

Hawaiian Telcom Holdco, Inc.
Form 10-Q
November 14, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

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.

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(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

84-1659868

(I.R.S. Employer Identification No.)

1177 Bishop Street

Honolulu, Hawaii 96813

(Address of principal executive offices)

808-546-4511

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(Do not check if smaller reporting company)

Smaller reporting company

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

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As of November 14, 2011, 10,190,526 shares of the registrant's common stock were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Hawaiian Telcom Holdco, Inc.****Condensed Consolidated Statements of Operations**

(Unaudited, dollars in thousands, except per share amounts)

| | Successor | | Predecessor | |
|--|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Operating revenues | \$ 97,040 | \$ 296,290 | \$ 101,455 | \$ 301,329 |
| Operating expenses: | | | | |
| Cost of revenues (exclusive of depreciation and amortization) | 39,055 | 121,585 | 41,943 | 121,557 |
| Selling, general and administrative | 28,066 | 88,584 | 31,145 | 94,656 |
| Depreciation and amortization | 17,086 | 47,603 | 41,604 | 126,275 |
| Total operating expenses | 84,207 | 257,772 | 114,692 | 342,488 |
| Operating income (loss) | 12,833 | 38,518 | (13,237) | (41,159) |
| Other income (expense): | | | | |
| Interest expense (contractual interest was \$19,017 and \$56,612 for the three and nine months ended September 30, 2010, respectively) | (6,364) | (18,858) | (7,142) | (21,047) |
| Interest income and other | 21 | 51 | 29 | 59 |
| Total other expense | (6,343) | (18,807) | (7,113) | (20,988) |
| Income (loss) before reorganization items and income tax benefit | 6,490 | 19,711 | (20,350) | (62,147) |
| Reorganization items | (70) | 880 | 3,474 | 7,301 |
| Income (loss) before income tax benefit | 6,560 | 18,831 | (23,824) | (69,448) |
| Income tax benefit | (813) | (813) | (346) | (346) |
| Net income (loss) | \$ 7,373 | \$ 19,644 | \$ (23,478) | \$ (69,102) |
| Net income (loss) per common share - | | | | |
| Basic | \$ 0.73 | \$ 1.94 | \$ (54.86) | \$ (161.45) |
| Diluted | \$ 0.68 | \$ 1.80 | \$ (54.86) | \$ (161.45) |

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

| | | | | |
|---------|------------|------------|---------|---------|
| Basic | 10,138,795 | 10,138,358 | 428,000 | 428,000 |
| Diluted | 10,775,318 | 10,921,717 | 428,000 | 428,000 |

See accompanying notes to condensed consolidated financial statements.

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

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 82,383 | \$ 81,647 |
| Receivables, net | 34,330 | 39,222 |
| Material and supplies | 8,534 | 8,431 |
| Prepaid expenses | 5,261 | 5,707 |
| Other current assets | 1,522 | 4,566 |
| Total current assets | 132,030 | 139,573 |
| Property, plant and equipment, net | 471,716 | 459,781 |
| Intangible assets, net | 41,505 | 43,315 |
| Other assets | 4,017 | 3,367 |
| Total assets | \$ 649,268 | \$ 646,036 |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 20,113 | \$ 24,162 |
| Accrued expenses | 22,319 | 28,752 |
| Advance billings and customer deposits | 14,091 | 14,948 |
| Other current liabilities | 3,202 | 2,810 |
| Total current liabilities | 59,725 | 70,672 |
| Long-term debt | 300,000 | 300,000 |
| Employee benefit obligations | 86,607 | 94,453 |
| Other liabilities | 2,968 | 2,119 |
| Total liabilities | 449,300 | 467,244 |
| Commitments and contingencies (Note 15) | | |
| Stockholders equity | | |
| Common stock, par value of \$0.01 per share, 245,000,000 shares authorized and 10,139,084 and 10,135,063 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | 101 | 101 |
| Additional paid-in capital | 163,708 | 162,169 |
| Accumulated other comprehensive income | 13,386 | 13,393 |
| Retained earnings | 22,773 | 3,129 |
| Total stockholders equity | 199,968 | 178,792 |
| Total liabilities and stockholders equity | \$ 649,268 | \$ 646,036 |

See accompanying notes to condensed consolidated financial statements.

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

| | Successor Nine Months Ended September 30, 2011 | Predecessor Nine Months Ended September 30, 2010 |
|--|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 19,644 | \$ (69,102) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | |
| Depreciation and amortization | 47,603 | 126,275 |
| Employee retirement benefits | (7,846) | (11,446) |
| Provision for uncollectibles | 1,507 | 4,501 |
| Stock based compensation | 1,489 | 59 |
| Interest cost added to loan principal | | 10,474 |
| Reorganization items | 880 | 7,301 |
| Changes in operating assets and liabilities: | | |
| Receivables | 1,884 | (2,390) |
| Material and supplies | (103) | (2,633) |
| Prepaid expenses and other current assets | 3,491 | (5,712) |
| Accounts payable and accrued expenses | (8,960) | 6,657 |
| Advance billings and customer deposits | (858) | 900 |
| Other current liabilities | 974 | 283 |
| Other | (1,059) | 359 |
| Net cash provided by operating activities before reorganization items | 58,646 | 65,526 |
| Operating cash flows used by reorganization items | (2,222) | (13,924) |
| Net cash provided by operating activities | 56,424 | 51,602 |
| Cash flows used in investing activities: | | |
| Capital expenditures | (55,156) | (50,611) |
| Net cash used in investing activities | (55,156) | (50,611) |
| Cash used in financing activities: | | |
| Proceeds from sale of common stock | 50 | |
| Repayments of capital lease | (582) | |
| Net cash used in financing activities | (532) | |
| Net change in cash and cash equivalents | 736 | 991 |
| Cash and cash equivalents, beginning of period | 81,647 | 96,550 |
| Cash and cash equivalents, end of period | \$ 82,383 | \$ 97,541 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid, net of amounts capitalized | \$ 18,858 | \$ 9,892 |
| Non-cash investing activities - receipt of equipment for settlement of receivable or for capital lease | 2,250 | |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Hawaiian Telcom Holdco, Inc.****Condensed Consolidated Statement of Changes in Stockholders Equity (Deficiency)**

(Unaudited, dollars in thousands)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Accumulated Deficit) | Total Stockholders Equity (Deficiency) |
|--|------------------------|------------------------|----------------------------------|--|--|---|
| Successor | | | | | | |
| Balance, January 1, 2011 | 10,135,063 | \$ 101 | \$ 162,169 | \$ 13,393 | \$ 3,129 | \$ 178,792 |
| Stock based compensation | | | 1,489 | | | 1,489 |
| Sale of common stock under warrant agreement | 4,021 | | 50 | | | 50 |
| Net income | | | | | 19,644 | 19,644 |
| Other comprehensive income unrealized loss on investments | | | | (7) | | (7) |
| Balance, September 30, 2011 | 10,139,084 | \$ 101 | \$ 163,708 | \$ 13,386 | \$ 22,773 | \$ 199,968 |
| Predecessor | | | | | | |
| Balance, January 1, 2010 | 428,000 | \$ 4 | \$ 428,993 | \$ (33,191) | \$ (576,070) | \$ (180,264) |
| Stock based compensation | | | 59 | | | 59 |
| Net loss | | | | | (69,102) | (69,102) |
| Other comprehensive income Reclassification adjustment for recognition of loss on interest rate swap | | | | 416 | | 416 |
| Unrealized gain on investments | | | | 16 | | 16 |
| Balance, September 30, 2010 | 428,000 | \$ 4 | \$ 429,052 | \$ (32,759) | \$ (645,172) | \$ (248,875) |

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Business Description

Hawaiian Telcom Holdco, Inc. and subsidiaries (the Company) is the incumbent local exchange carrier for the State of Hawaii with an integrated telecommunications network servicing approximately 422,000 voice access lines as of September 30, 2011. The Company also served approximately 216,000 long distance lines and 102,000 High-Speed Internet (HSI) connections as of that date.

As a result of the adoption of fresh-start reporting, the financial statements before and on October 31, 2010 are not comparable to the financial statements for the period after October 31, 2010. References to Successor refer to the Company after October 31, 2010 after giving effect to the adoption of fresh-start reporting. References to Predecessor refer to the Company prior to and on October 31, 2010. See Note 2 for further details.

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. Chapter 11

On December 1, 2008, Hawaiian Telcom Holdco, Inc. and its subsidiaries, with the exception of Hawaiian Telcom Insurance Company, Incorporated (the Non-Debtor), filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware. The cases were transferred to the District of Hawaii on December 22, 2008 (the Bankruptcy Court). The Debtors continued to operate as debtors-in-possession under the jurisdiction of the Bankruptcy Court and orders of the Bankruptcy Court. In general, as debtors-in-possession, the Debtors were authorized under Chapter 11 to continue to operate as an ongoing business but could not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On June 3, 2009, the Debtors filed a plan of reorganization with the Bankruptcy Court together with the disclosure statement. On August 28, 2009, the Bankruptcy Court approved distribution of the disclosure statement for vote by the prepetition creditors. On November 13, 2009, the judge of the Bankruptcy Court ruled that the plan as presented was approved. The final confirmation order was issued by the Court on

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December 30, 2009. The plan of reorganization, including the proposed debt and equity structure, was subject to approval of the Hawaii Public Utilities Commission (HPUC) and Federal Communications Commission. Approvals were obtained in September 2010 and relevant appeal periods expired in October 2010. After satisfying all conditions precedent to emergence under the Plan, the Company emerged from Chapter 11 effective as of October 28, 2010 (Emergence Date).

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3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial position, the results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2010.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market accounts with maturities at acquisition of three months or less. The majority of cash balances at September 30, 2011 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included \$0.7 million and \$8.5 million at September 30, 2011 and 2010, respectively, for additions to property, plant and equipment.

Taxes Collected from Customers

The Company presents taxes collected from customers and remitted to governmental authorities on a gross basis, including such amounts in the Company's reported operating revenues. Such amounts represent primarily Hawaii state general excise taxes and HPUC fees. Such taxes and fees amounted to \$1.6 million and \$5.0 million for the three and nine months ended September 30, 2011 and \$1.5 million and \$4.6 million for the three and nine months ended September 30, 2010, 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 computation of diluted earnings per share excludes the impact of outstanding stock options for Predecessor periods as they were antidilutive to earnings per share. The denominator used to compute basic and diluted earnings per share by the Successor for the three and nine months ended September 30, 2011 is as follows:

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| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 |
|--|--|---|
| Basic earnings per share - weighted average shares | 10,138,795 | 10,138,358 |
| Effect of dilutive securities: | | |
| Employee and director restricted stock units | 133,122 | 145,556 |
| Warrants | 503,401 | 637,803 |
| Diluted earnings per share - weighted average shares | 10,775,318 | 10,921,717 |

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Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of comprehensive income. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this new guidance is not expected to have a material effect on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued amendments to achieve common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). The amendments explain how to measure fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The guidance is effective during interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the potential impact of the accounting guidance on the condensed consolidated financial statements.

4. Reorganization Items

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting standards for financial reporting by entities in reorganization under the Bankruptcy Code. The Predecessor's condensed consolidated statement of operations for the three and nine months ended September 30, 2010 present the results of operations during the Chapter 11 proceedings. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case were reported separately as reorganization items due to the bankruptcy. The operations of the Non-Debtor, included in the condensed consolidated statement of operations and cash flow statement were not significant.

Reorganization items represent expense or income amounts that were recognized as a direct result of the Chapter 11 filing and are presented separately in the condensed consolidated statements of operations. Such items consist of the following (dollars in thousands):

| | Successor | | Predecessor | |
|---------------------------------------|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Professional fees (reimbursements) | \$ (70) | \$ 880 | \$ 3,476 | \$ 7,308 |
| Other | | | (2) | (7) |
| | \$ (70) | \$ 880 | \$ 3,474 | \$ 7,301 |

Professional fees relate to legal, financial advisory and other professional costs directly associated with the reorganization process.

Net cash paid for reorganization items, consisting of professional and other fees, amounted to \$2.2 million and \$13.9 million for the nine months ended September 30, 2011 and 2010, respectively.

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5. Receivables

Receivables consisted of the following (dollars in thousands):

| | September 30, 2011 | | December 31, 2010 |
|---------------------------------|-----------------------|----|----------------------|
| Customers and other | \$ 36,151 | \$ | 40,024 |
| Allowance for doubtful accounts | (1,821) | | (802) |
| | \$ 34,330 | \$ | 39,222 |

In the second quarter of 2011, the Company recovered \$2.5 million on two large receivable balances previously assumed to be uncollectible.

6. Long-Lived Assets

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

| | September 30, 2011 | | December 31, 2010 |
|-------------------------------|-----------------------|----|----------------------|
| Property, plant and equipment | \$ 524,573 | \$ | 468,315 |
| Less accumulated depreciation | (52,857) | | (8,534) |
| | \$ 471,716 | \$ | 459,781 |

Depreciation expense amounted to \$16.3 million and \$45.8 million for the three and nine months ended September 30, 2011. Depreciation expense amounted to \$31.5 million and \$96.0 million for the three and nine months ended September 30, 2010.

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

| | September 30, 2011 | | | December 31, 2010 | | |
|---|----------------------------|-----------------------------|-----------------------|----------------------------|-----------------------------|-----------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Subject to amortization customer relationships | \$ 17,000 | \$ 2,795 | \$ 14,205 | \$ 17,000 | \$ 985 | \$ 16,015 |

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| | | | | | | | | | | |
|---|-----------|----------|-----------|-----------|--------|-----------|--------|--|--|--------|
| Not subject to amortization brand name | 27,300 | | | 27,300 | | | 27,300 | | | 27,300 |
| | \$ 44,300 | \$ 2,795 | \$ 41,505 | \$ 44,300 | \$ 985 | \$ 43,315 | | | | |

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Amortization expense amounted to \$0.8 million and \$1.8 million for the three and nine months ended September 30, 2011. Amortization expense amounted to \$10.1 million and \$30.3 million for the three and nine months ended September 30, 2010. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

| | | |
|-------------------------|----|--------|
| 2011 (remaining months) | \$ | 760 |
| 2012 | | 2,730 |
| 2013 | | 2,421 |
| 2014 | | 2,112 |
| 2015 | | 1,803 |
| Thereafter | | 4,379 |
| | \$ | 14,205 |

7. Accrued Expenses

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

| | September 30, 2011 | December 31, 2010 |
|-----------------------|-----------------------|----------------------|
| Salaries and benefits | \$ 14,999 | \$ 21,382 |
| Interest | 4,875 | 4,875 |
| Other taxes | 2,445 | 2,495 |
| | \$ 22,319 | \$ 28,752 |

8. Long-Term Debt

Long-term debt consists of a term loan which has an original principal amount of \$300.0 million and will mature on October 28, 2015. For each fiscal year that the Company has a cash balance greater than \$67.5 million, the Company shall prepay, no later than 105 days after the fiscal year end, loans in an aggregate amount equal to the lesser of: (a) 75% of excess cash flow, as defined, for such fiscal year; and (b) the amount by which the cash balance exceeds \$67.5 million. In addition, the Company must make prepayment on loans in the case of certain prepayment events such as large assets sales. No term loan prepayment is anticipated for 2011.

The loans on the term loan bear interest at a Eurocurrency rate on deposits for one, two, three or six month periods but no less than 3% plus a margin of 6%. The interest rate on the debt at September 30, 2011 was 9%. The Company may request interest at the rate of 1.5% be paid-in-kind for 2011 and added to the principal balance of the loan.

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The term loan includes a provision whereby members of the lender group may request that the Company make an offer to exchange term loan debt for equity at the then fair value of common equity shares. The Company, in its sole discretion, can make the offer or not. The Company, in its sole discretion, can also initiate an offer to exchange term loan debt for equity at the then fair value of common equity shares. Members of the lender group are not required to accept such offers.

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On October 3, 2011, the Company extended its revolving credit facility to mature on October 3, 2015. The facility has an available balance of \$30.0 million with no amounts drawn during the nine months ended and as of September 30, 2011. A commitment fee is payable quarterly to the lender under the facility. Interest on amounts outstanding is based on, at the Company's option, the bank prime rate plus a margin of 3.0% to 6.0% or the Eurocurrency rate for one, two, three or six month periods plus a margin of 4.0% to 5.5%. The margin is dependent on the Company's leverage, as defined in the agreement, at the time of the borrowing.

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

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

Contractual Interest Expense

The Predecessor recorded postpetition interest on prepetition obligations only to the extent it believed the interest would be paid during the bankruptcy proceedings or that it was probable that the interest would be an allowed claim. Had the Predecessor recorded interest expense based on all of the prepetition contractual obligations, interest expense would have increased by \$11.9 million and \$35.6 million for the three and nine months ended September 30, 2010.

9. Derivative Instruments and Hedging Activities

The Company utilized a combination of fixed-rate and variable-rate debt to finance its operations. The variable-rate debt exposed the Company to variability in interest payments due to changes in interest rates. Management believed that it was prudent to mitigate the interest rate risk on a portion of its variable-rate borrowings. To meet this objective, management maintained interest rate swap agreements to manage fluctuations in cash flows resulting from adverse changes in interest rates on its term loans and notes.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with the Company's variable-rate debt obligations were reported in accumulated other comprehensive loss. These amounts were subsequently reclassified into interest expense as a yield adjustment of the hedged interest payment in the same period in which the related interest payments affect earnings.

The impact of interest rate swaps, classified as cash flow hedges, was for the three and nine months ended September 30, 2010 a reclassification from accumulated other comprehensive loss into income (effective portion recognized as interest expense) in the amount of \$0.1 million and \$0.4 million, respectively. Amounts included in accumulated other comprehensive loss for the cash flow hedges were reclassified into earnings as cash interest was paid on the underlying debt that was hedged. There are no ongoing interest rate hedging activities.

Table of Contents**10. Employee Benefit Plans**

The Company sponsors a defined benefit pension plan and postretirement medical and life insurance benefits for union employees. The Company also sponsors a cash balance pension plan for nonunion employees and certain management employees receive postretirement health and life insurance under grandfathered provisions of a terminated plan.

The Company accrues the costs of pension and postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits. The following provides the components of benefit costs for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

Pension

| | Successor | | Predecessor | |
|---------------------------|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Service cost | \$ 1,821 | \$ 5,463 | \$ 1,756 | \$ 5,268 |
| Interest cost | 2,708 | 8,124 | 2,537 | 7,611 |
| Expected asset return | (2,943) | (8,829) | (2,103) | (6,309) |
| Amortization of loss | | | 381 | 1,143 |
| Net periodic benefit cost | 1,586 | 4,758 | 2,571 | 7,713 |

Other Postretirement Benefits

| | Successor | | Predecessor | |
|---------------------------|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Service cost | \$ 229 | \$ 687 | \$ 285 | \$ 855 |
| Interest cost | 514 | 1,542 | 566 | 1,698 |
| Amortization of gain | (99) | (297) | | |
| Net periodic benefit cost | \$ 644 | \$ 1,932 | \$ 851 | \$ 2,553 |

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2010 that it expected to contribute \$17.0 million to its pension plan in 2011. As of September 30, 2011, the Company has contributed \$13.3 million. The Company presently anticipates contributing the full amount during the remainder of 2011.

Table of Contents**11. Income Taxes**

The income tax provision differs from the amounts determined by applying the statutory federal income tax rate of 34% to the income (loss) before income tax provision for the following reasons (dollars in thousands):

| | Successor | | Predecessor | |
|---|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Income tax provision (benefit) | \$ 2,230 | \$ 6,403 | \$ (8,100) | \$ (23,613) |
| Increase (decrease) resulting from: | | | | |
| Permanent difference | (8,351) | (8,351) | | |
| State income taxes, net of federal income tax | 262 | 753 | (953) | (2,778) |
| Valuation allowance | 5,046 | 382 | 8,707 | 26,045 |
| Income tax benefit | \$ (813) | \$ (813) | \$ (346) | \$ (346) |

The permanent difference is attributed to a reduction in certain gains recognized only for income tax return purposes related to emergence from Chapter 11.

A valuation allowance has been provided at September 30, 2011 and December 31, 2010 for the deferred tax assets because of the uncertainty of future realization of such amounts. The Company assesses the recoverability of deferred income tax assets and the related valuation allowance on a quarterly basis. To the extent that the Company consistently generates income in future periods and it determines that such valuation allowance is no longer required, the tax benefit of all or a portion of the remaining deferred tax assets will be recognized at that time.

The Company evaluates its tax positions for liability recognition. As of September 30, 2011, the Company had no unrecognized tax benefits. No interest or penalties related to tax assessments were recognized in the Company's condensed consolidated statements of operations for the three or nine months ended September 30, 2011 or 2010. All tax years from 2007 remain open for both federal and Hawaii state purposes.

12. Stock Compensation**Successor**

On October 28, 2010, the new equity incentive plan became effective pursuant to the plan of reorganization. The Compensation Committee of the Company's Board of Directors may grant awards under the plan in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The maximum number of shares issuable under the new

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equity incentive plan is 1,400,000 shares. All grants under the equity incentive plan will be issued to acquire shares at the fair value on date of grant.

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

| | Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------------|----------|--|
| Nonvested at January 1, 2011 | 246,778 | \$ 12 |
| Granted | 88,222 | 26 |
| Vested | | |
| Forfeited | (49,723) | 15 |
| Nonvested at September 30, 2011 | 285,277 | \$ 16 |

The Successor recognized compensation expense of \$0.5 million and \$1.5 million for the three and nine months ended September 30, 2011. There was no cash received under all share-based payment arrangements during the same period. The Company did not receive any tax benefits for the tax deductions from share-based payment arrangements during the period.

Predecessor

The Predecessor recognized share-based compensation expense of less than \$0.1 million for the three and nine months ended September 30, 2010 related to option grants.

13. Restructuring

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

The following is a summary of the major components of the restructuring charges and the remaining accrual balance relating to the restructuring plan (dollars in thousands):

| | Severance | Lease Termination | Total |
|-----------------------|-----------|-------------------|----------|
| Restructuring expense | \$ 1,477 | \$ 470 | \$ 1,947 |

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| | | | | | |
|-------------------------------|----|---------|----|-----|---------|
| Cash payments | | (1,266) | | | (1,266) |
| Balance at September 30, 2011 | \$ | 211 | \$ | 470 | \$ 681 |

Table of Contents**14. Comprehensive Income (Loss)**

A summary of components of comprehensive income (loss) is as follows (dollars in thousands):

| | Successor | | Predecessor | |
|---|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Net income (loss) | \$ 7,373 | \$ 19,644 | \$ (23,478) | \$ (69,102) |
| Other comprehensive income (loss) - | | | | |
| Reclassification adjustment for recognition of loss on interest rate swap | | | 140 | 416 |
| Unrealized gain (loss) on investments | 7 | (7) | 25 | 16 |
| Other comprehensive income (loss) | 7 | (7) | 165 | 432 |
| Comprehensive income (loss) | \$ 7,380 | \$ 19,637 | \$ (23,313) | \$ (68,670) |

15. Commitments and Contingencies*Collective Bargaining Agreement*

On October 24, 2011, after several extensions beyond the original September 12, 2011 expiration date, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 (IBEW) expired. The agreement covers approximately half of the Company's work force. On October 31, 2011, the IBEW announced that a majority of union-represented employees rejected the Company's last, best, and final offer and authorized union leadership to call a strike. On November 10, 2011, the IBEW declared a work stoppage. The Company cannot predict the ultimate outcome of the work stoppage including whether management will be able to negotiate a new collective bargaining agreement on terms believed necessary to be competitive.

Third Party Claims

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

Litigation

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

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16. 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 because of the short maturities of these instruments.

Investment securities The fair value of investment securities is based on quoted market prices. Investment securities are included in other assets on the condensed consolidated balance sheets.

Debt The fair value of debt is based on the value at which the debt is trading among holders.

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

| | Carrying Value | Fair Value |
|--|---------------------------|-----------------------|
| September 30, 2011 | | |
| Assets - investment in U.S. Treasury obligations (Level 1) | \$ 1,754 | \$ 1,754 |
| Liabilities - long-term debt (carried at cost) | 300,000 | 296,000 |
| December 31, 2010 | | |
| Assets - investment in U.S. Treasury obligations (Level 1) | \$ 1,805 | \$ 1,805 |
| Liabilities - long-term debt (carried at cost) | 300,000 | 300,000 |

Fair Value Measurements

Fair value for accounting purposes is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Accounting standards establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Assets measured at fair value on a recurring basis represent investment securities included in other assets.

17. Segment Information

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

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

| | Wireline Services | Other | Intersegment Elimination | Total |
|---|----------------------|----------|-----------------------------|------------|
| Successor | | | | |
| For the three months ended September 30, 2011 | | | | |
| Operating revenues | | | | |
| Local voice and other retail services | \$ 63,134 | \$ 1,394 | \$ (324) | \$ 64,204 |
| Network access services | 32,836 | | | 32,836 |
| | \$ 95,970 | \$ 1,394 | \$ (324) | \$ 97,040 |
| Depreciation and amortization | \$ 17,086 | | \$ | \$ 17,086 |
| Net income (loss) | 8,170 | (797) | | 7,373 |
| For the nine months ended September 30, 2011 | | | | |
| Operating revenues | | | | |
| Local voice and other retail services | \$ 192,577 | \$ 4,263 | \$ (987) | \$ 195,853 |
| Network access services | 100,437 | | | 100,437 |
| | \$ 293,014 | \$ 4,263 | \$ (987) | \$ 296,290 |
| Depreciation and amortization | \$ 47,603 | | \$ | \$ 47,603 |
| Net income (loss) | 22,501 | (2,857) | | 19,644 |
| Capital expenditures | 54,977 | | | 54,977 |
| Assets as of December 31, 2010 | \$ 645,425 | \$ 611 | \$ | \$ 646,036 |
| Predecessor | | | | |
| For the three months ended September 30, 2010 | | | | |
| Operating revenues | | | | |
| Local voice and other retail services | \$ 67,113 | \$ 1,524 | \$ (368) | \$ 68,269 |
| Network access services | 33,186 | | | 33,186 |
| | \$ 100,299 | \$ 1,524 | \$ (368) | \$ 101,455 |
| Depreciation and amortization | \$ 41,572 | \$ 32 | \$ | \$ 41,604 |
| Net loss | (22,639) | (839) | | (23,478) |
| For the nine months ended September 30, 2010 | | | | |
| Operating revenues | | | | |
| Local voice and other retail services | \$ 198,761 | \$ 4,676 | \$ (1,092) | \$ 202,345 |
| Network access services | 98,984 | | | 98,984 |
| | \$ 297,745 | \$ 4,676 | \$ (1,092) | \$ 301,329 |
| Depreciation and amortization | \$ 126,189 | \$ 86 | \$ | \$ 126,275 |
| Net loss | (66,742) | (2,360) | | (69,102) |
| Capital expenditures | 52,156 | | | 52,156 |

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**Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations**

Forward-Looking Statements

This quarterly report contains forward-looking statements. These statements relate to future events or our future financial performance (including our anticipated cost structure) and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continues, assumption or the use of other comparable terminology. These statements (including statements related to our anticipated cost structure) are only predictions. Actual events or results may differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to:

- our ability to execute our strategic plan;
- our ability to operate as a stand-alone telecommunications provider;
- our ability to maintain arrangements with third-party service providers;
- our ability to negotiate a collective bargaining agreement on reasonable terms with minimal disruption to our customers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- changes in demand for our products and services;
- technological changes affecting the telecommunications industry; and
- our indebtedness could adversely affect our financial condition.

These and other factors may cause our actual results to differ materially from any forward-looking statement. Refer to our Annual Report on Form 10-K and Part II, Item 1A of this Form 10-Q for a detailed discussion of risks that could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations.

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

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

Background

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

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Chapter 11 Reorganization

On December 1, 2008, we and certain of our subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code and on October 28, 2010, we emerged from Chapter 11. For further information regarding these petitions, see Note 2 to the condensed consolidated financial statements. Under the Plan of reorganization, all of the existing common stock and stock options were cancelled upon emergence and the equity holders received no recovery. Our emergence from Chapter 11 on the Emergence Date resulted in a new reporting entity and the new shares of common stock were issued to the former secured lenders. We adopted fresh-start reporting as of October 31, 2010. As required by fresh-start accounting, our assets and liabilities have been adjusted to fair value. Accordingly, our financial condition and results of operations after October 31, 2010 are not comparable to the financial condition and result of operations for periods prior to and on October 31, 2010.

Operational Matters

We have operated as a stand-alone service provider since the acquisition of the Company from Verizon Communications, Inc. on May 2, 2005. Our original strategic plan was designed to focus on opportunities to leverage our incumbent market position, enhance the penetration of certain underperforming products, introduce new products, services and bundles tailored to the specific needs of the local market, and reposition the Company as a locally branded, managed and operated full service telecommunications provider. Our ability to execute the initiatives contemplated in our original strategic plan were hindered by functionality deficiencies experienced after we cutover from the legacy Verizon systems to our new back-office and IT infrastructure in 2006. Management was required to commit substantial resources to respond to the lack of functionality in the Company's critical back-office systems. As a result, our ability to invest in new technologies, introduce new products and enhance our customer service experience was delayed and negatively impacted our financial performance and financial condition.

We have implemented revised strategies designed to stabilize our business and position the Company for growth. We have introduced a number of innovative new products and advanced communications solutions into the marketplace, successfully deployed MPLS core network technologies capable of reaching over 90% of the State population, improved the automation of our systems, grown our broadband market share and made significant progress in rebuilding the brand and image of the Company. We believe the successful execution of these strategies assisted in stabilizing our operating results.

We are in the process of implementing new strategies which focus on growing the business, delivering superior service and improving financial performance. We continue to evaluate the feasibility of various new product and service offerings in order to respond to customer demand and gain market share in our business, consumer and wholesale channels. We may also pursue other business development opportunities, cost reduction initiatives and asset rationalization options to improve financial performance and liquidity. There can be no assurance that these new strategies will be successful or even if successful whether we will have the resources to fund such strategies, or that the investments in these new strategies will be recovered.

In the second quarter of 2011, we initiated a restructuring of selective operations in our wireline segment to align such operations with our current strategic plan. The restructuring has resulted in termination of approximately six percent of our workforce in the second half of 2011. The restructuring includes closure of our remaining retail stores, outsourcing of toll operators and downsizing of various other legacy functions. Costs of the restructuring of \$1.9 million were recognized in the second quarter of 2011.

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On June 24, 2011, the State of Hawaii's Department of Commerce and Consumer Affairs approved our video franchise application, allowing us to offer video services on the island of Oahu. On July 1, 2011, we commercially launched our digital television services to selected areas of Oahu. We are rolling out Hawaiian Telcom TV gradually to selected areas to ensure the delivery of superior service and an ongoing excellent customer experience. We have converted the majority of our trial customers for television service to paying connections and have initiated targeted marketing efforts resulting in penetration rates consistent with our plan for initial deployment. This volume is anticipated to ramp up significantly as more homes become enabled for video service. We expect to expand both the availability and the capabilities of our Hawaiian Telcom TV service over the next several years through additional capital investment and innovation.

On October 24, 2011, after several extensions beyond the original September 12, 2011 expiration date, our collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 (IBEW) expired. The agreement covers approximately half of our work force. On October 31, 2011, the IBEW announced that a majority of union-represented employees rejected our last, best, and final offer and authorized union leadership to call a strike. On November 10, 2011, the IBEW declared a work stoppage. We cannot predict the ultimate outcome of the work stoppage including whether we will be able to negotiate a new collective bargaining agreement on terms we believe are necessary to be competitive.

On October 27, 2011, the Federal Communications Commission (FCC) adopted new rules governing Universal Service Fund (USF) support and inter-carrier compensation (ICC) reform. Among other things, the FCC adopted a new ICC regime that will result in the elimination of terminating switched access revenue charges over six years. Additionally, the FCC will redirect high-cost USF support that is used currently for basic telephone service to support for broadband (including mobile broadband) service in unserved geographical areas. While the full order pertaining to these new rules has not been released, we are evaluating the new rules and assessing the potential impact on our results of operations.

Segments and Sources of Revenue

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

Overview

We operate the incumbent local telecommunications company that serves business and residential customers in the State of Hawaii. We offer our customers a variety of telecommunication services including local telephone, network access, long distance, High-Speed Internet (HSI) and other Internet, television, and other telecommunication services and sales, and wireless services.

Wireline Services

The Wireline Services segment derives revenue from the following sources:

Local Services We receive revenue from providing local exchange telephone services. These revenues include monthly charges for basic service, local private line services and enhanced calling features such as voice mail, caller ID and 3-way calling.

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Network Access Services We receive revenue from charges established to compensate us for origination, transport and termination of calls for long distance and other interexchange carriers. These include subscriber line charges imposed on end users, and switched and special access (data line and Dedicated Internet Access) charges paid by carriers and others.

Long Distance Services We receive revenue from providing toll, or long distance, services to our customers.

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High-Speed Internet and Other Internet Services We provide HSI to our residential and business customers.

Other Services and Sales Other services and sales include managed services, inside wire maintenance, and installation and maintenance of customer premise equipment. In 2010, the Company began offering customers a digital television service in select areas on a no-fee trial basis and launched this service commercially in July 2011.

Other

We receive revenue from wireless services, including the sale of wireless handsets and other wireless accessories.

Results of Operations for the Three and Nine Months Ended September 30, 2011 and 2010

As discussed above, we emerged from Chapter 11 and adopted fresh-start reporting on October 31, 2010. References to Predecessor refer to the Company prior to and on October 31, 2010. References to Successor refer to the Company after October 31, 2010 after giving effect to the plan of reorganization and application of fresh-start reporting. As a result of the application of fresh-start reporting, the Successor's financial statements are not comparable with the Predecessor's financial statements. However, for purposes of the discussion of the results of operations, the Successor results for the three and nine months ended September 30, 2011 have been compared to the Predecessor results for the three and nine months ended September 30, 2010. In this discussion, we will disclose the fresh-start and other impacts on our results of operations that vary from historical Predecessor periods to aid in the understanding of our performance.

The Successor reported net income of \$7.4 million and \$19.6 million for the three and nine months ended September 30, 2011. The Predecessor reported a net loss of \$23.5 million and \$69.1 million for the three and nine months ended September 30, 2010.

Operating Revenues

The following tables summarize our volume information as of September 30, 2011 and 2010, and our operating revenues for the three and nine months ended September 30, 2011 and 2010. For comparability, we also present customer activity as of September 30, 2011 compared to June 30, 2011.

Volume Information

September 2011 compared to September 2010

| September 30, 2011 | September 30, 2010 | Number | Change | Percentage |
|-----------------------|-----------------------|--------|--------|------------|
|-----------------------|-----------------------|--------|--------|------------|

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| | | | | |
|----------------------------------|---------|---------|----------|-------|
| Voice access lines | | | | |
| Residential | 227,064 | 245,102 | (18,038) | -7.4% |
| Business | 189,927 | 196,710 | (6,783) | -3.4% |
| Public | 4,657 | 4,795 | (138) | -2.9% |
| | 421,648 | 446,607 | (24,959) | -5.6% |
| High-Speed Internet lines | | | | |
| Residential | 83,636 | 79,993 | 3,643 | 4.6% |
| Business | 17,176 | 16,624 | 552 | 3.3% |
| Wholesale | 1,164 | 1,227 | (63) | -5.1% |
| | 101,976 | 97,844 | 4,132 | 4.2% |
| Long distance lines | | | | |
| Residential | 139,193 | 150,018 | (10,825) | -7.2% |
| Business | 76,895 | 79,499 | (2,604) | -3.3% |
| | 216,088 | 229,517 | (13,429) | -5.9% |

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September 2011 compared to June 2011

| | September 30, 2011 | June 30, 2011 | Number | Change | Percentage |
|----------------------------------|-----------------------|------------------|---------|--------|------------|
| Voice access lines | | | | | |
| Residential | 227,064 | 232,344 | (5,280) | | -2.3% |
| Business | 189,927 | 191,466 | (1,539) | | -0.8% |
| Public | 4,657 | 4,717 | (60) | | -1.3% |
| | 421,648 | 428,527 | (6,879) | | -1.6% |
| High-Speed Internet lines | | | | | |
| Residential | 83,636 | 83,242 | 394 | | 0.5% |
| Business | 17,176 | 16,934 | 242 | | 1.4% |
| Wholesale | 1,164 | 1,173 | (9) | | -0.8% |
| | 101,976 | 101,349 | 627 | | 0.6% |
| Long distance lines | | | | | |
| Residential | 139,193 | 142,416 | (3,223) | | -2.3% |
| Business | 76,895 | 77,775 | (880) | | -1.1% |
| | 216,088 | 220,191 | (4,103) | | -1.9% |

Operating Revenues (dollars in thousands)

For Three Months

| | Successor Three Months Ended September 30, 2011 | Predecessor Three Months Ended September 30, 2010 | Change Amount | Percentage |
|--|---|---|------------------|------------|
| Wireline Services | | | | |
| Local services | \$ 36,902 | \$ 38,828 | \$ (1,926) | -5.0% |
| Network access services | 32,836 | 33,186 | (350) | -1.1% |
| Long distance services | 7,777 | 8,632 | (855) | -9.9% |
| High-Speed Internet and other Internet | 8,920 | 8,506 | 414 | 4.9% |
| Other services and sales | 9,535 | 11,147 | (1,612) | -14.5% |
| | 95,970 | 100,299 | (4,329) | -4.3% |
| Other | 1,070 | 1,156 | (86) | -7.4% |
| | \$ 97,040 | \$ 101,455 | \$ (4,415) | -4.4% |

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For Nine Months

| | Successor Nine Months Ended September 30, 2011 | Predecessor Nine Months Ended September 30, 2010 | Change Amount | Percentage |
|--|---|---|--------------------------|-------------------|
| Wireline Services | | | | |
| Local services | \$ 110,980 | \$ 118,477 | \$ (7,497) | -6.3% |
| Network access services | 100,437 | 98,984 | 1,453 | 1.5% |
| Long distance services | 24,428 | 26,340 | (1,912) | -7.3% |
| High-Speed Internet and other Internet | 26,466 | 25,617 | 849 | 3.3% |
| Other services and sales | 30,703 | 28,327 | 2,376 | 8.4% |
| | 293,014 | 297,745 | (4,731) | -1.6% |
| Other | 3,276 | 3,584 | (308) | -8.6% |
| | \$ 296,290 | \$ 301,329 | \$ (5,039) | -1.7% |

The decrease in local services revenues was caused primarily by the decline in voice access lines of 5.6% (\$2.2 million and \$6.6 million of the decline in revenue for the three and nine month periods, respectively) as well as competitive pricing pressures which is the majority of the cause of the remaining dollar decline for the nine month period. Continued competition in the telecommunications industry has increasingly resulted in customers using technologies other than traditional phone lines for voice and data. Residential customers are increasingly moving local voice service to VoIP technology offered by cable providers, as well as using wireless services in place of traditional wireline phone service. Generally, VoIP technology offered by 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 are also reemphasizing win-back and employee referral programs. Additionally, we are intensifying our efforts relative to developing tools and training to enhance our customer service capability to improve customer retention.

Network access revenue decreased for the three months ended September 30, 2011. The decrease is primarily due to the decline in voice access lines. Network access revenue increased for the nine months ended September 30, 2011 due to the increase in demand for data services generating additional revenue of \$4.1 million which was partially offset by the revenue impact of the decline in voice access lines.

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

HSI and other Internet revenues has increased when compared to the prior year as an approximate 4.2% growth in our HSI subscriber count (\$0.4 million and \$1.1 million of the increase in revenue for the three and nine month periods, respectively) was partially offset by lower rates in response to the competitive environment. We are continuing to focus on upgrading our network to expand the reach of our higher bandwidth premium services.

Other services and sales decreased for the three months ended September 30, 2011 when compared to the same period in the prior year because of lower levels of government equipment sales during the period. For the nine months ended September 30, 2011, other services and sales increased because of more sales and installations of customer premise equipment for certain large government customers in 2011.

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Other revenues, primarily consisting of revenues generated from our wireless operation, decreased as we attempted to focus our marketing efforts on other segments of our business.

Operating Costs and Expenses

The following tables summarize our costs and expenses for the three and nine months ended September 30, 2011 compared to the costs and expenses for the three and nine months ended September 30, 2010 (dollars in thousands):

For Three Months

| | Successor Three Months Ended September 30, 2011 | Predecessor Three Months Ended September 30, 2010 | Change Amount | Percentage |
|---|--|--|--------------------------|-------------------|
| Cost of revenues (exclusive of depreciation and amortization) | \$ 39,055 | \$ 41,943 | \$ (2,888) | -6.9% |
| Selling, general and administrative expenses | 28,066 | 31,145 | (3,079) | -9.9% |
| Depreciation and amortization | 17,086 | 41,604 | (24,518) | -58.9% |
| | \$ 84,207 | \$ 114,692 | \$ (30,485) | -26.6% |

For Nine Months

| | Successor Nine Months Ended September 30, 2011 | Predecessor Nine Months Ended September 30, 2010 | Change Amount | Percentage |
|---|---|---|--------------------------|-------------------|
| Cost of revenues (exclusive of depreciation and amortization) | \$ 121,585 | \$ 121,557 | \$ 28 | 0.0% |
| Selling, general and administrative expenses | 88,584 | 94,656 | (6,072) | -6.4% |
| Depreciation and amortization | 47,603 | 126,275 | (78,672) | -62.3% |
| | \$ 257,772 | \$ 342,488 | \$ (84,716) | -24.7% |

The Company's total headcount as of September 30, 2011 was 1,300 compared to 1,440 as of September 30, 2010. Employee related costs are included in both cost of revenues and selling, general and administrative expenses.

Cost of revenues consists of costs we incur to provide our products and services including those for operating and maintaining our networks, installing and maintaining customer premise equipment, and cost of goods sold directly associated with various products. The decrease for the three months ended September 30, 2011 was because of a decrease in customer premise equipment costs of \$2.2 million as a result of decreased

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customer premise equipment revenues and by a \$1.1 million decline in employee benefit costs. The cost of revenues for the nine months ended September 30, 2011 was comparable to the same period in the prior year as a \$3.2 million decline in employee benefit costs was offset by higher electricity costs of \$3.1 million on higher electricity rates.

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Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. The decrease in expenses was because of more favorable rates on information technology outsourcing for a benefit of \$1.0 million and \$5.2 million for the three and nine months ended September 30, 2011, respectively. In addition, there was a decline in bad debt expense of \$0.7 million and \$3.0 million for the three and nine months ended September 30, 2011, respectively, with improved collection efforts and bad debt recoveries. A reduction in advertising of \$0.7 million for the three months ended September 30, 2011 also contributed to the decrease. During the second quarter of 2011, we also incurred \$1.9 million of restructuring costs.

Depreciation and amortization decreased because of the new lower basis assigned to our long-lived assets in fresh-start accounting.

Other Income (Expense)

The following table summarizes other income (expense) for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands).

For Three Months

| | Successor Three Months Ended September 30, 2011 | Predecessor Three Months Ended September 30, 2010 | Amount | Change | Percentage |
|---------------------------|--|--|---------------|---------------|-------------------|
| Interest expense | \$ (6,364) | \$ (7,142) | \$ 778 | | -10.9% |
| Interest income and other | 21 | 29 | (8) | | -27.6% |
| | \$ (6,343) | \$ (7,113) | \$ 770 | | -10.8% |

For Nine Months

| | Successor Nine Months Ended September 30, 2011 | Predecessor Nine Months Ended September 30, 2010 | Amount | Change | Percentage |
|---------------------------|---|---|-----------------|---------------|-------------------|
| Interest expense | \$ (18,858) | \$ (21,047) | \$ 2,189 | | -10.4% |
| Interest income and other | 51 | 59 | (8) | | -13.6% |
| | \$ (18,807) | \$ (20,988) | \$ 2,181 | | -10.4% |

Interest expense decreased primarily because the Company was no longer accruing paid-in-kind interest on debt in conjunction with the Chapter 11 proceeding.

Reorganization Items

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Reorganization items represent amounts incurred as a direct result of the Company's Chapter 11 filing and are presented separately in our condensed consolidated statements of operations. Such items consist of the following (dollars in thousands):

| | Successor | | Predecessor | |
|---------------------------------------|--|---|--|---|
| | Three Months Ended September 30, 2011 | Nine Months Ended September 30, 2011 | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| Professional fees (reimbursements) | \$ (70) | \$ 880 | \$ 3,476 | \$ 7,308 |
| Other | | | (2) | (7) |
| | \$ (70) | \$ 880 | \$ 3,474 | \$ 7,301 |

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Reorganization professional fees declined as the activity related to the Chapter 11 reorganization has diminished.

Income Tax Benefit

A valuation allowance has been provided at September 30, 2011 and December 31, 2010 for our deferred tax assets because of the uncertainty as to the realization of such assets. We assess the recoverability of the deferred income tax assets and the related valuation allowance on a quarterly basis. To the extent that we consistently generate income in future periods and it is determined that such valuation allowance is no longer required, the tax benefit of all or a portion of the remaining deferred tax assets will be recognized at such time.

Liquidity and Capital Resources

As of September 30, 2011, we had cash of \$82.4 million. From an ongoing operating perspective, our cash requirements in 2011 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 operating activities.

We have continued to take actions to conserve cash and improve liquidity. Actions have also been taken to generate further operating efficiencies and focus on expense management. In order to reduce our cash usage we will continue to execute our cash management program.

We have taken a number of other actions to improve operating results, including efforts to simplify product offerings, introduce new products and services, improve our customer service experience and increase our revenue enhancement activities. There can be no assurance that these additional actions will result in improved overall cash flow. We continue to have sizable retirement obligations for our existing employee base. Sustained declines in the value of pension trust assets and relatively high levels of pension lump sum benefit payments will increase the magnitude of future plan contributions.

Agreements with the Hawaii Public Utilities Commission and the debt agreements of Hawaiian Telcom Communications, Inc. limit the ability of our subsidiaries to pay dividends to the parent company and restrict the net assets of all of our subsidiaries. Generally, this prohibits us from currently paying 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 Nine Months Ended September 30, 2011 and 2010

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 \$56.4 million for the nine months ended September 30, 2011. Our cash flows from operations are impacted by our results of operations, changes in working capital and payments on certain long-term liabilities. Net cash provided by operations amounted to \$51.6 million for the nine months ended September 30, 2010 for the Predecessor. The increase in cash provided by operating activities is attributed to improved collection of receivables.

Cash used in investing activities was comprised of \$55.2 million and \$50.6 million of capital expenditures for the nine months ended September 30, 2011 and 2010, respectively. The level of capital expenditures for 2011 is expected to be comparable to 2010 as we invest in systems to support new product introductions and transform our network to enable next-generation technologies.

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Cash used in financing activities for the nine months ended September 30, 2011 was comprised of \$0.1 million in proceeds received from the sale of common stock under our warrant agreements and payments on a capital lease of \$0.6 million.

Outstanding Debt and Financing Arrangements

As of September 30, 2011, we had outstanding \$300.0 million in aggregate long-term debt. The term loan has a maturity date of 2015. 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 either now or anytime before maturity cannot be assured.

Contractual Obligations

The Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2010 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 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, 2010, and have not changed materially from that discussion.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2011, our floating rate obligations consisted of \$300.0 million of debt outstanding under our term loan facility. Accordingly, our earnings and cash flow are affected by changes in interest rates. Based on our borrowings at September 30, 2011 and assuming a 1.0 percentage point increase in the average interest rate under these borrowings, we estimate that our annual interest expense would increase by approximately \$3.0 million.

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Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Eric K. Yeaman, Chief Executive Officer, and Robert F. Reich, Chief Financial Officer, have evaluated the disclosure controls and procedures of Hawaiian Telcom Holdco, Inc. (the Company) as of September 30, 2011. Based on their evaluations, as of September 30, 2011, 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 September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Certifications

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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Item 1A. Risk Factors.

The risk factor described below updates the risk factors disclosed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Our business may be adversely impacted by the current work stoppage or failure to negotiate a satisfactory new collective bargaining agreement.

Approximately half of our workforce is represented by the International Brotherhood of Electrical Workers Local 1357 (the IBEW). On October 24, 2011, after several extensions beyond the original September 12, 2011 expiration date, the Company's collective bargaining agreement with the IBEW expired. On October 31, 2011, a majority of the union employees rejected our final offer and authorized union leadership to call a strike. On November 10, 2011, the IBEW declared a work stoppage. We cannot predict the ultimate outcome of the work stoppage including whether we will be able to negotiate a new collective bargaining agreement on terms we believe are necessary to be competitive. While we have contingency plans in place, the work stoppage or inability to negotiate more competitive terms with the IBEW could have a material adverse impact on our operations and financial results.

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Item 5. Other Information.

Hawaiian Telcom Holdco, Inc. issued a press release on November 14, 2011 announcing its 2011 third quarter earnings. This information, attached as Exhibit 99.1, is being furnished to the SEC pursuant to Item 2.02 of Form 8-K.

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Item 6. Exhibits

See Exhibit Index following the signature page of this Report.

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SIGNATURES

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

HAWAIIAN TELCOM HOLDCO, INC.

November 14, 2011

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

November 14, 2011

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

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EXHIBIT INDEX

| | |
|---------|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.1 | Press Release dated November 14, 2011 announcing 2011 third 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* |

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