

Hawaiian Telcom

2nd Quarter 2011 Earnings Conference Call

August 15, 2011

Agenda

▶ Company Overview

Eric Yeaman
President & CEO

▶ Operational & Financial Review

Robert Reich
SVP & CFO

▶ Q & A

Presented Information

In addition to historical information, this presentation includes certain statements and predictions that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, any statement, projection or estimate that includes or references the words “believes”, “anticipates”, “intends”, “expects”, or any similar expression falls within the safe harbor of forward-looking statements contained in the Reform Act.

Actual results or outcomes may differ materially from those indicated or suggested by any such forward-looking statement for a variety of reasons, including, but not limited to, Hawaiian Telcom’s ability to maintain its market position in communications services, including wireless, wireline and Internet services; general economic trends affecting the purchase or supply of communication services; world and national events that may affect the ability to provide services; changes in the regulatory environment; any rulings, orders or decrees that may be issued by any court or arbitrator; restrictions imposed under various credit facilities and debt instruments; work stoppages caused by labor disputes; adjustments resulting from year-end audit procedures; and Hawaiian Telcom’s ability to develop and launch new products and services.

More information on potential risks and uncertainties is available in recent filings with the Securities and Exchange Commission, including Hawaiian Telcom’s Annual Report on Form 10-K. The information contained in this presentation is as of August 15, 2011. It is anticipated that subsequent events and developments will cause estimates to change.

Company Overview

Eric Yeaman, President & CEO

Company Highlights

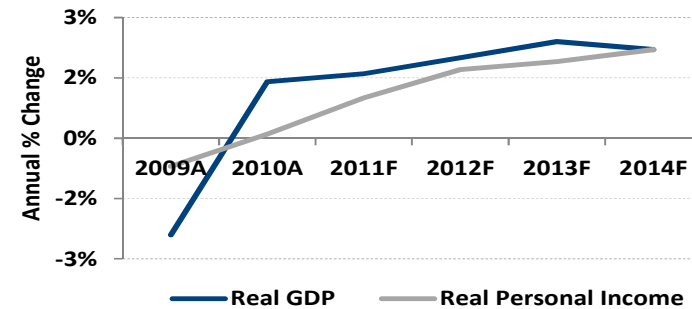
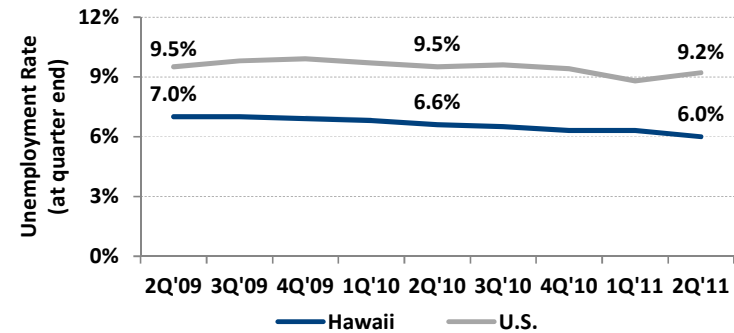
- ▶ 2Q'11 Revenue of \$101M resulted in Adjusted EBITDA of \$32M, up 6% Y/Y, and Net Income of \$6.7M
- ▶ Improved Y/Y Access Line loss to 5.3% & increased HSI subscribers 4.6% Y/Y
- ▶ HCOM common stock listed on NASDAQ
- ▶ Video franchise awarded & Hawaiian Telcom TV launched

Hawaii Economic Outlook

Positive Tourism Trends Driving Economic Improvement

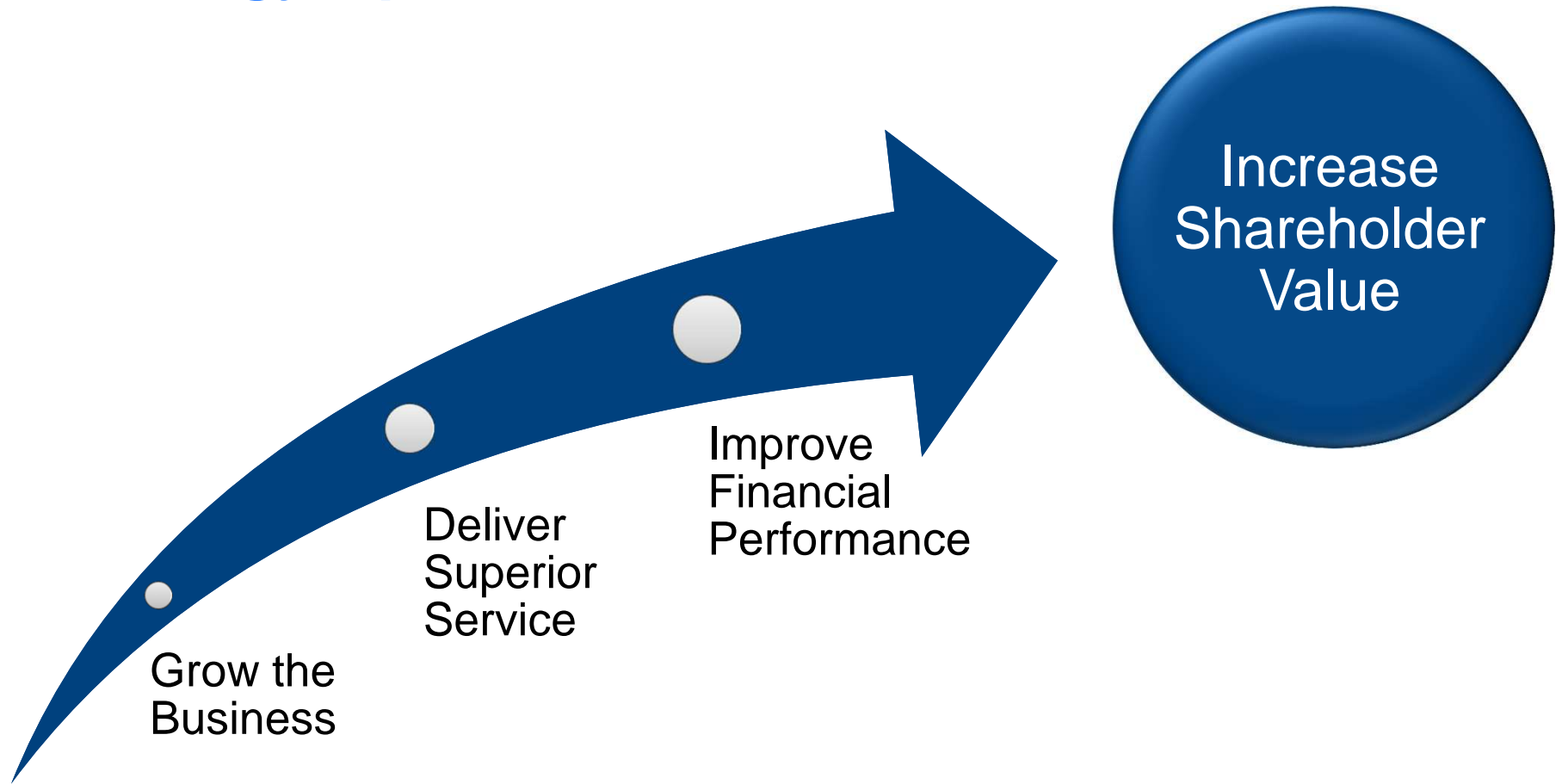
YTD Visitor Spending up 18% & Arrivals up 5%

Increased Airlift in 2H Highlighted by Direct Service from China



Sources: Unemployment Rates: U.S. Bureau of Labor Statistics; Visitor Stats, Real GDP & Personal Income: Hawaii Department of Business, Economic Development & Tourism

Strategy Update



Grow the Business

Business

- ▶ Enterprise data services up 9% Y/Y
- ▶ 70% of YTD business VoIP sales are new/winback customers
- ▶ Launched new small business bundle
- ▶ Managed services up 11% Y/Y



Consumer

- ▶ Voice access line loss rate declines to 7.1%; down from 9.0% Y/Y in 2010
- ▶ HSI subscribers up 5.3% Y/Y
- ▶ Staged commercial launch of Hawaiian Telcom TV



Wholesale

- ▶ 48 fiber cell sites completed in 2Q'11
- ▶ 95 fiber cell sites completed YTD; annualized revenue of ~\$1.4M
- ▶ Expect disconnect of temporary circuits over time



Deliver Superior Service

Organizational Realignment

▶ Customer Operations Team

- Primary advocate for the customer across the company
- “Owns” all operational facets of the customer experience
- Responsible for aligning the customer operations for Superior Service and support of our customers



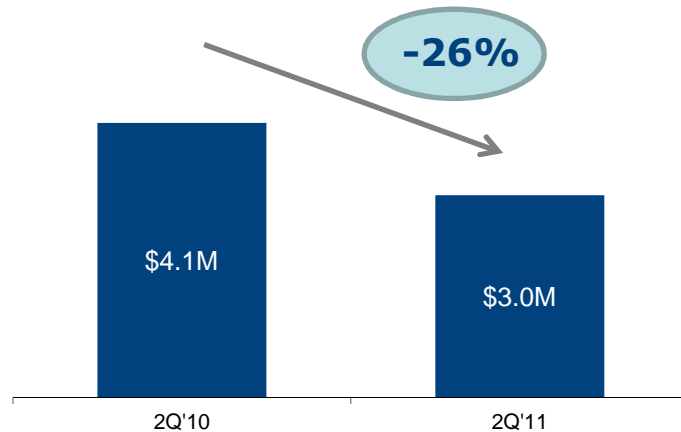
▶ Technology Team

- Better align and leverage our technical skills through collaborative structure
- Accelerate infrastructure deployment, improve time to market, and reduce vendor outsourcing
- Drive down cost of operations



Improve Financial Performance

Reduce IT Outsourcing Costs



- ▶ Y/Y IT outsourcing costs dropped \$1.1M, or 26%; YTD \$2.7M, or 31%
- ▶ Due to data center consolidation & reduction in various IT outsourcing contracts

Improve Cost Structure

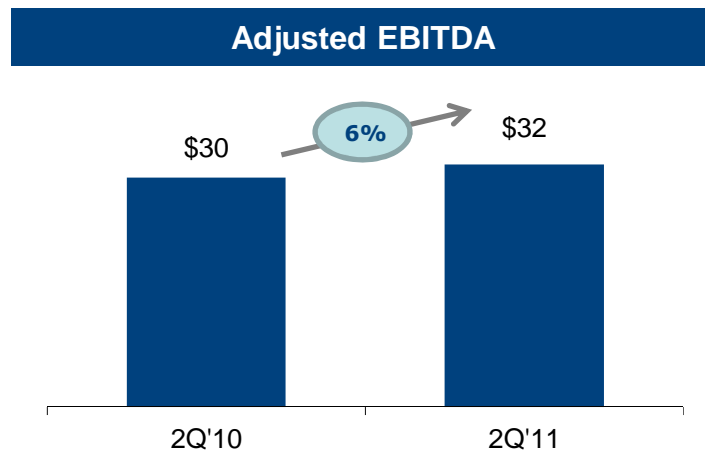
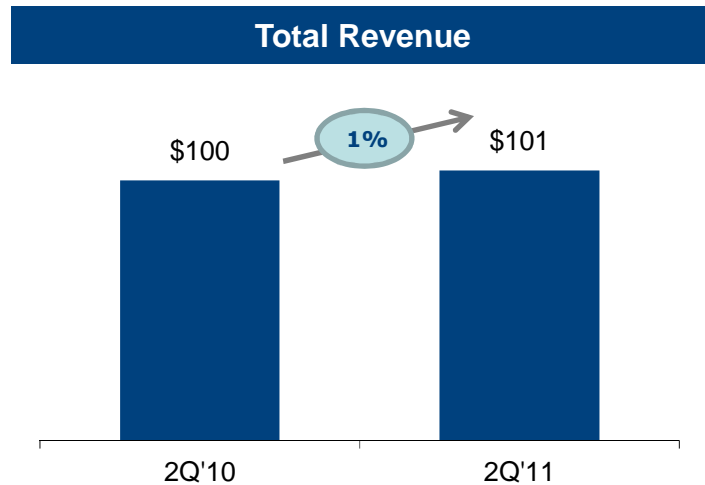
- ▶ Reduction-in-force and retail store closings
- ▶ Realignment of workforce to better support strategic plan
- ▶ \$2.2 million in severance and lease termination costs
- ▶ \$3 million in annual cost savings

Operational & Financial Review

Robert Reich, SVP & CFO

Quarterly Revenue & Adjusted EBITDA

(\$ in millions)



▶ Second quarter revenues **\$101M**

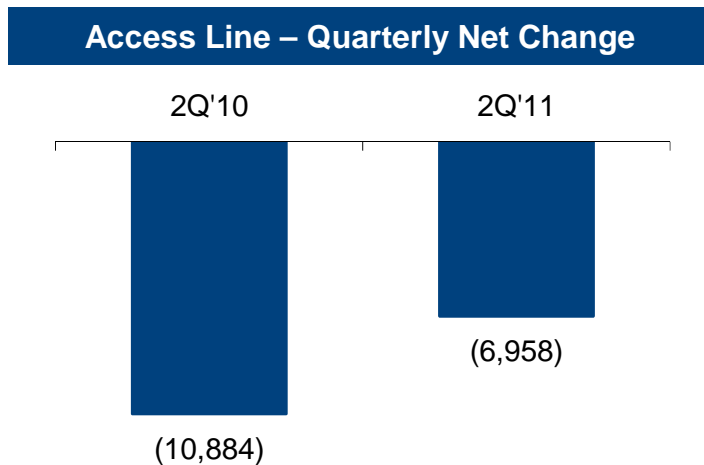
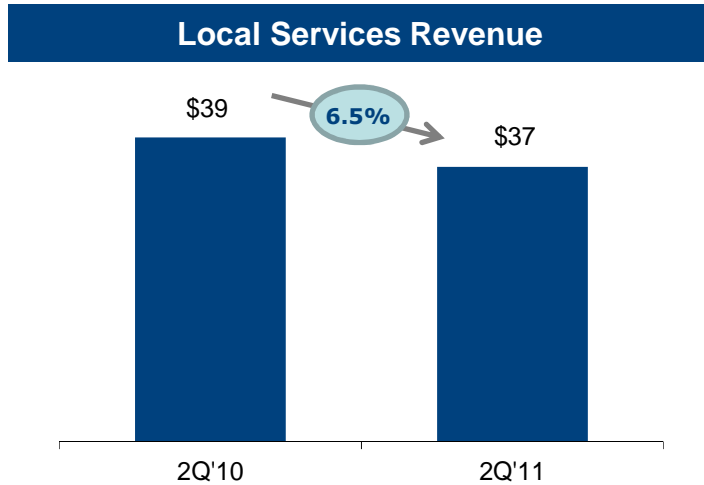
- Growth from equipment sales, new business products, and data transport demand from wireless carriers
- Secular pressure on legacy voice service revenues

▶ Adjusted EBITDA up **6% Y/Y**

- 32% margin, up from 30% in 2Q'10
- Lower costs from renegotiated IT outsourcing contracts; decline in bad debt costs; offset by equipment COGS and energy costs
- Excludes \$2.2M related to RIF & lease termination costs

Local Services

(\$ in millions)

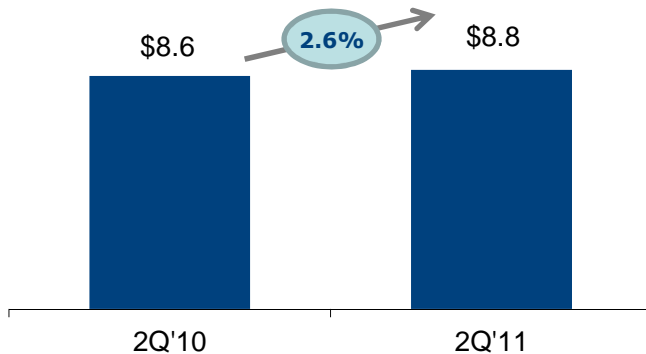


- ▶ **Local revenues down 6.5% Y/Y**
 - Continued secular pressures
- ▶ **7.0K access line loss in 2Q'11**
 - Down from 10.9K in 2Q'10
 - 36% improvement versus 2Q'10
- ▶ **5.3% access line loss Y/Y**
 - Down from 7.4% Y/Y in 2Q'10
 - 7.1% residential line loss; down from 9.0% Y/Y in 2010
 - 3.1% business line loss; down from 5.3% Y/Y in 2010
- ▶ **2,100 bundles added in 2Q'11**
 - 38% of primary residential access lines now in a bundle

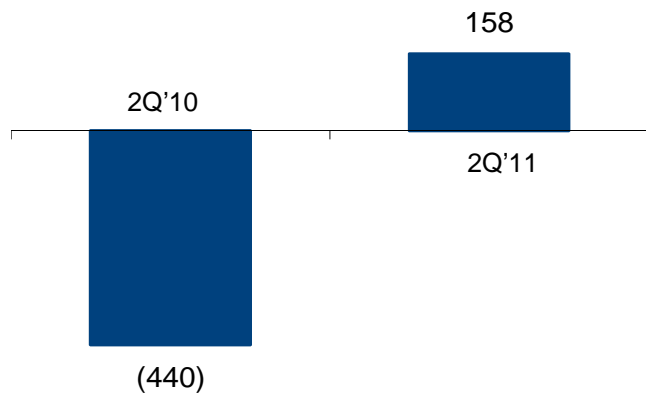
High-Speed Internet

(\$ in millions)

High-Speed Internet Revenue



HSI Line – Quarterly Net Change



▶ **HSI revenues up 2.6% Y/Y**

- Subscriber growth partially offset by lower ARPU

▶ **Over 100K subscribers**

- 4.6% HSI growth Y/Y
- 26% penetration of primary access lines

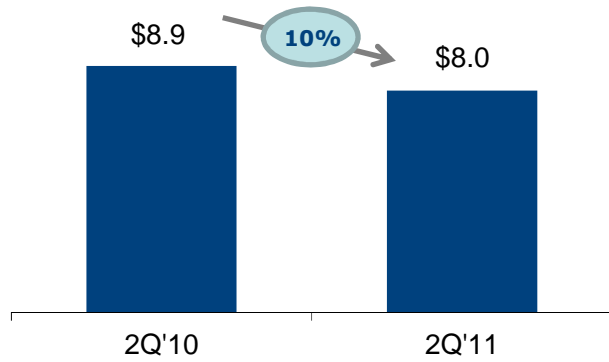
▶ **73% of HSI subscribers tied to bundle**

- Up from 70% in the same period a year-ago

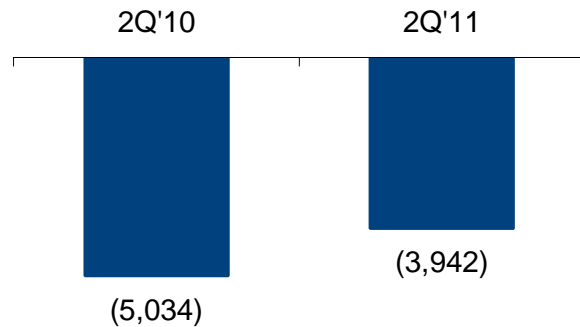
Long Distance Services

(\$ in millions)

Long Distance Services Revenue



LD Line – Quarterly Net Change



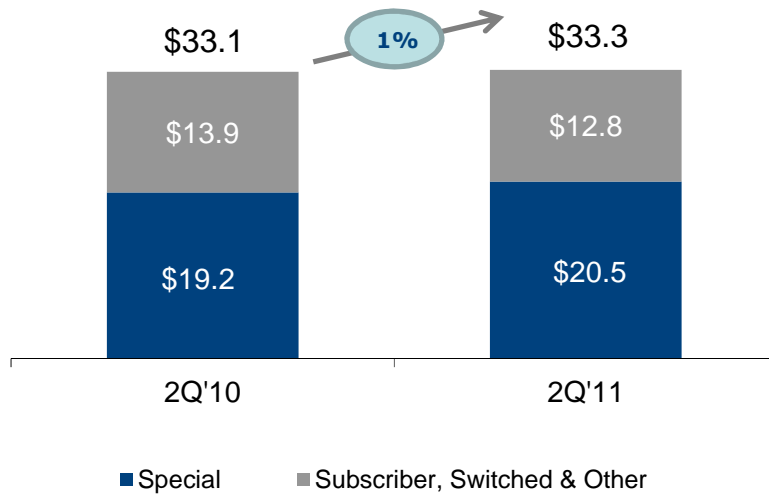
- ▶ **LD revenues down 10% Y/Y**
 - Continued secular pressures resulting in lower minutes of use
 - Increased migration to wireless & VoIP-based technologies

- ▶ **5.4% LD line loss**
 - 22% improvement versus 2Q'10
 - Rate of decline in residential & business LD lines consistent with voice access line trends

Network Access Services

(\$ in millions)

Network Access Services Revenue

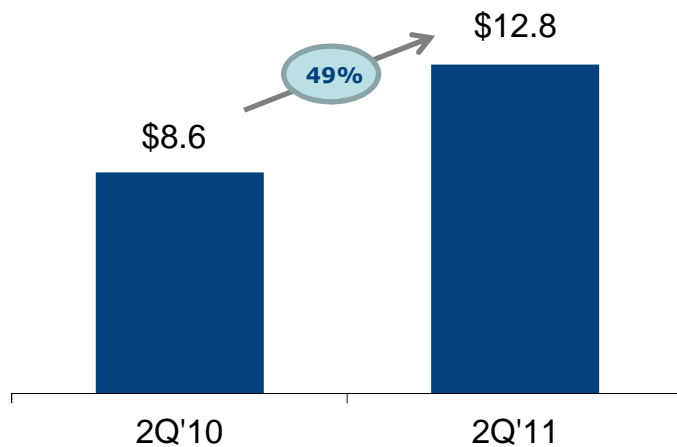


- ▶ **Network Access revenue up 1% Y/Y**
- ▶ **Special Access revenue up 7% Y/Y**
 - 61% of network access services revenue
 - Growth driven by higher demand for network capacity from wireless carriers and new IP-based business products
- ▶ **Subscriber, Switched & Other Access revenue down 8% Y/Y**
 - Reduction driven primarily by access line decline

Other Services & Sales

(\$ in millions)

Other Services & Sales Revenue

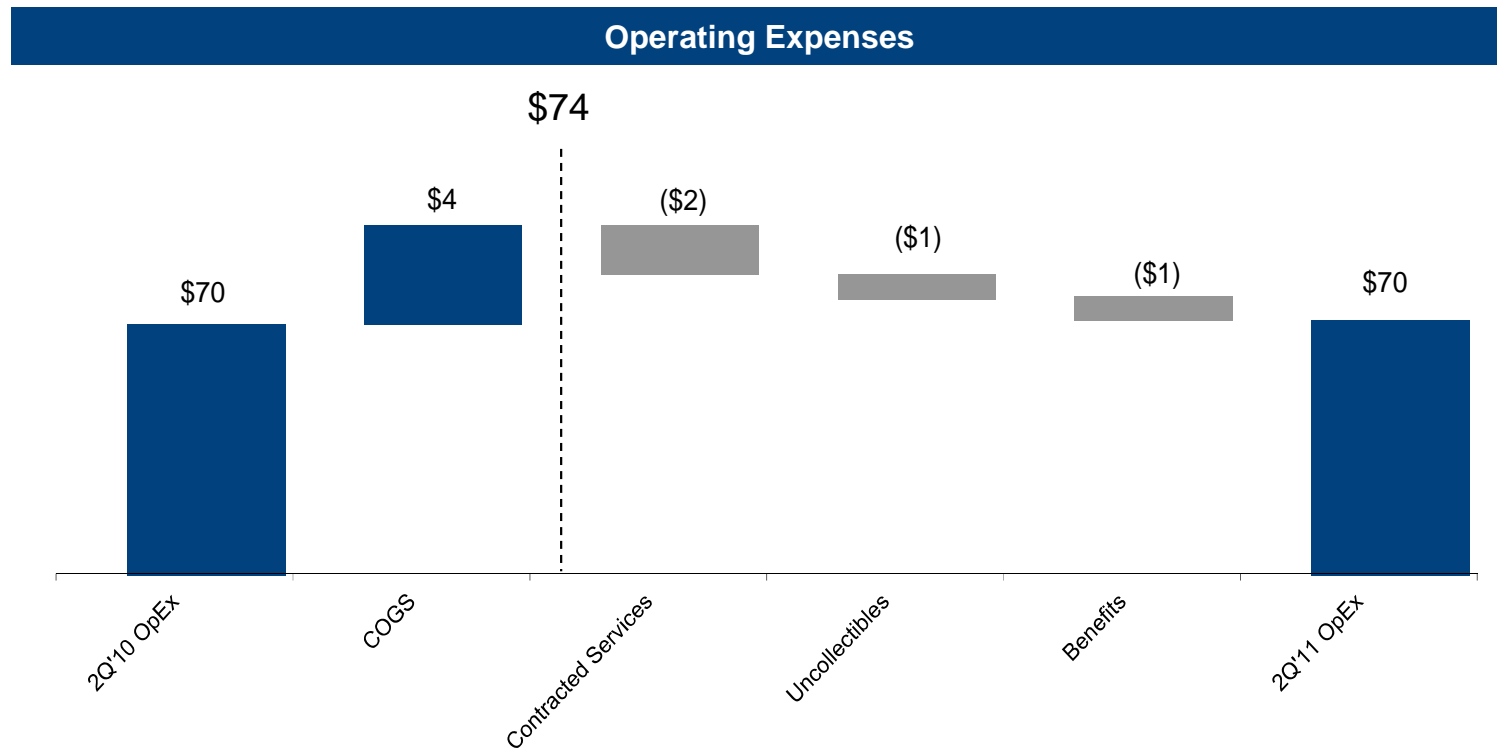


▶ Other services & sales revenue up \$4M Y/Y

- Increase driven primarily by equipment sales and installation for several local government customers
- Equipment sales transactions shifted to the second quarter

Operating Expenses

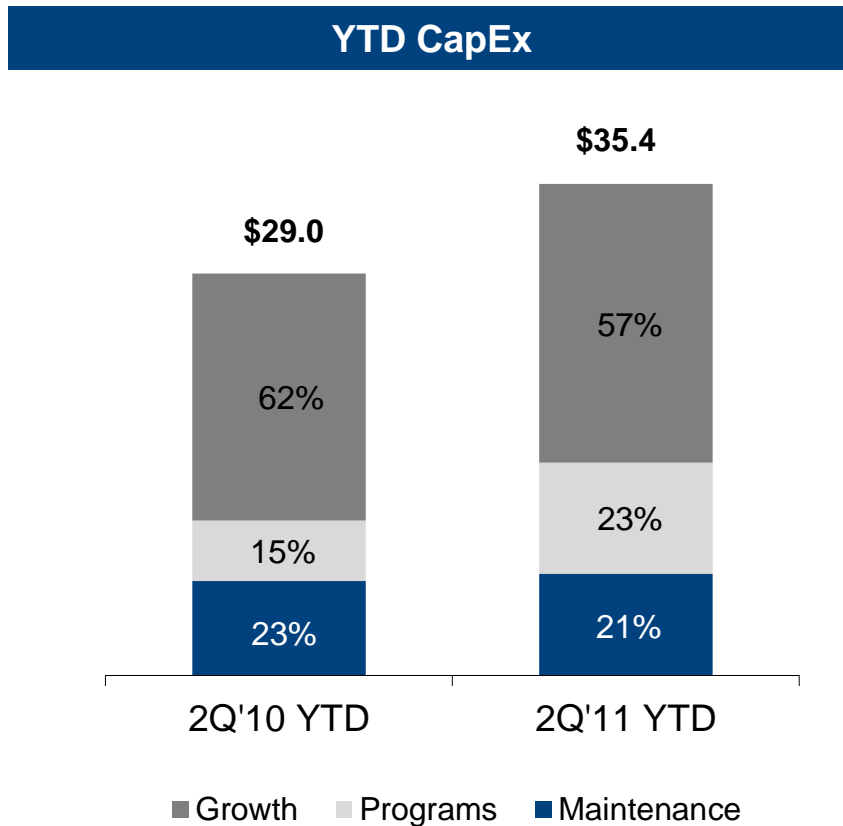
(\$ in millions)



- ▶ Overall operating expense reductions totaling more than \$4 million offset increased direct cost of goods related to higher equipment sales

Capital Expenditures

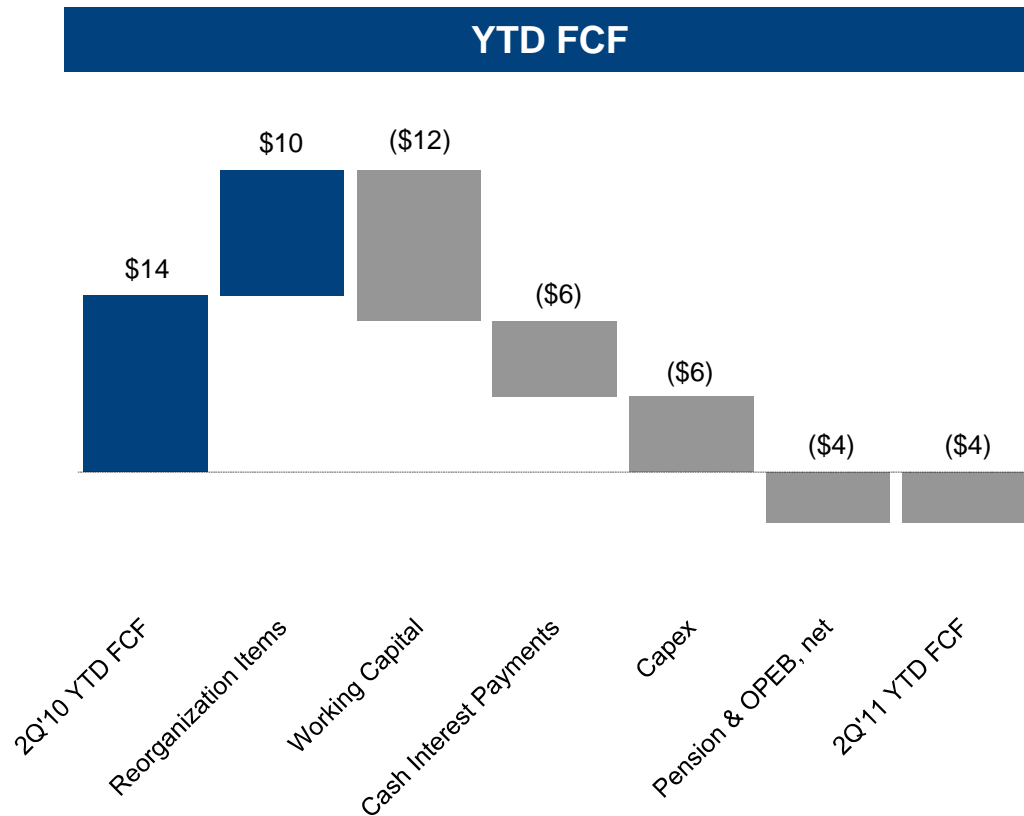
(\$ in millions)



- ▶ Overall \$6.4M increase in capital expenditures YTD
- ▶ Increase due primarily to fiber deployment to wireless cell sites to support 4G upgrade
- ▶ Focused on growth and expansion related initiatives
- ▶ Total 2011 expected to be comparable to 2010

Free Cash Flow

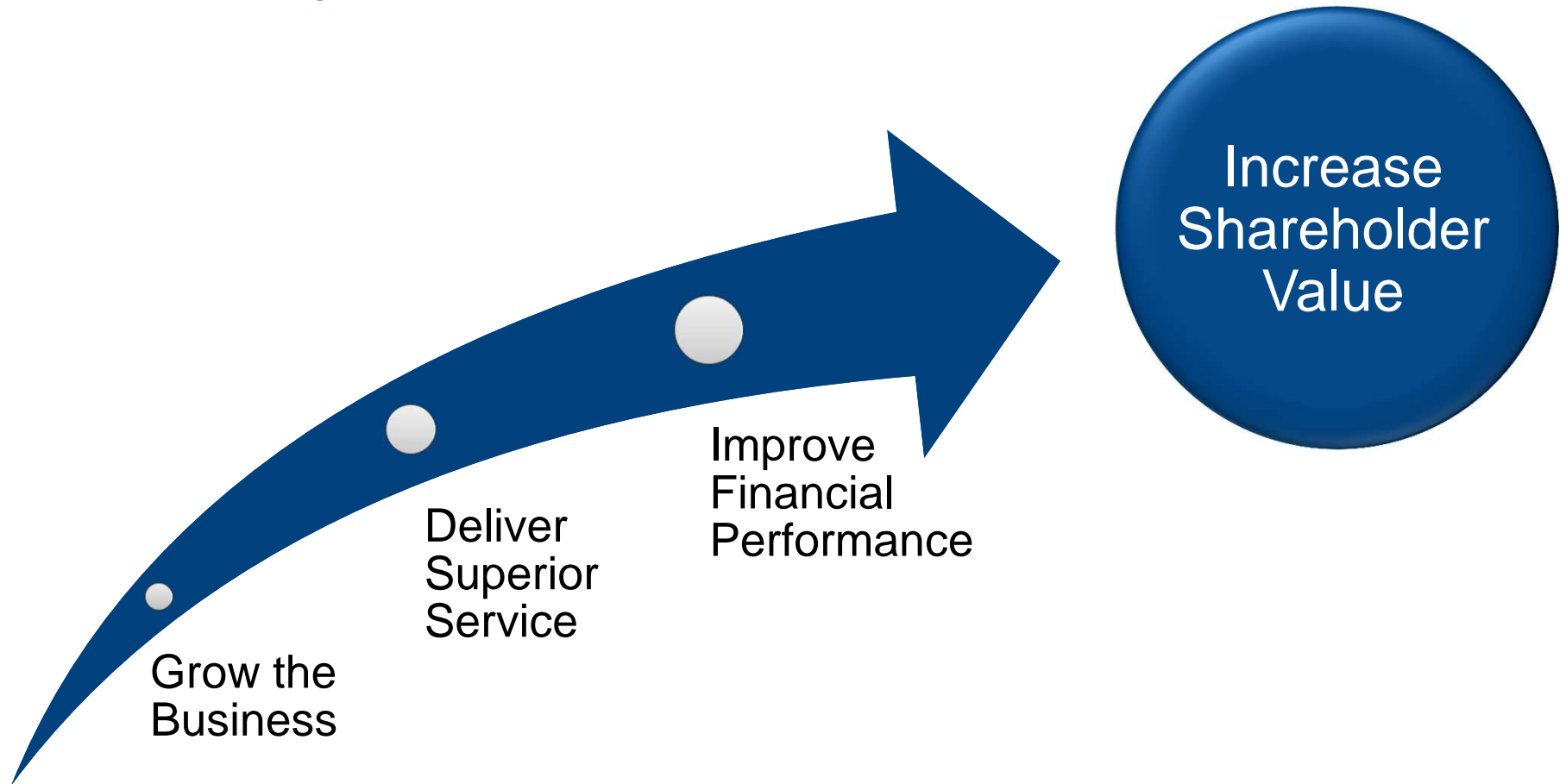
(\$ in millions)



▶ 2Q'11 YTD FCF of (\$4M)

- \$10M decrease in costs related to bankruptcy
- (\$6M) decrease from higher interest payments
- Unfavorable Y/Y comparisons for working capital, capital spending and pension funding expected to reverse as 2011 progresses

Summary Remarks



Q&A
