreciation and amortization	43,390	1,053	—	44,443
Operating income (loss)	11,752	(363)	—	11,389
Capital expenditures	53,089	746	—	53,835
Six Months Ended June 30, 2015				
Operating revenues	$ 188,649	$ 5,381	$ (727)	$193,303
Depreciation and amortization	42,102	1,119	—	43,221
Operating income (loss)	11,818	(637)	—	11,181
Capital expenditures	46,377	578	—	46,955

Intersegment revenue represents primarily network access services provided by the telecommunications segment for data center colocation. For the three and six months ended June 30, 2016 and 2015, total operating income above reconciles to the condensed consolidated statement of income as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating income	$ 6,889	$ 5,260	$ 11,389	$ 11,181
Corporate other expense	(4,484)	(4,162)	(8,724)	(8,492)
Income before income tax provision	$ 2,405	$ 1,098	$ 2,665	$ 2,689

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Local voice and other retail services	$83,158	$79,614	$165,133	$159,800
Wholesale carrier data services	13,172	13,789	26,934	28,122
Data center	3,211	2,784	6,268	5,381
	$99,541	$96,187	$198,335	$193,303

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:

- failures in critical back-office systems and IT infrastructure;
- a breach of our data security systems;
- our ability to provide customers with reliable and uninterrupted service;
- our ability to fund capital expenditures for network enhancements;
- the ability to maintain arrangements with third-party service providers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- the ability of our operating subsidiaries to distribute funds or assets to the parent company;
- a reduction in rates we are allowed to charge our customers as dictated by regulatory authorities;
- changes in demand for our products and services;
- technological changes affecting the telecommunications industry;
- our ability to continue to license or enforce the intellectual property rights on which our business depends;
- failure to renegotiate contracts with television content providers on acceptable terms or at all;
- economic conditions in Hawaii;
- our ability to retain experienced personnel;
- our ability to utilize net operating loss carryforwards or fund tax payments;
- the effect our indebtedness could have on our financial condition;
- the effect of severe weather and natural disasters;
- the ability of a few large shareholders to influence corporate decisions; and
- the effect future sales of a substantial amount of common stock may have on our stock price.

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

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

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

Background

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

Segments and Sources of Revenue

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

Telecommunications

The telecommunication segment derives revenue from the following sources:

Business data which includes data products such as Ethernet and Dedicated Internet Access along with traditional High-Speed Internet ("HSI") for business customers, and VoIP. Business VoIP, also referred to as BVoIP, is a unified hosted communications solution for business that includes digital voice services bundled with internet service.

Voice services for both business and residential customers includes local telephone service. These revenues include monthly charges for basic service, and enhanced calling features such as voice mail, caller ID and 3 way calling. Voice also includes long distance services and subscriber line charges prescribed by the Federal Communications Commission and imposed on voice customers.

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

High Speed Internet services are provided to residential customers as well.

Video services are marketed as Hawaiian Telcom TV which includes digital television as well as advanced entertainment services.

Wholesale revenue represents wholesale data services provided to both wireline and wireless carriers.

We receive revenue from various other sources such as wireless services which includes the sale of wireless handsets and other wireless accessories, and switched carrier access which compensates us for origination, transport and termination of calls for long distance and other interexchange carriers. Also included in other revenue is government subsidies to provide service in rural or isolated areas.

Data Center

The data center segment provides physical colocation, virtual colocation and various related telephony services. We consider data center services as part of our business channel.

Results of Operations for the Three and Six Months Ended June 30, 2016 and 2015

Operating Revenues

The following tables summarize our volume information (lines or subscribers) as of June 30, 2016 and 2015, and our operating revenues for the three and six months ended June 30, 2016 and 2015. For comparability, we also present volume information as of June 30, 2016 compared to March 31, 2016.

Volume information includes certain information by lines. The line counts represent the number of billed units as of the end of the period as reflected in the records of our primary billing system. The separation of units by the business and consumer channel is based on the customer account designation in the billing system which is generally consistent with how revenue information is separated by channel. Business data lines represent digital subscriber lines used to provide internet services. Video service subscribers are determined with a count of individual customers as reflected in our primary billing system as of period end. For bulk contracts for multi dwelling units, we count individual residences subject to the bulk contract. Video homes enabled is estimated based on a count of single family homes and homes in multi dwelling units that are able to obtain our television service as of the period end.

Beginning December 2015, we enhanced the presentation of volume information and operating revenue to provide more meaningful information. Prior period information has been revised to reflect the current presentation. Total revenue has not changed from that previously reported but the classification by channel has been modified and we now present product information by channel as well.

Volume Information

As of June 30, 2016 compared to June 30, 2015

	June 30,		Change	
	2016	2015	Number	Percentage
Business				
Data lines	19,851	19,759	92	0.5 %
BVoIP lines	18,101	15,469	2,632	17.0 %
Voice access lines	163,860	170,506	(6,646)	(3.9)%
Consumer				
Video subscribers	38,593	31,921	6,672	20.9 %
Internet lines	91,820	93,338	(1,518)	(1.6)%
Voice access lines	143,441	160,819	(17,378)	(10.8)%
Homes enabled for video	198,000	175,000	23,000	13.1 %

As of June 30, 2016 compared to March 31, 2016

	June 30, 2016	March 31, 2016	Change	
			Number	Percentage
Business				
Data lines	19,851	19,954	(103)	(0.5)%
BVoIP lines	18,101	17,281	820	4.7 %
Voice access lines	163,860	166,073	(2,213)	(1.3)%
Consumer				
Video subscribers	38,593	37,108	1,485	4.0 %
Internet lines	91,820	92,820	(1,000)	(1.1)%
Voice access lines	143,441	147,375	(3,934)	(2.7)%
Homes enabled for video	198,000	195,000	3,000	1.5 %

Operating Revenues (dollars in thousands)

	Three Months Ended June 30,		Change	
	2016	2015	Amount	Percentage
Business				
Data services	$ 16,593	$ 11,838	$ 4,755	40.2 %
Voice services	21,690	23,161	(1,471)	(6.4)%
Data center services	3,211	2,784	427	15.3 %
Equipment and managed services	5,178	4,779	399	8.3 %
	46,672	42,562	4,110	9.7 %
Consumer				
Video services	9,997	8,280	1,717	20.7 %
Internet services	7,328	8,187	(859)	(10.5)%
Voice services	18,627	20,033	(1,406)	(7.0)%
	35,952	36,500	(548)	(1.5)%
Wholesale carrier data	13,172	13,789	(617)	(4.5)%
Other	3,745	3,336	409	12.3 %
	$ 99,541	$ 96,187	$ 3,354	3.5 %

	Six Months Ended June 30,		Change	
	2016	2015	Amount	Percentage
Business				
Data services	$ 31,561	$ 23,897	$ 7,664	32.1 %
Voice services	44,043	47,183	(3,140)	(6.7)%
Data center services	6,268	5,381	887	16.5 %
Equipment and managed services	9,643	9,043	600	6.6 %
	91,515	85,504	6,011	7.0 %
Consumer				
Video services	19,424	15,802	3,622	22.9 %
Internet services	15,053	16,315	(1,262)	(7.7)%
Voice services	37,682	40,548	(2,866)	(7.1)%
	72,159	72,665	(506)	(0.7)%
Wholesale carrier data	26,934	28,122	(1,188)	(4.2)%
Other	7,727	7,012	715	10.2 %
	$ 198,335	$ 193,303	$ 5,032	2.6 %

Business data, including internet and VoIP revenue, for the three and six months ended June 30, 2016 increased when compared to three and six months ended June 30, 2015 primarily because of revenue from one institutional customer. For the three and six months ended June 30, 2016, business data services revenue from this customer amounted to $3.4 million and $5.1 million, respectively, including non-recurring fee revenue. We anticipate a reduction in revenue from this customer during the second half of the year as the non-recurring fee revenue associated with the fixed contract term ended on June 30, 2016. In addition, for the six months ended June 30, 2016, we recognized the remaining balance of deferred up-front charges of $0.8 million when another institutional customer terminated the related services in the first quarter of 2016. In general, the demand for data services continues to rise as reflected in the growth of BVoIP lines.

The decrease in voice services revenues for both the business and consumer channel for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 was caused primarily by the decline of voice access lines. Business voice access lines decreased 3.9% during the period which contributed an estimated $0.9 million and $1.8 million to the reduction in business voice services revenue for the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. Consumer voice access lines decreased 10.8% during the period which contributed an estimated $2.2 million and $4.4 million to the decline in consumer voice services revenue for the three and six months ended June 30 2016, respectively, compared to the same periods in the prior year.

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 using wireless services in place of traditional wireline phone service as well as moving local voice service to VoIP technology offered by competitors. Generally, VoIP technology offered by cable providers 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 also 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 and growth.

Data center services revenues for the three and six months ended June 30, 2016 increased when compared to the same period in the prior year as a result of increased Ethernet, security and hardware sales. Data center is deemed a separate business segment. However, we consider this part of our business channel.

Equipment and managed services revenue for the three and six months ended June 30, 2016 increased when compared to the same periods in the prior year with the installation of equipment for one large commercial customer. Revenue from equipment sales varies from period to period based on the volume of large installation projects.

We are continuing the roll out of Hawaiian Telcom TV on Oahu as we expand the number of homes enabled. Our volume is increasing as more homes become enabled for video service.

Residential internet revenues for the quarter and six months ended June 30, 2016 decreased when compared to the same periods in 2015 as a result of the combined effect of competitive pricing and a decline in internet lines.

Wholesale carrier revenue decreased in the first quarter and first half of 2016 compared to the same periods of 2015 as certain carriers have replaced older legacy circuits with more cost effective alternatives.

Other revenues increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015. Other revenue was impacted by government subsidies from the Universal Service Fund which increased for the three and six months ended June 30, 2016 compared to the same periods in the prior year. In conjunction with reforming the Universal Service Fund, the Federal Communications Commission (“FCC”) established the Connect America Fund (“CAF”) which provides incremental support to broadband service providers. In August 2015, we notified the FCC that we are accepting CAF Phase II support which amounts to $4.4 million in annual funding. Under the terms of the CAF Phase II, we will offer broadband service at 10 Mbps downstream and 1 Mbps upstream or better to approximately 11,000 eligible locations in high-cost areas in the State of Hawaii and will provide voice and broadband services at reasonable rates. For the three and six months ended June 30, 2016, we recognized $1.1 million and $2.2 million, respectively, in CAF Phase II subsidies as revenue.

Offsetting the increase in government subsidies as discussed above, were decreases in certain other ancillary services revenue. There has been a reduction in marketing effort on certain ancillary products, such as wireless, as we focus on other telecommunication and data center services.

Operating Costs and Expenses

The following tables summarize our costs and expenses for all segments and by segments for the three and six months ended June 30, 2016 compared to the costs and expenses for the three and six months ended June 30, 2015 (dollars in thousands):

	Three Months Ended June 30,		Change	
	2016	2015	Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$40,605	$39,219	$ 1,386	3.5 %
Selling, general and administrative expenses	29,554	29,767	(213)	(0.7)%
Depreciation and amortization	22,493	21,941	552	2.5 %
	$92,652	$90,927	$ 1,725	1.9 %
By segment —				
Data center	$ 3,462	$ 3,094	$ 368	11.9 %
Telecommunications	89,190	87,833	1,357	1.5 %
	$92,652	$90,927	$ 1,725	1.9 %

	Six Months Ended June 30,		Change	
	2016	2015	Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$ 83,084	$ 79,402	$ 3,682	4.6 %
Selling, general and administrative expenses	59,419	59,499	(80)	(0.1)%
Depreciation and amortization	44,443	43,221	1,222	2.8 %
	$186,946	$182,122	$ 4,824	2.6 %
By segment —				
Data center	$ 6,631	$ 6,018	$ 613	10.2 %
Telecommunications	180,315	176,104	4,211	2.4 %
	$186,946	$182,122	$ 4,824	2.6 %

The Company's total headcount as of June 30, 2016 was 1,303 compared to 1,305 as of June 30, 2015. 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 services sold directly associated with various products. Costs of revenue for the three and six months ended June 30, 2016 increased when compared to the prior year periods because of increased content costs for Hawaiian Telcom TV of $1.8 million and $3.6 million, respectively, as we add subscribers. In addition, costs incurred for system repairs related to unusually heavy rains amounted to $0.7 million in the six months ended June 30, 2016. These increases were offset by lower electricity costs of $0.7 million and $1.3 million on reduced utility rates and energy saving initiatives for the three and six months ended June 30, 2016 compared to the same periods in 2015, respectively.

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, 2016 relative to the three months and six months ended June 30, 2015 is primarily because of lower pension costs. We recognized a pension settlement loss of $1.4 million and $2.2 million during the three and six months ended June 30, 2015, respectively, because of a high volume of employee retirements in 2015. This was partially offset by higher periodic pension costs (excluding settlements) of $0.8 million and $1.6 million for the three and six months ended June 30, 2016, respectively, as there were lower estimated earnings on pension trust assets in the current year.

Depreciation and amortization for the three and six month periods ended June 30, 2016 was higher than the same periods in the prior year because of asset additions to support growth in the business for next-generation services such as video, and higher speed internet and data.

The increase in operating costs and expenses for the data center segment for the three and six months ended June 30, 2016 compared to the same periods in the prior year is because of greater costs for leased circuits and other direct cost of services of $0.7 million and $0.9 million, respectively, with increased service volumes.

The causes of the increase in operating costs and expenses for the telecommunications segment of $1.4 million and $4.2 million for the three and six months ended June 30, 2016 compared to the same periods in 2015, respectively, are the same as those explaining changes in costs and expenses for all segments discussed above.

Other Income and (Expense)

The following tables summarize other income (expense) for the three and six months ended June 30, 2016 and 2015 (dollars in thousands).

	Three Months Ended June 30,		Change	
	2016	2015	Amount	Percentage
Interest expense	$ (4,484)	$ (4,166)	$ (318)	7.6 %
Interest income and other	—	4	(4)	(100.0)%
	$ (4,484)	$ (4,162)	$ (322)	7.7 %

	Six Months Ended June 30,		Change	
	2016	2015	Amount	Percentage
Interest expense	$ (8,724)	$ (8,503)	$ (221)	2.6 %
Interest income and other	—	11	(11)	(100.0)%
	$ (8,724)	$ (8,492)	$ (232)	2.7 %

Interest expense for the three and six month periods ended June 30, 2016 increased compared to the same periods in 2015 because of the term loan amendment entered into in May 2016 which resulted in a higher interest rate and certain financing costs expensed as part of the amendment process. Interest capitalized amounted to $0.4 and $0.7 million for three and six months ended June 30, 2016, respectively. The interest capitalized amounted to $0.3 million and $0.5 million for the three and six months ended June 30, 2015, respectively.

Income Tax Provision

We had effective tax rates of 39.9% and 40.0% for the three and six months ended June 30, 2016, respectively. The effective tax rates were 58.6% and 46.7% for the three and six months ended June 30, 2015, respectively. The effective tax rates decreased from the prior year periods as permanent differences between financial reporting and income tax income, primarily related to non-deductible compensation, decreased relative to pretax income. We consider a variety of factors in determining the effective tax rate, including our forecasted full-year pretax results, the U.S. federal statutory rate, expected nondeductible expenses and estimated state taxes.

As of December 31, 2015, net operating losses available for carry forward through 2035 amounted to $136.2 million for federal tax purposes and $143.7 million for state tax purposes. Availability of net operating losses in future periods may be subject to additional limitations if there is a deemed change in control for income tax reporting purposes. Such change in control is determined for income tax reporting purposes based on cumulative changes in stock ownership over a defined period.

Liquidity and Capital Resources

As of June 30, 2016, we had cash of $26.2 million. From an ongoing operating perspective, our cash requirements in 2016 consist of supporting the development and introduction of new products, 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 continue to focus 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 actions will result in improved overall cash flow. We continue to have sizable retirement obligations for our existing employee base. Any sustained declines in the value of pension trust assets or relatively high levels of pension lump sum benefit payments, such as those paid in 2015, 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, 2016 and 2015

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 $51.3 million for the six months ended June 30, 2016. Net cash provided by operations amounted to $39.8 million for the six months ended June 30, 2015. The increase in cash provided by operations was because of working capital demands during the six months ended June 30, 2015. The net use of cash from working capital changes amounted to $6.9 million for the first half of 2015 and was primarily related to additional payments to vendors and employees for operating uses in 2015.

Cash used in investing activities for the six months ended June 30, 2016 was comprised of capital expenditures of $52.9 million. Cash used in investing activities included capital expenditures of $52.9 million for the six months ended June 30, 2015. The level of capital expenditures for 2016 is expected to be in the high-$90 million range as we invest in systems to support new product introductions and transform our network to enable next-generation technologies.

Cash used in financing activities for the six months ended June 30, 2016 and 2015 was related primarily to the repayment of our debt and satisfaction of other obligations.

Outstanding Debt and Financing Arrangements

As of June 30, 2016, we had outstanding $291.6 million in aggregate long-term debt with a maturity date of June 2019. 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, 2016, the Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2015 in our Form 10-K.

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 the 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, 2015, and have not changed materially from that discussion.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2016, our floating rate obligations consisted of $291.6 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, 2016 and assuming a 1.0 percentage point increase or decrease in the average interest rate under these borrowings, we estimate that our annual interest expense would increase or decrease by approximately $2.9 million.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Scott K. Barber, our Chief Executive Officer, and Dan T. Bessey, our Chief Financial Officer, have evaluated the disclosure controls and procedures of Hawaiian Telcom Holdco, Inc. (the "Company") as of June 30, 2016. Based on their evaluation, as of June 30, 2016, 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, 2016 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 1A. Risk Factors

See Part I, Item 1a, "Risk Factors," of our 2015 Annual Report for a detailed discussion of risk factors related to our business, results of operations and financial condition.

Item 5. Other Information.

Earnings Release

Hawaiian Telcom Holdco, Inc. issued a press release on August 1, 2016 announcing its 2016 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.

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 1, 2016	/s/ Scott K. Barber
	Scott K. Barber Chief Executive Officer
August 1, 2016	/s/ Dan T. Bessey
	Dan T. Bessey Chief Financial Officer

EXHIBIT INDEX

10.1	Amendment No. 2 dated May 3, 2016 to the Credit Agreement, dated as of February 29, 2012, among Hawaiian Telcom Communications, Inc., as borrower, Hawaiian Telcom Holdco, Inc., the lenders party thereto, and Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q, File No. 01-34686 filed with the SEC on May 5, 2016).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated August 1, 2016 announcing second quarter earnings.
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

Exhibit 31.1

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

I, Scott K. Barber, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 1, 2016

/s/ Scott K. Barber
Scott K. Barber
Chief Executive Officer

Exhibit 31.2

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

I, Dan T. Bessey, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 1, 2016

/s/ Dan T. Bessey
Dan T. Bessey
Chief Financial Officer

Exhibit 32.1

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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott K. Barber, 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 1, 2016	/s/ Scott K. Barber
	Scott K. Barber
	Chief Executive Officer

Exhibit 32.2

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, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan T. Bessey, 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 1, 2016	/s/ Dan T. Bessey
	Dan T. Bessey
	Chief Financial Officer

Exhibit 99.1

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For Immediate Release

Hawaiian Telcom Reports Second Quarter 2016 Results

Delivered strong second quarter revenue growth of 3.5 percent
Achieved business strategic revenue[1] growth of 35.4 percent
Increased consumer strategic revenue[1] by 5.2 percent

HONOLULU (Monday, August 1, 2016) -- Hawaiian Telcom Holdco, Inc. (NASDAQ: HCOM) reported financial results for its second quarter ended June 30. The highlights are as follows:

- Revenue totaled $99.5 million, up a solid 3.5 percent compared to revenue in the second quarter of 2015.
- Business revenue increased 9.7 percent year-over-year to $46.7 million, driven by a strong 40.2 percent growth in data services revenue and 15.3 percent growth in data center services revenue.
- Business strategic revenue increased 35.4 percent year-over-year to $19.8 million.
- Consumer strategic revenue increased 5.2 percent year-over-year to $17.3 million, driven by a solid 20.7 percent growth in video services revenue.
- Adjusted EBITDA[2] of $30.8 million, up 3.3 percent year-over-year.
- Generated net income of $1.4 million, or $0.13 per diluted share for the quarter, up from $0.5 million or $0.04 per diluted share in the same period in the prior year.
- Enabled 3,000 households with fiber in the second quarter, increasing enabled households on O‘ahu to 198,000.
- Ended the second quarter with approximately 38,600 Hawaiian Telcom TV subscribers, increasing penetration of households enabled to 19.5 percent.

“I am pleased with Hawaiian Telcom’s solid performance in the quarter, with total revenue growth of 3.5 percent,” said Scott Barber, Hawaiian Telcom’s president and CEO. “Demand for high-bandwidth IP-based data services remains strong, resulting in consistent strategic revenue growth over the past three years. We continued to successfully leverage our strategic asset portfolio, including our robust next-generation fiber network and data center assets to deliver strong growth this quarter. Hawaiian Telcom’s sole focus and rich history in the islands, our critical fiber infrastructure including our 24/7 locally-based state-of-the-art Network Operations Center and our solid positioning as Hawai‘i’s technology leader continues to provide a concrete foundation for organic growth and future sustainable cash flow.”

Second Quarter 2016 Results

Second quarter revenue of $99.5 million represented a 3.5 percent increase compared to $96.2 million in the second quarter of 2015. Revenue growth in the quarter was mainly driven by strong growth in business data services and consumer video. Adjusted EBITDA was $30.8 million, up 3.3 percent year-over-year primarily related to the strong increase in revenue.

The Company generated net income of $1.4 million, or $0.13 per diluted share for the quarter, up from $0.5 million or $0.04 per diluted share in the second quarter of 2015. Net income for last year's second quarter was impacted by a $1.4 million non-cash pension settlement loss related to a large number of employee retirements during the quarter.

Business Revenue

Second quarter business revenue totaled $46.7 million, up 9.7 percent from the second quarter of 2015, primarily driven by solid growth in data (broadband) services and data center services. Data services revenue increased 40.2 percent year-over-year, partly due to $2.9 million in non-recurring revenue recognized in the quarter. This non-recurring revenue resulted from the large government agency contract awarded last year that connected 250 statewide locations. In addition, customer demand for IP-based data services such as Dedicated Internet Access, Ethernet, IP-VPN and BVoIP continued to rise, as reflected in the growth of BVoIP lines, which grew 17.0 percent year-over-year to approximately 18,100 lines, offsetting nearly half of total legacy voice access line decline. Revenue from data center services increased 15.3 percent year-over-year for the second quarter, driven by network services and hardware sales.

Increasing customer demand for higher bandwidth and integrated communications solutions drove second quarter business strategic revenue growth to 35.4 percent year-over-year and now represents 42 percent of total reported business revenue, compared to 34 percent in the same period a year ago, and 31 percent in the same period two years ago. Excluding the $2.9 non-recurring revenue discussed above, business strategic revenue for the quarter still grew a solid 15.3 percent year-over-year. Revenue increases from business strategic services and equipment and managed services more than offset the year-over-year decline in business legacy voice services.

Consumer Revenue

Second quarter consumer revenue totaled $36.0 million, compared to $36.5 million in the second quarter of 2015. Revenue growth in the quarter from Hawaiian Telcom TV and high-bandwidth Internet services was more than offset by the year-over-year revenue decline in consumer legacy voice and low-bandwidth Internet services. Second quarter consumer strategic revenue increased 5.2 percent year-over-year and now represents 48 percent of total consumer revenue, up from 45 percent in the same period a year ago, and 37 percent in the same period two years ago.

Video services revenue grew to $10.0 million for the quarter, up 20.7% from $8.3 million in the same period a year ago, driven by the addition of approximately 6,700 subscribers, ending the second quarter with approximately 38,600 subscribers in service. During the quarter, 3,000 additional households were fiber-enabled, increasing the total number of households enabled to 198,000 with 62 percent of those households capable of utilizing fiber-to-the-premise technology. Hawaiian Telcom TV penetration of households enabled increased to 19.5 percent at the end of the first quarter, up from 18.2 percent at the end of the second quarter of 2015.

Internet services revenue declined $0.9 million from the same period a year ago mainly due to promotional pricing. The Company ended the second quarter with approximately 91,800 Internet subscribers and customer adoption of higher speed offerings continued to increase. The number of customers on 21 Mbps to 1 Gbps speeds increased by 25 percent over the last year and 80 percent over the last two years. As of June 30, 2016, approximately 94 percent of all video subscribers had double- or triple-play bundles with Internet.

Wholesale Revenue

Second quarter wholesale revenue totaled $13.2 million, compared to $13.8 million in the second quarter 2015. The decline was due to certain wholesale customers disconnecting lower bandwidth legacy circuits on month-to-month rates and moving to more efficient and cost effective fiber-based, higher bandwidth Ethernet circuits on multi-year contracts.

Operating Expenses

Operating expenses, exclusive of non-cash and non-recurring items which we exclude from our Adjusted EBITDA calculation, increased 3.6 percent to $68.8 million in the second quarter. The increase was primarily due to higher direct cost of services related to video from rising content costs and increasing number of subscribers, as well as higher periodic pension cost on lower estimated pension trust asset returns. These increases were partially offset by lower utility rates and reduced usage from energy savings initiatives.

Capital Expenditures and Liquidity

Capital expenditures totaled $52.9 million in the six months ended June 30, 2016, consistent with the same period in the prior year. Approximately 87 percent of total capital expenditures in the first half of 2016 was directed towards growth and expansion initiatives, which include payments on the trans-Pacific cable system, spending on enabling homes and fiber-to-the-business, Connect America Fund Phase II build out, as well as success-based spending to support the growth of the Company's next-generation services. Overall, total capital expenditures for 2016 are expected to be in the high-$90 million range.

At the end of second quarter 2016, the Company had $26.2 million in cash and cash equivalents compared to $30.3 million at the end of 2015. The use of cash is primarily related to higher levels of expansion-related and success-based capital expenditures. Net Debt(3) was $259.0 million, resulting in a Net Leverage Ratio(4) as of June 30, 2016 of 2.2x.

Conference Call

The Company will host a conference call to discuss its second quarter 2016 results at 9:00 a.m. (Hawaii Time), or 3:00 p.m. (Eastern Time) on Monday, August 1, 2016.

To access the call, participants should dial (877) 456-0428 (US/Canada), or (615) 247-0082 (International) ten minutes prior to the start of the call and provide passcode 50969955.

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 two hours after the conclusion of the call until 6:00 p.m. (Eastern Time) August 8, 2016. Access the replay by dialing (855) 859-2056 or (404) 537-3406 and entering passcode 50969955.

Use of Non-GAAP Financial Measures

This press release contains information about adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), Net Debt, Net Leverage Ratio and Levered Free Cash Flow. 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, Net Debt, Net Leverage Ratio and Levered Free Cash Flow 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: failures in Hawaiian Telcom's critical back office systems and IT infrastructure; breach of the our data security systems; increases in the amount of capital expenditures required to execute our business plan; the loss of certain outsourcing agreements, or the failure of any third party to perform under these agreements; our ability to sell capacity on the new submarine fiber cable project; adverse changes to applicable laws and regulations; the failure to adequately adapt to technological changes in the telecommunications industry, including changes in consumer technology preferences; adverse economic conditions in Hawaiʻi; the availability of lump sum distributions under our union pension plan; limitations on the ability to utilize net operating losses due to an ownership change under Internal Revenue Code Section 382; the inability to service our indebtedness; limitations imposed on our business from restrictive covenants in the credit agreements; and severe weather conditions and natural disasters. More information on potential risks and uncertainties is available in recent filings with the Securities and Exchange Commission, including Hawaiian Telcom's 2015 Annual Report on Form 10-K. The information contained in this release is as of August 1, 2016. It is anticipated that subsequent events and developments may cause estimates to change, and the Company undertakes no duty to update forward-looking statements.

About Hawaiian Telcom

Hawaiian Telcom (NASDAQ: HCOM), headquartered in Honolulu, is Hawaiʻi's technology leader, providing integrated communications, broadband, data center and entertainment solutions for business and residential customers. With roots in Hawaiʻi beginning in 1883, the Company offers a full range of services including Internet, video, voice, wireless, data network solutions and security, colocation, and managed and cloud services supported by the reach and reliability of its next generation fiber network and a 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.

(1) **Consumer strategic revenue**, as defined by the Company, includes video services and consumer Internet services revenues. **Business strategic revenue**, as defined by the Company, includes data services and data center services revenues. Data services include Dedicated Internet Access, Ethernet and other business data services, business Internet, and BVoIP. Data center services include physical colocation, virtual colocation, network services, security, cloud services, and various related telephony services.

(2) **Adjusted EBITDA** is EBITDA plus non-cash stock compensation, SystemMetrics earn-out and other 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 gain on sale of property. 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 and EBITDA to comparable GAAP financial measures has been included in the tables distributed with this release.

(3) **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.

(4) **Net Leverage Ratio** is defined by the Company as Net Debt divided by Last Twelve Months Adjusted EBITDA. A detailed reconciliation of Net Leverage Ratio has been included in the tables distributed with this release.

(5) In the fourth quarter 2015, we revised the presentation of volume information and operating revenue to provide more meaningful information. Prior period information has been revised to reflect the current presentation. Total revenue has not changed from that previously reported but the classification by channel has been modified and we now present product information by channel as well.

(6) **Levered Free Cash Flow** provides a useful measure of operational performance and liquidity. The Company defines Levered Free Cash Flow as Adjusted EBITDA less cash interest expense and capital expenditures. A detailed reconciliation of Levered Free Cash Flow has been included in the tables distributed with this release.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Operating revenues	$ 99,541	$ 96,187	$ 198,335	$ 193,303
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	40,605	39,219	83,084	79,402
Selling, general and administrative	29,554	29,767	59,419	59,499
Depreciation and amortization	22,493	21,941	44,443	43,221
Total operating expenses	92,652	90,927	186,946	182,122
Operating income	6,889	5,260	11,389	11,181
Other income (expense):				
Interest expense	(4,484)	(4,166)	(8,724)	(8,503)
Interest income and other	—	4	—	11
Total other expense	(4,484)	(4,162)	(8,724)	(8,492)
Income before income tax provision	2,405	1,098	2,665	2,689
Income tax provision	960	643	1,066	1,257
Net income	$ 1,445	$ 455	$ 1,599	$ 1,432
Net income per common share -				
Basic	$ 0.13	$ 0.04	$ 0.14	$ 0.13
Diluted	$ 0.13	$ 0.04	$ 0.14	$ 0.13
Weighted average shares used to compute net income per common share -				
Basic	11,511,591	10,797,111	11,493,712	10,744,944
Diluted	11,525,850	11,258,178	11,523,215	11,261,535

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

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 26,155	$ 30,312
Receivables, net	29,120	32,736
Material and supplies	8,603	8,499
Prepaid expenses	5,580	4,068
Other current assets	3,184	2,102
Total current assets	72,642	77,717
Property, plant and equipment, net	589,551	579,107
Intangible assets, net	33,779	34,828
Goodwill	12,104	12,104
Deferred income taxes, net	88,331	89,896
Other assets	6,193	6,043
Total assets	$ 802,600	$ 799,695
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 3,000	$ 3,000
Accounts payable	50,546	44,841
Accrued expenses	16,561	14,491
Advance billings and customer deposits	15,958	17,551
Other current liabilities	6,305	5,932
Total current liabilities	92,370	85,815
Long-term debt	282,161	283,046
Employee benefit obligations	100,207	104,597
Other liabilities	17,468	18,538
Total liabilities	492,206	491,996
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,511,591 and 11,466,398 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	115	115
Additional paid-in capital	178,809	178,019
Accumulated other comprehensive loss	(29,082)	(29,388)
Retained earnings	160,552	158,953
Total stockholders' equity	310,394	307,699
Total liabilities and stockholders' equity	$ 802,600	$ 799,695

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net income	$ 1,599	$ 1,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,443	43,221
Deferred financing amortization	1,005	953
Employee retirement benefits	(3,896)	(3,565)
Provision for uncollectible receivables	2,139	1,634
Stock based compensation	1,141	900
Deferred income taxes	1,377	1,621
Changes in operating assets and liabilities:		
Receivables	1,477	(3,025)
Material and supplies	(104)	(92)
Prepaid expenses and other current assets	(2,594)	(1,944)
Accounts payable and accrued expenses	6,837	(2,037)
Advance billings and customer deposits	(1,593)	668
Other current liabilities	(385)	(465)
Other	(157)	492
Net cash provided by operating activities	51,289	39,793
Cash flows from investing activities:		
Capital expenditures	(52,898)	(52,916)
Funds released from restricted cash account	—	400
Net cash used in investing activities	(52,898)	(52,516)
Cash flows from financing activities:		
Proceeds from exercise of warrant	—	3,341
Proceeds from installment financing	1,698	2,279
Repayment of capital lease and installment financing	(1,707)	(1,976)
Repayment of debt	(1,500)	(1,500)
Refinancing and loan amendment costs	(688)	(150)
Taxes paid related to net share settlement of equity awards	(351)	(928)
Net cash used in financing activities	(2,548)	1,066
Net change in cash and cash equivalents	(4,157)	(11,657)
Cash and cash equivalents, beginning of period	30,312	39,885
Cash and cash equivalents, end of period	$ 26,155	$ 28,228
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	$ 6,350	$ 7,604

Hawaiian Telcom Holdco, Inc.
Revenue by Category and Channel [(5)]
(Unaudited, dollars in thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Change Amount	Change Percentage
Business				
Data services	$ 16,593	$ 11,838	$ 4,755	40.2 %
Voice services	21,690	23,161	(1,471)	(6.4)%
Data center services	3,211	2,784	427	15.3 %
Equipment and managed services	5,178	4,779	399	8.3 %
	46,672	42,562	4,110	9.7 %
Consumer				
Video services	9,997	8,280	1,717	20.7 %
Internet services	7,328	8,187	(859)	(10.5)%
Voice services	18,627	20,033	(1,406)	(7.0)%
	35,952	36,500	(548)	(1.5)%
Wholesale carrier data	13,172	13,789	(617)	(4.5)%
Other	3,745	3,336	409	12.3 %
	$ 99,541	$ 96,187	$ 3,354	3.5 %

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Change Amount	Change Percentage
Business				
Data services	$ 31,561	$ 23,897	$ 7,664	32.1 %
Voice services	44,043	47,183	(3,140)	(6.7)%
Data center services	6,268	5,381	887	16.5 %
Equipment and managed services	9,643	9,043	600	6.6 %
	91,515	85,504	6,011	7.0 %
Consumer				
Video services	19,424	15,802	3,622	22.9 %
Internet services	15,053	16,315	(1,262)	(7.7)%
Voice services	37,682	40,548	(2,866)	(7.1)%
	72,159	72,665	(506)	(0.7)%
Wholesale carrier data	26,934	28,122	(1,188)	(4.2)%
Other	7,727	7,012	715	10.2 %
	$ 198,335	$ 193,303	$ 5,032	2.6 %

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	LTM Ended June 30, 2016
Net income	$ 1,445	$ 455	$ 1,599	$ 1,432	$ 1,267
Income tax provision	960	643	1,066	1,257	1,166
Interest expense and other income and expense, net	4,484	4,162	8,724	8,492	17,037
Depreciation and amortization	22,493	21,941	44,443	43,221	89,101
EBITDA	29,382	27,201	55,832	54,402	108,571
Non-cash stock and other performance-based compensation	789	525	1,568	900	2,252
SystemMetrics earn-out	216	272	731	544	445
Non-recurring costs	396	394	786	869	2,381
Pension settlement loss	—	1,397	—	2,248	5,840
Adjusted EBITDA	$ 30,783	$ 29,789	$ 58,917	$ 58,963	$ 119,489

Hawaiian Telcom Holdco, Inc.
Schedule of Levered Free Cash Flow [6]
(Unaudited, dollars in thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	LTM Ended June 30, 2016
Adjusted EBITDA	$ 30,783	$ 29,789	$ 58,917	$ 58,963	$ 119,489
Cash interest expense	(3,858)	(3,651)	(6,350)	(7,604)	(14,924)
Capital expenditures	(24,759)	(23,744)	(52,898)	(52,916)	(99,016)
Levered Free Cash Flow	$ 2,166	$ 2,394	$ (331)	$ (1,557)	$ 5,549

Hawaiian Telcom Holdco, Inc.
Schedule of Net Leverage Ratio
(Unaudited, dollars in thousands)

Long-term debt as of June 30, 2016	$ 285,161
Less cash on hand	(26,155)
Total net debt as of June 30, 2016	$ 259,006
LTM Adjusted EBITDA as of June 30, 2016	$ 119,489
Net leverage ratio as of June 30, 2016	2.2 x

Hawaiian Telcom Holdco, Inc.
Volume Information [5]
(Unaudited)

	June 30, 2016	June 30, 2015	Change Number	Change Percentage
Business				
Data lines	19,851	19,759	92	0.5 %
BVoIP lines	18,101	15,469	2,632	17.0 %
Voice access lines	163,860	170,506	(6,646)	(3.9)%
Consumer				
Video subscribers	38,593	31,921	6,672	20.9 %
Internet lines	91,820	93,338	(1,518)	(1.6)%
Voice access lines	143,441	160,819	(17,378)	(10.8)%
Homes enabled for video	198,000	175,000	23,000	13.1 %

	June 30, 2016	March 31, 2016	Change Number	Change Percentage
Business				
Data lines	19,851	19,954	(103)	(0.5)%
BVoIP lines	18,101	17,281	820	4.7 %
Voice access lines	163,860	166,073	(2,213)	(1.3)%
Consumer				
Video subscribers	38,593	37,108	1,485	4.0 %
Internet lines	91,820	92,820	(1,000)	(1.1)%
Voice access lines	143,441	147,375	(3,934)	(2.7)%
Homes enabled for video	198,000	195,000	3,000	1.5 %