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 September 30, 2017

OR

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

For the transition period from ________to _______

Commission File Number: 001-34686

Hawaiian Telcom Holdco, Inc.
(Exact name of registrant as specified in its charter)

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

1177 Bishop Street
Honolulu, Hawaii 96813
(Address of principal executive offices)

808-546-4511
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer [ ]	Accelerated Filer [X]	Non-Accelerated Filer [ ] (Do not check if smaller reporting company)	Smaller reporting company [ ]
Emerging Growth Company [ ]			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

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

As of November 8, 2017, 11,587,963 shares of the registrant's common stock were outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating revenues	$ 91,013	$ 97,848	$ 276,821	$ 296,183
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	40,100	41,903	121,472	124,987
Selling, general and administrative	29,827	29,206	87,830	88,625
Depreciation and amortization	22,174	23,036	65,186	67,479
Total operating expenses	92,101	94,145	274,488	281,091
Operating income (loss)	(1,088)	3,703	2,333	15,092
Other income (expense):				
Interest expense	(4,150)	(4,156)	(11,962)	(12,879)
Loss on early extinguishment of debt	—	—	(4,826)	—
Total other expense	(4,150)	(4,156)	(16,788)	(12,879)
Income (loss) before income tax provision (benefit)	(5,238)	(453)	(14,455)	2,213
Income tax provision (benefit)	87,481	(174)	83,693	892
Net income (loss)	$ (92,719)	$ (279)	$ (98,148)	$ 1,321
Net income (loss) per common share -				
Basic	$ (8.00)	$ (0.02)	$ (8.48)	$ 0.11
Diluted	$ (8.00)	$ (0.02)	$ (8.48)	$ 0.11
Weighted average shares used to compute net income (loss) per common share -				
Basic	11,587,963	11,512,280	11,568,540	11,499,947
Diluted	11,587,963	11,512,280	11,568,540	11,539,828

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ (92,719)	$ (279)	$ (98,148)	$ 1,321
Other comprehensive income (loss):				
Retirement plan gain (loss)	2,485	(8,674)	22,628	(8,179)
Income tax benefit (provision) on other comprehensive income (loss)	(950)	3,315	(8,649)	3,126
Other comprehensive income (loss), net of tax	1,535	(5,359)	13,979	(5,053)
Comprehensive loss	$ (91,184)	$ (5,638)	$ (84,169)	$ (3,732)

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 44,723	$ 15,821
Receivables, net	30,374	33,377
Material and supplies	6,950	8,090
Prepaid expenses	4,906	4,093
Other current assets	2,582	7,229
Total current assets	89,535	68,610
Property, plant and equipment, net	608,098	595,997
Intangible assets, net	31,452	32,728
Goodwill	12,104	12,104
Deferred income taxes, net	—	92,171
Other assets	2,176	2,311
Total assets	$ 743,365	$ 803,921
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 10,250	$ 3,000
Accounts payable	52,899	53,506
Accrued expenses	13,326	15,293
Advance billings and customer deposits	15,165	15,013
Other current liabilities	6,407	6,327
Total current liabilities	98,047	93,139
Long-term debt	301,351	281,699
Employee benefit obligations	81,678	105,930
Other liabilities	39,039	18,239
Total liabilities	520,115	499,007
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,587,963 and 11,513,279 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	116	115
Additional paid-in capital	181,912	179,958
Accumulated other comprehensive loss	(21,239)	(35,218)
Retained earnings	62,461	160,059
Total stockholders' equity	223,250	304,914
Total liabilities and stockholders' equity	$ 743,365	$ 803,921

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities:		
Net income (loss)	$ (98,148)	$ 1,321
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	65,186	67,479
Deferred financing amortization	1,165	1,533
Loss on early extinguishment of debt	4,826	—
Employee retirement benefits	(1,624)	(6,430)
Provision for uncollectible receivables	2,791	2,908
Stock based compensation	2,050	1,722
Deferred income taxes	84,072	1,412
Changes in operating assets and liabilities:		
Receivables	212	1,340
Material and supplies	1,140	282
Prepaid expenses and other current assets	(1,166)	(1,839)
Accounts payable and accrued expenses	(44)	6,067
Advance billings and customer deposits	20,677	(2,227)
Other current liabilities	(272)	(600)
Other	(100)	(22)
Net cash provided by operating activities	80,765	72,946
Cash flows from investing activities:		
Capital expenditures	(75,718)	(78,334)
Net cash used in investing activities	(75,718)	(78,334)
Cash flows from financing activities:		
Proceeds from borrowing	330,000	—
Proceeds from installment financing	1,260	1,698
Repayment of capital lease and installment financing	(2,989)	(2,680)
Repayment of borrowings	(302,701)	(2,250)
Refinancing costs	(6,295)	(688)
Taxes paid related to net share settlement of equity awards	(495)	(354)
Net cash provided by (used in) financing activities	18,780	(4,274)
Net change in cash, cash equivalents and restricted cash	23,827	(9,662)
Cash, cash equivalents and restricted cash, beginning of period	21,146	30,312
Cash, cash equivalents and restricted cash, end of period	$ 44,973	$ 20,650

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Shares	Amount	Capital	Income (Loss)	Earnings	Equity
Balance, January 1, 2017	11,513,279	$ 115	$ 179,958	$ (35,218)	$ 160,059	$ 304,914
Cumulative effect of adoption of new accounting standard for stock compensation	—	—	—	—	550	550
Stock based compensation	—	—	2,050	—	—	2,050
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	74,684	1	(96)	—	—	(95)
Net loss	—	—	—	—	(98,148)	(98,148)
Other comprehensive income, net of tax	—	—	—	13,979	—	13,979
Balance, September 30, 2017	11,587,963	$ 116	$ 181,912	$ (21,239)	$ 62,461	$ 223,250
Balance, January 1, 2016	11,466,398	$ 115	$ 178,019	$ (29,388)	$ 158,953	$ 307,699
Stock based compensation	—	—	1,722	—	—	1,722
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	46,104	—	(354)	—	—	(354)
Net income	—	—	—	—	1,321	1,321
Other comprehensive loss, net of tax	—	—	—	(5,053)	—	(5,053)
Balance, September 30, 2016	11,512,502	$ 115	$ 179,387	$ (34,441)	$ 160,274	$ 305,335

See accompanying notes to condensed consolidated financial statements.

Hawaiian Telcom Holdco, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

Business Description

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

Proposed Merger

On July 9, 2017, Hawaiian Telcom Holdco, Inc. ("Holdco"), a Delaware corporation, Cincinnati Bell Inc. ("Cincinnati Bell"), an Ohio corporation, Twin Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Cincinnati Bell ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Merger Sub will merge with and into Holdco and Holdco will be the surviving corporation (the "Merger").

Pursuant to the Merger Agreement and as consideration for the Merger, Holdco shareholders will have the option to elect either $30.75 in cash, 1.6305 shares of Cincinnati Bell common stock, or a mix of $18.45 in cash and 0.6522 shares of Cincinnati Bell common stock for each Holdco share. The final distribution to Holdco shareholders is subject to proration such that the aggregate consideration to be paid to Holdco stockholders will be 60 percent cash and 40 percent Cincinnati Bell common stock. Such distribution will be made upon closing of the Merger.

The completion of this transaction is subject to closing conditions including the receipt of regulatory approvals from, among others, the Hawaii Public Utilities Commission, and approval by the Holdco shareholders. The Merger Agreement contains certain termination rights for Holdco and Cincinnati Bell. The Merger Agreement stipulates that in the event of a termination of the Merger Agreement under specified circumstances, primarily related to if the Company receives and favors a competing merger offer, the Company will be required to pay a fee of $11.9 million.

In connection with entering into the Merger Agreement with Cincinnati Bell, the Company incurred professional fees related to the transaction of $2.0 million and $2.2 million during the three and nine months ended September 30, 2017, respectively.

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 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, 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market accounts with maturities at acquisition of three months or less. The majority of cash balances at September 30, 2017 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $24.0 million and $21.7 million at September 30, 2017 and 2016, 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 $2.1 million and $2.1 million for the three months ended September 30, 2017 and 2016, respectively. Such taxes and fees amounted to $6.3 million and $6.4 million for the nine months ended September 30, 2017 and 2016, respectively.

Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Basic earnings per share - weighted average shares	11,587,963	11,512,280	11,568,540	11,499,947
Effect of dilutive securities:				
Employee and director restricted stock units	—	—	—	39,881
Diluted earnings per share - weighted average shares	11,587,963	11,512,280	11,568,540	11,539,828

The computation of weighted average dilutive shares outstanding excluded grants of restricted stock units convertible into 311,090 shares and 227,888 shares of common stock for the three months ended September 30, 2017 and 2016, respectively. The computation of weighted average dilutive shares outstanding excluded grants of restricted stock units convertible into 311,090 shares and 8,319 shares of common stock for the nine months ended September 30, 2017 and 2016, respectively. For the three and nine months ended September 30, 2017 and the three months ended September 30, 2016, the Company incurred a net loss so the restricted stock units are anti-dilutive to the computation of diluted net loss per share. For the nine months ended September 30, 2016, 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.

Recently Adopted Accounting Pronouncement

In March 2016, the Financial Accounting Standards Board (the "FASB") issued a new standard that simplifies the accounting for employee share-based payment transactions. The new standard impacts the accounting for related income taxes, forfeitures and statutory tax withholding requirements as well as the classification of certain related payments in the statement of cash flows. The new accounting guidance was effective for the Company in the first quarter of 2017. The adoption method required is specified as retrospective, modified retrospective or prospective for each of the various accounting provisions impacted by this new standard. The Company is accounting for forfeitures on its share-based transactions as they occur beginning January 1, 2017. The impact of the modified retrospective adoption of this provision was not significant. In addition, the Company began accounting for excess tax benefits and tax deductions on share-based award settlements prospectively as income tax expense or benefit in its condensed consolidated statements of income (loss) beginning January 1, 2017. Excess tax benefits that were not recognized prior to January 1, 2017 because the related tax deduction had not reduced taxes currently payable have been recognized on a modified retrospective basis through a cumulative effect adjustment which increased retained earnings as of January 1, 2017 by $0.6 million.

Recently Issued Accounting Pronouncements

In May 2017, the FASB issued additional guidance for stock compensation accounting. The guidance provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. The standard does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The amendment to the accounting standard is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted and the provisions must be applied prospectively to a stock award modified on or after the adoption date. The Company is currently assessing the impact that adopting this new accounting standard will have on its condensed consolidated financial statements.

In March 2017, the FASB issued a new standard that amends the income statement presentation of the components of net periodic benefit cost for defined benefit and other postretirement plans. The new standard requires that the current service cost component be disaggregated from the other components of net benefit cost. The other components must be presented elsewhere in the income statement outside of income from operations. In addition, only the service-cost component of net benefit cost is eligible for capitalization related to self-constructed assets. The new standard is effective for the Company beginning January 1, 2018 with early adoption permitted. The presentation requirements must be adopted on a retrospective basis and the change in capitalization methodology applied on a prospective basis. The Company currently presents the entire net benefit cost in income from operations but has disclosed the components of net benefit costs in Note 7 to the condensed consolidated financial statements. The Company is currently assessing the impact of adoption of the standard on its condensed consolidated financial statements.

In January 2017, the FASB issued new accounting guidance simplifying the test for goodwill impairment. The new guidance eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new standard, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company is currently evaluating the timing of adoption.

In May 2014, the FASB issued a new accounting standard which provides guidance for revenue recognition. The new accounting standard will supersede the current revenue recognition standard 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 Company has concluded that it will adopt the new standard in the first quarter of 2018 using the modified retrospective approach. The modified retrospective approach requires a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period for which the new accounting guidance is effective. The Company is currently evaluating the impact of the adoption of this accounting standard on the Company's consolidated financial statements. As this process is still ongoing, the final effect of adoption is not yet fully known. In conjunction with its efforts to prepare for adoption, the Company is focusing its analysis on timing of revenue recognition including for sales of certain telecommunications equipment. Consideration is being given to the accounting for the financing element of long-term contracts for fiber circuit capacity and the timing of expense recognition of costs to obtain a contract. As for financial statement presentation, the Company is evaluating the need to modify its presentation of certain revenue related assets and liabilities in its consolidated balance sheet upon adoption and to provide enhanced revenue related disclosures.

3. Receivables

Receivables consisted of the following (dollars in thousands):

	September 30, 2017	December 31, 2016
Customers and other	$ 34,344	$ 37,408
Allowance for doubtful accounts	(3,970)	(4,031)
	$ 30,374	$ 33,377

4. Long-Lived Assets

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

	September 30, 2017	December 31, 2016
Property, plant and equipment cost	$ 1,109,539	$ 1,036,137
Less accumulated depreciation	(501,441)	(440,140)
	$ 608,098	$ 595,997

Depreciation expense amounted to $21.7 million and $22.5 million for the three months ended September 30, 2017 and 2016, respectively. Depreciation expense amounted to $63.9 million and $65.9 million for the nine months ended September 30, 2017 and 2016, respectively.

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

	September 30, 2017			December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization:						
Customer relationships	$ 21,709	$ 17,562	$ 4,147	$ 21,709	$ 16,299	$ 5,410
Trade name and other	320	315	5	320	302	18
	22,029	17,877	4,152	22,029	16,601	5,428
Not subject to amortization:						
Brand name	27,300	—	27,300	27,300	—	27,300
	27,300	—	27,300	27,300	—	27,300
	$ 49,329	$ 17,877	$ 31,452	$ 49,329	$ 16,601	$ 32,728

As of September 30, 2017, the Company has goodwill of $12.1 million. Prior to 2017, the Company recognized $10.5 million of goodwill as part of the data center services segment and $1.6 million in the telecommunications segment. As further discussed in Note 14, because of recent operational, organizational and reporting changes, the Company has concluded it now has only one segment and one reporting unit. As such, the Company now classifies all goodwill in the one segment.

Amortization expense amounted to $0.4 million and $0.5 million for the three months ended September 30, 2017 and 2016, respectively. Amortization expense amounted to $1.3 million and $1.6 million for the nine months ended September 30, 2017 and 2016, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

Year ended December 31,	
2017 (remaining months)	$ 427
2018	1,307
2019	930
2020	574
2021	270
Thereafter	644
	$ 4,152

5. Accrued Expenses and Other Liabilities

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

	September 30, 2017	December 31, 2016
Salaries and benefits	$ 9,584	$ 11,662
Interest	2,863	2,583
Other taxes	879	1,048
	$ 13,326	$ 15,293

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

	September 30, 2017	December 31, 2016
Other postretirement benefits, current	$ 3,465	$ 3,332
Installment financing contracts, current	2,317	2,157
Other	625	838
	$ 6,407	$ 6,327

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

	September 30, 2017	December 31, 2016
Deferred revenue, noncurrent	$ 27,978	$ 7,453
Installment financing contracts, noncurrent	9,248	8,692
Other	1,813	2,094
	$ 39,039	$ 18,239

Deferred revenue includes advance billings of capacity and other services related to the Company's trans-Pacific cable as more fully described in Note 11.

6. Long-Term Debt

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

	Average Interest Rate September 30, 2017	Final Maturity	September 30, 2017	December 31, 2016
Term loan A-1	5.06 %	May 4, 2022	$ 88,875	$ —
Term loan A-2	5.31	May 4, 2023	228,563	—
Term loan retired	NA	NA	—	290,138
Debt issue costs and issue discount			(5,837)	(5,439)
			311,601	284,699
Current			10,250	3,000
Noncurrent			$ 301,351	$ 281,699

In February 2017, the Company entered into a delayed draw credit agreement for new term loans and a new revolving credit facility. The new facility fully funded the repayment of the existing term loan and replacement of the existing revolving credit on May 4, 2017. Included in the new facility is a term loan A-1 for $90.0 million with quarterly principal payments of $1.1 million with the balance due at maturity in May 2022. Interest, payable at least quarterly, is at the Alternate Base Rate plus a margin of 2.75% or a Eurocurrency rate plus a margin of 3.75%. In addition, the facility provides for a second term loan A-2 for $230.0 million with quarterly principal payments of $1.4 million for the first eight quarters and $2.9 million per quarter thereafter with the balance due at maturity in May 2023. Interest, payable at least quarterly, is at the Alternate Base Rate plus a margin of 3.0% or a Eurocurrency rate plus a margin of 4.0%.

The new facility also provides for a line of credit in the amount of $30.0 million with maturity in May 2022. A commitment fee is payable quarterly to the lender under the facility. Interest on the line of credit is at the Alternate Base Rate plus a margin of 2.75% or a Eurocurrency rate plus a margin of 3.75%. There were no drawings as of or for the periods ended September 30, 2017 on the new line of credit.

The interest rate margins on the facility are subject to a decrease of 0.25% with a defined improvement in the Company's leverage ratio. The obligations under the bank facilities are guaranteed by the Company and each subsidiary with certain exceptions. In addition, the bank credit facilities are collateralized by substantially all of the Company's assets.

The bank credit facilities contain various negative and affirmative covenants that restrict, among other things, incurrence of additional indebtedness, limitations on the amount of dividends that can be paid, redemptions of stock, other distributions to shareholders and sales of assets. In addition, there are financial covenants consisting of a debt coverage ratio, leverage ratio and a maximum level of capital expenditures.

The Company incurred $6.3 million in underwriting fees, original issue discount and legal costs in 2017 in conjunction with the new debt facility. Such costs and the existing debt original issue discount, deferred financing costs, underwriting fees and legal costs were accounted for in accordance with accounting standards for extinguishment of debt instruments. The Company compared each syndicated lenders' loan under the old term loan with the syndicated lenders' loan under the new term loans. All loans under the new term loan were deemed substantially different. As such, the Company deferred the costs of the new debt as a reduction of the carrying value of the new debt. In addition, the Company recognized the repayment of the existing debt instruments as a debt extinguishment incurring a loss on early extinguishment of debt of $4.8 million.

The Company had an existing revolving credit facility which was repaid and terminated on May 4, 2017. Drawings for the nine months ended September 30, 2017 amounted to $10.0 million. Such draws were used primarily to fund the construction of the SEA-US submarine cable system described in Note 11. There were no amounts drawn as of or for the nine months ended September 30, 2016.

One of the syndicated lenders in both the new term loan and the term loan retired is a cooperative bank owned by its customers. Annually, this bank distributes patronage in the form of cash and stock in the cooperative based on the Company's average outstanding loan balance. The Company recognizes the patronage, generally as declared, as a reduction of interest expense. The stock component is recognized at its stated cost basis with the accumulated stock investment included in other noncurrent assets. The investment balance as of September 30, 2017 was not significant.

Maturities

The annual requirements for principal payments on long-term debt as of September 30, 2017 are as follows (dollars in thousands):

Year ended December 31,	
2017 (remaining months)	$ 2,563
2018	10,250
2019	13,125
2020	16,000
2021	16,000
Thereafter	259,500
	$ 317,438

Capitalized Interest

Interest capitalized by the Company amounted to $0.5 million and $0.4 million for the three months ended September 30, 2017 and 2016, respectively. Interest capitalized by the Company amounted to $1.6 million and $1.1 million for the nine months ended September 30, 2017 and 2016, 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 formerly active plan.

The following provides the components of benefit costs (income) for the applicable periods (dollars in thousands):

Pension

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Interest cost	$ 1,626	$ 1,703	$ 5,126	$ 5,695
Expected asset return	(2,576)	(2,159)	(7,805)	(7,513)
Amortization of loss	120	136	361	392
Net periodic benefit income	(830)	(320)	(2,318)	(1,426)
Settlement loss	1,090	486	3,360	486
Total benefit (income) expense	$ 260	$ 166	$ 1,042	$ (940)

Other Postretirement Benefits

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Service cost	$ 215	$ 259	$ 683	$ 777
Interest cost	532	655	1,661	1,964
Amortization of (gain) loss	(213)	119	(464)	356
Total benefit expense	$ 534	$ 1,033	$ 1,880	$ 3,097

During the three and nine months ended September 30, 2017, the Company's pension plans for union employees and management employees paid lump-sum benefits to certain plan participants in full settlement of obligations due amounting to $6.8 million and $19.1 million, for the respective periods. This resulted in the recognition of a loss on settlement for both pension plans. Because of the settlements, the Company measured its pension plan obligations and plan assets as of each quarter end. The Company used discount rates ranging from 3.56% to 3.57% as of September 30, 2017 to measure the pension plan obligations. The new measurements resulted in recognition in other comprehensive income (loss) of a gain of $2.7 million and $3.5 million for the three and nine months ended September 30, 2017, respectively.

During the three months ended September 30, 2016, the Company determined it was probable lump sum benefits paid for its union pension plan in 2016 would exceed the threshold requiring settlement accounting. Actual lump sum benefits paid by the union plan amounted to $2.4 million for the nine months ended September 30, 2016. This resulted in recognition of a loss on settlement for the union plan during the three and nine months ended September 30, 2016 amounting to $0.5 million. The Company used a discount rate of 3.28% as of September 30, 2016 to measure the union plan benefit obligation. The new measurement resulted in a retirement plan loss which was recognized in other comprehensive loss of $8.9 million for the three and nine months ended September 30, 2016. For the nine months ended September 30, 2016, lump sum benefits paid for the management pension plan did not exceed the threshold requiring settlement accounting.

In January 2017, the Company amended the postretirement health benefits plan for management employees by implementing a cap on the amount of the premium subsidy at 2017 levels. This resulted in recognition of a negative plan amendment as of January 31, 2017. Because of the plan amendment, the Company measured its management postretirement benefits obligation as of January 31, 2017 using a discount rate of 4.07%. The new measurement resulted in a retirement plan gain which was recognized in other comprehensive income of $19.7 million for the nine months ended September 30, 2017.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2016 that it expected to contribute $4.8 million to its pension plan in 2017. For the nine months ended September 30, 2017, the Company has made contributions to the plan amounting to $3.0 million. The Company presently expects to contribute the full amount during the remainder of 2017.

8. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Income tax (benefit) at federal rate	$ (1,781)	$ (154)	$ (4,915)	$ 752
Increase (decrease) resulting from:				
State income taxes, net of federal income tax	(224)	(3)	(580)	143
Expense not deductible for tax	—	36	—	196
Tax credit included in taxable income	(21)	—	171	—
Other permanent differences	35	21	107	126
Capital goods excise tax credit	62	(74)	(500)	(325)
Change in valuation allowance	89,410	—	89,410	—
Total income tax provision (benefit)	$ 87,481	$ (174)	$ 83,693	$ 892

Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities at each balance sheet date using enacted tax rates expected to be in effect in the year differences are expected to reverse. Valuation allowances are recognized to reduce deferred income tax assets to the amount that will more likely than not be realized.

The Company assesses the ability to realize its deferred tax assets and assesses the need for a valuation allowance on an ongoing basis. The Company is required to consider all available positive and negative evidence in evaluating the likelihood that it will be able to realize the benefit of its deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations.

In considering the impact of recent operations on the Company’s deferred tax asset assessment, the Company utilizes a rolling three years of actual and current year anticipated results as the primary measure of cumulative income or losses. These are adjusted for permanent differences between financial reporting and taxable income. For the three and nine months ended September 30, 2017, the Company incurred a pretax loss from operations. In addition, as of September 30, 2017, the Company had a cumulative loss from operations for the three year period. Because of the three year cumulative losses, the Company is required to look only to sources of income that are deemed objective and verifiable based on historical experience. The Company considered that the cumulative loss was caused, in part, by costs not expected to recur in future periods such as merger costs. However, the loss was also caused by costs, such as pension settlement losses, that are not deemed part of core operations but the frequency of which is hard to predict. For example, in the third quarter of 2017, the level of retirements and related pension settlements ramped up making it more challenging to conclude such expenses will not recur in future periods. With the challenge of predicting future taxable income based on actual historical results, the Company had to limit the amount of taxable income included in its assessment of deferred income tax asset recoverability.

Based on the more likely than not criteria for realization of deferred income tax assets, the Company established a full valuation allowance for its deferred income tax assets as of September 30, 2017. If, in future periods, new positive evidence becomes available, the conclusion regarding the need for a full valuation allowance may change resulting in the reversal of some or all of the valuation allowance.

The Company evaluates its tax positions for liability recognition. As of September 30, 2017, the Company had no unrecognized tax benefits. No interest or penalties related to income tax assessments were recognized in the Company's condensed consolidated statements of income (loss) for the three or nine months ended September 30, 2017 and 2016. All tax years from 2013 remain open for both federal and Hawaii state tax purposes.

9. Stock Compensation

The Company has an equity incentive plan. The Compensation Committee of the Company's Board of Directors may grant awards under the plan in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards. The maximum number of shares issuable under the equity incentive plan is 1,400,000 shares with 467,891 shares remaining to be issued at September 30, 2017. All grants under the equity incentive plan will be issued to acquire shares at the fair value on date of grant.

As of September 30, 2017, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the nine months ended September 30, 2017 and 2016 was as follows:

	Shares	Weighted-Average Grant-Date Fair Value per Share
2017		
Nonvested at January 1, 2017	226,690	$ 25
Granted	164,190	24
Vested	(78,623)	25
Forfeited	(1,167)	21
Nonvested at September 30, 2017	311,090	$ 25
2016		
Nonvested at January 1, 2016	174,518	$ 26
Granted	127,360	25
Vested	(61,453)	25
Forfeited	(12,537)	25
Nonvested at September 30, 2016	227,888	$ 25

The Company recognized compensation expense of $0.8 million and $0.6 million for the three months ended September 30, 2017 and 2016, respectively. The Company recognized compensation expense of $2.1 million and $1.7 million for the nine months ended September 30, 2017 and 2016, respectively. The fair value as of the vesting date for the restricted stock units that vested during the nine months ended September 30, 2017 and 2016 was $1.3 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 20,996 and 15,351 for the nine months ended September 30, 2017 and 2016, 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 $0.5 million and $0.4 million for the nine months ended September 30, 2017 and 2016, respectively. Other than reimbursements for tax withholdings, there was no cash received under the restricted stock unit arrangements.

The Company also has a performance based compensation plan. The incentive compensation is settled in March of each year for the prior year services and is based on Company performance relative to certain company specific metrics. The Company recognizes the expense during the performance period based on the expected compensation amount. Beginning for the 2016 performance period, a specified portion of the compensation amount for certain employees are settled in Company shares based on the share price at the date of settlement. The estimated performance based compensation to be settled in stock amounted to $0.1 and $0.2 million for the three months ended September 30, 2017 and 2016, respectively. The estimated performance based compensation to be settled in stock amounted to $0.3 million and $0.6 million for the nine months ended September 30, 2017 and 2016, respectively. The fair value of the shares granted under the plan in March 2017 amounted to $0.7 million. Upon grant, employees were required to net share-settle to cover the required withholding tax. Total payments for the employees' tax obligations to the tax authorities by the Company amounted to $0.3 million. The net shares issued amounted to 17,174 shares which was based on the value of shares on the date of vesting.

10. Accumulated Other Comprehensive Loss

The balance of and all of the changes in accumulated other comprehensive loss as of and for the three and nine months ended September 30, 2017 and 2016, net of tax, are attributed to the Company's retirement plans.

Reclassifications out of accumulated other comprehensive loss were as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Retirement plans				
Amortization of gain/loss and settlement loss	$ 997	$ 741	$ 3,257	$ 1,234
Income tax provision on comprehensive income	(379)	(282)	(1,238)	(469)
Total	$ 618	$ 459	$ 2,019	$ 765

The amortization of gains and losses, and settlement loss were recognized primarily in selling, general and administrative expense for the periods ended September 30, 2017 and 2016.

11. Commitments and Contingencies

Trans-Pacific Submarine Cable

In August 2014, the Company joined several other telecommunication companies to build and operate a trans-Pacific submarine cable system. The total system cost amounted to $235 million and is primarily composed of a supply contract with the lead contractor. The Company has contributed $25 million over the multi-year construction period in exchange for a fractional ownership in the system. The Company recognized its fractional share of the cost. In addition, the Company constructed a cable landing station in Hawaii and is providing cable landing services. The system was completed in August 2017. As of September 30, 2017, the Company had incurred capital costs of $24.0 million primarily to the cable contractor for construction with all such costs capitalized.

The Company has excess capacity on its share of the trans-Pacific cable that it will make available to other carriers for a fee. The Company has contracted and expects to enter into additional contracts 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. As of September 30, 2017, the Company has entered into agreements for the sale of capacity and other services for $29.5 million, the majority of which has been received in up-front payments. As provided for in one of the agreements, funds of $5.0 million were held in escrow and released in August 2017 when the trans-Pacific cable was ready for service. The restricted cash was previously reflected in other current assets in the condensed consolidated balance sheet. A liability to provide services in the future for all up-front payments is included in advance billings and customer deposits and other liabilities. The Company is recognizing revenue for the circuits on a straight-line basis over the contract term.

Connect America Fund Phase II

In conjunction with reforming the Universal Service Fund, the Federal Communications Commission ("FCC") established the Connect America Fund ("CAF") which provides incremental support to broadband service providers. CAF Phase II is the long-term component of the program. In August 2015, the Company notified the FCC that it was accepting CAF Phase II support which amounts to $4.4 million in annual funding. Support is retroactive through the beginning of 2015 and will continue for six years. Under the terms of the CAF Phase II, the Company will offer broadband service at 10 Mbps downstream and 1 Mbps upstream or better to approximately 11,000 eligible locations in high-cost areas in the State of Hawaii and will provide voice and broadband services at reasonable rates. On a cumulative basis, as of December 31, 2017, the Company has an interim deployment obligation for approximately 4,400 locations. As of September 30, 2017, the Company had deployed to approximately 2,300 locations and expects to meet all of its interim and final deployment obligations. For the three months ended September 30, 2017 and 2016, the Company recognized $1.1 million and $1.1 million, respectively, in CAF Phase II funding as revenue. For the nine months ended September 30, 2017 and 2016, the Company recognized $3.3 million and $3.3 million, respectively, in CAF Phase II funding as revenue.

Collective Bargaining Agreement

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

Third Party Claims

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

Joint-Owned Utility Poles

Each of the electric utilities for the four counties in the State of Hawaii have separate agreements with the Company for the joint ownership and maintenance of utility poles along with other third parties, such as the State of Hawaii. The agreements set forth various circumstances requiring pole removal, installation and replacement and the sharing of costs among the joint pole owners. The agreements allow for the cost of work done by one joint pole owner to be shared by the other joint pole owners based on the apportionment of costs in the agreements. Generally, the electric utilities have maintained, replaced and installed the majority of the jointly-owned poles and have billed the other joint pole owners for their respective share of the costs. The Company has a disagreement with the common owner of the utilities in three of the counties in Hawaii regarding the amount the utilities are requesting for their share of the capitalized costs.

For one of the three utilities referenced above, a dispute resolution process is proceeding as specified by the joint pole agreement. For another of the utilities, a complaint for payment was filed by the utility with the State court in 2016. The Company has negotiated the structure for a potential resolution of the dispute with the three utilities. However, implementation depends on entering into various binding agreements with the utilities and approval of the Hawaii Public Utilities Commission with its jurisdiction over both the Company and the utilities. Management of the Company believes the amount recognized in the Company's condensed consolidated financial statements for amounts due the utilities are reflective of what is owed and a reasonable estimate of the final settlement to be reached with the utilities.

Litigation

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

12. Fair Value of Financial Instruments

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

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

Debt – The fair value of debt outstanding as of September 30, 2017 is estimated at its present value using current market rates for similar types of borrowing arrangements. The fair value of previously held debt as of December 31, 2016 was based on the value at which the debt was trading among holders.

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

	Carrying Value	Fair Value
September 30, 2017		
Liabilities - long-term debt (carried at cost)	311,601	317,927
December 31, 2016		
Liabilities - long-term debt (carried at cost)	284,699	293,765

Fair Value Measurements

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

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

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

	September 30, 2017	December 31, 2016
Liability value measurements using:		
Quoted prices in active markets for identical liabilities (Level 1)	$ —	$ —
Significant other observable inputs (Level 2)	317,927	293,765
Significant unobservable inputs (Level 3)	—	—
	$ 317,927	$ 293,765

13. Cash Flow Information

Supplemental cash flow information is as follows:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash paid during the year:		
Income taxes paid	$ —	$ —
Interest paid, net of amounts capitalized	10,517	9,938
Non-cash investing activities - capital assets acquired under installment contracts	2,423	—
Non-cash financing activities - common shares issued for performance based compensation, net of withholding taxes paid	400	—

The Company includes restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows effective with issuance of a new accounting standard in November 2016. Retrospective application of the new standard was required so the condensed consolidated statement of cash flows for the nine months ended September 30, 2016 was revised to reflect application of the new standard. This resulted in an increase to the beginning and ending reported cash, cash equivalents and restricted cash previously reported in the condensed consolidated statements of cash flow of $3.8 million for the nine months ended September 30, 2016.

The following is a reconciliation of cash, cash equivalents and restricted cash reported in the condensed consolidated balance sheets to the total of such amounts in the condensed consolidated statements of cash flows (dollars in thousands):

	September 30, 2017	December 31, 2016
Cash and cash equivalents	$ 44,723	$ 15,821
Restricted cash included in other current assets		
Escrow deposits for capacity sales	—	5,000
Restricted cash included in other assets		
Other	250	325
Total cash, cash equivalents and restricted cash	$ 44,973	$ 21,146

The escrow deposits for capacity sales are more fully described in Note 11. The restriction on the escrow deposits was removed in the third quarter of 2017.

14. Segment Information and Revenue by Channel

The Company prior to 2017 operated in two reportable segments of telecommunications and data center services. This conclusion was based on how resources were allocated and assessed by the Company's Chief Executive Officer, the Company's chief operating decision maker. The Company had initially formed the data center services segment in 2013 with the expectation that the segment would operate independently and focus on colocation services. The Company's strategy has evolved to emphasize a bundle of telecommunication services to its customers including colocation. In addition, the Company is focusing its efforts on obtaining the benefit of cross selling services and gaining efficiencies of a more integrated operation. With this change in strategy, the Company has implemented certain operational, organizational and reporting changes. Among the changes is the Chief Executive Officer is no longer provided information with which to separately evaluate the data center services segment or any other component for standalone performance or resource allocation. Hence, given the integrated nature of the Company's telecommunication operations, including its leveraging of its primary network to provide the majority of its services, management has concluded the Company now has only one segment.

The following table provides information on the Company's revenue by channel (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Business services	$ 41,860	$ 44,797	$ 127,363	$ 136,312
Consumer services	33,688	35,680	101,780	107,838
Wholesale carrier data	12,567	13,440	37,997	40,373
Other	2,898	3,931	9,681	11,660
	$ 91,013	$ 97,848	$ 276,821	$ 296,183

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

Forward-Looking Statements

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

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

These and other factors may cause our actual results to differ materially from any forward-looking statement. Refer to our Annual Report on Form 10-K and Part II, Item 1A, Risk Factors, 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.

Significant Recent Development

On July 9, 2017, Hawaiian Telcom Holdco, Inc. ("Holdco"), a Delaware corporation, Cincinnati Bell Inc. ("Cincinnati Bell"), an Ohio corporation, Twin Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Cincinnati ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Merger Sub will merge with and into Holdco and Holdco will be the surviving corporation (the "Merger"). On November 7, 2917, our stockholders approved the Merger but the Merger remains subject to regulatory approvals.

The announcement and pendency of the Merger may adversely affect our business due to customers' uncertainty and employee and other disruptions as well as intensified competition from our competitors as they attempt to take advantage of the uncertainties. We are actively managing the Merger process through enhanced communication and outreach to key stakeholders including customers, employees, community members and suppliers.

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.

Sources of Revenue

We derive revenue from the following sources in three main customer channels:

Business Channel

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

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

Hosted and managed services includes physical colocation, virtual colocation and various related security, network management and network installation related services.

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

Consumer Channel

Video services are marketed as Hawaiian Telcom TV which includes digital television as well as advanced entertainment services. High-Speed Internet services are provided to residential customers as well. Voice services include basic local phone and long distance services, as well as enhanced features.

Wholesale Channel

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

Other

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

Results of Operations for the Three and Nine Months Ended September 30, 2017 and 2016

For the three and nine months ended September 30, 2017, the Company incurred a net loss of $92.7 million and $98.1 million, respectively. For the three months ended September 30, 2016, the Company had a nominal loss of $0.3 million. For the nine months ended September 30, 2016, the Company had net income of $1.3 million.

The net loss for the current year periods was most significantly impacted by the income tax provision of $87.5 million and $83.7 million for the three and nine months ended September 30, 2017, respectively. In part, because of recent pretax losses from operations, the Company concluded it was not appropriate to factor in future income in its assessment of the realization of deferred income tax assets. As such we established a full valuation allowance for our deferred income tax assets as of September 30, 2017 resulting in the large income tax provision.

The loss before the income tax provision was impacted by several factors. We incurred professional fees related to the proposed merger of $2.0 million and $2.2 million for the three and nine months ended September 30, 2017, respectively. For the three and nine month periods ended September 30, 2017, we incurred pension settlement losses of $1.1 million and $3.4 million, respectively, associated with a higher level of retirements starting in the early part of 2017. In addition, for the nine month period, we incurred a loss on the early extinguishment of debt of $4.8 million.

Operating Revenues

The following tables summarize our volume information (lines or subscribers) as of September 30, 2017 and 2016, and our operating revenues for the three and nine months ended September 30, 2017 and 2016. For comparability, we also present volume information as of September 30, 2017 compared to June 30, 2017.

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

Beginning in 2017, we discontinued separate reporting of data center services revenue. As discussed in Note 14 to the condensed consolidated financial statements, we no longer separately report data center services as a separate segment. All revenue is now reported by its nature on a companywide basis. Prior period information has been revised to reflect the current presentation.

Volume Information

As of September 30, 2017 compared to September 30, 2016

	September 30,		Change	
	2017	2016	Number	Percentage
Business				
Data lines	18,530	19,754	(1,224)	(6.2)%
BVoIP lines	21,421	18,593	2,828	15.2 %
Voice access lines	153,273	162,587	(9,314)	(5.7)%
Consumer				
Video subscribers	44,312	39,774	4,538	11.4 %
Internet lines	90,563	91,000	(437)	(0.5)%
Voice access lines	123,738	139,167	(15,429)	(11.1)%
Homes enabled for video	205,000	201,000	4,000	2.0 %

As of September 30, 2017 compared to June 30, 2017

	September 30, 2017	June 30, 2017	Change	
			Number	Percentage
Business				
Data lines	18,530	18,917	(387)	(2.0)%
BVoIP lines	21,421	20,666	755	3.7 %
Voice access lines	153,273	155,743	(2,470)	(1.6)%
Consumer				
Video subscribers	44,312	43,235	1,077	2.5 %
Internet lines	90,563	90,073	490	0.5 %
Voice access lines	123,738	127,134	(3,396)	(2.7)%
Homes enabled for video	205,000	204,000	1,000	0.5 %

Operating Revenues (dollars in thousands)

	Three Months Ended September 30,		Change	
	2017	2016	Amount	Percentage
Business				
Data services	$ 14,876	$ 15,426	$ (550)	(3.6)%
Voice services	20,431	21,687	(1,256)	(5.8)%
Hosted and managed services	1,503	1,523	(20)	(1.3)%
Equipment and related services	5,050	6,161	(1,111)	(18.0)%
	41,860	44,797	(2,937)	(6.6)%
Consumer				
Video services	11,103	10,483	620	5.9 %
Internet services	6,639	7,053	(414)	(5.9)%
Voice services	15,946	18,144	(2,198)	(12.1)%
	33,688	35,680	(1,992)	(5.6)%
Wholesale carrier data	12,567	13,440	(873)	(6.5)%
Other	2,898	3,931	(1,033)	(26.3)%
	$ 91,013	$ 97,848	$ (6,835)	(7.0)%

Operating Revenues, continued (dollars in thousands)

	Nine Months Ended September 30, 2017	2016	Change Amount	Percentage
Business				
Data services	$ 45,495	$ 49,847	$ (4,352)	(8.7)%
Voice services	62,423	65,851	(3,428)	(5.2)%
Hosted and managed services	4,677	4,810	(133)	(2.8)%
Equipment and related services	14,768	15,804	(1,036)	(6.6)%
	127,363	136,312	(8,949)	(6.6)%
Consumer				
Video services	32,502	29,907	2,595	8.7 %
Internet services	19,940	22,106	(2,166)	(9.8)%
Voice services	49,338	55,825	(6,487)	(11.6)%
	101,780	107,838	(6,058)	(5.6)%
Wholesale carrier data	37,997	40,373	(2,376)	(5.9)%
Other	9,681	11,660	(1,979)	(17.0)%
	$ 276,821	$ 296,183	$ (19,362)	(6.5)%

Business Channel

The Company continues to transform its business channel by replacing traditional voice services with next generation strategic services. The Company considers strategic service revenues in the business channel to include business data services, and hosted and managed services.

Business data services, including internet and BVoIP, decreased for the three and nine months ended September 30, 2017 compared to the same periods in the prior year. Demand for data services continues to rise as reflected in the growth of BVoIP lines. However, revenues were adversely impacted by competitive pricing pressure and declining revenue associated with one large institutional customer. For the nine months ended September 30, 2017 and 2016, business data services revenue from this customer amounted to $1.2 million and $5.6 million, respectively, including non-recurring fee revenue on certain upfront billed amounts which ended with the fixed contract term on June 30, 2016. In addition, during the nine months ended September 30, 2016, we recognized the remaining balance of deferred up-front charges of $0.8 million when another institutional customer terminated the related services.

Continued competition in the telecommunications industry has increasingly resulted in customers using technologies other than traditional phone lines for voice and data. Business customers are moving local voice services to VoIP technology. Generally, VoIP technology is less expensive than traditional wireline phone service, requiring us to respond with more competitive bundled unified services such as our BVoIP product.

The decrease in voice service revenues for the business channel for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 was caused primarily by the decline of voice access lines. Business voice access lines decreased 5.7% as of September 30, 2017 compared to September 30, 2016. The decline in traditional voice access lines was partially offset by an increase in BVoIP lines of 15.2% for the same period.

Hosted and managed services revenues for the three and nine months ended September 30, 2017 were comparable to the prior year periods.

Equipment and related services revenues decreased for the three and nine months ended September 30, 2017 when compared to the prior year periods because of large contract installations for certain commercial and institutional customers completed in 2016. Revenue from equipment sales varies from period to period based on the volume of large installation projects.

Consumer Channel

The Company continues to transform its consumer channel by replacing traditional voice services with next generation strategic services. The Company considers strategic service revenues in the consumer channel to include video and internet services. Consumer strategic revenues now represent 53% of the total consumer channel revenues for the current quarter compared to 49% in the prior year period.

Video services revenue increased for the three and nine months ended September 30, 2017 compared to the same periods in the prior year because of an increase in video subscribers of 11.4%.

Internet revenues for the three and nine months ended September 30, 2017 decreased compared to the prior year as a result of the combined effect of competitive pricing and a decline in low-bandwidth internet subscribers.

The decrease in voice services revenue for the three months and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016 was caused primarily by a decline in voice access lines. Consumer voice access lines decreased 11.1% from the year ago period which contributed an estimated $2.0 million and $6.2 million to the decline in consumer voice services revenue for the three and nine months ended September 30, 2017, respectively. Residential customers are increasingly using wireless services in place of traditional wireline phone services as well as using VoIP technology offered by cable competitors.

In an effort to slow the rate of internet and voice line loss, we are continuing retention and acquisition programs, and are increasingly focusing efforts on bundling of services. We have instituted various "saves" campaigns designed to focus on specific circumstances where we believe customer churn is controllable. These campaigns include targeted offers to "at risk" customers as well as other promotional tools designed to enhance customer retention. We also emphasize win back and employee referral programs. Additionally, we are intensifying our efforts relative to developing tools and training to enhance our customer service capability to improve customer retention and growth.

Wholesale and Other Channel

Wholesale carrier revenue decreased for the three and nine months ended September 30, 2017 compared to the same periods in the prior year as certain carriers have replaced older legacy circuits with more cost effective higher bandwidth solutions.

Other revenue decreased for the three and nine months ended September 30, 2017 compared to the same periods in 2016 because of a decline in ancillary services. There has been a reduction in marketing effort on certain ancillary products, such as wireless, as we focus on other telecommunication services.

Operating Costs and Expenses

The following tables summarize our costs and expenses for the three and nine months ended September 30, 2017 compared to the costs and expenses for the three and nine months ended September 30, 2016 (dollars in thousands):

	Three Months Ended September 30,		Change	
	2017	2016	Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$40,100	$41,903	$(1,803)	(4.3)%
Selling, general and administrative expenses	29,827	29,206	621	2.1 %
Depreciation and amortization	22,174	23,036	(862)	(3.7)%
	$92,101	$94,145	$(2,044)	(2.2)%

	Nine Months Ended September 30,		Change	
	2017	2016	Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$121,472	$124,987	$(3,515)	(2.8)%
Selling, general and administrative expenses	87,830	88,625	(795)	(0.9)%
Depreciation and amortization	65,186	67,479	(2,293)	(3.4)%
	$274,488	$281,091	$(6,603)	(2.3)%

The Company's total headcount as of September 30, 2017 was 1,220 compared to 1,289 as of September 30, 2016. 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, video content costs and other cost of services directly associated with various products. Costs of revenue for the three and nine months ended September 30, 2017 when compared to the prior year periods decreased with reduced costs of labor of $0.7 million and $2.2 million, respectively, with an emphasis on labor efficiency. In addition, for the three and nine month periods in 2017 compared to the same periods in 2016, we incurred $0.3 million and $1.9 million less in third party labor costs.

Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. The change for the three and nine months ended September 30, 2017 relative to the three and nine months ended September 30, 2016 is primarily due to lower wage costs of $1.2 million and $2.9 million, respectively, on lower headcount. In addition, employee retirement costs declined for the three months ended September 30, 2017 compared to the same period in prior year by $0.4 million and increased for the nine months ended September 30, 2017 by $0.8 million. Retirement costs were primarily impacted by the level of retirements in each period impacting the amount of losses recognized on pension lump sum settlements. Selling, general and administrative expenses were also impacted by professional fees related to the pending merger amounting to $2.0 million and $2.2 million for the three and nine months ended September 30, 2017, respectively.

Depreciation and amortization for the three and nine month periods ended September 30, 2017 was lower than the same periods in the prior year due to certain assets becoming fully depreciated in the latter part of 2016.

Other Income and (Expense)

The following tables summarize other income (expense) for the three and nine months ended September 30, 2017 and 2016 (dollars in thousands).

	Three Months Ended September 30,		Change	
	2017	2016	Amount	Percentage
Interest expense	$ (4,150)	$ (4,156)	$ 6	(0.1)%
	$ (4,150)	$ (4,156)	$ 6	(0.1)%

	Nine Months Ended September 30,		Change	
	2017	2016	Amount	Percentage
Interest expense	$ (11,962)	$ (12,879)	$ 917	(7.1)%
Loss on early extinguishment of debt	(4,826)	—	(4,826)	NA %
	$ (16,788)	$ (12,879)	$ (3,909)	30.4 %

Interest expense for the nine months ended September 30, 2017 decreased compared to the same period in 2016 due to lower interest rates associated with our new financing. Interest capitalized amounted to $0.5 million and $0.4 million for three months ended September 30, 2017 and 2016, respectively. Interest capitalized amounted to $1.6 million and $1.1 million for nine months ended September 30, 2017 and 2016, respectively. The growth in capitalized interest is due to the financing costs attributed to the trans-Pacific cable that was under construction until completion in August 2017.

In February 2017, we entered into a delayed draw credit agreement for new term loans and a new revolving credit facility. The new facility fully funded the repayment of the existing term loan and replacement of the existing revolving credit facility on May 4, 2017. We recognized the repayment of the existing debt instruments as a debt extinguishment incurring a loss on early extinguishment of debt of $4.8 million.

Income Tax Provision

For the three and nine months ended September 30, 2017, we recognized an income tax provision of $87.5 million and $83.7 million, respectively. The large tax provision was primarily attributed to the full valuation allowance established for deferred income tax assets in the current year periods.

We assess the ability to realize our deferred tax assets and assess the need for a valuation allowance on an ongoing basis. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations.

In considering the impact of recent operations on our deferred tax asset assessment, we utilize a rolling three years of actual and current year anticipated results as the primary measure of cumulative income or losses. These are adjusted for permanent differences between financial reporting and taxable income. For the three and nine months ended September 30, 2017, we incurred a pretax loss from operations. In addition, as of September 30, 2017, we had a cumulative loss from operations for the three year period. Because of the three year cumulative losses, we are required to look only to sources of income that are deemed objective and verifiable based on historical experience. We considered that the cumulative loss was caused, in part, by costs not expected to recur in future periods such as merger costs. However, the loss was also caused by costs, such as pension settlement losses, that are not deemed part of core operations but the frequency of which is hard to predict. For example, in the third quarter of 2017, the level of retirements and related pension settlements ramped up making it more challenging to conclude such expenses will not recur in future periods. With the challenge of predicting future taxable income based on actual historical results, we had to limit the amount of taxable income included in our assessment of deferred income tax asset recoverability.

Based on the more likely than not criteria for realization of deferred income tax assets, we established a full valuation allowance for our deferred income tax assets as of September 30, 2017. If, in future periods, new positive evidence becomes available, the conclusion regarding the need for a full valuation allowance may change resulting in the reversal of some or all of the valuation allowance.

For the current year periods, the income tax provision differs from amounts determined by applying the statutory federal income tax rate of 34% to the loss before income taxes primarily because of changes in the valuation allowance established for the recovery of deferred income tax assets. Excluding the effects of the valuation allowance, 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, 2016, net operating losses available for carry forward through 2036 amounted to $166.5 million for federal tax purposes and $172.5 million for state tax purposes. Availability of net operating losses in future periods may be subject to additional limitations if there is a deemed change in control for income tax reporting purposes. Such change in control is determined for income tax reporting purposes based on cumulative changes in stock ownership over a defined period.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents of $44.7 million. From an ongoing operating perspective, our cash requirements in 2017 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, cash generated from operating activities and available financing will be used to fund our cash requirements.

We continue to focus on improving operating results, including efforts to simplify product offerings, improve our customer service experience and increase our revenue enhancement activities. There can be no assurance that these actions will result in improved overall cash flow. We continue to have sizable retirement obligations for our existing employee base. Any sustained declines in the value of pension trust assets or relatively high levels of pension lump sum benefit payments, 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 Nine Months Ended September 30, 2017 and 2016

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 $80.8 million for the nine months ended September 30, 2017. Net cash provided by operations amounted to $72.9 million for the nine months ended September 30, 2016. The increase in cash provided by operations was because of up-front payments received for fiber circuit capacity on our trans-Pacific cable that was completed in August 2017.

Cash used in investing activities for the nine months ended September 30, 2017 was comprised of capital expenditures of $75.7 million. Cash used in investing activities included capital expenditures of $78.3 million for the nine months ended September 30, 2016. The level of capital expenditures for 2017 is expected to be less than in 2016 as we scale back capital on certain elements of our network expansion initiatives focusing on those directly related to sales opportunities.

During the nine months ended September 30, 2017, we received the proceeds of our new term loan borrowing of $320.0 million. Prior to funding the term loan, we had made borrowings on our existing line of credit of $10.0 million in 2017. The drawing was used, in part, to fund capital costs of our trans-Pacific submarine cable. The new term loan funded the repayment of the existing term debt and the outstanding balance on our existing line of credit. Total repayments of debt amounted to $302.7 million for the nine months ended September 30, 2017. In addition, during the same period we paid for costs of the new financing amounting to $6.3 million. The balance of cash flows from financing activities for the nine months ended September 30, 2017 and 2016 was related primarily to proceeds from and satisfaction of other obligations.

Outstanding Debt and Financing Arrangements

In February 2017, we entered into a delayed draw credit agreement for new term loans and a new revolving credit facility. The new facility funded repayment of the existing term loan and replacement of the existing revolving credit facility on May 4, 2017. Included in the new facility is a term loan for $90.0 million with a maturity in 2022 and another term loan for $230.0 million with a maturity in 2023. The agreement also provides for a new line of credit for $30.0 million with a maturity in 2022. The new financing provided significant additional cash resources.

With our new debt structure, we do not expect to generate the necessary cash flows from operations to repay the facility in its entirety by the maturity dates of 2022 and 2023. 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 nine months ended September 30, 2017, the Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2016 in our Form 10-K. However, we did fund our new term debt facility on May 4, 2017 and repaid existing debt which resulted in revised obligations for term debt and debt interest as of September 30, 2017, at current rates, as follows (dollars in thousands):

	2017	2018 and 2019	2020 and 2021	2022 and Thereafter	Total
Term loan facility	$2,563	$23,375	$32,000	$259,500	$317,438
Debt interest	4,271	32,646	29,680	14,364	80,961
Total	$6,834	$56,021	$61,680	$273,864	$398,399

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

Critical Accounting Policies and Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on the condensed consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. The Company's critical accounting policies that require the use of estimates and assumptions were discussed in detail in our Annual Report on Form 10-K for the year ended December 31, 2016, and have not changed materially from that discussion. The possible impact of recently adopted and recently issued accounting pronouncements is discussed in Note 2 to the condensed consolidated financial statements included in Part I, Financial Information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2017, our floating rate obligations consisted of $317.4 million of debt outstanding under our term loan facility. Accordingly, our earnings and cash flow are affected by changes in interest rates. Based on our borrowings at September 30, 2017 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 $3.2 million.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Certifications

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On October 13, 2017, plaintiff Anthony Franchi filed a putative class action lawsuit in the U.S. District Court for the District of Hawaii, against the Company, the individual members of the Company's board of directors, Cincinnati Bell Inc. ("Cincinnati Bell") and Twin Acquisition Corp. a wholly-owned subsidiary of Cincinnati Bell, as defendants (the "Complaint"). The Complaint alleges violations of federal securities laws due to alleged omissions of certain material information in the Registration Statement on Form S-4 filed by Cincinnati Bell with the United States Securities and Exchange Commission (the "SEC") on August 17, 2017 (the "Registration Statement"), in connection with the proposed merger between the Company and Twin Acquisition Corp. (the "Proposed Merger"). Plaintiffs are seeking to enjoin the Proposed Merger, or if the Proposed Merger is consummated, an order rescinding the Proposed Merger, dissemination of a Registration Statement that includes the information alleged to have been omitted, certain declaratory relief and an award of attorneys' fees. Although the Company believes the Complaint lacks merit and no further disclosure was required to supplement the Registration Statement or related proxy statement/prospectus under applicable laws, to avoid the risk that the Complaint may delay or otherwise adversely affect consummation of the Proposed Merger and to minimize the expense of defending such action, the Company voluntarily supplemented the disclosures contained in the Definitive Proxy Statement on Schedule 14A filed with the SEC on October 5, 2017, all of which are set forth in the Current Report on Form 8-K filed by the Company with the SEC on October 31, 2017.

Item 1A. Risk Factors

See Part I, Item 1A, "Risk Factors," of our 2016 Annual Report for a detailed discussion of risk factors related to our business, results of operations and financial condition along with the following new risk factor.

Our business may be adversely affected by the announcement and pendency of our merger agreement with Cincinnati Bell.

The announcement and pendency of the Merger may adversely affect our business due to customers' uncertainty and employee and other disruptions as well as intensified competition from our competitors as they attempt to take advantage of the uncertainties. In addition, we have incurred legal and other expenses in connection with the pending Merger. All of these factors may have an adverse effect on our financial condition or results of operations.

Under the terms of the Merger Agreement, we have agreed to operate our business in the ordinary course consistent with past practice, as well as to refrain from taking certain actions in the conduct of our business without Cincinnati Bell's prior written consent until the consummation of the Merger. Actions that may require Cincinnati Bell's consent include, but are not limited to, new indebtedness, capital expenditures, loans and investments, acquisitions, and issuances of securities. These restrictions could adversely affect our business and have an adverse effect on our financial condition or results of operations.

There is no assurance that the Merger with Cincinnati Bell will occur. Completion of the Merger is subject to various customary closing conditions, including, but not limited to, (i) approval of the Merger Agreement by our shareholders, (ii) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) consents having been obtained from the Federal Communications Commission and the Hawaii Public Utilities Commission, (iv) the absence of any order or injunction prohibiting the consummation of the Merger, (v) the accuracy of the representations and warranties of each party, (v) performance, in all material respects, all obligations and compliance with, in all material respects, agreements and covenants to be performed or complied with by each party and (vi) declaration of effectiveness of the Registration Statement on Form S-4 to be filed by Cincinnati Bell. Additional risks and uncertainties which could affect the parties' ability to complete the Merger include, without limitation, the possibility of litigation (including related to the transaction itself) and successful completion of anticipated financing arrangements. If the Merger is not completed, the share price of our common stock will change to the extent that the current market price of the Company's common stock reflects an assumption that the Merger will be completed.

In addition, under circumstances defined in the Merger Agreement, we might be required to pay a termination fee of $11.9 million. Finally, any disruptions to our business resulting from the announcement and pendency of the Merger will likely continue in the event that the Merger is not completed.

Item 5. Other Information.

Earnings Release

Hawaiian Telcom Holdco, Inc. issued a press release on November 8, 2017 announcing its 2017 third quarter earnings. This information, attached as Exhibit 99.1, is being furnished to the SEC pursuant to Item 2.02 of Form 8-K.

Item 6. Exhibits

See following Exhibit Index.

EXHIBIT INDEX

2.1	Agreement and Plan of Merger, dated as of July 9, 2017, by and among Hawaiian Telcom Holdco, Inc., Cincinnati Bell Inc. and Twin Acquisition Corp. (incorporated by reference to Exhibit 2.1 of the Registrant's Form 8-K, File No. 01-34686, filed with the SEC on July 10, 2017).
3.1	Amendment to Bylaws (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K, File No. 01-34686, filed with the SEC on July 10, 2017).
10.1	Amendment No. 1 to Nomination, Standstill and Support Agreement, dated as of July 9, 2017, by and among Hawaiian Telcom Holdco, Inc., Twin Haven Special Opportunities Fund III, L.P., Twin Haven Special Opportunities Partners III, L.L.C., Twin Haven Special Opportunities Fund IV, L.P., Twin Haven Special Opportunities Partners IV, L.L.C. and Twin Haven Capital Partners, L.L.C. (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, File No. 01-34686, filed with the SEC on July 10, 2017).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated November 8, 2017 announcing third quarter earnings.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

	HAWAIIAN TELCOM HOLDCO, INC.
November 8, 2017	/s/ Scott K. Barber Scott K. Barber Chief Executive Officer
November 8, 2017	/s/ Dan T. Bessey Dan T. Bessey Chief Financial Officer

Exhibit 31.1

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

I, Scott K. Barber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian Telcom Holdco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2017

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

Exhibit 31.2

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

I, Dan T. Bessey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian Telcom Holdco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2017

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

Exhibit 32.1

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hawaiian Telcom Holdco, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott K. Barber, certify, pursuant to 18 U.S.C.§1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 8, 2017

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

Exhibit 32.2

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Hawaiian Telcom Holdco, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dan T. Bessey, certify, pursuant to 18 U.S.C.§1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 8, 2017

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

Exhibit 99.1

Hawaiian Telcom
HAWAII'S TECHNOLOGY LEADER

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For Immediate Release

Hawaiian Telcom Reports Third Quarter 2017 Results

Received overwhelming stockholder approval and cleared Hart-Scott-Rodino for merger with Cincinnati Bell
Increased business VoIP revenue by 13 percent, driven by strong demand for hosted voice and fiber data
Expanded TV subscriber base by 11 percent, recording 21st consecutive quarter of year-over-year growth
Grew wholesale high-bandwidth services revenue by 25 percent

HONOLULU (Wednesday, November 8, 2017) -- Hawaiian Telcom Holdco, Inc. (NASDAQ: HCOM) reported financial results for its third quarter ended September 30. The highlights are as follows:

- Revenue totaled $91.0 million, resulting in Adjusted EBITDA(1) of $25.8 million.
- Business VoIP revenue increased 13.3 percent year-over-year, driven by 15.2 percent growth in business VoIP lines.
- Business strategic revenue(2) increased 8.6 percent over the last two years and now represents 39 percent of total business revenue.
- TV revenue grew 5.9 percent year-over-year, driven by 11.4 percent subscriber growth, ending the quarter with over 44,300 Hawaiian Telcom TV subscribers. Overall Next-Generation Network (NGN) penetration is approximately 25 percent, an increase from 22 percent in the same period the prior year.
- Consumer strategic revenue(2) increased 4.6 percent over the last two years and now represents 53 percent of total consumer revenue.
- Wholesale revenue from high-bandwidth services grew 24.8 percent year-over-year, driven by trans-Pacific fiber circuit capacity sales.
- Fiber-enabled approximately 800 business addresses, 1,000 consumer households, and 1,100 CAF II locations in the quarter, bringing total fiber-enabled business addresses to 9,400, total NGN households on O‘ahu to 205,000, and 2,300 CAF II enabled locations on the neighbor islands.
- Incurred a GAAP net loss of $92.7 million, or $8.00 per diluted share for the quarter, primarily due to a one-time, non-cash increase in deferred tax valuation allowance of $89.4 million. Excluding this allowance, third quarter Adjusted Net Loss(3) was $3.3 million, or $0.29 per diluted share.
- All federal and state regulatory applications related to the Cincinnati Bell merger have been filed; regulatory review processes are well underway and the merger is expected to close as soon as all regulatory approvals and other customary closing conditions are met.

“In the third quarter, we continued to transform our business and strengthen our position as Hawai‘i’s leading provider of fiber services,” said Scott K. Barber, Hawaiian Telcom’s president and CEO. “Penetration of Hawaiian Telcom TV, our IPTV product, has grown consistently every quarter for the last four years. Consumer Internet revenue and subscribers increased sequentially for the first time in eight quarters, driven by strong demand for our exclusive Fiber-to-the-Home Internet speeds. Demand for our fiber-based business services such as VoIP and Fiber-to-the-Business Internet, as well as wholesale Ethernet and trans-Pacific undersea fiber capacity also continued to grow. Our fiber assets, knowledge, and innovation has been, in large part, responsible for the transformation of our business. Together with Cincinnati Bell, we can leverage our shared knowledge and innovation to further capitalize on customers' growing demand for high-bandwidth and next-generation services to drive sustainable growth. We believe this combination of like-minded, locally-focused companies will increase long-term value for all our stakeholders."

Third Quarter 2017 Results

Third quarter revenue was $91.0 million, compared to $97.8 million in the third quarter of 2016. The year-over-year change was primarily due to revenue growth in consumer video, business VoIP, and high-bandwidth fiber consumer and business Internet services being more than offset by revenue declines associated with legacy voice and low-bandwidth Internet services, as well as lower levels of equipment sales. Adjusted EBITDA was $25.8 million, resulting in an Adjusted EBITDA margin of 28.3 percent.

Net loss for the third quarter was $92.7 million, or $8.00 per diluted share, primarily impacted by an $89.4 million one-time, non-cash increase in tax valuation allowance relating to our deferred income tax assets. The requirement to establish this allowance was due to the pre-tax losses incurred by the Company in 2017. This valuation allowance does not preclude the Company from using its net operating loss carryforward in the future. Excluding this allowance, third quarter Adjusted Net Loss was $3.3 million, or $0.29 per diluted share, primarily related to $2.0 million in professional fees associated with the Cincinnati Bell merger and $1.1 million in non-cash pension expense related to employee retirements in the quarter.

Business Revenue

Third quarter business revenue totaled $41.9 million, down $2.9 million year-over-year primarily due to lower levels of equipment sales and the decline in legacy voice and low-bandwidth Internet services, as well as lower average revenue per unit on certain data services because of promotional pricing. These decreases were partly offset by continued growth in high-bandwidth fiber Internet services and a 13.3 percent year-over-year increase in business VoIP revenue, driven by strong demand for Hawaiian Telcom's hosted voice and data bundle.

In the third quarter, the number of business Internet subscribers on packages with 50 Mbps to 1 Gbps fiber speeds grew 38.3 percent year-over-year. To support this growing demand for bandwidth and increasing cloud adoption, the Company continued to deploy fiber GPON technology to further leverage its Next-Generation Network to nearly 800 additional small business addresses in the quarter, providing customers access to 1 Gbps Internet service. This brings Hawaiian Telcom's total fiber-GPON-enabled business addresses to approximately 9,400 at the end of the third quarter.

Business strategic revenue increased 8.6 percent over the last two years and now represents 39 percent of total reported business revenue, compared to 34 percent in the same period two years ago.

Consumer Revenue

Third quarter consumer revenue totaled $33.7 million, compared to $35.7 million in the third quarter of 2016. Revenue growth in the quarter from Hawaiian Telcom TV and high-bandwidth fiber Internet services was more than offset by the year-over-year revenue decline in legacy voice and low-bandwidth copper Internet services. Third quarter consumer strategic revenue increased 4.6 percent over the last two years now represents 53 percent of total consumer revenue, up from 46 percent in the same period two years ago.

Hawaiian Telcom TV continued to be the driver of revenue growth in the consumer channel. Video services revenue grew 5.9 percent year-over-year to $11.1 million for the quarter and has become a $44 million and growing annualized revenue stream. Video subscribers grew 11.4 percent during the same period, ending the quarter with approximately 44,300 subscribers. When combined with approximately 6,000 additional Internet subscribers on our NGN footprint that do not have TV service, the penetration rate in our NGN footprint is approximately 25 percent, an increase from 22 percent in the same period in the prior year.

During the third quarter, the Company fiber-enabled 1,000 additional consumer households on O‘ahu, including success-based bulk multi-dwelling units and greenfield single-family homes, bringing total NGN households to 205,000, or approximately two-thirds of total marketable households on O‘ahu.

Customer demand for Hawaiian Telcom Internet continued to be driven by TV attachment and higher fiber data speeds. As of September 30, 2017, approximately 95 percent of all video subscribers had double- or triple-play bundles with Internet. Customer adoption of higher fiber speed offerings continued to grow. In the third quarter, the number of Internet subscribers on packages with 100 Mbps to 1 Gbps fiber speeds grew 64.4 percent year-over-year. Internet services revenue for the third quarter decreased $0.4 million year-over-year and is consistent quarter-over-quarter.

Wholesale Revenue

Third quarter wholesale revenue totaled $12.6 million, down $0.9 million compared to third quarter 2016. Revenue from high-bandwidth, multi-year contract wholesale services including Ethernet, trans-Pacific fiber circuit capacity, and optical transport services increased 24.8 percent year-over-year and now represents 35 percent of total wholesale revenue, up from 23 percent in the same period two years ago. This revenue growth was offset by the revenue decline from certain wholesale customers disconnecting low-bandwidth, less efficient legacy circuits on month-to-month service.

Operating Expenses

Third quarter operating expenses totaled $92.1 million, down $2.0 million compared to third quarter 2016. Operating expenses, exclusive of non-cash and special items which are excluded from our Adjusted EBITDA calculation, decreased $4.0 million year-over-year to $65.3 million. The decrease was primarily due to lower salaries and wages as a result of reduced headcount, lower labor overtime, and decreased cost of goods as a result of lower levels of equipment sales. These decreases were partially offset by higher video content costs from increasing numbers of TV subscribers.

Capital Expenditures and Liquidity

Capital expenditures totaled $75.7 million for the nine months ended September 30, 2017, down from $78.3 million in same period in the prior year. Nearly 90 percent of total capital expenditures in the first nine months of 2017 was directed towards growth and expansion initiatives, which included payments on the trans-Pacific undersea cable system, Connect America Fund build out, spending on Fiber-to-the-Business initiative, as well as success-based spending to support the growth of the Company’s next-generation services.

As of September 30, 2017, the Company had $44.7 million in cash and cash equivalents compared to $15.8 million at the end of 2016. The increase in cash was primarily due to our new term loan financing in May 2017 and the up-front payments received for fiber circuit capacity on our trans-Pacific cable that was completed in August 2017. Net Debt[4] was $267.0 million, resulting in a Net Leverage Ratio[5] as of September 30, 2017 of 2.5x. Levered Free Cash Flow[6] for the first nine months of 2017 was negative $7.0 million.

Conference Call

The Company will host a conference call to discuss its third quarter 2017 results at 9:00 a.m. (Hawaii Time), or 2:00 p.m. (Eastern Time) on Wednesday, November 8, 2017. The accompanying slide presentation will be available from the Investor Relations section of the Company’s website at hawaiiantel.com prior to the call.

To access the call, participants should dial (877) 456-0428 (US/Canada), or (615) 247-0082 (International) ten minutes prior to the start of the call and provide passcode 1717775.

A live webcast of the conference call will be available from the Investor Relations section of the Company’s website and will be archived at the same location.

A telephonic replay of the conference call will be available two hours after the conclusion of the call until 5:00 p.m. (Eastern Time) November 15, 2017. Access the replay by dialing (855) 859-2056 or (404) 537-3406 and entering passcode 1717775.

Use of Non-GAAP Financial Measures

This press release contains information about adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), Adjusted Net Loss, Net Debt, Net Leverage Ratio and Levered Free Cash Flow. These are non-GAAP financial measures used by Hawaiian Telcom management when evaluating results of operations. Management believes these measures also provide users of the financial statements with additional and useful comparisons of current results of operations with past and future periods. Non-GAAP financial measures should not be construed as being more important than comparable GAAP measures. Detailed reconciliations of Adjusted EBITDA, Adjusted Net Loss, Net Debt, Net Leverage Ratio and Levered Free Cash Flow to comparable GAAP financial measures have been included in the tables distributed with this release and are available in the Investor Relations section of hawaiiantel.com.

Forward-Looking Statements

In addition to historical information, this release includes certain statements and predictions that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, any statement, projection or estimate that includes or references the words “believes”, “anticipates”, “intends”, “expected”, or any similar expression falls within the safe harbor of forward-looking statements contained in the Reform Act. Actual results or outcomes may differ materially from those indicated or suggested by any such forward-looking statement for a variety of reasons, including, but not limited to: failures in Hawaiian Telcom’s critical back office systems and IT infrastructure; breach of the our data security systems; increases in the amount of capital expenditures required to execute our business plan; the loss of certain outsourcing agreements, or the failure of any third party to perform under these agreements; our ability to sell capacity on the new submarine fiber cable project; adverse changes to applicable laws and regulations; the failure to adequately adapt to technological changes in the telecommunications industry, including changes in consumer technology preferences; adverse economic conditions in Hawai‘i; the availability of lump sum distributions under our union pension plan; limitations on the ability to utilize net operating losses due to an ownership change under Internal Revenue Code Section 382; the inability to service our indebtedness; limitations imposed on our business from restrictive covenants in the credit agreements; severe weather conditions and natural disasters; the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement with Cincinnati Bell or conditions to the closing of the merger may not be satisfied or waived; the failure to satisfy the closing conditions; risks related to disruption of management’s attention from the Company’s ongoing business operations due to the proposed merger; the effect of the announcement of the merger on the ability of the Company to retain and hire key personnel, maintain relationships with its customers and suppliers, and operating results and business generally; the transaction may involve unexpected costs, liabilities or delays; the Company’s business may suffer as a result of the uncertainty surrounding the transaction; the outcome of any legal proceeding relating to the transaction; the Company may be adversely affected by other economic, business and/or competitive factors; and other risks to consummation of the transaction, including the risk that the transaction will not be consummated within the expected time period or at all. More information on potential risks and uncertainties is available in recent filings with the Securities and Exchange Commission, including Hawaiian Telcom’s 2016 Annual Report on Form 10-K. The information contained in this release is as of November 8, 2017. It is anticipated that subsequent events and developments may cause estimates to change, and the Company undertakes no duty to update forward-looking statements.

About Hawaiian Telcom

Hawaiian Telcom (NASDAQ: HCOM), headquartered in Honolulu, is Hawai‘i’s Technology Leader, providing integrated communications, broadband, data center and entertainment solutions for business and residential customers. With roots in Hawai‘i beginning in 1883, the Company offers a full range of services including Internet, video, voice, wireless, data network solutions and security, colocation, and managed and cloud services supported by the reach and reliability of its next generation fiber network and a 24/7 state-of-the-art network operations center. With employees statewide sharing a commitment to innovation and a passion for delivering superior service, Hawaiian Telcom provides an Always On℠ customer experience. For more information, visit hawaiiantel.com.

[1] **Adjusted EBITDA** is a non-GAAP measure defined by the Company as net income (loss) plus interest expense (net of interest income and other), income taxes, depreciation and amortization, gain on sale of property, non-cash stock and other performance-based compensation, SystemMetrics earn-out, pension settlement loss, severance costs and other special items. The Company believes this non-GAAP measure is a meaningful performance measure for investors because it is used by our Board and management to evaluate performance, enhance comparability between periods and make operating decisions. Our use of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in the telecommunications industry. A detailed reconciliation of Adjusted EBITDA to comparable GAAP financial measures has been included in the table distributed with this release.

[2] **Business strategic revenue**, as defined by the Company, includes data services and hosted and managed services revenues. Data services include high-bandwidth data products such as Ethernet, Routed Network Services, Dedicated Internet Access, along with traditional High-Speed Internet for business customers, VoIP, and legacy data services such as ATM and Frame Relay. Business VoIP, also referred to as BVoIP, is a unified hosted communications solution for business that includes digital voice services bundled with Internet service. Hosted and managed services include physical colocation, virtual colocation, security, cloud services, professional services, network management and network installation related services. **Consumer strategic revenue**, as defined by the Company, includes video services and consumer Internet services revenues.

[3] **Adjusted Net Loss** is defined as net loss adjusted for the one-time, non-cash item related to the deferred tax valuation allowance. The Company believes this non-GAAP measure is a meaningful performance measure for investors because the deferred tax valuation allowance does not affect our ongoing business operations. Our use of Adjusted Net Loss may not be comparable to similarly titled measures used by other companies in the telecommunications industry. A detailed reconciliation of Adjusted Net Loss to comparable GAAP financial measures has been included in the tables distributed with this release.

[4] **Net Debt** provides a useful measure of liquidity and financial health. The Company defines Net Debt as the sum of the face amount of short-term and long-term debt and unamortized premium and/or discount, offset by cash and cash equivalents. A detailed reconciliation of Net Debt has been included in the tables distributed with this release.

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

[6] **Levered Free Cash Flow** provides a useful measure of operational performance and liquidity. This non-GAAP measure does not represent the residual cash flow available for discretionary expenditures. The Company defines Levered Free Cash Flow as Adjusted EBITDA less cash interest expense and capital expenditures. A detailed reconciliation of Levered Free Cash Flow has been included in the tables distributed with this release.

[7] Beginning in the first quarter of 2017, the Company no longer reports data center services as a separate segment and a separate revenue line item in the business channel. This is as a result of the Company's evolving strategy to increase emphasis on bundling of strategic communications services to customers as well as maximize the efficiency benefits of an integrated operation. Data center services revenue has been reclassified to the appropriate revenue line items in the business channel. Prior period information has been revised to reflect the current presentation.

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating revenues	$ 91,013	$ 97,848	$ 276,821	$ 296,183
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	40,100	41,903	121,472	124,987
Selling, general and administrative	29,827	29,206	87,830	88,625
Depreciation and amortization	22,174	23,036	65,186	67,479
Total operating expenses	92,101	94,145	274,488	281,091
Operating income (loss)	(1,088)	3,703	2,333	15,092
Other income (expense):				
Interest expense	(4,150)	(4,156)	(11,962)	(12,879)
Loss on early extinguishment of debt	—	—	(4,826)	—
Total other expense	(4,150)	(4,156)	(16,788)	(12,879)
Income (loss) before income tax provision (benefit)	(5,238)	(453)	(14,455)	2,213
Income tax provision (benefit)	87,481	(174)	83,693	892
Net income (loss)	$ (92,719)	$ (279)	$ (98,148)	$ 1,321
Net income (loss) per common share -				
Basic	$ (8.00)	$ (0.02)	$ (8.48)	$ 0.11
Diluted	$ (8.00)	$ (0.02)	$ (8.48)	$ 0.11
Weighted average shares used to compute net income (loss) per common share -				
Basic	11,587,963	11,512,280	11,568,540	11,499,947
Diluted	11,587,963	11,512,280	11,568,540	11,539,828

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

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 44,723	$ 15,821
Receivables, net	30,374	33,377
Material and supplies	6,950	8,090
Prepaid expenses	4,906	4,093
Other current assets	2,582	7,229
Total current assets	89,535	68,610
Property, plant and equipment, net	608,098	595,997
Intangible assets, net	31,452	32,728
Goodwill	12,104	12,104
Deferred income taxes, net	—	92,171
Other assets	2,176	2,311
Total assets	$ 743,365	$ 803,921
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 10,250	$ 3,000
Accounts payable	52,899	53,506
Accrued expenses	13,326	15,293
Advance billings and customer deposits	15,165	15,013
Other current liabilities	6,407	6,327
Total current liabilities	98,047	93,139
Long-term debt	301,351	281,699
Employee benefit obligations	81,678	105,930
Other liabilities	39,039	18,239
Total liabilities	520,115	499,007
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,587,963 and 11,513,279 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	116	115
Additional paid-in capital	181,912	179,958
Accumulated other comprehensive loss	(21,239)	(35,218)
Retained earnings	62,461	160,059
Total stockholders' equity	223,250	304,914
Total liabilities and stockholders' equity	$ 743,365	$ 803,921

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities:		
Net income (loss)	$ (98,148)	$ 1,321
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	65,186	67,479
Deferred financing amortization	1,165	1,533
Loss on early extinguishment of debt	4,826	—
Employee retirement benefits	(1,624)	(6,430)
Provision for uncollectible receivables	2,791	2,908
Stock based compensation	2,050	1,722
Deferred income taxes	84,072	1,412
Changes in operating assets and liabilities:		
Receivables	212	1,340
Material and supplies	1,140	282
Prepaid expenses and other current assets	(1,166)	(1,839)
Accounts payable and accrued expenses	(44)	6,067
Advance billings and customer deposits	20,677	(2,227)
Other current liabilities	(272)	(600)
Other	(100)	(22)
Net cash provided by operating activities	80,765	72,946
Cash flows from investing activities:		
Capital expenditures	(75,718)	(78,334)
Net cash used in investing activities	(75,718)	(78,334)
Cash flows from financing activities:		
Proceeds from borrowing	330,000	—
Proceeds from installment financing	1,260	1,698
Repayment of capital lease and installment financing	(2,989)	(2,680)
Repayment of borrowings	(302,701)	(2,250)
Refinancing costs	(6,295)	(688)
Taxes paid related to net share settlement of equity awards	(495)	(354)
Net cash provided by (used in) financing activities	18,780	(4,274)
Net change in cash, cash equivalents and restricted cash	23,827	(9,662)
Cash, cash equivalents and restricted cash, beginning of period	21,146	30,312
Cash, cash equivalents and restricted cash, end of period	$ 44,973	$ 20,650

Hawaiian Telcom Holdco, Inc.
Revenue by Category and Channel (7)
(Unaudited, dollars in thousands)

For Three Months

	Three Months Ended September 30,		Change	
	2017	2016	Amount	Percentage
Business				
Data services:				
Ethernet and routed network services	$ 4,260	$ 4,455	$ (195)	(4.4)%
Dedicated Internet access	2,088	2,634	(546)	(20.7)%
Internet services	3,186	3,401	(215)	(6.3)%
BVoIP	3,720	3,284	436	13.3 %
Legacy data services	1,622	1,652	(30)	(1.8)%
Total data services	14,876	15,426	(550)	(3.6)%
Voice services	20,431	21,687	(1,256)	(5.8)%
Hosted and managed services	1,503	1,523	(20)	(1.3)%
Equipment and related services	5,050	6,161	(1,111)	(18.0)%
	41,860	44,797	(2,937)	(6.6)%
Consumer				
Video services	11,103	10,483	620	5.9 %
Internet services	6,639	7,053	(414)	(5.9)%
Voice services	15,946	18,144	(2,198)	(12.1)%
	33,688	35,680	(1,992)	(5.6)%
Wholesale carrier data	12,567	13,440	(873)	(6.5)%
Other	2,898	3,931	(1,033)	(26.3)%
	$ 91,013	$ 97,848	$ (6,835)	(7.0)%

For Nine Months

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Change Amount	Change Percentage
Business				
Data services:				
Ethernet and routed network services	$ 13,387	$ 12,956	$ 431	3.3 %
Dedicated Internet access	6,777	11,577	(4,800)	(41.5)%
Internet services	9,853	10,362	(509)	(4.9)%
BVoIP	10,623	9,345	1,278	13.7 %
Legacy data services	4,855	5,607	(752)	(13.4)%
Total data services	45,495	49,847	(4,352)	(8.7)%
Voice services	62,423	65,851	(3,428)	(5.2)%
Hosted and managed services	4,677	4,810	(133)	(2.8)%
Equipment and related services	14,768	15,804	(1,036)	(6.6)%
	127,363	136,312	(8,949)	(6.6)%
Consumer				
Video services	32,502	29,907	2,595	8.7 %
Internet services	19,940	22,106	(2,166)	(9.8)%
Voice services	49,338	55,825	(6,487)	(11.6)%
	101,780	107,838	(6,058)	(5.6)%
Wholesale carrier data	37,997	40,373	(2,376)	(5.9)%
Other	9,681	11,660	(1,979)	(17.0)%
	$ 276,821	$ 296,183	$ (19,362)	(6.5)%

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	LTM Ended September 30, 2017
Net income (loss)	$ (92,719)	$ (279)	$ (98,148)	$ 1,321	$ (98,363)
Income tax provision (credit)	87,481	(174)	83,693	892	83,392
Interest expense and other income and expense, net	4,150	4,156	16,788	12,879	21,004
Operating income (loss)	(1,088)	3,703	2,333	15,092	6,033
Depreciation and amortization	22,174	23,036	65,186	67,479	87,623
Non-cash stock and other performance-based compensation	892	737	2,348	2,305	2,989
SystemMetrics earn-out	—	(71)	32	660	137
Pension settlement loss	1,090	486	3,360	486	4,151
Early retirement plan severance	—	—	1,743	—	1,743
Merger-related expenses	1,988	—	2,177	—	2,177
Other special items	700	675	2,064	1,461	2,890
Adjusted EBITDA	$ 25,756	$ 28,566	$ 79,243	$ 87,483	$ 107,743

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

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Net loss	$ (92,719)	$ (98,148)
Change in income tax valuation allowance	89,410	89,410
Adjusted net loss	$ (3,309)	$ (8,738)
Adjusted net loss per common share -		
Basic	$ (0.29)	$ (0.76)
Diluted	$ (0.29)	$ (0.76)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		LTM Ended September 30,
	2017	2016	2017	2016	2017
Adjusted EBITDA	$ 25,756	$ 28,566	$ 79,243	$ 87,483	$ 107,743
Cash interest expense	(2,401)	(3,588)	(10,517)	(9,938)	(14,285)
Capital expenditures	(23,088)	(25,436)	(75,718)	(78,334)	(95,225)
Levered Free Cash Flow	$ 267	$ (458)	$ (6,992)	$ (789)	$ (1,767)

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

Long-term debt as of September 30, 2017	$ 311,601
Less cash on hand	(44,723)
Total net debt as of September 30, 2017	$ 266,878
LTM Adjusted EBITDA as of September 30, 2017	$ 107,743
Net leverage ratio as of September 30, 2017	2.5 x

Hawaiian Telcom Holdco, Inc.
Volume Information
(Unaudited)

	September 30,		Change	
	2017	2016	Number	Percentage
Business				
Data lines	18,530	19,754	(1,224)	(6.2)%
BVoIP lines	21,421	18,593	2,828	15.2 %
Voice access lines	153,273	162,587	(9,314)	(5.7)%
Consumer				
Video subscribers	44,312	39,774	4,538	11.4 %
Internet lines	90,563	91,000	(437)	(0.5)%
Voice access lines	123,738	139,167	(15,429)	(11.1)%
Homes enabled for video	205,000	201,000	4,000	2.0 %

	September 30, 2017	June 30, 2017	Change	
			Number	Percentage
Business				
Data lines	18,530	18,917	(387)	(2.0)%
BVoIP lines	21,421	20,666	755	3.7 %
Voice access lines	153,273	155,743	(2,470)	(1.6)%
Consumer				
Video subscribers	44,312	43,235	1,077	2.5 %
Internet lines	90,563	90,073	490	0.5 %
Voice access lines	123,738	127,134	(3,396)	(2.7)%
Homes enabled for video	205,000	204,000	1,000	0.5 %