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 March 31, 2018

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]

As of May 10, 2018, 11,667,205 shares of the registrant’s common stock were outstanding.

Table of Contents

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 March 31,	
	2018	**2017**
Operating revenues	$ 89,222	$ 94,510
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization)	42,088	41,191
Selling, general and administrative	27,625	29,632
Depreciation and amortization	23,333	21,269
Total operating expenses	93,046	92,092
Operating income (loss)	(3,824)	2,418
Other income (expense):		
Interest expense	(4,136)	(3,993)
Retirement plan	710	(1,763)
Total other expense	(3,426)	(5,756)
Loss before income tax benefit	(7,250)	(3,338)
Income tax benefit	(1,514)	(1,386)
Net loss	$ (5,736)	$ (1,952)
Net loss per common share -		
Basic	$ (0.49)	$ (0.17)
Diluted	$ (0.49)	$ (0.17)
Weighted average shares used to compute net loss per common share -		
Basic	11,597,918	11,529,046
Diluted	11,597,918	11,529,046

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 March 31,	
	2018	**2017**
Net loss	$ (5,736)	$ (1,952)
Other comprehensive income (loss):		
Retirement plan gain (loss)	(120)	21,142
Income tax benefit (provision) on other comprehensive income (loss)	31	(8,080)
Other comprehensive income (loss), net of tax	(89)	13,062
Comprehensive income (loss)	$ (5,825)	$ 11,110

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 19,191	$ 40,759
Receivables, net	24,119	32,229
Material and supplies	6,805	6,810
Prepaid expenses	4,187	4,899
Other current assets	3,639	1,328
Total current assets	57,941	86,025
Property, plant and equipment, net	607,087	608,298
Intangible assets, net	30,699	31,026
Goodwill	12,104	12,104
Other assets	6,512	2,053
Total assets	$ 714,343	$ 739,506
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 10,250	$ 10,250
Accounts payable	53,290	56,874
Accrued expenses	11,832	11,736
Advance billings and customer deposits	9,349	14,807
Other current liabilities	3,934	6,774
Total current liabilities	88,655	100,441
Long-term debt	294,804	299,066
Employee benefit obligations	78,036	79,953
Deferred income taxes, net	910	910
Other liabilities	33,638	38,927
Total liabilities	496,043	519,297
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,635,116 and 11,587,963 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	116	116
Additional paid-in capital	182,546	182,689
Accumulated other comprehensive loss	(16,053)	(15,964)
Retained earnings	51,691	53,368
Total stockholders' equity	218,300	220,209
Total liabilities and stockholders' equity	$ 714,343	$ 739,506

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from operating activities:		
Net loss	$ (5,736)	$ (1,952)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	23,333	21,269
Deferred financing amortization	301	529
Employee retirement benefits	(2,037)	1,410
Provision for uncollectible receivables	1,004	950
Stock based compensation	572	567
Deferred income taxes	(1,395)	(1,251)
Changes in operating assets and liabilities:		
Receivables	55	1,050
Material and supplies	5	619
Prepaid expenses and other current assets	698	(217)
Accounts payable and accrued expenses	(947)	(3,162)
Advance billings and customer deposits	1,466	954
Other current liabilities	(51)	340
Other	(166)	(839)
Net cash provided by operating activities	17,102	20,267
Cash flows from investing activities:		
Capital expenditures	(24,336)	(27,242)
Net cash used in investing activities	(24,336)	(27,242)
Cash flows from financing activities:		
Proceeds from borrowing	—	6,000
Repayment of capital lease and installment financing	(9,056)	(1,051)
Repayment of borrowings	(4,563)	(750)
Refinancing costs	—	(2,071)
Taxes paid related to net share settlement of equity awards	(715)	(495)
Net cash provided by (used in) financing activities	(14,334)	1,633
Net change in cash, cash equivalents and restricted cash	(21,568)	(5,342)
Cash, cash equivalents and restricted cash, beginning of period	41,009	21,146
Cash, cash equivalents and restricted cash, end of period	$ 19,441	$ 15,804

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2018	11,587,963	$ 116	$ 182,689	$ (15,964)	$ 53,368	$ 220,209
Cumulative effect of adoption of new accounting standard for revenue and related cost recognition, net of tax	—	—	—	—	4,059	4,059
Stock based compensation	—	—	572	—	—	572
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	47,153	—	(715)	—	—	(715)
Net loss	—	—	—	—	(5,736)	(5,736)
Other comprehensive loss, net of tax	—	—	—	(89)	—	(89)
Balance, March 31, 2018	11,635,116	$ 116	$ 182,546	$ (16,053)	$ 51,691	$ 218,300
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	—	—	567	—	—	567
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	74,684	1	(96)	—	—	(95)
Net loss	—	—	—	—	(1,952)	(1,952)
Other comprehensive income, net of tax	—	—	—	13,062	—	13,062
Balance, March 31, 2017	11,587,963	$ 116	$ 180,429	$ (22,156)	$ 158,657	$ 317,046

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 Federal Communications Commission which is pending and the Hawaii Public Utilities Commission which was received on April 30, 2018, and approval by the Holdco shareholders which occurred on November 7, 2017. 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 Cincinnati Bell a fee of $11.9 million.

In connection with the Merger Agreement with Cincinnati Bell, the Company incurred professional fees related to the transaction of $0.2 million during the three months ended March 31, 2018.

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.

Other Developments

The Company incurred a loss for the quarter ended March 31, 2018 of $5.7 million. In addition, the Company has experienced a decline in its reported earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined in its primary debt facility and used for covenant compliance. During the quarter ended March 31, 2018, the Company's cash balance declined by $21.6 million in part because of payments of debt. As disclosed in Note 6, while the Company was in compliance with the financial covenants on its primary credit facility as of March 31, 2018, the margin of compliance for the leverage ratio was relatively narrow and necessitated, in part, the payments of debt to assure such compliance. The Company has evaluated these factors on its future liquidity with a focus on its cash balance and financial debt covenant compliance for one year from issuance of these condensed consolidated financial statements. This included consideration of the need to amend the maximum allowed debt service coverage covenant. While the Company presently anticipates that the merger with Cincinnati Bell will close in the second or third quarter of 2018, the Company has assessed its covenant compliance and liquidity on a stand-alone basis.

Management of the Company has developed plans in response to the matters identified in the preceding paragraph. Such plans include the Company's ability to scale its expenses to align to its revenue volume in particular related to low margin businesses, the ability to adjust its capital spending to defer or avoid expenditures that will not significantly impact its ability to sell and deliver services, and its ability to sell certain excess capacity on its existing terrestrial and undersea networks. On May 7, 2018, as more fully discussed in Note 6, the Company obtained an amendment to the 2018 third and fourth quarter maximum leverage ratio covenant in its primary credit facility to provide for a greater margin of compliance on its leverage ratio on a prospective basis. The Company will also consider making additional payments of debt to facilitate compliance with the leverage ratio covenant while still maintaining sufficient liquidity for operating purposes.

Management believes that it is probable that the Company will continue to comply with its debt covenants at each quarterly test date and maintain adequate liquidity for the following year.

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, 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash and money market accounts with maturities at acquisition of three months or less. The majority of cash balances at March 31, 2018 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $24.8 million and $21.9 million at March 31, 2018 and 2017, respectively, for additions to property, plant and equipment.

Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer and excludes any sales incentives. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The prices for certain services are filed in tariffs with the regulatory body that exercises jurisdiction over the services.

The majority of data services, voice services, hosted and managed services, video services, internet services regardless of channel are billed one month in advance. Revenue for these services is recognized in the month services are rendered. The portion of advance-billed services associated with services that will be delivered in a subsequent period is deferred. To the extent that the advance billing has been collected as of period end or is unconditional because of contract provisions, then the advance billing is recorded as a liability in advance billings and customer deposits.

Charges for service activation are generally deferred and recognized in revenue over the contract term.

Revenues for providing usage based services, such as per-minute long-distance service included in voice services, access charges billed to long-distance companies for originating and terminating long-distance calls on the Company's network included in other revenue and video on demand included in video services, are billed in arrears. Revenues for these services are based on actual rated usage and, where necessary, historical usage patterns, and are recognized in the month services are rendered.

Included in wholesale carrier data is revenue for long-term indefeasible right of use, or IRU, contracts for fiber circuit capacity. The Company may receive up-front payments for these services to be delivered for a period of up to 25 years. In these situations, the Company defers the revenue and amortizes it on a straight-line basis to earnings over the term of the contract. The Company recognizes a related financing component for the advance payment which is amortized to interest expense using the effective interest method also over the term of the contract.

Universal Service revenue subsidies included in other revenue, including those related to Connect America Fund Phase II, are government-sponsored support received in association with providing service in mostly rural, high-cost areas. These revenues are typically calculated by the government agency responsible for administering the support program. These revenues are recognized as granted by the government agency.

Equipment and related services for telecommunication systems and structured cabling project revenues are recognized as delivered. Maintenance services are recorded when the service is provided. With respect to arrangements with multiple performance obligations, the Company allocates the transaction price to each performance obligation on the basis of the relative standalone selling prices of each distinct good or service promised in the contract. If a standalone selling price is not observable, the Company estimates it. Revenue is recognized for each performance obligation as delivered or as the service is performed depending on the nature of the performance obligation.

The Company presents taxes and surcharges collected from customers and remitted to governmental authorities on a gross basis when such taxes and surcharges are being imposed on the Company and the Company is not merely acting as an agent for the government. Such amounts are included in the Company's reported operating revenues and selling, general and administrative expenses and amounted to $2.1 million and $2.2 million for the three months ended March 31, 2018 and 2017, respectively.

Costs to obtain a contract, which are selling commissions, are deferred and recognized over the expected contract term. Costs to fulfill a contract are generally accounted for under other accounting standards. For example, they are capitalized if related to installation of an asset.

Earnings per Share

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

	Three Months Ended March 31,	
	2018	**2017**
Basic earnings per share - weighted average shares	11,597,918	11,529,046
Effect of dilutive securities:		
Employee and director restricted stock units	—	—
Diluted earnings per share - weighted average shares	11,597,918	11,529,046

The computation of weighted average dilutive shares outstanding excluded grants of restricted stock units convertible into 388,101 shares and 278,701 shares of common stock for the three months ended March 31, 2018 and 2017, respectively. For the three months ended March 31, 2018 and 2017 the Company incurred a net loss so the restricted stock units are anti-dilutive to the computation of diluted net loss per share.

Recently Adopted Accounting Pronouncement for Revenue Recognition

Effective January 1, 2018, the Company adopted a new accounting standard issued by the Financial Accounting Standard Board ("FASB") which provides guidance for revenue recognition. The new accounting standard supersedes existing revenue recognition requirements and most industry-specific guidance. The standard's core principal is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods and services. The Company selected the modified retrospective method of adoption which requires a cumulative effect adjustment to retained earnings as of the adoption date. The initial application of the new standard was limited to contracts not yet completed as of the effective date. The details of significant changes in the Company's revenue recognition and the quantitative impact are provided below.

Prior to 2018, the Company recognized revenue for telecommunication and structured cabling project revenues on a percentage of completion basis, generally based on the relative portion of costs incurred to total estimated costs of a project, except for short duration projects which were recognized upon completion of the project. Beginning in 2018, revenue is recognized on all projects as completed as the Company concluded it retains primary control of the project assets during the installation process. In addition, beginning in 2018, the Company began recognizing a financing component to the up-front payments for services to be delivered under indefeasible right of use contracts for fiber circuit capacity.

Beginning in 2018, Company began deferring costs to obtain a contract, on all existing contracts, which are selling commissions, and is recognizing such costs over the expected contract term. Prior to 2018, the Company had deferred certain costs related to activation in an amount that approximated the related revenue and recognized such costs over the expected customer life. The Company has concluded that such costs are accounted for under other accounting standards such as those related to capitalization in conjunction with installation of an asset.

The new accounting standard also provides guidance on presentation of contract assets and liabilities in the consolidated balance sheet. The standard provides specific guidance on presentation of advance billings. Beginning in 2018, a liability is recognized for advance billings where cash has been received in advance of delivery of goods or services, or when payment is due and the contract is non-cancellable. Prior to 2018, a liability was recognized when the related goods or services were invoiced in advance of delivery of goods or services.

The cumulative effect of application of the new accounting standard as of January 1, 2018, net of tax, was to increase retained earnings by $4.1 million. The impacts on the Company's condensed consolidated financial statements as of March 31, 2018 and for the three months then ended are as follows (dollars in thousands):

	As Reported	Adjustments	Without Adoption of New Standard
Statement of income data:			
Operating revenues	$ 89,222	$ (214)	$ 89,008
Operating expenses	93,046	207	93,253
Operating income (loss)	(3,824)	(421)	(4,245)
Interest expense	(4,136)	367	(3,769)
Loss before income tax benefit	(7,250)	(54)	(7,304)
Income tax benefit	(1,514)	1,395	(119)
Net loss	(5,736)	(1,449)	(7,185)
Balance sheet data:			
Receivables, net	$ 24,119	$ 6,850	$ 30,969
Other current assets	3,639	(2,292)	1,347
Total current assets	57,941	4,558	62,499
Other assets	6,512	(4,046)	2,466
Total assets	714,343	512	714,855
Advance billings and customer deposits	9,349	7,039	16,388
Total current liabilities	88,655	7,039	95,694
Other liabilities	33,638	(989)	32,649
Total liabilities	496,043	6,050	502,093
Accumulated other comprehensive loss	(16,053)	(31)	(16,084)
Retained earnings	51,691	(5,507)	46,184
Total stockholders' equity	218,300	(5,538)	212,762
Total liabilities and stockholders' equity	714,343	512	714,855
Statement of cash flow data:			
Cash flows from operating activities			
Net loss	$ (5,736)	$ (1,449)	$ (7,185)
Deferred income taxes	(1,395)	1,395	—
Changes in operating assets and liabilities:			
Receivables	55	202	257
Prepaid expenses and other current assets	698	(4)	694
Advance billings and customer deposits	1,466	(202)	1,264
Other	(166)	58	(108)
Net cash provided by operating activities	17,102	—	17,102

Recently Adopted Accounting Pronouncement for Retirement Plan Costs

Effective January 1, 2018, the Company adopted a new accounting standard that amends the income statement presentation of net periodic benefit cost for defined benefit and other postretirement plans. The new standard requires that the current service costs 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 presentation requirements were adopted on a retrospective basis resulting in a reclassification of retirement plan expense of $1.8 million for the three months ended March 31, 2017 from selling, general and administrative expense to other income and expense. The change in capitalization methodology required is being applied on a prospective basis.

Recently Issued Accounting Pronouncements

New accounting pronouncements are issued periodically that affect the Company's current and future operations. See the Company's audited consolidated financial statements as of and for the year ended December 31, 2017 for further information. No new standards impacting the Company were released subsequent to issuance of those consolidated financial statements. As more fully discussed in the Company's audited consolidated financial statements, in February 2018, the FASB amended the accounting rules to allow for a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Cut and Jobs Act. In the first quarter of 2018, the Company concluded it will not adopt the optional provisions of the amendment.

3. Contracts with Customers

Revenue from contracts by customer channel and by major product line is summarized as follows (dollars in thousands):

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Business		
Data services	$ 14,846	$ 15,617
Voice services	19,652	21,258
Hosted and managed services	1,599	1,532
Equipment and related services	3,029	5,443
	39,126	43,850
Consumer		
Video services	11,225	10,594
Internet services	7,105	6,681
Voice services	15,272	16,986
	33,602	34,261
Wholesale carrier data	13,932	12,828
Other	2,562	3,571
	$ 89,222	$ 94,510

The majority of revenue from all channels and product lines, except for equipment and related services, is recognized over time as the data, voice or video service is made available to the customer. The majority of revenue from equipment and related services is recognized at a point in time as the equipment is delivered or when installation is complete. Installation may occur in phases. We recognize revenue of an individual phase when completed if it represents a stand-alone component that can operate independent of other components.

Contract Balances

Receivables consisted of the following (dollars in thousands):

	March 31, 2018	December 31, 2017
Customers and other	$ 27,930	$ 36,118
Allowance for doubtful accounts	(3,811)	(3,889)
	$ 24,119	$ 32,229

Contract liabilities consisted of the following (dollars in thousands):

	March 31, 2018	December 31, 2017
Current presented as advance billings	$ 9,349	$ 14,807
Noncurrent deferred revenue included in other liabilities	28,554	28,036
	$ 37,903	$ 42,843

Revenue recognized in the period that was included in the contract liability balances at the beginning of the period amounted to $2.8 million for the three months ended March 31, 2018.

Performance Obligations

The Company generally delivers telecommunication services ratably over the contract term. The majority of services are invoiced in advance and balances are due within 30 days of issuance of an invoice or statement to the customer. Many customers are on a month-to-month contract that can be cancelled at any time or within short notice. Even for those customers on long term contracts, the Company will generally invoice the customer based on services provided during the month either at the beginning or end of the monthly service period. For business equipment and related services, the Company will generally invoice upon delivery or project completion. Certain large projects with installation periods of up to one year may be invoiced at set milestones. Invoices are also due within 30 days of issuance.

Certain IRU contracts for extended periods of up to 25 years are invoiced at the beginning of the contract term. The revenue from such contracts is recognized over time as services are provided over the contract term. The expected revenue to be recognized is as follows (dollars in thousands):

Year ended December 31,	
2018 (remaining months)	$ 2,015
2019	2,686
2020	2,686
2021	2,686
2022	2,686
Thereafter	30,112
	$ 42,871

Costs to Obtain Contracts

Costs to obtain contracts representing sales commissions on certain products have been deferred and recognized over the expected contract term. Total costs deferred amounted to $7.2 million at March 31, 2018. Costs amortized to expense amounted to $0.7 million for the three months ended March 31, 2018.

4. Long-Lived Assets

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

	March 31, 2018	December 31, 2017
Property, plant and equipment cost	$ 1,151,184	$ 1,131,271
Less accumulated depreciation	(544,097)	(522,973)
	$ 607,087	$ 608,298

Depreciation expense amounted to $23.0 million and $20.8 million for the three months ended March 31, 2018 and 2017, respectively.

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

	March 31, 2018			December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization:						
Customer relationships	$ 21,709	$ 18,310	$ 3,399	$ 21,709	$ 17,983	$ 3,726
Trade name and other	320	320	—	320	320	—
	22,029	18,630	3,399	22,029	18,303	3,726
Not subject to amortization:						
Brand name	27,300	—	27,300	27,300	—	27,300
	27,300	—	27,300	27,300	—	27,300
	$ 49,329	$ 18,630	$ 30,699	$ 49,329	$ 18,303	$ 31,026

As of March 31, 2018, the Company had goodwill of $12.1 million. As further discussed in Note 14, the Company has concluded it has only one segment and one reporting unit. As such, the Company classifies all goodwill in the one segment.

Amortization expense amounted to $0.3 million and $0.4 million for the three months ended March 31, 2018 and 2017, respectively. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

Year ended December 31,	
2018 (remaining months)	$ 980
2019	930
2020	574
2021	270
2022	223
Thereafter	422
	$ 3,399

5. Accrued Expenses and Other Liabilities

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

	March 31, 2018	December 31, 2017
Salaries and benefits	$ 7,893	$ 7,875
Interest	2,969	2,890
Other taxes	970	971
	$ 11,832	$ 11,736

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

	March 31, 2018	December 31, 2017
Other postretirement benefits, current	$ 3,226	$ 3,226
Installment financing contracts, current	194	2,978
Other	514	570
	$ 3,934	$ 6,774

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

	March 31, 2018	December 31, 2017
Deferred revenue, noncurrent	$ 28,554	$ 28,036
Installment financing contracts, noncurrent	3,233	8,982
Other	1,851	1,909
	$ 33,638	$ 38,927

Deferred revenue includes advance billings of capacity and other services related to the Company's trans-Pacific cable.

6. Long-Term Debt

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

	Average Interest Rate March 31, 2018	Final Maturity	March 31, 2018	December 31, 2017
Term loan A-1	5.52 %	May 4, 2022	$ 86,070	$ 87,750
Term loan A-2	5.77	May 4, 2023	224,242	227,125
Debt issue costs and issue discount			(5,258)	(5,559)
			305,054	309,316
Current			10,250	10,250
Noncurrent			$ 294,804	$ 299,066

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 period ended March 31, 2018 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, payment of dividends, redemptions of stock, other distributions to shareholders and sales of assets. In addition, there are financial covenants which have the following metrics as of March 31, 2018: debt service coverage with minimum allowed ratio of 2.75:1 of earnings before interest, taxes, depreciation and amortization to debt service which includes scheduled principal payments and cash interest; leverage with a maximum allowed ratio of 3.25:1 of indebtedness to earnings before interest, taxes, depreciation and amortization; and a maximum level of annual capital expenditures of $105.0 million. The Company was in compliance with these covenants as of March 31, 2018. On May 7, 2018, the Company amended the credit facility to modify the leverage ratio to maintain the maximum allowed ratio of 3.25:1 through the December 31, 2018 test date. To maintain compliance with the leverage ratio, the Company will also consider making additional debt payments as needed to reduce the indebtedness component of the ratio computation.

The Company had a revolving credit facility which was repaid and terminated on May 4, 2017. Drawings for the three months ended March 31, 2017 amounted to $6.0 million. Such draws were used primarily to fund the construction of the Company's jointly-owned SEA-US submarine cable system.

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 March 31, 2018 was not significant.

Maturities

The annual requirements for principal payments on long-term debt as of March 31, 2018 are as follows (dollars in thousands):

Year ended December 31,	
2018 (remaining months)	$ 7,688
2019	13,125
2020	16,000
2021	16,000
2022	81,250
Thereafter	176,249
	$ 310,312

Capitalized Interest

Interest capitalized by the Company amounted to $0.3 million and $0.5 million for the three months ended March 31, 2018 and 2017, 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 March 31,	
	2018	**2017**
Recognized in other income (expense):		
Interest cost	$ 1,514	$ 1,781
Expected asset return	(2,590)	(2,656)
Amortization of loss	95	124
Net periodic benefit income	(981)	(751)
Settlement loss	—	1,956
Total benefit (income) expense	$ (981)	$ 1,205

Other Postretirement Benefits

	Three Months Ended March 31,	
	2018	2017
Recognized in operating expenses:		
Service cost	$ 179	$ 254
Recognized in other income (expense):		
Interest cost	485	596
Amortization of gain	(214)	(38)
	271	558
Total benefit expense	$ 450	$ 812

During the three months ended March 31, 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 $10.6 million. 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 March 31, 2017. The Company used discount rates ranging from 3.81% to 3.82% as of March 31, 2017 to measure the pension plan obligations. The new measurements resulted in recognition in other comprehensive income (loss) of a gain of $1.6 million for the three months ended March 31, 2017. For the three months ended March 31, 2018, lump sum benefits paid for the union and management pension plans 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 three months ended March 31, 2017.

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2017 that it expected to contribute $5.4 million to its pension plan in 2018. For the three months ended March 31, 2018, the Company has made contributions to the plan amounting to $1.1 million. The Company presently expects to contribute the full amount during the remainder of 2018.

8. Income Taxes

The income tax benefit differs from the amounts determined by applying the statutory federal income tax rate of 21% for 2018 and 34% for 2017 to the loss before income tax benefit for the following reasons (dollars in thousands):

	Three Months Ended March 31,	
	2018	2017
Income tax benefit at federal rate	$ (1,523)	$ (1,135)
Increase (decrease) resulting from:		
State income taxes, net of federal income tax	(363)	(123)
Tax credit included in taxable income	31	93
Other permanent differences	—	52
Capital goods excise tax credit	(119)	(273)
Change in valuation allowance	460	—
Total income tax benefit	$ (1,514)	$ (1,386)

The income tax benefit reflected in the condensed consolidated statements of income (loss) for the three months ended March 31, 2018, was recognized, as provided for by intraperiod tax allocation, to the extent of the net credit to stockholders' equity during the period.

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. Beginning in 2017, the Company had and as of March 31, 2018 continues to have 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. With the challenge of predicting future taxable income based on actual historical results, the Company has to limit the amount of future 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 in the third quarter of 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 March 31, 2018, 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 months ended March 31, 2018 and 2017. All tax years from 2014 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 389,276 shares remaining to be issued at March 31, 2018. All grants under the equity incentive plan will be issued to acquire shares at the fair value on date of grant.

As of March 31, 2018, all awards were restricted stock units. Activity with respect to outstanding restricted stock units for the three months ended March 31, 2018 and 2017 was as follows:

	Shares	Weighted-Average Grant-Date Fair Value per Share
2018		
Nonvested at January 1, 2018	311,090	$ 25
Granted	107,462	28
Vested	(72,726)	25
Forfeited	(7,725)	30
Nonvested at March 31, 2018	338,101	$ 25
2017		
Nonvested at January 1, 2017	226,690	$ 25
Granted	131,801	23
Vested	(78,623)	25
Forfeited	(1,167)	21
Nonvested at March 31, 2017	278,701	$ 25

The Company recognized compensation expense of $0.6 million and $0.6 million for the three months ended March 31, 2018 and 2017, respectively. The fair value as of the vesting date for the restricted stock units that vested during the three months ended March 31, 2018 and 2017 was $2.0 million and $1.3 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 25,569 and 20,996 for the three months ended March 31, 2018 and 2017, 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 $0.7 million and $0.5 million for the three months ended March 31, 2018 and 2017, 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 is settled in Company shares based on the share price at the date of settlement. There was no estimated performance based compensation for the three months ended March 31, 2018. The estimated performance based compensation to be settled in stock amounted to $0.2 million for the three months ended March 31, 2017. There was no performance based compensation to settle in 2018. 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 months ended March 31, 2018 and 2017, 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 March 31, 2018	Three Months Ended March 31, 2017
Retirement plans		
Amortization of gain/loss and settlement loss	$ (120)	$ 2,042
Income tax provision on comprehensive income	31	(776)
Total	$ (89)	$ 1,266

The amortization of gains and losses, and settlement loss were recognized primarily in selling, general and administrative expense for the periods ended March 31, 2018 and 2017.

11. Commitments and Contingencies

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 had an interim deployment obligation for approximately 4,400 locations. As of December 31, 2017, the Company had deployed to 5,452 locations and expects to meet all of its interim and final deployment obligations. For the three months ended March 31, 2018 and 2017, the Company recognized $1.1 million and $1.1 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 September 30, 2022. 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. In April 2018, the Company entered into agreements for transferring responsibilities for control of the poles and related maintenance to the three utilities in settlement of the disputes. However, implementation of the agreements requires approval of the Hawaii Public Utilities Commission with its jurisdiction over both the Company and the utilities with such approval pending. 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 is estimated at its present value using current market rates for similar types of borrowing arrangements.

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

	Carrying Value	Fair Value
March 31, 2018		
Liabilities - long-term debt (carried at cost)	305,054	310,709
December 31, 2017		
Liabilities - long-term debt (carried at cost)	309,316	315,339

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):

	March 31, 2018	December 31, 2017
Liability value measurements using:		
Quoted prices in active markets for identical liabilities (Level 1)	$ —	$ —
Significant other observable inputs (Level 2)	310,709	315,339
Significant unobservable inputs (Level 3)	—	—
	$ 310,709	$ 315,339

13. Cash Flow Information

Supplemental cash flow information is as follows:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash paid during the year:		
Income taxes paid	$ —	$ —
Interest paid, net of amounts capitalized	3,391	3,537
Non-cash investing activities - capital assets acquired under installment contracts	—	617
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. 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):

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$ 19,191	$ 40,759
Restricted cash included in other assets	250	250
Total cash, cash equivalents and restricted cash	$ 19,441	$ 41,009

14. Segment Information

The Company's strategy is to emphasize a bundle of telecommunication services to its customers. The Company focuses its efforts on obtaining the benefit of cross selling services and gaining efficiencies of an integrated operation. With this strategy, the Company's Chief Executive Officer, the Company's chief operating decision maker, is provided only company-wide information and not information for any 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 has only one segment.

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;
- 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 and our ability to meet the financial covenants in our credit facility;
- 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 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, 2017, our stockholders approved the Merger. On April 30, 2017, the merger was approved by the Hawaii Public Utilities Commission. However, the Merger remains subject to approval of the Federal Communications Commission. The Merger is expected to close in the second or third quarter of 2018.

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 Months Ended March 31, 2018 and 2017

Operating Revenues

The following tables summarize our volume information (lines or subscribers) as of March 31, 2018 and 2017, and our operating revenues for the three months ended March 31, 2018 and 2017. For comparability, we also present volume information as of March 31, 2018 compared to December 31, 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.

Volume Information

As of March 31, 2018 compared to March 31, 2017

	March 31,		2018 vs 2017 Change	
	2018	2017	Number	Percentage
Business				
Data lines	18,112	19,341	(1,229)	(6.4)%
BVoIP lines	23,259	20,034	3,225	16.1 %
Voice access lines	146,752	158,621	(11,869)	(7.5)%
Consumer				
Video subscribers	45,747	42,771	2,976	7.0 %
Internet lines	93,104	90,693	2,411	2.7 %
Voice access lines	118,496	131,142	(12,646)	(9.6)%
Homes enabled for video	207,000	203,000	4,000	2.0 %

As of March 31, 2018 compared to December 31, 2017

	March 31, 2018	December 31, 2017	Change Number	Change Percentage
Business				
Data lines	18,112	18,289	(177)	(1.0)%
BVoIP lines	23,259	22,457	802	3.6 %
Voice access lines	146,752	149,959	(3,207)	(2.1)%
Consumer				
Video subscribers	45,747	45,183	564	1.2 %
Internet lines	93,104	91,883	1,221	1.3 %
Voice access lines	118,496	121,169	(2,673)	(2.2)%
Homes enabled for video	207,000	206,000	1,000	0.5 %

Operating Revenues (dollars in thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Change Amount	Change Percentage
Business				
Data services	$ 14,846	$ 15,617	$ (771)	(4.9)%
Voice services	19,652	21,258	(1,606)	(7.6)%
Hosted and managed services	1,599	1,532	67	4.4 %
Equipment and related services	3,029	5,443	(2,414)	(44.4)%
	39,126	43,850	(4,724)	(10.8)%
Consumer				
Video services	11,225	10,594	631	6.0 %
Internet services	7,105	6,681	424	6.3 %
Voice services	15,272	16,986	(1,714)	(10.1)%
	33,602	34,261	(659)	(1.9)%
Wholesale carrier data	13,932	12,828	1,104	8.6 %
Other	2,562	3,571	(1,009)	(28.3)%
	$ 89,222	$ 94,510	$ (5,288)	(5.6)%

Business Channel

We continue to transform our business channel by replacing traditional voice services with next generation strategic services. We consider 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 months ended March 31, 2018 compared to the same period in the prior year. Demand for data services continues to rise as reflected in the growth of BVoIP lines but revenues were adversely impacted by competitive pricing pressure.

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 months ended March 31, 2018 compared to the three months ended March 31, 2017 was caused primarily by the decline of voice access lines. Business voice access lines decreased 7.5% as of March 31, 2018 compared to March 31, 2017. The decline in traditional voice access lines was partially offset by an increase in BVoIP lines of 16.1% for the same period.

Hosted and managed services revenues for the three months ended March 31, 2018 were comparable to the prior year period.

Equipment and related services revenues decreased for the three months ended March 31, 2018 when compared to the prior year period because of large contract installations for certain commercial and institutional customers completed in 2017. Revenue from equipment sales varies from period to period based on the volume of large installation projects.

Consumer Channel

We continue to transform our consumer channel by replacing traditional voice services with next generation strategic services. We consider strategic service revenues in the consumer channel to include video and internet services. Consumer strategic revenues now represent 55% of the total consumer channel revenues for the current quarter compared to 50% in the prior year period.

Video services revenue increased for the three months ended March 31, 2018 compared to the prior year period because of an increase in video subscribers of 7.0%.

Internet revenues for the three months ended March 31, 2018 increased compared to the three months ended March 31, 2017 as a result of the combined effect of improved pricing and an in increase in subscribers as of March 31, 2018 compared to March 31, 2017 of 2.7%.

The decrease in voice services revenue for the quarter ended March 31, 2018 compared to the first quarter of 2017 was caused primarily by a decline in voice access lines. Consumer voice access lines decreased 9.6% from the year ago period which contributed an estimated $1.6 million to the decline in consumer voice services. 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 increased for the three months ended March 31, 2018 compared to the same period in the prior year. Our trans-Pacific submarine cable went into service in August 2017. We have excess capacity on the cable which we make available to other carriers through long-term indefeasible right of use, or IRU, agreements for fiber circuit capacity. We recognized revenue under such agreements of $1.3 million during the three months ended March 31, 2018.

Other revenue decreased for the three months ended March 31, 2018 compared to the same period in 2017 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 table summarizes our costs and expenses for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 (dollars in thousands):

	Three Months Ended March 31,		Change	
	2018	2017	Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$42,088	$41,191	$ 897	2.2 %
Selling, general and administrative expenses	27,625	29,632	(2,007)	(6.8)%
Depreciation and amortization	23,333	21,269	2,064	9.7 %
	$93,046	$92,092	$ 954	1.0 %

The Company's total headcount as of March 31, 2018 was 1,222 compared to 1,251 as of March 31, 2017. 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 months ended March 31, 2018 when compared to the prior year period increased on higher content costs for Hawaiian Telcom TV of $1.1 million on increased subscribers. In addition, we incurred $1.2 million of additional outside contractor maintenance costs for the three months ended March 31, 2018. These increases were partially offset by lower costs of revenues on reduced equipment and related services sales for the three months ended March 31, 2018 compared to the prior year period amounting to $2.0 million.

Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. The change for the three months ended March 31, 2018 relative to the three months ended March 31, 2017 is primarily due to lower wage costs of $2.2 million on lower headcount.

Depreciation and amortization for the three month period ended March 31, 2018 was higher than the same period in the prior year because of asset additions supporting our network.

Other Income and (Expense)

The following tables summarize other income (expense) for the three months ended March 31, 2018 and 2017 (dollars in thousands).

	Three Months Ended March 31,		Change	
	2018	2017	Amount	Percentage
Interest expense	$ (4,136)	$ (3,993)	$ (143)	3.6 %
Retirement plans	710	(1,763)	2,473	(140.3)
	$ (3,426)	$ (5,756)	$ 2,330	(40.5)%

Interest expense for the three months ended March 31, 2018 increased compared to the same period in 2017 due to higher interest rates associated with our new financing. Interest capitalized amounted to $0.3 million and $0.5 million for three months ended March 31, 2018 and 2017, respectively. The retirement plan expense includes all costs and income related to our pension and other postretirement plans other than that for current employee services. For the three months ended March 31, 2017, the Company incurred a loss related to pension plan lump sum settlements amounting to $2.0 million. For the three months ended March 31, 2018, lump sum benefits paid did not exceed the threshold requiring settlement accounting.

Income Tax Provision

For the three months ended March 31, 2018 and 2017, we recognized an income tax benefit of $1.5 million and $1.4 million, respectively. The income tax benefit for the three months ended March 31, 2018 was impacted by the full valuation allowance previously established for our deferred income tax assets.

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 financial results as the primary measure of cumulative income or losses. These are adjusted for permanent differences between financial reporting and taxable income. Because of our three year cumulative losses, we are required to look only to sources of income that are deemed objective and verifiable based on historical experience. With the challenge of predicting future taxable income based on actual historical results, we limited 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 during the third quarter of 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 three months ended March 31, 2018, the income tax provision differs from amounts determined by applying the statutory federal income tax rate of 21% 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 pretax results, the U.S. federal statutory rate, expected nondeductible expenses and estimated state taxes.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act which significantly changes the existing U.S. tax laws including a reduction in the corporate tax rate from 34% to 21%. We gave recognition to the new law as of the effective date in 2017 with a revised measurement of our deferred federal income tax assets and liabilities. Going forward, the new law provides for numerous changes to U.S. tax laws that may impact our determination of taxable income or loss. In addition, net operating losses generated beginning in 2018 are subject to carry forward indefinitely but there are restrictions on the percentage of net operating losses that can be used to offset future taxable income in any one year.

As of December 31, 2017, net operating losses available for carry forward through 2037 amounted to $222.6 million for federal tax purposes and $227.0 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 March 31, 2018, we had cash and cash equivalents of $19.2 million. From an ongoing operating perspective, our cash requirements in 2018 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 incurred a loss for the quarter ended March 31, 2018 of $5.7 million. In addition, we have experienced a decline in our reported earnings before interest, taxes, depreciation and amortization as defined in our primary debt facility and used for covenant compliance. During the quarter ended March 31, 2018, our cash balance declined by $21.6 million in part because of payments of debt. While we were in compliance with the financial covenants on our primary credit facility as of March 31, 2018, the margin of compliance for the leverage ratio was relatively narrow and necessitated, in part, the payments of debt to assure such compliance. We have evaluated these factors on our future liquidity with a focus on our cash balance and financial debt covenant compliance for one year from issuance of these condensed consolidated financial statements. This included consideration of the need to amend the maximum allowed debt service coverage covenant. While we presently anticipate that the merger with Cincinnati Bell will close in the second or third quarter of 2018, we have assessed our covenant compliance and liquidity on a stand-alone basis.

Management has developed plans in response to the matters identified in the preceding paragraph. Such plans include our ability to scale our expenses to align to our revenue volume in particular related to low margin businesses, the ability to adjust our capital spending to defer or avoid expenditures that will not significantly impact our ability to sell and deliver services, and our ability to sell certain excess capacity on our existing terrestrial and undersea networks. On May 7, 2018, we obtained an amendment to the 2018 third and fourth quarter maximum leverage ratio covenant in our primary credit facility to provide for a greater margin of compliance on our leverage ratio on a prospective basis. We will also consider making additional payments of debt to facilitate compliance with the leverage ratio covenant while still maintaining sufficient liquidity for operating purposes.

Management believes that it has identified appropriate factors sufficient to conclude it is probable we will continue to comply with our debt covenants at each quarterly test date and maintain adequate liquidity for the following year. 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 the Three Months Ended March 31, 2018 and 2017

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 $17.1 million for the three months ended March 31, 2018. Net cash provided by operations amounted to $20.3 million for the three months ended March 31, 2017. The decrease in cash provided by operations was because of additional working capital needs.

Cash used in investing activities for the three months ended March 31, 2018 was comprised of capital expenditures of $24.3 million. Cash used in investing activities included capital expenditures of $27.2 million for the three months ended March 31, 2017. The level of capital expenditures for 2018 is expected to be less than in 2017 as we scale back capital on certain elements of our network expansion initiatives focusing on those directly related to sales opportunities.

During the three months ended March 31, 2018, we repaid debt, including installment obligations, of $13.6 million. For the quarter ended March 31, 2018, we repaid the majority of our installment obligations in an effort to simplify our capital structure in advance of the closing of the pending merger.

During the three months ended March 31, 2017, we had drawings of $6.0 million on our revolving line of credit. The drawing was used, in part, to fund capital costs of our trans-Pacific submarine cable then under construction. In addition, we paid costs related to our new delayed draw credit facility amount to $2.1 million. The balance of cash flows from financing activities for the three months ended March 31, 2017 was related primarily to the repayment of our debt and satisfaction of other obligations.

Outstanding Debt and Financing Arrangements

As of March 31, 2018, we had outstanding $310.3 million in aggregate long-term debt with a maturity through May 2022 and 2023. 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 three months ended March 31, 2018, our future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2017 in our Form 10-K other than the repayment of certain installment obligations as discussed above.

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, 2017, and have not changed materially from that discussion. The possible impact of recently adopted 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 March 31, 2018, our floating rate obligations consisted of $310.3 million of debt outstanding under our term loan facility. Accordingly, our earnings and cash flow are affected by changes in interest rates. Based on our borrowings at March 31, 2018 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 $3.1 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 March 31, 2018 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

Other than ordinary routine litigation incidental to the business, we are not involved in any material legal proceedings that are likely to have a material adverse effect on us. For the current status of matters regarding joint-owned utility poles, see Note 11, “Commitments and Contingencies,” in Part I, Item 1, “Condensed Consolidated Financial Statements.”

Item 1A. Risk Factors

See Part I, Item 1A, “Risk Factors,” of our 2017 Annual Report for a detailed discussion of risk factors related to our business, results of operations and financial condition.

Table of Contents

Item 5. Other Information.

Earnings Release

Hawaiian Telcom Holdco, Inc. issued a press release on May 10, 2018 announcing its 2018 first quarter earnings. This information, attached as Exhibit 99.1, is being furnished to the SEC pursuant to Item 2.02 of Form 8-K.

Credit Agreement Amendment

On May 7, 2018, Hawaiian Telcom Communications, Inc., as borrower, and the Company, as a guarantor, along with certain subsidiaries of the Company, entered into a First Amendment to Credit Agreement (the “Amendment”) to their $320 million Credit Agreement with CoBank, ACB, as the Administrative Agent, and each of the financial institutions identified as a lender on the signature pages thereto (the “Credit Agreement”). The Amendment modifies the financial covenant relating to the maximum allowed leverage ratio, as defined in the Credit Agreement, by extending the maximum allowed leverage ratio of 3.25: 1.00 to the December 31, 2018 test date. The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Amendment which is filed as an exhibit to this Form 10-Q.

First Hawaiian Bank is a lender under the Credit Agreement. Eric K. Yeaman is a director of the Company and the Borrower, and is President and Chief Operating Officer of First Hawaiian Bank. Walter A. Dods, Jr. is a director of the Company and the Borrower, and is also a director of First Hawaiian Bank.

Item 6. Exhibits

See following Exhibit Index.

EXHIBIT INDEX

10.1	First Amendment dated as of May 7, 2018, to the Credit Agreement dated as of February 24, 2017, among Hawaiian Telcom Communications, Inc., as the Borrower, the Company and each of the indirect subsidiaries of the Company that are parties thereto as Guarantors, CoBank, ACB, as the Administrative Agent, and each of the lenders that are party thereto.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated May 10, 2018 announcing first quarter earnings.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

	HAWAIIAN TELCOM HOLDCO, INC.
May 10, 2018	/s/ Scott K. Barber
	Scott K. Barber Chief Executive Officer
May 10, 2018	/s/ Dan T. Bessey
	Dan T. Bessey Chief Financial Officer

Exhibit 10.1

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "**Agreement**") is entered into as of May 7, 2018, among **HAWAIIAN TELCOM COMMUNICATIONS, INC.**, a Delaware corporation (the "**Borrower**"), each of the subsidiaries of the Borrower identified as guarantors on the signature pages hereto (individually, a "**Guarantor**" and, collectively, the "**Guarantors**"; and together with the Borrower, individually a "**Loan Party**" and, collectively, the "**Loan Parties**"), **COBANK, ACB**, as the Administrative Agent (the " **Administrative Agent**"), and each of the financial institutions executing this Agreement and identified as a Lender on the signature pages hereto (collectively, the "**Consenting Lenders**").

RECITALS

WHEREAS, the Borrower, the Administrative Agent and the Lenders (as defined therein) have entered into that certain Credit Agreement, dated as of February 24, 2017, as modified by that certain Guarantor Joinder, dated as of May 4, 2017, by and among the Borrower, the Administrative Agent, and the guarantors party thereto (as so amended and as amended, modified, supplemented, extended or restated from time to time, the "**Credit Agreement**"); and

WHEREAS, the Borrower has requested and the Consenting Lenders, in their capacity as Required Lenders under the Credit Agreement, have agreed, subject to the terms and conditions provided herein, to certain amendments with respect to the Loan Documents as more fully described herein.

NOW, THEREFORE, in consideration of the foregoing and the agreements set forth in this Agreement, each of the Borrower, the Guarantors, the Administrative Agent and the Consenting Lenders hereby agrees as follows:

SECTION 1. **Defined Terms**. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

SECTION 2. **Amendments to Credit Agreement**. In reliance on the representations, warranties and affirmations of the Borrower and the Guarantors contained in this Agreement and in connection with the request of the Borrower for the amendments provided herein and subject to the satisfaction of the conditions precedent to this Agreement as described below, effective as of the date hereof, Section 8.2 of the Credit Agreement is hereby amended and restated in its entirety as set forth below:

2.2 **Maximum Leverage Ratio**. The Loan Parties shall maintain at all times, commencing on the Closing Date, measured at each fiscal quarter end and maintained through the next measurement date, a Leverage Ratio of the Parent and its Subsidiaries on a Consolidated basis of not more than the ratios set forth below for the periods specified below:

PERIOD	RATIO
Closing Date through December 31, 2018	3.25: 1.00
January 1, 2019 through June 30, 2019	3.00: 1.00
July 1, 2019 through December 31, 2020	2.75: 1.00
January 1, 2021 and thereafter	2.50: 1.00

SECTION 3. **No Novation**. This Agreement shall not constitute a novation of the Credit Agreement or any other Loan Document. Except as expressly provided in this Agreement, the execution and delivery of this Agreement does not and will not amend, modify or supplement any provision of, or constitute a consent to or a waiver of any noncompliance with the provisions of, the Loan Documents, and the Loan Documents shall remain in full force and effect. On and after the effectiveness of this Agreement, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to "the Credit Agreement", shall mean and be a reference to the Credit Agreement, as amended by this Agreement.

SECTION 4. **Representations and Warranties**. Each of the Loan Parties hereby represents and warrants to the Administrative Agent and the Lenders as follows:

(A) Such Loan Party has the right and power, and has taken all necessary action to authorize it, to execute, deliver and perform this Agreement in accordance with its terms. This Agreement has been duly executed and delivered by such Loan Party and is a legal, valid and binding obligation of it, enforceable against it in accordance with its terms, as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating to or affecting the enforcement of creditors' rights generally.

(B) The execution, delivery and performance of this Agreement in accordance with its terms do not and will not, by the passage of time, the giving of notice or otherwise,

(1) require any Governmental Authority or violate any Law;

(2) conflict with, result in a breach of or constitute a default under the Organizational Documents of such Loan Party;

(3) conflict with, result in a breach of or constitute a default under any Material Contract to which any Loan Party is a party or by which it is bound; or

(4) result in or require the creation or imposition of any Lien (except as permitted by the Loan Documents) upon or with respect to any property now owned or hereafter acquired by such Loan Party.

(C) The representations and warranties of such Loan Party set forth in the Loan Documents are true, correct and complete, except such representations and warranties that are not qualified in the Loan Documents by reference to materiality or a Material Adverse Effect shall then be true and correct in all material respects as of the date hereof (except for any such representation and warranty that by its terms is made only as of an earlier date, which representation and warranty shall have been true and correct in all material respects as of such earlier date).

(D) No event shall have occurred and be continuing that constitutes an Event of Default or a Default.

SECTION 5. **Borrower Confirmations**. The Borrower hereby confirms and agrees that (a) each Collateral Document is and shall continue to be in full force and effect, and (b) the obligations secured by each such document include any and all obligations of the Loan Parties to the Secured Parties under the Credit Agreement as amended hereby.

SECTION 6. **Guarantor Confirmations**. Each of the Guarantors hereby confirms and agrees that (a) its guarantee contained in the Credit Agreement and each Collateral Document to which it is a party is and shall continue to be in full force and effect, and (b) the obligations guaranteed or secured by each such applicable document include any and all obligations of the Loan Parties to the Secured Parties under the Credit Agreement as amended hereby.

SECTION 7. **Effectiveness of this Agreement**. This Agreement shall be effective only upon (i) receipt by the Administrative Agent of an execution counterpart hereto signed by the Borrower, each Guarantor, and the Required Lenders, and (ii) payment by Borrower to Administrative Agent, on behalf of and for the benefit of the Consenting Lenders, of an amendment fee for each Consenting Lender equal to the result of (a) 5 bps multiplied by (b) the sum of (1) such Consenting Lender's Revolving Commitment and (2) the outstanding principal amount of such Consenting Lender's Term Loans.

SECTION 8. **Costs and Expenses**. The Borrower agrees to pay to the Administrative Agent, on demand, all reasonable and documented out-of-pocket costs and expenses incurred by the Administrative Agent, including, without limitation, the reasonable and documented fees and expenses of counsel retained by the Administrative Agent, in connection with the negotiation, preparation, execution and delivery of this Agreement and all other instruments and documents contemplated hereby.

SECTION 9. **Counterparts**. This Agreement may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which, when so, executed shall be deemed an original, but all such counterparts shall constitute one and the same instrument. Each party hereto acknowledges and agrees that a facsimile or an electronic (".pdf" or ".tif") transmission to the Administrative Agent of signature pages hereof purporting to be signed on behalf of such party shall constitute effective and binding execution and delivery hereof by such party.

SECTION 10. **Governed under Provisions of Credit Agreement**. This Agreement is subject to, shall be governed by and shall be construed and enforced in accordance with all provisions of the Credit Agreement, including the governing law provisions thereof.

[Signatures Follow on Next Page.]

Witness the due execution hereof by the respective duly authorized officers of the undersigned as of the date first written above.

BORROWER:

HAWAIIAN TELCOM COMMUNICATIONS, INC.

By: /s/ Dan T. Bessey
Dan T. Bessey
Senior Vice President, Chief Financial Officer and Treasurer

GUARANTORS:

HAWAIIAN TELCOM HOLDCO, INC.,
HAWAIIAN TELCOM, INC.,
HAWAIIAN TELCOM SERVICES COMPANY, INC.,
SYSTEMMETRICS CORPORATION

By: /s/ Dan T. Bessey
Dan T. Bessey
Senior Vice President, Chief Financial Officer and Treasurer

[Signatures continued from previous page.]

COBANK, ACB, as the Administrative Agent and as a Lender

By: /s/ Jacqueline Bove
Jacqueline Bove
Managing Director

[Signatures continued from previous page.]

FIFTH THIRD BANK, as a Lender

By: /s/ Eric Oberfield
Name: Eric Oberfield
Title: Director

[Signatures continued from previous page.]

MUFG UNION BANK, as a Lender

By: /s/ Matthew Hillman
Name: Matthew Hillman
Title: Vice President

[Signatures continued from previous page.]

FIRST HAWAIIAN BANK, as a Lender

By: /s/ Derek Chang
Name: Derek Chang
Title: Vice President

[Signatures continued from previous page.]

EAST WEST BANK, as a Lender

By: /s/ David Hill
Name: David Hill
Title: First Vice President

[Signatures continued from previous page.]

WEBSTER BANK N.A., as a Lender

By: /s/ Steve Morse
Name: Steve Morse
Title: VP

[Signatures continued from previous page.]

ROYAL BANK OF CANADA, as a Lender

By: /s/ Alexander Oliver
Name: Alexander Oliver
Title: Authorized Signatory

[Signatures continued from previous page.]

AMERICAN SAVINGS BANK, FSB, as a Lender

By: /s/ Edward Chin
Name: Edward Chin
Title: First Vice President

[Signatures continued from previous page.]

COLUMBIA STATE BANK, as a Lender

By: /s/ Thomas G. Gunder
Name: Thomas G. Gunder
Title: SVP

[Signatures continued from previous page.]

COMPEER FINANCIAL, FLCA, as a Voting Participant

By: /s/ Jeremy Voigts
Name: Jeremy Voigts
Title: Director, Capital Markets

[Signatures continued from previous page.]

FCS COMMERCIAL FINANCE GROUP, for AgCountry Farm Credit Services, FLCA, as a Voting Participant

By: /s/ Nee Ly
Name: Nee Ly
Title: Assistant Vice President

[Signatures continued from previous page.]

FARM CREDIT EAST, ACA, as a Voting Participant

By: /s/ Kerri B. Sears
Name: Kerri B. Sears
Title: Vice President

[Signatures continued from previous page.]

FARM CREDIT WEST, FLCA, as a Voting Participant

By: /s/ Nathan Garcin
Name: Nathan Garcin
Title: VP

[Signatures continued from previous page.]

FARM CREDIT MID-AMERICA, FLCA, as a Voting Participant

By: /s/Tabatha Hamilton
Name: Tabatha Hamilton
Title: Vice President Capital Market

[Signatures continued from previous page.]

MIDATLANTIC FARM CREDIT, FLCA, as a Voting Participant

By: /s/ James F. Jones, Jr.
Name: James F. Jones, Jr.
Title: Vice President

[Signatures continued from previous page.]

FARM CREDIT BANK OF TEXAS, as a Voting Participant

By: /s/ Eric Estey
Name: Eric Estey
Title: Vice President

[Signatures continued from previous page.]

FARM CREDIT SERVICES OF AMERICA, FLCA, as a Voting Participant

By: /s/ Curt A. Brown
Name: Curt A. Brown
Title: Vice President

[Signatures continued from previous page.]

GREENSTONE FARM CREDIT SERVICES, FLCA, as a Voting Participant

By: /s/ Shane Prichard
Name: Shane Prichard
Title: AVP of Capital Markets

[Signatures continued from previous page.]

NORTHWEST FARM CREDIT SERVICES, FLCA, as a Voting Participant

By: /s/ Jeremy A. Roewe
Name: Jeremy A. Roewe
Title: Vice President

[Signatures continued from previous page.]

FARM CREDIT OF NEW MEXICO, FLCA, a wholly owned subsidiary of Farm Credit of New Mexico, ACA, as a Voting Participant

By: /s/ Gerald Briese
Name: Gerald Briese
Title: VP-Agribusines

[Signatures continued from previous page.]

AGFIRST FARM CREDIT BANK, as a Voting Participant

By: /s/ Christopher R. Reynolds
Name: Christopher R. Reynolds
Title: AVP

[Signatures continued from previous page.]

AMERICAN AGCREDIT, FLCA, as a Voting Participant

By: Daniel K. Hansen
Name: Daniel K. Hansen
Title: Vice President

[Signatures continued from previous page.]

GOLDEN STATE FARM CREDIT, FLCA, as a Voting Participant

By: /s/ Walter Lohse
Name: Walter Lohse
Title: Chief Credit Officer

[Signatures continued from previous page.]

AGCHOICE FARM CREDIT, ACA, on behalf of itself and its wholly-owned Subsidiaries, AgChoice Farm Credit, FLCA and AgChoice Farm Credit, PCA, as a Voting Participant

By: /s/ William Frailey
Name: William Frailey
Title: Assistant Vice President

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.

May 10, 2018

/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.

May 10, 2018

/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 March 31, 2018 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.

May 10, 2018	/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 March 31, 2018 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.

May 10, 2018	/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 First Quarter 2018 Results

Received approval from Hawai'i Public Utilities Commission for merger with Cincinnati Bell
Achieved consumer Internet revenue growth of 6 percent
Expanded TV subscriber base by 7 percent
Increased business VoIP revenue by 23 percent
Grew wholesale high-bandwidth services revenue by 57 percent

HONOLULU (Thursday, May 10, 2018) -- Hawaiian Telcom Holdco, Inc. (NASDAQ: HCOM) reported financial results for its first quarter ended March 31. The first quarter and recent highlights are as follows:

- Revenue totaled $89.2 million, resulting in Adjusted EBITDA[1] of $21.8 million.
- Consumer and business strategic revenues[2] increased 1.0 percent year-over-year, driven by solid revenue growth from fiber-based strategic services such as video, fiber Internet, and business VoIP.
- TV revenue grew 6.0 percent year-over-year, driven by 7.0 percent subscriber growth. Overall Next-Generation Network (NGN) penetration is over 26 percent, an increase from 24 percent in the first quarter of 2017.
- Consumer Internet revenue rose 6.3 percent year-over-year, driven by 2.7 percent overall subscriber growth and 4.5 percent growth in average revenue per user (ARPU).
- Business VoIP revenue increased 23.3 percent year-over-year, driven by 16.1 percent growth in business VoIP lines and 5.6 percent growth in ARPU.
- Wholesale revenue from high-bandwidth services grew 57.0 percent year-over-year, driven by strong Ethernet growth and trans-Pacific fiber circuit capacity revenue.
- Fiber-enabled approximately 1,700 business addresses and 1,000 consumer households in the quarter, bringing total fiber-enabled business addresses to 13,000 and total NGN households on O'ahu to 207,000.
- Incurred a net loss of $5.7 million, or $0.49 per diluted share in the quarter, compared to a net loss of $2.0 million, or $0.17 per diluted share in the same period in the prior year. The decrease was partially due to a $2.1 million year-over-year increase in depreciation and amortization as a result of continued investments to expand the Company's fiber network statewide.
- Merger with Cincinnati Bell received approval from the Hawai'i Public Utilities Commission. The overall regulatory review process is nearing completion, pending final decision from the Federal Communications Commission (FCC). Integration planning is underway and the merger is expected to close as soon as FCC's approval is obtained and other customary closing conditions are met.

"In the first quarter, we continued to invest in our fiber infrastructure, widening the reach of our NGN footprint and expanding our strategic services subscriber base, while enhancing the capabilities and portfolio of products and services we deliver to our consumer, business and wholesale customers," said Scott K. Barber, Hawaiian Telcom's president and CEO. "Our fiber investments and state-of-the-art network has helped us transform our company and will position us to capitalize on customers' growing demand for higher bandwidth and integrated solutions.

"We are excited about coming together with Cincinnati Bell as we believe the combination will enable us to deliver significant value to our shareholders, customers and employees. We are actively engaged with Cincinnati Bell in integration planning to ensure a smooth transition for all of our stakeholders and to enable the combined company to realize the full potential of the combination quickly after the transaction closes."

First Quarter 2018 Results

First quarter revenue was $89.2 million, compared to $94.5 million in the first quarter of 2017. Revenue growth in the quarter, driven by video, high-bandwidth fiber Internet, business VoIP and trans-Pac capacity, was more than offset by a $2.4 million decrease in low-margin equipment revenue and revenue declines associated with legacy voice and low-bandwidth data services.

The Company incurred a net loss of $5.7 million, or $0.49 per diluted share in the first quarter of 2018, compared to a net loss of $2.0 million, or $0.17 per diluted share in the first quarter of 2017. The decrease was partially due to a $2.1 million year-over-year increase in depreciation and amortization as a result of continued investments to expand the Company's fiber network statewide. Adjusted EBITDA for first quarter was $21.8 million.

Business Revenue

First quarter business revenue totaled $39.1 million, compared to $43.9 million in the first quarter of 2017.

Business VoIP revenue increased 23.3 percent year-over-year in the first quarter, driven by strong demand for Hawaiian Telcom's hosted voice and fiber data bundle. Demand for the Company's high-bandwidth fiber Internet products also continued to grow. The number of subscribers on packages with 50 Mbps to 1 Gbps speeds increased 77.8 percent year-over-year. To support this growing demand for bandwidth and increasing cloud adoption, the Company deployed fiber GPON technology to nearly 1,700 additional small business addresses across the islands in the first quarter, increasing the total number of fiber-enabled business addresses to approximately 13,000 as of March 31, 2018.

First quarter business strategic revenue was $16.4 million and represented 42 percent of total reported business revenue, compared to 39 percent in the same period a year ago. Growth in high-bandwidth fiber strategic services were offset by lower equipment revenue, declines in legacy copper services, as well as lower ARPU on certain data services due to promotional activities.

Consumer Revenue

First quarter consumer revenue totaled $33.6 million, down $0.7 million year-over-year and flat sequentially.

First quarter consumer strategic revenue was $18.3 million, up 6.1 percent year-over-year and 2.4 percent sequentially, driven by strong demand for the Company's fiber-based products. Strategic revenue represented 55 percent of total consumer revenue, up from 50 percent in the same period a year ago.

Video services revenue grew 6.0 percent year-over-year to $11.2 million for the first quarter, driven by a 7.0 percent year-over-year subscriber growth. The Company ended the first quarter with over 45,700 video subscribers, 25 percent of which were bulk multi-dwelling unit (MDU) video subscribers on multi-year contracts. When combined with approximately 8,900 additional single-play and double-play non-TV Internet subscribers on our NGN footprint, the penetration rate in our NGN footprint was over 26 percent at the end of the first quarter, an increase from 24 percent in the year-ago period.

Internet revenue also was up 6.3 percent from the same period a year ago, led by a 2.7 percent year-over-year increase in subscribers and 4.5 percent growth in ARPU. Customer demand and adoption of high-bandwidth premium fiber products continued to outpace subscriber declines in low-bandwidth copper areas. In the first quarter, the number of Internet subscribers on packages with 100 Mbps to 1 Gbps fiber speeds grew 58.3 percent year-over-year.

Revenue growth from Hawaiian Telcom TV and high-bandwidth fiber Internet services was offset by the year-over-year revenue decline in legacy voice and low-bandwidth copper Internet services.

Wholesale Revenue

First quarter wholesale revenue totaled $13.9 million, up 8.6 percent compared to first quarter 2017, driven by a 57.0 percent year-over-year revenue increase from high-bandwidth, multi-year contract wholesale services including Ethernet, trans-Pacific fiber circuit capacity, and optical transport services. High-bandwidth services represented 40 percent of total wholesale revenue in the first quarter, up from 28 percent in the same period a year ago.

Operating Expenses

First quarter operating expenses totaled $93.0 million, up $1.0 million compared to first quarter 2017. Operating expenses, exclusive of non-cash and special items which are excluded from our Adjusted EBITDA calculation, was $67.4 million, flat year-over-year. Decreased cost of revenues from lower equipment sales were offset by higher video content costs from rising rates and increasing numbers of video subscribers, as well as higher outside contractor maintenance costs in the first quarter.

Capital Expenditures and Liquidity

Capital expenditures totaled $24.3 million for the first quarter 2018, down from $27.2 million in same period in the prior year. Nearly 90 percent of total capital expenditures in the quarter was directed towards growth and expansion initiatives, which included the continued expansion of our fiber network, costs associated with improving our systems, and the success-based spending to support the growth of the Company's strategic services.

As of March 31, 2018, the Company had $19.2 million in cash and cash equivalents compared to $40.8 million at the end of 2017. The reduction was primarily related to $13.6 million repayment of debt, including installment obligations in the first quarter to simplify our capital structure. Net Debt(3) was $285.9 million, resulting in a Net Leverage Ratio(4) as of March 31, 2018 of 2.9x. Levered Free Cash Flow(5) for the first quarter 2018 was negative $5.9 million.

Conference Call

Due to the pending merger with Cincinnati Bell, the Company will not host a conference call to discuss its first quarter 2018 financial results.

Use of Non-GAAP Financial Measures

This press release contains information about adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), 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, 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 2017 Form 10-K. The information contained in this release is as of May 10, 2018. 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, retirement plan expenses, loss (gain) on sale of property, non-cash stock and other performance-based compensation, SystemMetrics earn-out, pension settlement loss, severance costs, merger-related expenses 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) **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.

[4] **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.

[5] **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.

[6] Effective January 1, 2018, the Company adopted a new accounting standard that amends the income statement presentation of net periodic benefit cost for defined benefit and other post retirement plans. The presentation requirements were adopted on a retrospective basis resulting in a reclassification of certain retirement plan expenses from selling, general and administrative expense to other income and expense for every quarter in 2017. Operating income for these periods have been revised as a result, while Adjusted EBITDA remain unchanged. More information can be found in the Company's form 10-Q for the quarterly period ended March 31, 2018 filed with the Securities and Exchange Commission.

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

	Three Months Ended March 31,	
	2018	**2017**
Operating revenues	$ 89,222	$ 94,510
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization)	42,088	41,191
Selling, general and administrative	27,625	29,632
Depreciation and amortization	23,333	21,269
Total operating expenses	93,046	92,092
Operating income (loss)	(3,824)	2,418
Other income (expense):		
Interest expense	(4,136)	(3,993)
Retirement plan	710	(1,763)
Total other expense	(3,426)	(5,756)
Loss before income tax benefit	(7,250)	(3,338)
Income tax benefit	(1,514)	(1,386)
Net loss	$ (5,736)	$ (1,952)
Net loss per common share -		
Basic	$ (0.49)	$ (0.17)
Diluted	$ (0.49)	$ (0.17)
Weighted average shares used to compute net loss per common share -		
Basic	11,597,918	11,529,046
Diluted	11,597,918	11,529,046

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

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 19,191	$ 40,759
Receivables, net	24,119	32,229
Material and supplies	6,805	6,810
Prepaid expenses	4,187	4,899
Other current assets	3,639	1,328
Total current assets	57,941	86,025
Property, plant and equipment, net	607,087	608,298
Intangible assets, net	30,699	31,026
Goodwill	12,104	12,104
Other assets	6,512	2,053
Total assets	$ 714,343	$ 739,506
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 10,250	$ 10,250
Accounts payable	53,290	56,874
Accrued expenses	11,832	11,736
Advance billings and customer deposits	9,349	14,807
Other current liabilities	3,934	6,774
Total current liabilities	88,655	100,441
Long-term debt	294,804	299,066
Employee benefit obligations	78,036	79,953
Deferred income taxes, net	910	910
Other liabilities	33,638	38,927
Total liabilities	496,043	519,297
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 11,635,116 and 11,587,963 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	116	116
Additional paid-in capital	182,546	182,689
Accumulated other comprehensive loss	(16,053)	(15,964)
Retained earnings	51,691	53,368
Total stockholders' equity	218,300	220,209
Total liabilities and stockholders' equity	$ 714,343	$ 739,506

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from operating activities:		
Net loss	$ (5,736)	$ (1,952)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	23,333	21,269
Deferred financing amortization	301	529
Employee retirement benefits	(2,037)	1,410
Provision for uncollectible receivables	1,004	950
Stock based compensation	572	567
Deferred income taxes	(1,395)	(1,251)
Changes in operating assets and liabilities:		
Receivables	55	1,050
Material and supplies	5	619
Prepaid expenses and other current assets	698	(217)
Accounts payable and accrued expenses	(947)	(3,162)
Advance billings and customer deposits	1,466	954
Other current liabilities	(51)	340
Other	(166)	(839)
Net cash provided by operating activities	17,102	20,267
Cash flows from investing activities:		
Capital expenditures	(24,336)	(27,242)
Net cash used in investing activities	(24,336)	(27,242)
Cash flows from financing activities:		
Proceeds from borrowing	—	6,000
Repayment of capital lease and installment financing	(9,056)	(1,051)
Repayment of borrowings	(4,563)	(750)
Refinancing costs	—	(2,071)
Taxes paid related to net share settlement of equity awards	(715)	(495)
Net cash provided by (used in) financing activities	(14,334)	1,633
Net change in cash, cash equivalents and restricted cash	(21,568)	(5,342)
Cash, cash equivalents and restricted cash, beginning of period	41,009	21,146
Cash, cash equivalents and restricted cash, end of period	$ 19,441	$ 15,804

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

	Three Months Ended March 31,		Change	
	2018	2017	Amount	Percentage
Business				
Data services:				
Ethernet and routed network services	$ 4,070	$ 4,791	$ (721)	(15.0)%
Dedicated Internet access	2,079	2,603	(524)	(20.1)%
Internet services	3,119	3,354	(235)	(7.0)%
BVoIP	4,102	3,326	776	23.3 %
Legacy data services	1,476	1,543	(67)	(4.3)%
Total data services	14,846	15,617	(771)	(4.9)%
Voice services	19,652	21,258	(1,606)	(7.6)%
Hosted and managed services	1,599	1,532	67	4.4 %
Equipment and related services	3,029	5,443	(2,414)	(44.4)%
	39,126	43,850	(4,724)	(10.8)%
Consumer				
Video services	11,225	10,594	631	6.0 %
Internet services	7,105	6,681	424	6.3 %
Voice services	15,272	16,986	(1,714)	(10.1)%
	33,602	34,261	(659)	(1.9)%
Wholesale carrier data	13,932	12,828	1,104	8.6 %
Other	2,562	3,571	(1,009)	(28.3)%
	$ 89,222	$ 94,510	$ (5,288)	(5.6)%

Hawaiian Telcom Holdco, Inc.
Schedule of Adjusted EBITDA Calculation [6]
(Unaudited, dollars in thousands)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	LTM Ended March 31, 2018
Net loss	$ (5,736)	$ (1,952)	$ (111,025)
Income tax provision (credit)	(1,514)	(1,386)	87,874
Interest expense and other income and expense, net	3,426	5,756	21,213
Operating income (loss)	(3,824)	2,418	(1,938)
Depreciation and amortization	23,333	21,269	90,488
Retirement plan expenses	710	(1,763)	170
Non-cash stock and other performance-based compensation	572	725	2,674
SystemMetrics earn-out	—	—	32
Pension settlement loss	—	1,956	2,044
Early retirement plan severance	—	1,743	—
Merger-related expenses	206	—	2,617
Other special items	820	714	2,639
Adjusted EBITDA	$ 21,817	$ 27,062	$ 98,726

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Adjusted EBITDA	$ 21,817	$ 27,062
Cash interest expense	(3,391)	(3,537)
Capital expenditures	(24,336)	(27,242)
Levered Free Cash Flow	$ (5,910)	$ (3,717)

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

Long-term debt as of March 31, 2018	$ 305,054
Less cash on hand	(19,191)
Total net debt as of March 31, 2018	$ 285,863
LTM Adjusted EBITDA as of March 31, 2018	$ 98,726
Net leverage ratio as of March 31, 2018	2.9 x

Hawaiian Telcom Holdco, Inc.
Volume Information
(Unaudited)

	March 31,		2018 vs 2017 Change	
	2018	2017	Number	Percentage
Business				
Data lines	18,112	19,341	(1,229)	(6.4)%
BVoIP lines	23,259	20,034	3,225	16.1 %
Voice access lines	146,752	158,621	(11,869)	(7.5)%
Consumer				
Video subscribers	45,747	42,771	2,976	7.0 %
Internet lines	93,104	90,693	2,411	2.7 %
Voice access lines	118,496	131,142	(12,646)	(9.6)%
Homes enabled for video	207,000	203,000	4,000	2.0 %

	March 31, 2018	December 31, 2017	Change	
			Number	Percentage
Business				
Data lines	18,112	18,289	(177)	(1.0)%
BVoIP lines	23,259	22,457	802	3.6 %
Voice access lines	146,752	149,959	(3,207)	(2.1)%
Consumer				
Video subscribers	45,747	45,183	564	1.2 %
Internet lines	93,104	91,883	1,221	1.3 %
Voice access lines	118,496	121,169	(2,673)	(2.2)%
Homes enabled for video	207,000	206,000	1,000	0.5 %