Hawaiian Telcom Holdco, Inc.
Form 10-Q
August 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-34686

Hawaiian Telcom Holdco, Inc.

(Exact name of registrant as specified in its charter)

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

1177 Bishop Street

Honolulu, Hawaii 96813

(Address of principal executive offices)

808-546-4511

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

As of August 4, 2015, 11,007,318 shares of the registrant s common stock were outstanding.

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PART I FINANCIAL STATEMENTS

Item 1. Condensed Consolidated Financial Statements (Unaudited)

Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Income

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating revenues	$ 96,187	$ 96,784	$ 193,303	$ 193,856
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	39,219	41,288	79,402	82,236
Selling, general and administrative	29,767	28,720	59,499	57,986
Depreciation and amortization	21,941	18,884	43,221	37,604
Total operating expenses	90,927	88,892	182,122	177,826
Operating income	5,260	7,892	11,181	16,030
Other income (expense):				
Interest expense	(4,166)	(4,109)	(8,503)	(8,298)
Interest income and other	4	5	11	13
Total other expense	(4,162)	(4,104)	(8,492)	(8,285)
Income before income tax provision	1,098	3,788	2,689	7,745
Income tax provision	643	1,549	1,257	3,141
Net income	$ 455	$ 2,239	$ 1,432	$ 4,604
Net income per common share -				
Basic	$ 0.04	$ 0.21	$ 0.13	$ 0.44
Diluted	$ 0.04	$ 0.20	$ 0.13	$ 0.41
Weighted average shares used to compute net income per common share -				
Basic	10,797,111	10,585,736	10,744,944	10,557,047
Diluted	11,258,178	11,263,618	11,261,535	11,300,608

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited, dollars in thousands)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	$ 455	$ 2,239	$ 1,432	$ 4,604
Other comprehensive income (loss) -				
Unrealized holding gains (losses) arising during period	(2)	2		(1)
Retirement plan gain (loss)	4,093	44	2,075	(245)
Income tax credit (charge) on comprehensive income	(1,571)	(17)	(792)	100
Other comprehensive income (loss), net of tax	2,520	29	1,283	(146)
Comprehensive income	$ 2,975	$ 2,268	$ 2,715	$ 4,458

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Balance Sheets

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

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 28,228	$ 39,885
Receivables, net	34,053	32,662
Material and supplies	9,792	9,337
Prepaid expenses	5,334	3,598
Deferred income taxes	6,840	6,840
Other current assets	3,289	3,481
Total current assets	87,536	95,803
Property, plant and equipment, net	570,667	565,956
Intangible assets, net	36,079	37,328
Goodwill	12,104	12,104
Deferred income taxes	79,213	81,626
Other assets	10,513	9,151
Total assets	$ 796,112	$ 801,968
Liabilities and Stockholders Equity		
Current liabilities		
Current portion of long-term debt	$ 3,000	$ 3,000
Accounts payable	45,797	50,499
Accrued expenses	16,102	19,399
Advance billings and customer deposits	15,354	14,686
Other current liabilities	7,488	6,790
Total current liabilities	87,741	94,374
Long-term debt	288,307	289,423
Employee benefit obligations	93,728	99,366
Other liabilities	15,774	14,271
Total liabilities	485,550	497,434
Commitments and contingencies (Note 11)		
Stockholders equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,005,434 and 10,673,292 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	110	107
Additional paid-in capital	173,831	170,521
Accumulated other comprehensive loss	(22,664)	(23,947)
Retained earnings	159,285	157,853
Total stockholders equity	310,562	304,534
Total liabilities and stockholders equity	$ 796,112	$ 801,968

See accompanying notes to condensed consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited, dollars in thousands)

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
Cash flows from operating activities:				
Net income	$	1,432	$	4,604
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization		43,221		37,604
Employee retirement benefits		(3,565)		(6,494)
Provision for uncollectibles		1,634		1,478
Stock based compensation		900		2,099
Deferred income taxes		1,621		3,544
Changes in operating assets and liabilities:				
Receivables		(3,025)		979
Material and supplies		(92)		121
Prepaid expenses and other current assets		(1,944)		(2,090)
Accounts payable and accrued expenses		(2,037)		(3,896)
Advance billings and customer deposits		668		(181)
Other current liabilities		(465)		113
Other		1,445		758
Net cash provided by operating activities		39,793		38,639
Cash flows from investing activities:				
Capital expenditures		(52,916)		(51,315)
Funds released from restricted cash account		400		
Net cash used in investing activities		(52,516)		(51,315)
Cash flows from financing activities:				
Proceeds from stock issuance		3,341		
Proceeds from installment financing		2,279		2,085
Repayment of capital lease and installment financing		(1,976)		(856)
Repayment of debt		(1,500)		(1,500)
Refinancing costs		(150)		
Taxes paid related to net share settlement of equity awards		(928)		(1,005)
Net cash provided by (used in) financing activities		1,066		(1,276)
Net change in cash and cash equivalents		(11,657)		(13,952)
Cash and cash equivalents, beginning of period		39,885		49,551
Cash and cash equivalents, end of period	$	28,228	$	35,599
Supplemental disclosure of cash flow information:				
Interest paid, net of amounts capitalized	$	7,604	$	7,433

See accompanying notes to condensed consolidated financial statements.

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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, 2015	10,673,292	$ 107	$ 170,521	$ (23,947)	$ 157,853	$ 304,534
Stock based compensation			900			900
Exercise of warrant agreement	260,068	2	3,339			3,341
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	72,074	1	(929)			(928)
Net income					1,432	1,432
Other comprehensive income, net of tax				1,283		1,283
Balance, June 30, 2015	11,005,434	$ 110	$ 173,831	$ (22,664)	$ 159,285	$ 310,562
Balance, January 1, 2014	10,495,856	$ 105	$ 167,869	$ (4,716)	$ 149,754	$ 313,012
Stock based compensation			2,099			2,099
Exercise of warrant agreement	15,361					
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	74,824	1	(1,006)			(1,005)
Net income					4,604	4,604
Other comprehensive loss, net of tax				(146)		(146)
Balance, June 30, 2014	10,586,041	$ 106	$ 168,962	$ (4,862)	$ 154,358	$ 318,564

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

Organization

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

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and pursuant to rules and regulations of the U.S. Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed. In the opinion of the Company s management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the results of operations, comprehensive income, financial position and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company s audited consolidated financial statements as of and for the year ended December 31, 2014.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market accounts with maturities at acquisition of three months or less. The majority of cash balances at June 30, 2015 are held in one bank in demand deposit accounts. During the six months ended June 30, 2015, funds amounting to $0.4 million in a restricted cash account held in conjunction with a lease agreement provision were released and deposited into unrestricted cash.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $15.2 million and $13.6 million at June 30, 2015 and 2014, respectively, for additions to property, plant and equipment.

Taxes Collected from Customers

The Company presents taxes collected from customers and remitted to governmental authorities on a gross basis, including such amounts in the Company s reported operating revenues. Such amounts represent primarily Hawaii state general excise taxes and Hawaii Public Utility Commission fees. Such taxes and fees amounted to $2.0 million and $4.0 million for the three and six months ended June 30, 2015, and $1.8 million and $3.6 million for the three and six months ended June 30, 2014, respectively.

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Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Basic earnings per share - weighted average shares	10,797,111	10,585,736	10,744,944	10,557,047
Effect of dilutive securities:				
Employee and director restricted stock units	25,878	87,655	72,367	135,777
Warrants	435,189	590,227	444,224	607,784
Diluted earnings per share - weighted average shares	11,258,178	11,263,618	11,261,535	11,300,608

The computation of weighted average dilutive shares outstanding excluded grants of restricted stock units convertible into 22,825 shares of common stock for the three months ended June 30, 2015, and 85,074 shares and 34,721 shares of common stock for the three and six month periods ended June 30, 2014, respectively. The unrecognized compensation on a per unit basis for these restricted stock units was greater than the average market price of the Company s common stock for the periods presented. Therefore, the effect would be anti-dilutive. For the six months ended June 30, 2015, there were no restricted stock units that were anti-dilutive to earnings per share.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard which provides guidance for revenue recognition which was amended in July 2015. The new accounting standard will supersede the current revenue recognition requirements and most industry-specific guidance. The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard will be effective for the Company in the first quarter of 2018 and either full retrospective or modified retrospective adoption is permitted. Early adoption is permitted from the first quarter of 2017. The Company is currently evaluating the impact of the adoption of this accounting standard on the Company s financial position, results of operations and cash flows.

In August 2014, the FASB issued an accounting standard with new guidance on management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related disclosures. Management must evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions or events are identified, the standard requires management s mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity s ability to continue as a going concern to be disclosed in the financial statements. The standard is effective for fiscal years and interim periods beginning after

December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of adoption of this accounting standard.

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In April 2015, the FASB issued an accounting standard simplifying the presentation of debt issuance costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability which is consistent with debt discounts. The standard requires retrospective adoption and will be effective beginning in the first quarter of 2016 for the Company. Early adoption is permitted. The Company is currently evaluating the impact and timing of adopting this new accounting standard and the impact it will have on the Company   s financial position, results of operations and cash flows.

3. Receivables

Receivables consisted of the following (dollars in thousands):

	June 30, 2015	December 31, 2014
Customers and other	$ 37,873	$ 36,4177
Allowance for doubtful accounts	(3,820)	(3,755)
	$ 34,053	$ 32,662

4. Long-Lived Assets

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

	June 30, 2015	December 31, 2014
Property, plant and equipment	$ 887,861	$ 843,589
Less accumulated depreciation	(317,194)	(277,633)
	$ 570,667	$ 565,956

Depreciation expense amounted to $21.3 million and $42.0 million for the three and six months ended June 30, 2015, respectively. Depreciation expense amounted to $18.2 million and $36.2 million for the three and six months ended June 30, 2014, respectively.

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

	June 30, 2015		December 31, 2014	
	Gross		Gross	

	Carrying Value	Accumulated Amortization	Net Carrying Value	Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization						
Customer relationships	$ 21,709	$ 13,018	$ 8,691	$ 21,709	$ 11,799	$ 9,910
Trade name and other	320	232	88	320	202	118
	22,029	13,250	8,779	22,029	12,001	10,028
Not subject to amortization						
Brand name	27,300		27,300	27,300		27,300
	27,300		27,300	27,300		27,300
	$ 49,329	$ 13,250	$ 36,079	$ 49,329	$ 12,001	$ 37,328

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Amortization expense amounted to $0.6 million and $1.2 million for the three and six months ended June 30, 2015, respectively. Amortization expense amounted to $0.7 million and $1.4 million for the three and six months ended June 30, 2014, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

2015 (remaining months)	$	1,249
2016		2,101
2017		1,703
2018		1,308
2019		1,188
Thereafter		1,230
	$	8,779

5. Accrued Expenses and Other Current Liabilities

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

		June 30, 2015		December 31, 2014
Salaries and benefits	$	12,604	$	15,910
Interest		2,496		2,550
Other taxes		1,002		939
	$	16,102	$	19,399

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

		June 30, 2015		December 31, 2014
Other postretirement benefits, current	$	2,660	$	2,660
Installment financing contracts, current		3,524		2,787
Other		1,304		1,343
	$	7,488	$	6,790

6. Long-Term Debt

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

	Interest Rate at June 30, 2015	Final Maturity	June 30, 2015	December 31, 2014
Term loan	5.00%	June 6, 2019	$ 294,638	$ 296,138
Original issue discount			(3,331)	(3,715)
			291,307	292,423
Current			3,000	3,000
Noncurrent			$ 288,307	$ 289,423

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The term loan outstanding at June 30, 2015 provides for interest at the Alternate Base Rate, a rate which is indexed to the prime rate with certain adjustments as defined, plus a margin of 3.00% or a Eurocurrency rate on deposits of one, two, three or six months but no less than 1.00% per annum plus a margin of 4.00%. The Company has selected the Eurocurrency rate as of June 30, 2015 resulting in an interest rate currently at 5.00%.

The term loan provides for interest payments no less than quarterly. In addition, quarterly principal payments of $0.8 million are required. The balance of the loan is due at maturity on June 6, 2019. The Company must prepay, generally within three months after year end, 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 due for the year ended December 31, 2014 was not significant. The Company must also make prepayments on loans in the case of certain events such as large asset sales.

The Company also has a revolving credit facility which was extended on April 9, 2015 to mature on December 6, 2018. The facility has an available balance of $30.0 million with no amounts drawn as of or for the periods ended June 30, 2015 and 2014. A commitment fee is payable quarterly to the lender under the facility. Interest on amounts outstanding is based on, at the Company s option, the bank prime rate plus a margin of 3.0% to 6.0% or the Eurocurrency rate for one, two, three or six month periods plus a margin of 4.0% to 5.5%. The margin is dependent on the Company s leverage, as defined in the agreement, at the time of the borrowing.

Maturities

The annual requirements for principal payments on long-term debt as of June 30, 2015 are as follows (dollars in thousands):

Years ended December 31,		
2015 (remainder of year)	$	1,500
2016		3,000
2017		3,000
2018		3,000
2019		284,138
	$	294,638

Capitalized Interest

Interest capitalized by the Company amounted to $0.3 million and $0.5 million for the three and six months ended June 30, 2015, respectively. Interest capitalized by the Company amounted to $0.3 million and $0.5 million for the three and six months ended June 30, 2014, respectively.

7. Employee Benefit Plans

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

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The following provides the components of benefit costs (income) for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

Pension

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest cost	$ 1,984	$ 2,208	$ 4,057	$ 4,416
Expected asset return	(3,366)	(3,178)	(6,760)	(6,356)
Amortization of loss	39	29	(18)	58
Net periodic benefit income	(1,343)	(941)	(2,721)	(1,882)
Settlement loss	1,397		2,248	
Net benefit expense (income)	$ 54	$ (941)	$ (473)	$ (1,882)

Other Postretirement Benefits

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Service cost	$ 259	$ 230	$ 518	$ 460
Interest cost	589	602	1,178	1,204
Amortization of loss	149	15	299	30
Net periodic benefit cost	$ 997	$ 847	$ 1,995	$ 1,694

During the three and six months ended June 30, 2015, the Company s pension plan for union employees paid lump-sum benefits to plan participants in full settlement of obligations due amounting to $13.7 million and $19.7 million, respectively. During the six months ended June 30, 2015, the Company s pension plan for management employees paid lump sum benefits in full settlement amounting to $0.6 million. The Company s pension plan for management employees paid such benefits for the first quarter of 2015 only. This resulted in the recognition of a loss on settlement for both pension plans amounting to $1.4 and $2.2 million for the three and six months ended June 30, 2015, respectively. Because of the settlements, the Company remeasured its union pension plan obligations and plan assets as of June 30, 2015. The Company had previously measured both its union and management pension plan obligations and plan assets as of March 31, 2015 in determining its employee benefit obligations as of that date. The Company used a discount rate of 4.09% as of June 30, 2015 to measure the union pension plan obligation. The Company used discount rates of 3.54% to 3.57% to measure the plan obligations as of March 31, 2015. The new measurements resulted in other comprehensive income of $3.9 million and $1.7 million for the three and six months ended June 30, 2015, respectively.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2014 that it expected to contribute $10.0 million to its pension plan in 2015. As of June 30, 2015, the Company has contributed $4.2 million. The Company presently anticipates contributing the full amount during the remainder of 2015.

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8. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Income tax at federal rate	$ 373	$ 1,288	$ 914	$ 2,633
Increase (decrease) resulting from:				
State income taxes, net of federal income tax	46	143	113	310
Compensation deduction limitations	104	236	228	354
Expense reflected in tax basis	211		211	
Other permanent differences	49	185	154	248
Capital goods excise tax credit	(140)	(303)	(363)	(404)
Total income tax expense	$ 643	$ 1,549	$ 1,257	$ 3,141

The Company evaluates its tax positions for liability recognition. As of June 30, 2015, 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 and six months ended June 30, 2015 or 2014. All tax years from 2011 remain open for both federal and Hawaii state purposes.

9. Stock Compensation

The Company has an equity incentive plan. The Compensation Committee of the Company s Board of Directors may grant awards under the plan in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The maximum number of shares issuable under the equity incentive plan is 1,400,000 shares. All grants under the equity incentive plan will be issued to acquire shares at the fair value on date of grant.

As of June 30, 2015, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the six months ended June 30, 2015 and 2014 was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
2015		
Nonvested at January 1, 2015	245,752	$ 27
Granted	140,909	26
Vested	(107,788)	28

Forfeited	(100,053)		25
Nonvested at June 30, 2015	178,820	$	26
2014			
Nonvested at January 1, 2014	260,734	$	18
Granted	157,481		31
Vested	(109,399)		25
Forfeited	(1,534)		29
Nonvested at June 30, 2014	307,282	$	24

The Company recognized compensation expense of $0.5 million and $0.9 million for the three and six months ended June 30, 2015, respectively. The Company recognized compensation expense of $1.0 million and $2.1 million for the three and six months ended June 30, 2014, respectively. The fair value as of the vesting date for the restricted stock units that vested during the six months ended June 30, 2015 and 2014 was $2.5 million and $2.7 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 35,714 and 34,573 for the six months ended June 30, 2015 and 2014, respectively, and were based on the value of the restricted stock units as determined by the Company s closing stock price on the date of vesting. Total payments for the employees tax obligations to the tax authorities amounted to $0.9 million and $1.0 million for the six months ended June 30, 2015 and 2014, respectively. Other than reimbursements for tax withholdings, there was no cash received under all share-based arrangements. In March 2014, the terms of certain restricted stock units were modified which resulted in the restricted stock units vesting as of the date of the modification. The Company recognized the incremental value of $0.6 million as additional expense in the first quarter of 2014.

10. Stockholders Equity

Warrants

In 2010, the Company issued warrants to purchase 1,481,055 shares of common stock for $14.00 per share. The warrants to purchase shares may be exercised anytime from January 26, 2011 to the maturity on October 28, 2015. The warrants may be exercised on a cashless basis whereby a portion of the exercised warrants are tendered in lieu of payment for the exercise price. During the six months ended June 30, 2015 and 2014, warrants were exercised on a cashless basis resulting in the issuance of 21,371 shares and 15,361 shares of common stock, respectively. In addition, another 238,697 warrants were exercised for cash consideration of $3.3 million during the six months ended June 30, 2015.

Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Investments	Retirement Plans	Total
Three months ended June 30, 2015			
April 1, 2015	$ (62)	$ (25,122)	$ (25,184)
Other comprehensive income (loss) for 2015	(2)	2,522	2,520
June 30, 2015	$ (64)	$ (22,600)	$ (22,664)

	Unrealized Gain (Loss) on Investments	Retirement Plans	Total
Six months ended June 30, 2015			
January 1, 2015	$ (64)	$ (23,883)	$ (23,947)
Other comprehensive income for 2015		1,283	1,283
June 30, 2015	$ (64)	$ (22,600)	$ (22,664)

	Unrealized Gain (Loss) on Investments	Retirement Plans	Total
Three months ended June 30, 2014			
April 1, 2014	$ (63)	$ (4,828)	$ (4,891)
Other comprehensive income for 2014	2	27	29
June 30, 2014	$ (61)	$ (4,801)	$ (4,862)
Six months ended June 30, 2014			
January 1, 2014	$ (60)	$ (4,656)	$ (4,716)
Other comprehensive loss for 2014	(1)	(145)	(146)
June 30, 2014	$ (61)	$ (4,801)	$ (4,862)

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Reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014 were as follows (dollars in thousands):

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Retirement plans				
Amortization of (gain) loss and settlement loss	1,585	44	2,529	(245)
Income tax credit (charge) on comprehensive income	(602)	(17)	(961)	100
Net of tax	$ 983	$ 27	$ 1,568	$ (145)

The amortization of (gain) loss and settlement loss was recognized primarily in selling, general and administrative expense for the periods ended June 30, 2015 and 2014.

11. Commitments and Contingencies

Trans-Pacific Submarine Cable

In August 2014, the Company entered into an agreement with several other telecommunication companies to build and operate a trans-Pacific submarine cable system. The total system cost is expected to be $245 million and is primarily composed of a supply contract with the lead contractor. The Company will contribute $25 million over the multi-year construction period for a fractional ownership in the system. In addition, the Company will construct a cable landing station in Hawaii and provide cable landing services. The system is expected to be completed in December 2016. As of June 30, 2015, the Company had paid $2.3 million to the cable contractor for the cable build.

The Company will have excess capacity on its share of the trans-Pacific cable that it will make available to other carriers for a fee. The Company is in the process of contracting with other carriers for long-term indefeasible right of use, or IRU, agreements for fiber circuit capacity. The Company may receive up-front payments for services to be delivered over a period of up to 25 years. The Company has entered into agreements for the sale of capacity for $27.0 million plus fees to activate assigned capacity, and for operations and maintenance. This includes a sale of $22.0 million in July 2015. As of June 30, 2015, the Company had received up-front payments, as provided for in one of the agreements, which are held in escrow amounting to $2.0 million. The funds in escrow will be released to the Company when the trans-Pacific cable is ready for service. The restricted cash is reflected in other assets in the condensed consolidated balance sheet. A liability to provide services in the future for the same amount is included in other liabilities.

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Collective Bargaining Agreement

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

Third Party Claims

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

Litigation

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

12. Fair Value of Financial Instruments

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

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

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

	Carrying Value	Fair Value
June 30, 2015		
Assets - investment in U.S. Treasury obligations	$ 810	$ 810
Liabilities - long-term debt (carried at cost)	291,307	296,111
December 31, 2014		
Assets - investment in U.S. Treasury obligations	$ 808	$ 808
Liabilities - long-term debt (carried at cost)	292,423	296,908

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

	June 30, 2015	December 31, 2014
Asset value measurements using:		
Quoted prices in active markets for identical assets (Level 1)	$ 810	$ 808
Signficant other observable inputs (Level 2)		
Significant unobservable inputs (Level 3)		
	$ 810	$ 808
Liability value measurements using:		
Quoted prices in active markets for identical liabilities (Level 1)	$	$
Signficant other observable inputs (Level 2)	296,111	296,908
Significant unobservable inputs (Level 3)		
	$ 296,111	$ 296,908

13. Segment Information

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

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The following table provides operating financial information for the Company s reportable segments for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Tele-communications	Data Center Colocation	Intersegment Elimination	Total
Three months ended June 30, 2015				
Operating revenues	$ 93,812	$ 2,784	$ (409)	$ 96,187
Depreciation and amortization	21,374	567		21,941
Operating income (loss)	5,570	(310)		5,260
Three months ended June 30, 2014				
Operating revenues	$ 94,700	$ 2,323	$ (239)	$ 96,784
Depreciation and amortization	18,467	417		18,884
Operating income (loss)	8,126	(234)		7,892
Six months ended June 30, 2015				
Operating revenues	$ 188,649	$ 5,381	$ (727)	$ 193,303
Depreciation and amortization	42,102	1,119		43,221
Operating income (loss)	11,818	(637)		11,181
Capital expeditures	46,377	578		46,955
Six months ended June 30, 2014				
Operating revenues	$ 189,576	$ 4,728	$ (448)	$ 193,856
Depreciation and amortization	36,781	823		37,604
Operating income (loss)	16,166	(136)		16,030
Capital expeditures	50,716	345		51,061

Intersegment revenue represents primarily network access services provided by the telecommunications segment for data center colocation. For the three and six months ended June 30, 2015 and 2014, total operating income above reconciles to the condensed consolidated statement of income as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Operating income	$ 5,260	$ 7,892	$ 11,181	$ 16,030
Corporate other expense	(4,162)	(4,104)	(8,492)	(8,285)
Income before income tax provision	$ 1,098	$ 3,788	$ 2,689	$ 7,745

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

Three Months Ended June 30,		Six Months Ended June 30,	
2015	2014	2015	2014

Local voice and other retail services	$	63,142	$	62,951	$	126,354	$	125,887
Network access services		30,261		31,510		61,568		63,241
Data center colocation		2,784		2,323		5,381		4,728
	$	96,187	$	96,784	$	193,303	$	193,856

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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 ne 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 data security systems;
- our ability to provide customers with reliable and uninterrupted service;
- our ability to fund capital expenditures for network enhancements;
- our ability to maintain arrangements with third-party service providers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- a reduction in rates we are allowed to charge our customers as dictated by regulatory authorities;
- changes in demand for our products and services;
- technological changes affecting the telecommunications industry;
- economic conditions in Hawaii;
- our ability to retain experienced personnel;
- our ability to utilize net operating loss carryforwards or fund tax payments;
- our indebtedness could adversely affect our financial condition;
- risks of severe weather and natural disasters;
- the ability of shareholders to influence corporate decisions; and

- future sales of a substantial amount of common stock may depress our stock price.

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

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

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

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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.

Recent Developments

Effective June 20, 2015, Scott K. Barber, the Company s former Chief Operating Officer, became the Company s President and Chief Executive Officer and was also appointed to the Company s Board of Directors. Mr. Barber, had served as the Company s Chief Operating Officer since January 2013, and has been responsible for overseeing day-to-day operations of the Company s technology, sales, marketing, customer service, customer care, business operations, and business development teams. Prior to joining the Company, Mr. Barber was Vice President of Operations of Consolidated Communications, an Illinois based telecommunications company, since July 2012, during which time he led field and network operations teams across six states. Prior to its acquisition by Consolidated Communications, Mr. Barber held various executive positions at SureWest Communications beginning in 1994, most recently as Chief Operating Officer from 2011 to 2012.

Effective May 11, 2015, Dan T. Bessey was appointed the Company s Chief Financial Officer. Mr. Bessey previously served as the Chief Financial Officer of Cesca Therapeutics Inc., a biotechnology company, from March 2013. From 2008 to 2012, Mr. Bessey served as Vice President and Chief Financial Officer of SureWest Communications. Before becoming Chief Financial Officer of SureWest Communications, Mr. Bessey served in a number of key financial leadership roles within the company, including but not limited to Vice President of Finance, Controller and Director of Corporate Finance beginning in 1995. Prior to joining SureWest Communications, Mr. Bessey was with Ernst & Young LLP. Mr. Bessey is a Certified Public Accountant.

Segments and Sources of Revenue

We operate in two reportable segments (telecommunication and data center colocation) 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.

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Telecommunications

The telecommunications segment derives revenue from the following sources:

Local Telephone 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.

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.

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

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.

Data Center Colocation

The data center colocation segment provides physical colocation, virtual colocation and various related telephony services.

Results of Operations for the Three and Six Months Ended June 30, 2015 and 2014

Operating Revenues

The following tables summarize our volume information (lines or subscribers) as of June 30, 2015 and 2014, and our operating revenues for the three and six months ended June 30, 2015 and 2014. For comparability, we also present volume information as of June 30, 2015 compared to March 31, 2015.

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Volume Information

As of June 30, 2015 compared to June 30, 2014

	June 30, 2015	June 30, 2014	Change Number	Percentage
Voice access lines				
Residential	160,819	177,953	(17,134)	-9.6%
Business	185,975	190,754	(4,779)	-2.5%
Public	3,638	4,028	(390)	-9.7%
	350,432	372,735	(22,303)	-6.0%
High-Speed Internet lines				
Residential	93,338	91,405	1,933	2.1%
Business	19,759	19,465	294	1.5%
Wholesale	749	866	(117)	-13.5%
	113,846	111,736	2,110	1.9%
Long distance lines				
Residential	101,648	112,231	(10,583)	-9.4%
Business	75,719	78,522	(2,803)	-3.6%
	177,367	190,753	(13,386)	-7.0%
Video services				
Subscribers	31,921	23,101	8,820	38.2%
Homes Enabled	175,000	142,000	33,000	23.2%

As of June 30, 2015 compared to March 31, 2015

	June 30, 2015	March 31, 2015	Change Number	Percentage
Voice access lines				
Residential	160,819	165,074	(4,255)	-2.6%
Business	185,975	187,300	(1,325)	-0.7%
Public	3,638	3,733	(95)	-2.5%
	350,432	356,107	(5,675)	-1.6%
High-Speed Internet lines				
Residential	93,338	93,090	248	0.3%
Business	19,759	19,624	135	0.7%
Wholesale	749	796	(47)	-5.9%
	113,846	113,510	336	0.3%
Long distance lines				
Residential	101,648	104,527	(2,879)	-2.8%
Business	75,719	76,916	(1,197)	-1.6%

	177,367	181,443	(4,076)	-2.2%
Video services				
Subscribers	31,921	29,721	2,200	7.4%
Homes Enabled	175,000	166,000	9,000	5.4%

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Operating Revenues (dollars in thousands)

For Three Months

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Change Amount	Change Percentage
Wireline Services				
Local voice services	$ 30,864	$ 33,077	$ (2,213)	-6.7%
Network access services				
Business data	6,704	6,712	(8)	-0.1%
Wholesale carrier data	13,789	14,280	(491)	-3.4%
Subscriber line access charge	8,562	9,030	(468)	-5.2%
Switched carrier access	1,206	1,488	(282)	-19.0%
	30,261	31,510	(1,249)	-4.0%
High-Speed Internet	11,342	10,753	589	5.5%
Video	8,280	5,474	2,806	51.3%
Long distance services	5,104	5,716	(612)	-10.7%
Equipment and managed services	4,779	4,723	56	1.2%
Wireless	427	539	(112)	-20.8%
Other	2,346	2,669	(323)	-12.1%
	93,403	94,461	(1,058)	-1.1%
Data center colocation	2,784	2,323	461	19.8%
	$ 96,187	$ 96,784	$ (597)	-0.6%
Channel				
Business	$ 41,181	$ 42,068	$ (887)	-2.1%
Consumer	37,881	36,349	1,532	4.2%
Wholesale	14,995	15,768	(773)	-4.9%
Other	2,130	2,599	(469)	-18.0%
	$ 96,187	$ 96,784	$ (597)	-0.6%

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For Six Months

	Six Months Ended June 30, 2015	2014	Change Amount	Percentage
Wireline Services				
Local voice services	$ 62,633	$ 66,852	$ (4,219)	-6.3%
Network access services				
Business data	13,710	13,336	374	2.8%
Wholesale carrier data	28,122	28,666	(544)	-1.9%
Subscriber line access charge	17,218	18,199	(981)	-5.4%
Switched carrier access	2,518	3,040	(522)	-17.2%
	61,568	63,241	(1,673)	-2.6%
High-Speed Internet	22,670	21,297	1,373	6.4%
Video	15,802	10,228	5,574	54.5%
Long distance services	10,412	11,622	(1,210)	-10.4%
Equipment and managed services	9,043	9,212	(169)	-1.8%
Wireless	877	1,132	(255)	-22.5%
Other	4,917	5,544	(627)	-11.3%
	187,922	189,128	(1,206)	-0.6%
Data center colocation	5,381	4,728	653	13.8%
	$ 193,303	$ 193,856	$ (553)	-0.3%
Channel				
Business	$ 82,757	$ 84,579	$ (1,822)	-2.2%
Consumer	75,414	72,171	3,243	4.5%
Wholesale	30,640	31,706	(1,066)	-3.4%
Other	4,492	5,400	(908)	-16.8%
	$ 193,303	$ 193,856	$ (553)	-0.3%

A decrease in local voice services revenues for both the three and six month periods was caused primarily by the decline of voice access lines. 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.

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 tactics designed to focus on specific circumstances where we believe customer churn is controllable. These tactics include targeted offers to at risk customers as well as other promotional tools designed to enhance customer retention. We also emphasize win-back and employee referral programs. Additionally, we are intensifying our efforts relative to developing tools and training to enhance our customer service capability to improve customer retention and growth.

Business data revenues for the three and six months ended June 30, 2015 was comparable to the same periods in the prior year. Wholesale carrier data revenue for the three and six months ended June 30, 2015 decreased when compared to the three and six months ended June 30, 2014. This was primarily because of various customer special service charges in the second quarter of 2014. The impact of the decline in voice access lines is reflected in subscriber line access charges and switched carrier access charges. Switched carrier access revenue is also adversely impacted by reduced switched access rates in conjunction with the revised regulatory regime for intercarrier compensation.

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HSI revenues increased when compared to the prior year as a result of year-over-year increases in total HSI subscribers as well as premium pricing on higher bandwidth offerings.

We are continuing the roll out of Hawaiian Telcom TV to selected areas as we expand the number of homes enabled. Our volume is increasing 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.

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.

Equipment and managed services revenues was comparable to prior year periods. Revenue from equipment sales varies from period to period based on the volume of large installation projects. The outlook for future periods is uncertain.

Wireless revenues and other service revenues decreased as we attempt to focus our marketing efforts on other services.

Data center colocation revenues increased when compared to the prior year periods as a result of year-over-year increased colocation services and data security related sales.

Operating Costs and Expenses

The following tables summarize our costs and expenses for all segments and by segments for the three and six months ended June 30, 2015 compared to the costs and expenses for the three and six months ended June 30, 2014 (dollars in thousands):

For Three Months

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Change Amount	Change Percentage
Cost of revenues (exclusive of depreciation and amortization)	$ 39,219	$ 41,288	$ (2,069)	-5.0%
Selling, general and administrative expenses	29,767	28,720	1,047	3.6%
Depreciation and amortization	21,941	18,884	3,057	16.2%

	$	90,927	$	88,892	$	2,035	2.3%
By segment							
Data center colocation	$	3,094	$	2,557	$	537	21.0%
Telecommunications		87,833		86,335		1,498	1.7%
	$	90,927	$	88,892	$	2,035	2.3%

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For Six Months

	Six Months Ended June 30, 2015		2014		Change Amount		Percentage
Cost of revenues (exclusive of depreciation and amortization)	$	79,402	$	82,236	$	(2,834)	-3.4%
Selling, general and administrative expenses		59,499		57,986		1,513	2.6%
Depreciation and amortization		43,221		37,604		5,617	14.9%
	$	182,122	$	177,826	$	4,296	2.4%
By segment							
Data center colocation	$	6,018	$	4,864	$	1,154	23.7%
Telecommunications		176,104		172,962		3,142	1.8%
	$	182,122	$	177,826	$	4,296	2.4%

The increase in operating costs and expenses for the data center colocation segment for the three and six months ended June 30, 2015 compared to the same periods in the prior year is because of greater costs for leased circuits of $0.2 million and $0.4 million, respectively, with increased service volumes. In addition, for the three and six month periods, depreciation increased $0.2 million and $0.3 million, respectively, on asset additions made to support expected business growth.

The change in operating costs and expenses for the telecommunications segment for the three and six months ended June 30, 2015 compared to the same periods in 2014 are the same as those below explaining changes in costs and expenses for all segments.

The Company s total number of employees on a Company-wide basis as of June 30, 2015 was 1,305 compared to 1,384 as of June 30, 2014. Employee related costs are included in both cost of revenues and selling, general and administrative expenses.

Cost of revenues consists of costs we incur to provide our products and services including those for operating and maintaining our networks, installing and maintaining customer premise equipment, and cost of services sold directly associated with various products. Cost of revenues for the three and six month periods ended June 30, 2015 decreased when compared to the prior year periods because of lower electricity costs of $1.5 million and $2.8 million, respectively, on lower rates and reduced usage from various power saving initiatives.

Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. For the three and six months ended June 30, 2015, the increase is because of the pension settlement loss of $1.4 million and $2.2 million, respectively. The settlement loss occurred because of a large number of retirements in the first and second quarters of 2015. It is anticipated that such retirements will slow by the fourth quarter of 2015.

Depreciation and amortization for the three month and six month periods ended June 30, 2015 was higher than the same periods in the prior year because of asset additions to support growth in the business for next-generation services such as video, and higher speed internet and data.

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Other Income and (Expense)

The following tables summarize other income (expense) for the three and six months ended June 30, 2015 and 2014 (dollars in thousands).

For Three Months

	Three Months Ended June 30, 2015	2014	Change Amount	Percentage
Interest expense	$ (4,166)	$ (4,109)	$ (57)	1.4%
Interest income and other	4	5	(1)	-20.0%
	$ (4,162)	$ (4,104)	$ (58)	1.4%

For Six Months

	Six Months Ended June 30, 2015	2014	Change Amount	Percentage
Interest expense	$ (8,503)	$ (8,298)	$ (205)	2.5%
Interest income and other	11	13	(2)	-15.4%
	$ (8,492)	$ (8,285)	$ (207)	2.5%

Interest expense increased for the three and six month periods because of interest on new installment financing incurred at the end of 2014. Interest capitalized amounted to $0.3 million and $0.5 million for the three and six months ended June 30, 2015, respectively. Interest capitalized amounted to $0.3 million and $0.5 million for the three and six months ended June 30, 2014, respectively.

Income Tax Provision

We had effective tax rates of 58.6% and 46.7% for the three and six months ended June 30, 2015, respectively. We had effective tax rates of 40.6% and 40.9% for the three and six months ended June 30, 2014, respectively. The effective tax rates increased from the prior year periods as permanent differences between financial reporting and income tax income, primarily related to non-deductible compensation, increased relative to pretax income. We consider a variety of factors in determining the effective tax rate, including our forecasted full-year pretax results, the U.S. federal statutory rate, expected nondeductible expenses and estimated state taxes.

As of December 31, 2014, net operating losses available for carry forward through 2034 amounted to $105.9 million for federal purposes and $113.1 million for state purposes. Availability of net operating losses in future periods may be subject to additional limitations if there is a deemed change in control for income tax reporting purposes. Such change in control will be determined for income tax reporting purposes based on cumulative changes in stock ownership over a defined period.

Liquidity and Capital Resources

As of June 30, 2015, we had cash of $28.2 million. From an ongoing operating perspective, our cash requirements in 2015 consist of supporting the development and introduction of new products, capital expenditure projects, pension funding obligations and other changes in working capital. A combination of cash-on-hand and cash generated from operating activities will be used to fund our cash requirements.

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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.

Cash Flows for Six Months Ended June 30, 2015 and 2014

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

Net cash provided by operations amounted to $39.8 million for the six months ended June 30, 2015. Our cash flows from operations are impacted by our results of operations, changes in working capital and payments on certain long-term pension liabilities. Net cash provided by operations amounted to $38.6 million for the six months ended June 30, 2014. The increase in cash provided by operations was because of a decline in contributions to our pension plans of $0.9 million from the six months ended June 30, 2014 to the six months ended June 30, 2015.

Cash used in investing activities for the six months ended June 30, 2015 was primarily comprised of capital expenditures of $52.9 million. Cash used in investing activities included capital expenditures of $51.3 million for the six months ended June 30, 2014. The level of capital expenditures for 2015 is expected to be in the high-$90 million range as we invest in systems to support new product introductions and transform our network to enable next-generation technologies.

Cash used in financing activities for the six months ended June 30, 2015 and 2014 was related primarily to the repayment of our debt and satisfaction of other obligations. In addition, we received $3.3 million upon the exercise of warrants for cash.

Outstanding Debt and Financing Arrangements

As of June 30, 2015, we had outstanding $294.6 million in aggregate long-term debt with a maturity date of June 2019. We do not expect to generate the necessary cash flow from operations to repay the facility in its entirety by the maturity date and repayment is dependent on our ability to refinance the credit facility at reasonable terms. The ability to refinance the indebtedness at reasonable terms before maturity cannot be assured.

Contractual Obligations

During the six months ended June 30, 2015, the Company s future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2014 in our Form 10-K.

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

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Critical Accounting Policies and Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on the condensed consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. The Company s critical accounting policies that require the use of estimates and assumptions were discussed in detail in our Annual Report on Form 10-K for the year ended December 31, 2014, and have not changed materially from that discussion.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2015, our floating rate obligations consisted of $294.6 million of debt outstanding under our term loan facility. Accordingly, our earnings and cash flow are affected by changes in interest rates. Based on our borrowings at June 30, 2015 and assuming a 1.0 percentage point increase or decrease in the average interest rate under these borrowings, we estimate that our annual interest expense would increase or decrease by approximately $2.9 million.

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Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Scott K. Barber, Chief Executive Officer, and Dan T. Bessey, Chief Financial Officer, have evaluated the disclosure controls and procedures of Hawaiian Telcom Holdco, Inc. (the Company) as of June 30, 2015. Based on their evaluation, as of June 30, 2015, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective in ensuring that information required to be disclosed by the Company in reports the Company files or submits under the Securities Exchange Act of 1934:

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

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

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended June 30, 2015 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.

Item 1A. Risk Factors

See Part I, Item 1a, Risk Factors, of our 2014 Annual Report for a detailed discussion of risk factors related to our business, results of operations and financial condition.

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Item 5. Other Information.

Earnings Release

Hawaiian Telcom Holdco, Inc. issued a press release on August 4, 2015 announcing its 2015 second quarter earnings. This information, attached as Exhibit 99.1, is being furnished to the SEC pursuant to Item 2.02 of Form 8-K.

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Item 6. Exhibits

See Exhibit Index following the signature page of this Report.

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SIGNATURES

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

	HAWAIIAN TELCOM HOLDCO, INC.
August 4, 2015	/s/ Scott K. Barber Scott K. Barber Chief Executive Officer
August 4, 2015	/s/ Dan T. Bessey Dan T. Bessey Chief Financial Officer

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EXHIBIT INDEX

3.2	Amended and Restated Bylaws of Hawaiian Telcom Holdco, Inc. effective May 1, 2015 (incorporated by reference to Exhibit 3.2 of the Registrant s Form 10-Q, File No. 01-34686, filed with the SEC on May 4, 2015).
10.9*	Amended and Restated Employment Offer Letter, effective as of June 12, 2015, by and between Scott K. Barber and Hawaiian Telcom Holdco, Inc.
10.22*	Hawaiian Telcom Holdco, Inc. Amended and Restated Executive Severance Plan, effective June 12, 2015.
10.25	Third Amendment to Amended and Restated Revolving Line of Credit Agreement, dated as of April 9, 2015, by and among Hawaiian Telcom Communications, Inc., First Hawaiian Bank, as agent, and each of the lenders from time to time party thereto (incorporated by reference to Exhibit 10.25 of the Registrant s Form 10-Q, File No. 01-34686, filed with the SEC on May 4, 2015).
10.26*	Employment Offer Letter, effective as of May 1, 2015, by and between Dan T. Bessey and Hawaiian Telcom Holdco, Inc (incorporated by reference to Exhibit 10.26 of the Registrant s Form 10-Q, File No. 01-34686, filed with the SEC on May 4, 2015).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated August 4, 2015 announcing second quarter earnings.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Identifies each management contract or compensatory plan or arrangement