

Hawaiian Telcom Holdco, Inc.
Form 10-Q
May 06, 2013
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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 March 31, 2013

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

16-1710376

(State or other jurisdiction of incorporation or organization)

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

1177 Bishop Street

Honolulu, Hawaii 96813

(Address of principal executive offices)

808-546-4511

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller reporting company

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

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

As of May 6, 2013, 10,336,187 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 Income****(Unaudited, dollars in thousands, except per share amounts)**

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2013 | 2012 |
| Operating revenues | \$ 95,965 | \$ 97,574 |
| Operating expenses: | | |
| Cost of revenues (exclusive of depreciation and amortization) | 40,284 | 40,799 |
| Selling, general and administrative | 28,379 | 29,026 |
| Depreciation and amortization | 18,717 | 16,588 |
| Total operating expenses | 87,380 | 86,413 |
| Operating income | 8,585 | 11,161 |
| Other income (expense): | | |
| Interest expense | (5,540) | (5,986) |
| Loss on early extinguishment of debt | | (5,112) |
| Interest income and other | 15 | 12 |
| Total other expense | (5,525) | (11,086) |
| Income before income tax provision (benefit) | 3,060 | 75 |
| Income tax provision (benefit) | 1,212 | (132) |
| Net income | \$ 1,848 | \$ 207 |
| Net income per common share - | | |
| Basic | \$ 0.18 | \$ 0.02 |
| Diluted | \$ 0.17 | \$ 0.02 |
| Weighted average shares used to compute net income per common share - | | |
| Basic | 10,291,897 | 10,201,039 |
| Diluted | 10,890,917 | 10,434,026 |

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, dollars in thousands)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2013 | 2012 |
| Net income | \$ 1,848 | \$ 207 |
| Other comprehensive income, net of tax - | | |
| Unrealized holding losses arising during period | (19) | (3) |
| Retirement plan | 222 | 33,388 |
| Income tax charge on comprehensive income | (88) | |
| Other comprehensive income, net of tax | 115 | 33,385 |
| Comprehensive income | \$ 1,963 | \$ 33,592 |

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)**

| | March 31, 2013 | December 31, 2012 |
|---|-------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 55,942 | \$ 66,993 |
| Receivables, net | 34,354 | 34,082 |
| Material and supplies | 12,148 | 11,352 |
| Prepaid expenses | 4,658 | 5,161 |
| Deferred income taxes, current | 5,727 | 5,727 |
| Other current assets | 1,768 | 2,181 |
| Total current assets | 114,597 | 125,496 |
| Property, plant and equipment, net | 508,907 | 507,197 |
| Intangible assets, net | 38,001 | 39,075 |
| Goodwill | 1,415 | 1,569 |
| Deferred income taxes | 101,295 | 102,680 |
| Other assets | 9,720 | 9,075 |
| Total assets | \$ 773,935 | \$ 785,092 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Current portion of long-term debt | \$ 1,612 | \$ 3,000 |
| Accounts payable | 29,804 | 36,351 |
| Accrued expenses | 17,731 | 20,537 |
| Advance billings and customer deposits | 15,633 | 15,185 |
| Other current liabilities | 3,963 | 3,961 |
| Total current liabilities | 68,743 | 79,034 |
| Long-term debt | 291,865 | 292,410 |
| Employee benefit obligations | 129,060 | 132,004 |
| Other liabilities | 5,383 | 4,784 |
| Total liabilities | 495,051 | 508,232 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity | | |
| Common stock, par value of \$0.01 per share, 245,000,000 shares authorized and 10,291,897 shares issued and outstanding at March 31, 2013 and December 31, 2012 | 103 | 103 |
| Additional paid-in capital | 166,002 | 165,941 |
| Accumulated other comprehensive loss | (28,335) | (28,450) |
| Retained earnings | 141,114 | 139,266 |
| Total stockholders' equity | 278,884 | 276,860 |
| Total liabilities and stockholders' equity | \$ 773,935 | \$ 785,092 |

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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)**

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 1,848 | \$ 207 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 18,717 | 16,588 |
| Loss on early extinguishment of debt | | 5,112 |
| Employee retirement benefits | (2,722) | (1,796) |
| Provision for uncollectibles | 553 | 889 |
| Stock based compensation | 423 | 340 |
| Deferred income taxes | 1,297 | |
| Changes in operating assets and liabilities: | | |
| Receivables | (825) | (1,487) |
| Material and supplies | (796) | (1,421) |
| Prepaid expenses and other current assets | 605 | 100 |
| Accounts payable and accrued expenses | (4,987) | (7,064) |
| Advance billings and customer deposits | 448 | 809 |
| Other current liabilities | 2 | 105 |
| Other | 303 | 92 |
| Net cash provided by operating activities | 14,866 | 12,474 |
| Cash flows from investing activities: | | |
| Capital expenditures | (23,254) | (19,814) |
| Net cash used in investing activities | (23,254) | (19,814) |
| Cash flows from financing activities: | | |
| Repayment of capital lease and installment liability | (163) | |
| Repayment of debt including premium | (2,138) | (306,000) |
| Proceeds from borrowing | | 295,500 |
| Loan refinancing costs | | (4,130) |
| Taxes paid related to net share settlement of equity awards | (362) | (45) |
| Net cash used in financing activities | (2,663) | (14,675) |
| Net change in cash and cash equivalents | (11,051) | (22,015) |
| Cash and cash equivalents, beginning of period | 66,993 | 82,063 |
| Cash and cash equivalents, end of period | \$ 55,942 | \$ 60,048 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid, net of amounts capitalized | \$ 5,236 | \$ 10,556 |

See accompanying notes to condensed consolidated financial statements.

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

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Stockholders Equity |
|--|------------------------|------------------------|----------------------------------|--|----------------------|---------------------------------|
| Balance, January 1, 2013 | 10,291,897 | \$ 103 | \$ 165,941 | \$ (28,450) | \$ 139,266 | \$ 276,860 |
| Stock based compensation | | | 423 | | | 423 |
| Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes | | | (362) | | | (362) |
| Net income | | | | | 1,848 | 1,848 |
| Other comprehensive income, net of tax | | | | 115 | | 115 |
| Balance, March 31, 2013 | 10,291,897 | \$ 103 | \$ 166,002 | \$ (28,335) | \$ 141,114 | \$ 278,884 |
| Balance, January 1, 2012 | 10,190,526 | \$ 102 | \$ 164,328 | \$ (57,518) | \$ 29,284 | \$ 136,196 |
| Stock based compensation | | | 340 | | | 340 |
| Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes | 50,350 | | (45) | | | (45) |
| Net income | | | | | 207 | 207 |
| Other comprehensive income, net of tax | | | | 33,385 | | 33,385 |
| Balance, March 31, 2012 | 10,240,876 | \$ 102 | \$ 164,623 | \$ (24,133) | \$ 29,491 | \$ 170,083 |

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

Business Description

Hawaiian Telcom Holdco, Inc. and subsidiaries (the Company) is the incumbent local exchange carrier for the State of Hawaii with an integrated telecommunications network. The Company offers a variety of telecommunication services to residential and business customers in Hawaii including local telephone, network access and data transport, long distance, Internet, television and wireless phone service. The Company also provides communications equipment sales and maintenance, and network managed services.

Organization

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

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial position, the results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2012.

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 March 31, 2013 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

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Accounts payable included \$3.0 million and \$1.3 million at March 31, 2013 and 2012, 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 \$1.8 million and \$2.0 million for the three months ended March 31, 2013 and 2012, respectively.

Table of Contents***Earnings per Share***

Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing earnings by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing earnings, adjusted for the effect, if any, from assumed conversion of all potentially dilutive common shares outstanding, by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. The denominator used to compute basic and diluted earnings per share was as follows:

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2013 | 2012 |
| Basic earnings per share - weighted average shares | 10,291,897 | 10,201,039 |
| Effect of dilutive securities: | | |
| Employee and director restricted stock units | 139,264 | 73,388 |
| Warrants | 459,756 | 159,599 |
| Diluted earnings per share - weighted average shares | 10,890,917 | 10,434,026 |

The computation of weighted average dilutive shares outstanding excluded restrictive stock units to acquire 75,047 shares of common stock for the three month period ended March 31, 2012. The unrecognized compensation on a per unit basis for these restricted stock units was greater than the average market price of the Company's common stock for the period presented. Therefore, the effect would be anti-dilutive. There was no such exclusion for the three month period ended March 31, 2013.

Recently Adopted Accounting Pronouncements

Effective for the first quarter of 2013, we adopted new accounting guidance on the presentation of comprehensive income. This guidance requires companies to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. As this guidance only amends the presentation of the components of comprehensive income, the adoption did not have an impact on the Company's consolidated financial position or results of operations.

3. Wavecom Solutions Corporation Acquisition

On December 31, 2012, the Company completed its acquisition of Wavecom Solutions Corporation (Wavecom) for \$8.7 million in cash, net of cash acquired and final purchase adjustments. Wavecom provides telecommunication services in the State of Hawaii which are complementary to the Company's operations.

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The Company followed the acquisition method of accounting and allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their preliminary fair values, and the estimates and assumptions are subject to change within the measurement period, which is one year from the acquisition date. The excess of the purchase price over those fair values was recorded as goodwill. During the three months ended March 31, 2013, the Company made adjustments to the preliminary purchase price allocation based on additional information as to the existence and value of certain assets. In addition, the net acquisition price changed with the final purchase adjustments agreed to by the seller. The measurement period adjustments did not have a significant impact on the Company's condensed consolidated statements of income for the three months ended March 31, 2013. In addition, these adjustments did not have a significant impact on the Company's consolidated balance sheets as of December 31, 2012. Therefore, the Company has not retrospectively adjusted the comparative 2012 financial information presented herein. The adjustments are as follows (dollars in thousands):

| | Recognized as of Acquisition | Measurement Period Adjustments | Recognized as of Acquisition As Revised |
|-------------------------------------|---|---|--|
| Assets - | | | |
| Property and equipment | \$ 11,898 | \$ 876 | \$ 12,774 |
| Intangible assets | 1,060 | (410) | 650 |
| Goodwill | 1,569 | (154) | 1,415 |
| Other assets | 1,663 | | 1,663 |
| | 16,190 | 312 | 16,502 |
| Liabilities - | | | |
| Current liabilities | 2,360 | | 2,360 |
| Payable from Wavecom to the Company | 4,037 | | 4,037 |
| Non-current liabilities | 1,450 | | 1,450 |
| | 7,847 | | 7,847 |
| Net acquisition price | \$ 8,343 | \$ 312 | \$ 8,655 |

4. Receivables

Receivables consisted of the following (dollars in thousands):

| | March 31, 2013 | December 31, 2012 |
|---------------------------------|---------------------------|------------------------------|
| Customers and other | \$ 37,687 | \$ 36,713 |
| Allowance for doubtful accounts | (3,333) | (2,631) |
| | \$ 34,354 | \$ 34,082 |

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

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

| | March 31, 2013 | December 31, 2012 |
|--|---------------------------|------------------------------|
| Property, plant and equipment | \$ 658,831 | \$ 639,343 |
| Less accumulated depreciation and amortization | (149,924) | (132,146) |
| | \$ 508,907 | \$ 507,197 |

Depreciation expense amounted to \$18.0 million and \$15.9 million for the three months ended March 31, 2013 and 2012, respectively.

In January 2013, the Company entered into an agreement to sell most of its radio towers for \$3.6 million. The agreement includes a leaseback by the Company for a minimum period of 10 years to allow it to continue to use the towers for its radio equipment. Closing of the sale is expected by the third quarter of 2013 subject to due diligence by the buyer and approval by the Hawaii Public Utilities Commission (HPUC).

In February 2013, the Company entered into an agreement to sell a parcel of land and warehouse not actively used in the Company's operations for \$13.7 million. Closing of this sale is expected by the third quarter of 2013 subject to due diligence by the buyer and approval by the HPUC.

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

| | March 31, 2013 | | | December 31, 2012 | | |
|------------------------------------|-------------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Subject to amortization | | | | | | |
| Customer relationships | \$ 17,440 | \$ 6,922 | \$ 10,518 | \$ 17,850 | \$ 6,285 | \$ 11,565 |
| Trade name and other | 210 | 27 | 183 | 210 | 210 | 210 |
| | 17,650 | 6,949 | 10,701 | 18,060 | 6,285 | 11,775 |
| Not subject to amortization | | | | | | |
| Brand name | 27,300 | | 27,300 | 27,300 | | 27,300 |
| | 27,300 | | 27,300 | 27,300 | | 27,300 |
| | \$ 44,950 | \$ 6,949 | \$ 38,001 | \$ 45,360 | \$ 6,285 | \$ 39,075 |

Amortization expense amounted to \$0.7 million for both the three months ended March 31, 2013 and 2012. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

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| | | |
|-------------------------|----|--------|
| 2013 (remaining months) | \$ | 1,993 |
| 2014 | | 2,257 |
| 2015 | | 1,917 |
| 2016 | | 1,577 |
| 2017 | | 1,237 |
| Thereafter | | 1,720 |
| | \$ | 10,701 |

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In conjunction with the acquisition of Wavecom, the Company adjusted the carrying value of goodwill in the first quarter of 2013 as further discussed in Note 3. The revised goodwill amounted to \$1.4 million and is included in the wireline segment.

6. Accrued Expenses

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

| | March 31, 2013 | December 31, 2012 |
|-----------------------|---------------------------|------------------------------|
| Salaries and benefits | \$ 13,280 | \$ 15,642 |
| Interest | 3,456 | 3,607 |
| Other taxes | 995 | 1,288 |
| | \$ 17,731 | \$ 20,537 |

7. Long-Term Debt

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

| | Interest Rate at March 31, 2013 | Final Maturity | March 31, 2013 | December 31, 2012 |
|-------------------------|--|---------------------------|---------------------------|------------------------------|
| Term loan | 7.00% | February 28, 2017 | \$ 297,112 | \$ 299,250 |
| Original issue discount | | | (3,635) | (3,840) |
| | | | 293,477 | 295,410 |
| Current | | | 1,612 | 3,000 |
| Noncurrent | | | \$ 291,865 | \$ 292,410 |

The term loan outstanding at March 31, 2013 provides for interest at the Alternate Base Rate, a rate which is indexed to the prime rate with certain adjustments as defined, plus a margin of 4.75% or a Eurocurrency rate on deposits of one, two, three or six months but no less than 1.25% per annum plus a margin of 5.75%. The Company has selected the Eurocurrency rate as of March 31, 2013 resulting in a nominal interest rate currently at 7.00%.

The term loan provides for interest payments no less than quarterly. In addition, quarterly principal payments of \$0.8 million are required which began December 2012. The balance of the loan is due at maturity on February 28, 2017. The Company must prepay, generally within three months after year end, 50% or 25% of excess cash flow, as defined. The percent of excess cash flow required is dependent on the Company's leverage ratio. The excess cash flow payment for the year ended December 31, 2012 amounted to \$2.1 million and was paid in March 2013.

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The Company must also make prepayments on loans in the case of certain events such as large asset sales.

In connection with the February 2012 refinancing of the term loan debt, the Company paid a premium on the repayment of the old term loan of \$6.0 million. In addition, the Company paid \$4.1 million in underwriting fees and legal costs. The premium on repayment of debt, and underwriting fees and legal costs were accounted for in accordance with accounting standards for modification of debt instruments with different terms. The Company compared each syndicated lenders' loan under the old term loan with the syndicated lenders' loan under the new term loans. For loans under the new term loan that were substantially different, the Company recognized the exchange of debt instruments as a debt extinguishment. For loans under the new term loan that were not substantially different, the Company accounted for the exchange of debt instruments as a modification. As a result of the refinancing, the Company capitalized \$5.0 million of the premium on the repayment of debt and refinancing fees and expensed the remainder resulting in a loss on early extinguishment of debt of \$5.1 million.

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The Company also has a revolving credit facility which matures on October 3, 2015. The facility has an available balance of \$30.0 million with no amounts drawn as of or for the periods ended March 31, 2013 and 2012. 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 March 31, 2013 are as follows (dollars in thousands):

| | | |
|--------------------------|----|---------|
| Year ended December 31, | | |
| 2013 (remainder of year) | \$ | 862 |
| 2014 | | 3,000 |
| 2015 | | 3,000 |
| 2016 | | 3,000 |
| 2017 | | 287,250 |
| | \$ | 297,112 |

8. 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 Company amended its union pension plan on January 24, 2012 for the freeze of benefits effective March 1, 2012. This resulted in a reduction of the projected benefit obligation by \$30.2 million which is the difference between the accumulated benefit obligation and projected benefit obligation at that date. The liability as of January 24, 2012 was measured using a discount rate of 4.54%. The union pension trust assets were also measured as of this date. The reduction in the net recorded liability of \$33.4 million was used to offset actuarial losses previously recognized in the accumulated other comprehensive loss.

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 months ended March 31, 2013 and 2012 (dollars in thousands):

Pension

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| | Three Months Ended | |
|---------------------------|--------------------|----------|
| | March 31, | |
| | 2013 | 2012 |
| Service cost | \$ | \$ 1,550 |
| Interest cost | 2,055 | 2,496 |
| Expected asset return | (2,935) | (2,829) |
| Amortization of loss | 148 | 222 |
| Net periodic benefit cost | (732) | 1,439 |

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Other Postretirement Benefits

| | Three Months Ended March 31, | |
|---------------------------|---|-------------|
| | 2013 | 2012 |
| Service cost | \$ 277 | \$ 252 |
| Interest cost | 516 | 598 |
| Amortization of loss | 74 | 41 |
| Net periodic benefit cost | \$ 867 | \$ 891 |

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2012 that it expected to contribute \$12.1 million to its pension plan in 2013. As of March 31, 2013, the Company has contributed \$2.4 million. The Company presently anticipates contributing the full amount during the remainder of 2013.

9. Income Taxes

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

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2013 | 2012 |
| Income tax provision | \$ 1,040 | \$ 26 |
| Increase (decrease) resulting from: | | |
| State income taxes, net of federal income tax | 37 | (129) |
| Other | 135 | |
| Valuation allowance | | (29) |
| Income tax provision (benefit) | \$ 1,212 | \$ (132) |

The Company evaluates its tax positions for liability recognition. As of March 31, 2013, 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 months ended March 31, 2013 or 2012. All tax years from 2009 remain open for both federal and Hawaii state purposes.

Table of Contents**10. 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 new equity incentive plan is 1,400,000 shares. All grants under the equity incentive plan will be issued to acquire shares at the fair value on date of grant.

As of March 31, 2013, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the three months ended March 31, 2013 and 2012 was as follows:

| | Shares | | Weighted-Average Grant-Date Fair Value |
|------------------------------|----------|----|--|
| 2013 | | | |
| Nonvested at January 1, 2013 | 223,224 | \$ | 15 |
| Granted | 181,330 | | 20 |
| Vested | (62,485) | | 16 |
| Forfeited | (14,629) | | 16 |
| Nonvested at March 31, 2013 | 327,440 | \$ | 17 |
| 2012 | | | |
| Nonvested at January 1, 2012 | 248,951 | \$ | 17 |
| Granted | 116,987 | | 16 |
| Vested | (53,060) | | 26 |
| Forfeited | (1,539) | | 26 |
| Nonvested at March 31, 2012 | 311,339 | \$ | 15 |

The Company recognized compensation expense of \$0.4 million and \$0.3 million for the three months ended March 31, 2013 and 2012, respectively. The fair value as of the vesting date for the restricted stock units that vested during the three months ended March 31, 2013 and 2012 was \$1.2 million and \$0.9 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 17,986 and 2,715 for the three months ended March 31, 2013 and 2012, respectively, and were based on the value of the restricted stock units as determined by the Company's closing stock price. Total payments for the employees' tax obligations to the tax authorities amounted to \$0.4 million and less than \$0.1 million for the three months ended March 31, 2013 and 2012, respectively. Other than reimbursements for tax withholdings, there was no cash received under all share-based arrangements.

For the three months ended March 31, 2013, shares vested for restricted stock units, net of shares withheld for tax withholding, amounted to 44,499. While the shares vested per the terms of the restricted stock units in March 2013, for administrative purposes the shares were not issued by the Company's stock transfer agent until April 2013. The shares are not reflected as issued on the Company's condensed consolidated balance sheet as of March 31, 2013. However, the shares have been reflected in the computation of diluted earnings per share.

Table of Contents**11. Other Comprehensive Income**

Reclassifications out of other comprehensive income (loss) for the three months ended March 31, 2013 and 2012 were as follows (dollars in thousands):

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2013 | 2012 |
| Retirement plans | | |
| Amortization of loss | 222 | 263 |
| Income tax charge on comprehensive income | (88) | |
| Net of tax | \$ 134 | \$ 263 |

The amortization of loss was recognized primarily in selling, general and administrative expense for both the years ended March 31, 2013 and 2012.

12. Commitments and Contingencies*Collective Bargaining Agreement*

The Company maintains a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 (IBEW). The agreement covers approximately half of the Company's work force. In December 2012, the IBEW announced their members had ratified a new collective bargaining agreement with the Company with an effective date of January 1, 2013 for a term of five years.

Third Party Claims

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

Litigation

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

13. Fair Value of Financial Instruments

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

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

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

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

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

| | Carrying Value | | Fair Value |
|--|-------------------|----|---------------|
| March 31, 2013 | | | |
| Assets - investment in U.S. Treasury obligations (Level 1) | \$ 904 | \$ | 904 |
| Liabilities - long-term debt (carried at cost, Level 2) | 293,477 | | 299,000 |
| December 31, 2012 | | | |
| Assets - investment in U.S. Treasury obligations (Level 1) | \$ 905 | \$ | 905 |
| Liabilities - long-term debt (carried at cost, Level 2) | 295,410 | | 302,000 |

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

| | March 31, 2013 | | December 31, 2012 |
|---|-------------------|----|----------------------|
| Asset value measurements using: | | | |
| Quoted prices in active markets for identical assets (Level 1) | \$ 904 | \$ | 905 |
| Significant other observable inputs (Level 2) | | | |
| Significant unobservable inputs (Level 3) | \$ 904 | \$ | 905 |
| Liability value measurements using: | | | |
| Quoted prices in active markets for identical liabilities (Level 1) | \$ | \$ | |
| Significant other observable inputs (Level 2) | 299,000 | | 302,000 |
| Significant unobservable inputs (Level 3) | \$ 299,000 | \$ | 302,000 |

Table of Contents**14. Segment Information**

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

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

| | Wireline Services | Other | Intersegment Elimination | Total |
|---|----------------------|----------|-----------------------------|------------|
| For the three months ended March 31, 2013 | | | | |
| Operating revenues | | | | |
| Local voice and other retail services | \$ 62,178 | \$ 1,099 | \$ (387) | \$ 62,890 |
| Network access services | 33,075 | | | 33,075 |
| | \$ 95,253 | \$ 1,099 | \$ (387) | \$ 95,965 |
| Depreciation and amortization | \$ 18,717 | | \$ | \$ 18,717 |
| Net income (loss) | 1,718 | 130 | | 1,848 |
| Capital expenditures | 18,887 | | | 18,887 |
| Assets as of December 31, 2012 | \$ 784,585 | \$ 507 | \$ | \$ 785,092 |
| For the three months ended March 31, 2012 | | | | |
| Operating revenues | | | | |
| Local voice and other retail services | \$ 63,507 | \$ 1,252 | \$ (343) | \$ 64,416 |
| Network access services | 33,158 | | | 33,158 |
| | \$ 96,665 | \$ 1,252 | \$ (343) | \$ 97,574 |
| Depreciation and amortization | \$ 16,588 | | \$ | \$ 16,588 |
| Net income (loss) | (3) | 210 | | 207 |
| Capital expenditures | 17,105 | | | 17,105 |

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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:

- failures in critical back-office systems and IT infrastructure or a breach of our cyber security systems;
- our ability to fund capital expenditures to improve our network and other facilities;
- our ability to maintain arrangements with third-party service providers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- changes in demand for our products and services;
- technological changes affecting the telecommunications industry; and
- our indebtedness could adversely affect our financial condition.

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

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

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

implied by the forward-looking statements contained in this quarterly report.

Background

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

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Segments and Sources of Revenue

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

Wireline Services

The Wireline Services segment derives revenue from the following sources:

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

Network Access Services We receive revenue for access to our network for wholesale carrier data, business customer data including Dedicated Internet Access, switched carrier access and subscriber line charges imposed on end users. Switched carrier access revenue compensates us for origination, transport and termination of calls for long distance and other interexchange carriers.

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

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

Video Services Our video services marketed as Hawaiian Telcom TV is an advanced entertainment service offered to customers in select areas.

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

Wireless

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

Table of Contents**Results of Operations for the Three Months Ended March 31, 2013 and 2012*****Operating Revenues***

The following tables summarize our volume information as of March 31, 2013 and 2012, and our operating revenues for the three months ended March 31, 2013 and 2012. For comparability, we also present volume information as of March 31, 2013 compared to December 31, 2012. In the third quarter of 2012, certain reclassifications were made to the channel information for operating revenues to align to the way we manage our business. The information for the three months ended March 31, 2012, presented for comparative purposes, has been reclassified to conform to the new presentation.

Volume Information

March 2013 compared to March 2012

| | March 31, 2013 | March 31, 2012 | Number | Change | Percentage |
|----------------------------------|-------------------|-------------------|----------|--------|------------|
| Voice access lines | | | | | |
| Residential | 199,044 | 217,470 | (18,426) | | -8.5% |
| Business (1) | 196,970 | 186,854 | 10,116 | | 5.4% |
| Public | 4,350 | 4,559 | (209) | | -4.6% |
| | 400,364 | 408,883 | (8,519) | | -2.1% |
| High-Speed Internet lines | | | | | |
| Residential | 89,464 | 85,518 | 3,946 | | 4.6% |
| Business | 18,810 | 17,714 | 1,096 | | 6.2% |
| Wholesale | 1,013 | 1,126 | (113) | | -10.0% |
| | 109,287 | 104,358 | 4,929 | | 4.7% |
| Long distance lines | | | | | |
| Residential | 124,072 | 133,648 | (9,576) | | -7.2% |
| Business (1) | 80,659 | 76,197 | 4,462 | | 5.9% |
| | 204,731 | 209,845 | (5,114) | | -2.4% |
| Video services | | | | | |
| Subscribers | 11,671 | 3,866 | 7,805 | | 201.9% |
| Homes Enabled | 83,000 | 41,200 | 41,800 | | 101.5% |

(1) Business voice access lines and business long distance lines included approximately 11,800 and 6,200 lines, respectively, as of March 31, 2013 related to the acquisition of Wavecom.

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March 2013 compared to December 2012

| | March 31, 2013 | December 31, 2012 | Number | Change | Percentage |
|----------------------------------|-------------------|----------------------|---------|--------|------------|
| Voice access lines | | | | | |
| Residential | 199,044 | 203,330 | (4,286) | | -2.1% |
| Business (1) | 196,970 | 185,142 | 11,828 | | 6.4% |
| Public | 4,350 | 4,405 | (55) | | -1.2% |
| | 400,364 | 392,877 | 7,487 | | 1.9% |
| High-Speed Internet lines | | | | | |
| Residential | 89,464 | 88,016 | 1,448 | | 1.6% |
| Business | 18,810 | 18,575 | 235 | | 1.3% |
| Wholesale | 1,013 | 1,020 | (7) | | -0.7% |
| | 109,287 | 107,611 | 1,676 | | 1.6% |
| Long distance lines | | | | | |
| Residential | 124,072 | 126,551 | (2,479) | | -2.0% |
| Business (1) | 80,659 | 74,781 | 5,878 | | 7.9% |
| | 204,731 | 201,332 | 3,399 | | 1.7% |
| Video services | | | | | |
| Subscribers | 11,671 | 9,829 | 1,842 | | 18.7% |
| Homes Enabled | 83,000 | 65,000 | 18,000 | | 27.7% |

(1) Business voice access lines and business long distance lines included approximately 11,800 and 6,200 lines, respectively, as of March 31, 2013 related to the acquisition of Wavecom.

Table of Contents**Operating Revenues (dollars in thousands)**

| | Three Months Ended | | Amount | Change | |
|--------------------------------|--------------------|-------------------|------------|------------|--------|
| | 2013 | March 31, 2012 | | Percentage | |
| Wireline Services | | | | | |
| Local voice services | \$ 35,028 | \$ 35,697 | \$ (669) | | -1.9% |
| Network access services | | | | | |
| Business data | 6,186 | 4,761 | 1,425 | | 29.9% |
| Wholesale carrier data | 15,464 | 16,177 | (713) | | -4.4% |
| Subscriber line access charge | 9,657 | 9,836 | (179) | | -1.8% |
| Switched carrier access | 1,768 | 2,384 | (616) | | -25.8% |
| | 33,075 | 33,158 | (83) | | -0.3% |
| Long distance services | 6,574 | 7,448 | (874) | | -11.7% |
| High-Speed Internet | 9,616 | 8,976 | 640 | | 7.1% |
| Video | 2,204 | 497 | 1,707 | | 343.5% |
| Equipment and managed services | 5,379 | 8,509 | (3,130) | | -36.8% |
| Other | 3,377 | 2,380 | 997 | | 41.9% |
| | 95,253 | 96,665 | (1,412) | | -1.5% |
| Wireless | 712 | 909 | (197) | | -21.7% |
| | \$ 95,965 | \$ 97,574 | \$ (1,609) | | -1.6% |
| Channel | | | | | |
| Business | \$ 40,516 | \$ 42,097 | \$ (1,581) | | -3.8% |
| Consumer | 34,647 | 33,942 | 705 | | 2.1% |
| Wholesale | 17,232 | 18,561 | (1,329) | | -7.2% |
| Other | 3,570 | 2,974 | 596 | | 20.0% |
| | \$ 95,965 | \$ 97,574 | \$ (1,609) | | -1.6% |

The decrease in local services revenues was caused primarily by the decline of \$1.8 million of legacy voice offset by \$1.1 million of revenue from Wavecom customers acquired in December 2012. 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 services 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.

Business data revenues for the three months ended March 31, 2013 increased when compared to the prior year period because of \$1.4 million of revenue from Wavecom customers acquired in December 2012. Wholesale carrier data revenue decreased because of revenues received from Wavecom in 2012 which we no longer recognize as Wavecom is a wholly-owned subsidiary. In addition, the impact of the decline in voice access lines is reflected in subscriber line access charges and switched carrier access charges.

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.

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HSI revenues increased when compared to the prior year primarily because an approximate 4.7% growth in our HSI subscribers (\$0.4 million of the increase in revenue).

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On July 1, 2011, we commercially launched our video service on the island of Oahu. We are rolling out Hawaiian Telcom TV gradually to selected areas to ensure delivery of superior service and an ongoing excellent customer experience. We have initiated targeted marketing efforts resulting in penetration rates exceeding expectations. Our 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.

Equipment and managed services sales have decreased because of fewer sales and installations of customer premise equipment for certain large government customers during the three months ended March 31, 2013 compared to the same period in the prior year. Revenue from equipment sales varies from period to period based on the volume of large installation projects. The volume of such projects in future periods is uncertain.

Wireless revenues were comparable to the same period in the prior year.

Operating Costs and Expenses

The following tables summarize our costs and expenses for the three months ended March 31, 2013 compared to the costs and expenses for the three months ended March 31, 2012 (dollars in thousands):

| | Three Months Ended | | Amount | Change | Percentage |
|---|--------------------|-------------------|----------|--------|------------|
| | 2013 | March 31, 2012 | | | |
| Cost of revenues (exclusive of depreciation and amortization) | \$ 40,284 | \$ 40,799 | \$ (515) | -1.3% | |
| Selling, general and administrative expenses | 28,379 | 29,026 | (647) | -2.2% | |
| Depreciation and amortization | 18,717 | 16,588 | 2,129 | 12.8% | |
| | \$ 87,380 | \$ 86,413 | \$ 967 | 1.1% | |

The Company's total headcount as of March 31, 2013 was 1,382 compared to 1,323 as of March 31, 2012. 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 month period ended March 31, 2013 compared to the same period in the prior year was because of lower customer premise equipment costs of \$2.9 million as a result of decreased customer premise equipment revenues partially offset by an increase in video content costs on a ramp up in Hawaiian Telcom TV subscribers.

Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. The expenses for the three months ended March 31, 2013 compared to the same period in the prior year decreased on reduced pension costs.

Depreciation and amortization for the three month period ended March 31, 2013 increased compared to the same period in the prior year because of new property additions placed into service.

Table of Contents***Other Income and (Expense)***

The following table summarizes other income (expense) for the three months ended March 31, 2013 and 2012 (dollars in thousands).

| | Three Months Ended | | Amount | Change | |
|--------------------------------------|--------------------|-------------------|----------|---------|------------|
| | 2013 | March 31, 2012 | | Amount | Percentage |
| Interest expense | \$ (5,540) | \$ (5,986) | \$ 446 | -7.5% | |
| Loss on early extinguishment of debt | | (5,112) | 5,112 | -100.0% | |
| Interest income and other | 15 | 12 | 3 | 25.0% | |
| | \$ (5,525) | \$ (11,086) | \$ 5,561 | -50.2% | |

Interest expense decreased for the three month period ended March 31, 2013 compared to the same period in the prior year primarily because of the benefit of the refinancing which occurred in the first quarter of 2012.

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

Income Tax Provision

As of December 31, 2011, we had maintained a full valuation allowance over our net deferred income tax assets. This situation resulted from our having a short history as a new entity (post Chapter 11). From emergence in 2010 through 2012, we have generated earnings in all periods. As a result of our continued positive annual earnings, as well as positive forecasted earnings in the future, management concluded that it was more likely than not that we will realize our deferred income tax assets, and therefore, we released our valuation allowance as of December 31, 2012. If there is a decline in the level of actual future or forecasted earnings, the conclusion regarding the need for a valuation allowance may change in future periods resulting in the establishment of a valuation allowance for some or all of our deferred income tax assets.

Liquidity and Capital Resources

As of March 31, 2013, we had cash of \$55.9 million. From an ongoing operating perspective, our cash requirements in 2013 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. Efforts have also been taken to generate further operating efficiencies and focus on expense management. We have focused on improving operating results, including efforts to simplify product offerings, improve our customer service experience and increase our revenue enhancement activities. There can be no assurance that these additional actions will result in improved overall cash flow. We continue to have sizable retirement obligations for our existing employee base. Any sustained declines in the value of pension trust assets or higher levels of pension lump sum benefit payments will increase the magnitude of

future plan contributions.

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

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Cash Flows for Three Months Ended March 31, 2013 and 2012

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 \$14.9 million for the three months ended March 31, 2013. 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 \$12.5 million for the three months ended March 31, 2012. The increase in cash provided by operations was because of improved management of working capital.

Cash used in investing activities was \$23.3 million for the three months ended March 31, 2013 and was comprised of capital expenditures. Cash used in investing activities was \$19.8 million of capital expenditures for the three months ended March 31, 2012. The level of capital expenditures for 2013 is expected to be comparable to 2012 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 three months ended March 31, 2013 was related primarily to the repayment of our debt. Cash used in financing activities for the three months ended March 31, 2012 was related primarily to the refinancing of our debt.

Outstanding Debt and Financing Arrangements

As of March 31, 2013, we had outstanding \$297.1 million in aggregate long-term debt. The term loan has a maturity date of 2017. We do not expect to generate the necessary cash flow from operations to repay the facility in its entirety by the maturity date and repayment is dependent on our ability to refinance the credit facility at reasonable terms. The ability to refinance the indebtedness at reasonable terms before maturity cannot be assured.

Contractual Obligations

During the three months ended March 31, 2013, the Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2012 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, 2012, and have not changed materially from that discussion.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2013, our floating rate obligations consisted of \$297.1 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 March 31, 2013 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 March 31, 2013. Based on their evaluations, as of March 31, 2013, 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 March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Certifications

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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Item 5. Other Information.

Hawaiian Telcom Holdco, Inc. issued a press release on May 6, 2013 announcing its 2013 first 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.

May 6, 2013

/s/ Eric K. Yeaman
Eric K. Yeaman

Chief Executive Officer

May 6, 2013

/s/ Robert F. Reich
Robert F. Reich

Senior Vice President and Chief Financial Officer

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EXHIBIT INDEX

| | |
|---------|---|
| 10.1 | Form of Restricted Stock Unit Agreement for Executives pursuant to the Hawaiian Telcom 2010 Equity Incentive Plan |
| 10.2 | Form of Restricted Stock Unit Agreement for Non-Employee Directors pursuant to the Hawaiian Telcom 2010 Equity Incentive Plan |
| 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 May 6, 2013 announcing first 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.