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UNITED STATES CELLULAR CORPORATION

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2009
Pursuant to SEC Rule 14a-3

The following audited financial statements and certain other financial information for the year ended December 31, 2009, represent U.S. Cellular's annual report to shareholders as required by the rules and regulations of the Securities and Exchange Commission ("SEC").

The following information was filed with the SEC on February 25, 2010 as Exhibit 13 to U.S. Cellular's Annual Report on Form 10-K for the year ended December 31, 2009. Such information has not been updated or revised since the date it was originally filed with the SEC. Accordingly, you are encouraged to review such information together with any subsequent information that we have filed with the SEC and other publicly available information.

Exhibit 13

United States Cellular Corporation and Subsidiaries

Financial Reports Contents

United States Cellular Corporation
Management's Discussion and Analysis of Financial Condition and Results of Operations

United States Cellular Corporation ("U.S. Cellular") owns, operates and invests in wireless markets throughout the United States. U.S. Cellular is an 82%-owned subsidiary of Telephone and Data Systems, Inc. ("TDS").

The following discussion and analysis should be read in conjunction with U.S. Cellular's audited consolidated financial statements and the description of U.S. Cellular's business included in Item 1 of the U.S. Cellular Annual Report on Form 10-K for the year ended December 31, 2009.

OVERVIEW

The following is a summary of certain selected information contained in the comprehensive Management's Discussion and Analysis of Financial Condition and Results of Operations that follows. The summary does not contain all of the information that may be important. You should carefully read the entire Management's Discussion and Analysis of Financial Condition and Results of Operations and not rely solely on the overview.

U.S. Cellular provides wireless telecommunications services to more than 6.1 million customers in five geographic market areas in 26 states. As of December 31, 2009, U.S. Cellular's average penetration rate in its consolidated operating markets, calculated by dividing U.S. Cellular's total customers by the total population of 46.3 million in such markets, was 13.3%. U.S. Cellular operates on a customer satisfaction strategy, meeting customer needs by providing a comprehensive range of wireless products and services, excellent customer support, and a high-quality network. U.S. Cellular's business development strategy is to operate controlling interests in wireless licenses in areas adjacent to or in proximity to its other wireless licenses, thereby building contiguous operating market areas. U.S. Cellular believes that operating in contiguous market areas will continue to provide it with certain economies in its capital and operating costs.

Financial and operating highlights in 2009 included the following:

- Total customers were 6,141,000 at December 31, 2009, including 5,744,000 retail customers.

- Retail customer net additions were 37,000 in 2009 compared to 149,000 in 2008. The decrease year-over-year reflected higher churn rates, due to the weak economy and very competitive industry conditions which included the initiation of service by unlimited prepay service providers in certain of U.S. Cellular's markets.

- Postpay customers comprised approximately 95% of U.S. Cellular's retail customer base as of December 31, 2009. Postpay net additions were 62,000 in 2009 compared to 158,000 in 2008. The postpay churn rate was 1.6% in 2009 compared to 1.5% in 2008.

- Service revenues of $3,927.9 million decreased $12.5 million year-over-year, due primarily to a decrease of $76.4 million (23%) in inbound roaming revenues. Retail service revenue grew by $33.2 million (1%) due primarily to an increase in the average monthly retail service revenue per customer, driven by higher data usage. Data revenues grew 33% year-over-year to $683.0 million.

- Cash flows from operating activities were $881.8 million, a decrease of 4% year-over-year. At December 31, 2009, Cash and cash equivalents totaled $294.4 million and there were no outstanding borrowings under the revolving credit facility.

- On June 30, 2009, U.S. Cellular entered into a new $300 million revolving credit agreement with certain lenders and other parties. As a result, U.S. Cellular's $700 million revolving credit agreement, which was due to expire in December 2009, was terminated on June 30, 2009 as a condition of entering into the new agreement. The new revolving credit agreement provides U.S. Cellular with a $300 million senior revolving credit facility for working capital, acquisitions and other corporate purposes and to refinance any existing debt of U.S. Cellular.

On December 24, 2009, U.S. Cellular redeemed all of its outstanding 8.75% Senior Notes due November 1, 2032. The $130.0 million aggregate principal amount of the outstanding notes was redeemed at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, which resulted in a total redemption payment of $131.7 million.

Additions to property, plant and equipment totaled $546.8 million, including expenditures to construct cell sites, increase capacity in existing cell sites and switches, expand mobile broadband services based on third generation Evolution-Data Optimized technology ("3G") to additional markets, outfit new and remodel existing retail stores and continue the development and enhancement of U.S. Cellular's office systems. Total cell sites in service increased 6% year-over-year to 7,279.

As part of its customer satisfaction strategy and Believe in Something Better® brand message, U.S. Cellular launched its Battery Swap program in May 2009. Under this new program, a customer can exchange a battery that is dead or dying for one that is fully charged, at no cost to the customer. U.S. Cellular was the first wireless company to offer this service in the United States, and completed over one million battery swaps in 2009.

In November 2009, U.S. Cellular launched Overage Protection, a customer satisfaction strategy that allows customers to opt into receiving alerts when they come close to reaching their allowable plan minutes or text messages for the month in order to avoid overage charges. Approximately 600,000 of U.S. Cellular's customers signed up for this service in 2009.

U.S. Cellular began efforts on a number of multi-year initiatives including the development of: a Billing and Operational Support System ("BSS/OSS") including a new point-of-sale system to consolidate billing on one platform; an Electronic Data Warehouse/Customer Relationship Management System to collect and analyze information more efficiently to build and improve customer relationships; and a new Internet/Web platform to enable customers to complete a wide range of transactions and, eventually, to manage their accounts online.

U.S. Cellular recognized a loss on impairment of licenses of $14.0 million in 2009. In 2008, a loss on impairment of $386.7 million was recognized.

Operating income increased $298.7 million to $326.4 million in 2009 from $27.7 million in 2008. A significant factor in the year-over-year increase was the impairment loss related to licenses in 2008. U.S. Cellular anticipates that future growth in its operating income will be affected by the following factors:

- Overall demand for U.S. Cellular's products and services, including potential growth in revenues from data products and services;
- Increasing penetration in the wireless industry;
- Increased competition in the wireless industry, including potential reductions in pricing for products and services overall and impacts associated with the expanding presence of carriers offering low-priced, unlimited prepay service;
- Uncertainty related to current economic conditions and their impact on customer purchasing and payment behaviors;
- Costs of customer acquisition and retention, such as equipment subsidies and advertising;
- Industry consolidation and the resultant effects on roaming revenues, service and equipment pricing and other effects of competition;

Providing service in recently launched areas or potential new market areas;

Potential increases or decreases in prepay and reseller customers as a percentage of U.S. Cellular's customer base;

Costs of developing and introducing new products and services;

Costs of developing and enhancing office and customer support systems, including costs and risks associated with the completion of important multi-year initiatives such as those described above;

Continued enhancements to its wireless networks, including expansion of 3G services and potential deployments of new technology;

Increasing costs of regulatory compliance; and

Uncertainty in future eligible telecommunication carrier ("ETC") funding.

Investment and other income (expense) totaled $25.5 million in 2009 and $38.4 million in 2008. The decrease was due primarily to a gain on disposition of Rural Cellular Corporation ("RCC") shares of $16.4 million in conjunction with Verizon's acquisition of RCC in 2008.

Net income attributable to U.S. Cellular increased $183.0 million to $216.0 million in 2009 compared to $33.0 million in 2008, due primarily to lower Losses on impairment of intangible assets, partially offset by lower operating income excluding impairments. Basic earnings per share was $2.48 in 2009, which was $2.10 higher than in 2008 and Diluted earnings per share was $2.48, which was $2.10 higher than in 2008.

Cash Flows and Investments

U.S. Cellular believes that cash on hand, expected future cash flows from operating activities and sources of external financing provide substantial liquidity and financial flexibility and are sufficient to permit U.S. Cellular to finance its contractual obligations and anticipated capital expenditures for the foreseeable future. U.S. Cellular continues to seek to maintain a strong balance sheet and an investment grade credit rating.

See "Financial Resources" and "Liquidity and Capital Resources" below for additional information related to cash flows and investments, including information related to U.S. Cellular's new revolving credit agreement.

Recent Developments

Congress recently enacted the American Recovery and Reinvestment Act of 2009, or the Recovery Act, which provides, among other things, for an aggregate appropriation of $7.2 billion to fund grants and loans to provide broadband infrastructure, access and equipment to consumers residing in rural, unserved or underserved areas of the United States. U.S. Cellular submitted applications for grants in the first round of funding in the amount of $23.5 million; U.S. Cellular has been notified that those applications were not granted. U.S. Cellular is currently considering submitting additional applications for grants in the second round of funding, which applications are due March 15, 2010. There is no assurance that U.S. Cellular will receive any grants of Recovery Act funds. The distribution of Recovery Act funds to other telecommunications service providers could impact competition in certain of U.S. Cellular's service areas.

2010 Estimates

U.S. Cellular expects the factors described above to impact revenues and operating income for the next several quarters. Any changes in the above factors, as well as the effects of other drivers of U.S. Cellular's operating results, may cause revenues and operating income to fluctuate over the next several quarters.

U.S. Cellular's estimates of full-year 2010 results are shown below. Such estimates represent U.S. Cellular's views as of the date of filing of U.S. Cellular's Form 10-K for the year ended December 31, 2009. Such forward-looking statements should not be assumed to be accurate as of any future date. U.S. Cellular undertakes no duty to update such information whether as a result of new information, future events or otherwise. There can be no assurance that final results will not differ materially from such estimated results.

	2010 Estimated Results	2009 Actual Results
Service revenues	$3,975 - $4,075 million	$ 3,927.9 million
Operating income	$250 - $350 million	$ 326.4 million
Depreciation, amortization and accretion expenses, and losses on disposals and impairment of assets(1)	Approx. $600 million	$ 599.8 million
Capital expenditures	Approx. $600 million	$ 546.8 million

(1) 2009 Actual Results include losses on asset disposals of $15.2 million and impairments of assets of $14.0 million. The 2010 Estimated Results include only the estimate for Depreciation, amortization and accretion expenses and losses on disposals of assets, and do not include any estimate for losses on impairment of assets (since these can not be predicted).

U.S. Cellular management believes that the foregoing estimates represent a reasonable view of what is achievable considering current economic and competitive conditions as well as actions that U.S. Cellular has taken and will be taking. U.S. Cellular expects to continue its focus on customer satisfaction by delivering a high quality network, attractively priced service plans, a broad line of handsets and other products, and outstanding customer service in its company-owned and agent retail stores and customer care centers. U.S. Cellular believes that future growth in its revenues will result primarily from selling additional products and services to its existing customers, increasing the number of multi-device users among its existing customers, and attracting wireless users switching from other wireless carriers, rather than by adding users that are new to wireless service. U.S. Cellular is focusing on opportunities to increase revenues, pursuing cost reduction initiatives in various areas and implementing a number of initiatives to enable future growth. The initiatives are intended, among other things, to allow U.S. Cellular to accelerate its introduction of new products and services, better segment its customers for new services and retention, sell additional services such as data, expand its Internet sales and customer service capabilities, and improve its prepay products and services.

RESULTS OF OPERATIONS

Following is a table of summarized operating data for U.S. Cellular's consolidated operations.

As of December 31,(1)	2009	2008	2007
Total market population of consolidated operating markets(2)	46,306,000	46,009,000	44,955,000
Customers(3)	6,141,000	6,196,000	6,102,000
Market penetration(2)	13.3%	13.5%	13.6%
Total full-time equivalent employees(4)	8,867	8,712	8,067
Cell sites in service	7,279	6,877	6,383

For the Year Ended December 31,(5)	2009	2008	2007
Net retail customer additions(6)	37,000	149,000	333,000
Net customer additions (losses)(6)	(55,000)	91,000	281,000
Average monthly service revenue per customer(7)	$ 53.00	$ 53.23	$ 51.17
Postpay churn rate(8)	1.6%	1.5%	1.4%

(1) Amounts include results for U.S. Cellular's consolidated operating markets as of December 31.

(2) Calculated using 2008, 2007 and 2006 Claritas population estimates for 2009, 2008 and 2007, respectively. "Total market population of consolidated operating markets" is used only for the purposes of calculating market penetration of consolidated operating markets, which is calculated by dividing customers by the total market population (without duplication of population in overlapping markets).

The total market population and penetration measures for consolidated operating markets apply to markets in which U.S. Cellular provides wireless service to customers. For comparison purposes, total market population and penetration related to all consolidated markets in which U.S. Cellular owns an interest were 89,712,000 and 6.8%, 83,014,000 and 7.5%, and 82,371,000 and 7.4% as of December 31, 2009, 2008 and 2007, respectively.

A wholly owned subsidiary of U.S. Cellular is a limited partner in King Street Wireless, L.P. ("King Street Wireless"), an entity which participated in the auction of wireless spectrum in the 700 megahertz band designated by the FCC as Auction 73. At the conclusion of the auction on March 20, 2008, King Street Wireless was the provisional winning bidder with respect to 152 licenses. These 152 license areas cover portions of 27 states and are in markets which are either adjacent to or overlap current U.S. Cellular license areas. On December 30, 2009, the FCC granted the licenses to King Street Wireless which increased total market population of consolidated markets by 4,549,000 in 2009, but had no impact on the population of consolidated operating markets.

As a result of exchange transactions with AT&T that closed in August 2003, U.S. Cellular obtained rights to acquire additional licenses, and all except one of such licenses have been acquired and are reflected in the total market population of consolidated markets as of December 31, 2009. During 2009, U.S. Cellular acquired licenses pursuant to this exchange agreement which increased total market population of consolidated markets by 1,392,000, but had no impact on the population of consolidated operating markets. The acquisition of these licenses did not require U.S. Cellular to provide any consideration to AT&T beyond that already provided in conjunction with the August 2003 exchange transaction and, thus, did not cause a change in U.S. Cellular's Licenses balance in 2009. U.S. Cellular continues to have a right under the August 2003 exchange agreement to acquire a majority interest in one additional license; that right does not have a stated expiration date.

(3)

U.S. Cellular's customer base consists of the following types of customers:

	2009	**2008**	**2007**
Customers on postpay service plans in which the end user is a customer of U.S. Cellular ("postpay customers")	5,482,000	5,420,000	5,269,000
Customers on prepay service plans in which the end user is a customer of U.S. Cellular ("prepay customers")	262,000	287,000	295,000
Total retail customers	5,744,000	5,707,000	5,564,000
End user customers acquired through U.S. Cellular's agreements with third parties ("reseller customers")	397,000	489,000	538,000
Total customers	6,141,000	6,196,000	6,102,000

(4)

Part-time employees are calculated at 70% of full-time employees. Prior year numbers were adjusted to conform to current year presentation.

(5)

Amounts include results for U.S. Cellular's consolidated operating markets for the period January 1 through December 31; operating markets acquired during a particular period are included as of the acquisition date.

(6)

"Net retail customer additions" represents the number of net customers added to U.S. Cellular's retail customer base through its marketing distribution channels; this measure excludes activity related to reseller customers and customers transferred through acquisitions, divestitures or exchanges. "Net customer additions (losses)" represents the number of net customers added to (deducted from) U.S. Cellular's overall customer base through its marketing distribution channels; this measure includes activity related to reseller customers but excludes activity related to customers transferred through acquisitions, divestitures or exchanges.

(7)

Management uses this measurement to assess the amount of service revenue that U.S. Cellular generates each month on a per customer basis. Variances in this measurement are monitored and compared to variances in expenses on a per customer basis. Average monthly service revenue per customer is calculated as follows

	2009	2008	2007
Service revenues per Consolidated Statement of Operations (000s)	$ 3,927,859	$ 3,940,326	$ 3,679,237
Divided by average customers during period (000s)*	6,176	6,169	5,992
Divided by number of months in each period	12	12	12
Average monthly service revenue per customer	$ 53.00	$ 53.23	$ 51.17

*

"Average customers during period" is calculated by adding the number of total customers at the beginning of the first month of the period and at the end of each month in the period and dividing by the number of months in the period plus one. Acquired and divested customers are included in the calculation on a prorated basis for the amount of time U.S. Cellular included such customers during each period.

(8)

Postpay churn rate represents the percentage of the postpay customer base that disconnects service each month.

Components of Operating Income

Year Ended December 31, (Dollars in thousands)	2009	Increase/ (Decrease)	Percentage Change	2008	Increase/ (Decrease)	Percentage Change	2007
Retail service	$ 3,478,939	$ 33,177	1%	$ 3,445,762	$ 191,800	6%	$ 3,253,962
Inbound roaming	252,775	(76,421)	(23)%	329,196	35,430	12%	293,766
Other	196,145	30,777	19%	165,368	33,859	26%	131,509
Service revenues	3,927,859	(12,467)		3,940,326	261,089	7%	3,679,237
Equipment sales	286,752	(16,107)	(5)%	302,859	35,832	13%	267,027
Total operating revenues	4,214,611	(28,574)	(1)%	4,243,185	296,921	8%	3,946,264
System operations (excluding Depreciation, amortization and accretion reported below)	796,617	12,560	2%	784,057	66,982	9%	717,075
Cost of equipment sold	742,993	(413)		743,406	106,109	17%	637,297
Selling, general and administrative	1,748,760	47,710	3%	1,701,050	142,482	9%	1,558,568
Depreciation, amortization and accretion	570,658	(6,273)	(1)%	576,931	(1,255)		578,186
Loss on impairment of intangible assets	14,000	(372,653)	(96)%	386,653	361,730	>100%	24,923
Loss on asset disposals, net	15,176	(8,202)	(35)%	23,378	(10,638)	(31)%	34,016
Total operating expenses	3,888,204	(327,271)	(8)%	4,215,475	665,410	19%	3,550,065
Operating income	$ 326,407	$ 298,697	>100%	$ 27,710	$ (368,489)	(93)%	$ 396,199

N/M Percentage change not meaningful

Operating Revenues

Service revenues

Service revenues consist primarily of: (i) charges for access, airtime, roaming, recovery of regulatory costs and value-added services, including data products and services and long distance, provided to U.S. Cellular's retail customers and to end users through third-party resellers ("retail service"); (ii) charges to other wireless carriers whose customers use U.S. Cellular's wireless systems when roaming, including long-distance roaming ("inbound roaming"); and (iii) amounts received from the Federal Universal Service Fund ("USF").

Retail service revenues

The increase in Retail service revenues in 2009 was due primarily to an increase in average monthly retail service revenue per customer. The increase in 2008 was due primarily to growth in U.S. Cellular's average customer base and an increase in average monthly retail service revenue per customer.

The average number of customers in 2009 was relatively flat compared to 2008. The increase in the average number of customers in 2008 was driven primarily by the net retail customer additions that U.S. Cellular generated from its marketing distribution channels and by the timing of acquisitions.

Average monthly retail service revenue per customer increased 1% to $46.94 in 2009 from $46.55 in 2008, and increased 3% in 2008 from $45.25 in 2007. The increase in average monthly retail service revenue was driven primarily by growth in revenues from data products and services.

Revenues from data products and services totaled $683.0 million in 2009, $511.7 million in 2008, and $367.9 million in 2007 and represented 17% of total service revenues in 2009 compared to 13% and 10% of total service revenues in 2008 and 2007, respectively. Such growth, which positively impacted average monthly retail service revenue per customer, reflected customers' continued and increasing usage of U.S. Cellular's text, picture, and video messaging services, **easy**edge[SM] service and applications, premium mobile Internet services, and smartphone handsets and services. In 2009, U.S. Cellular introduced unlimited messaging plans and unlimited messaging and mobile Internet plans that further drove data usage and revenues. U.S. Cellular expects that the growth in revenues from data products and services will continue as customers increasingly purchase premium and smartphone devices along with data plans and applications and utilize U.S. Cellular's 3G network. U.S. Cellular's 3G network covered approximately 75% of its customers as of December 31, 2009. U.S. Cellular expects to expand its 3G network to cover approximately 98% of its customers by the end of 2010.

Revenues from voice services declined year-over-year primarily due to a reduction in average voice revenue per customer. The reduction in average voice revenue per customer reflects industry competition which has resulted in lower pricing for voice services as well as growth in family plans and service plans with enhanced coverage areas and value (such as free incoming calls, free mobile-to-mobile and unlimited minutes). Also, decreases in the prepay customer base and the average revenue per prepay customer contributed to a decline in prepay voice revenues. U.S. Cellular expects continued pressure on revenues from voice services in the foreseeable future due to industry competition related to service plan offerings.

Inbound roaming revenues

The decrease in Inbound roaming revenues in 2009 was due primarily to a decline in roaming revenues from the combined entity of Verizon Wireless ("Verizon") and Alltel Corporation ("Alltel"). In January 2009, Verizon acquired Alltel. As a result of this transaction, the network footprints of Verizon and Alltel were combined. This has resulted in a decrease in inbound roaming revenues for U.S. Cellular, since the combined Verizon and Alltel entity has reduced its usage of U.S. Cellular's network in certain coverage areas that were used by Verizon and Alltel (as separate entities). U.S. Cellular anticipates that inbound roaming revenues will stabilize in 2010 compared to 2009 due to the positive impact of increasing minutes of use and increasing data usage from U.S. Cellular's roaming partners, partially offset by the negative impact of decreasing rates per minute or kilobyte of use.

In 2008, the increase in Inbound roaming revenues was related primarily to higher usage for both voice and data products and services, partially offset by a decline in rates per minute or kilobyte of use with key roaming partners. The increase in inbound usage was driven primarily by the overall growth in the number of customers and higher usage per customer throughout the wireless industry, including usage related to both voice and data products and services, which led to an increase in inbound traffic from other wireless carriers.

Other revenues

The increases in Other revenues in 2009 and 2008 were due primarily to increases in amounts that were received from the USF for states in which U.S. Cellular has been designated as an ETC. U.S. Cellular was eligible to receive ETC funds in sixteen states in 2009 and 2008 and eleven states in 2007. ETC revenues recorded in 2009, 2008 and 2007 were $150.7 million, $127.5 million and $98.0 million, respectively.

In May 2008, the FCC adopted a state-by-state temporary cap to funding for competitive ETCs based on the funding level available as of March 31, 2008. The cap has had the effect of reducing the amount of support that U.S. Cellular would otherwise have been eligible to receive. During 2010, the FCC will likely issue a notice of proposed rulemaking to consider reform of the USF program in conjunction with the issuance of a National Broadband Plan in March 2010. Adoption of a USF reform proposal by the FCC could have a significant, and adverse, impact on the amount of support, if any, wireless ETCs continue to receive. As a result U.S. Cellular's ETC revenues may decline significantly in future periods.

Equipment sales revenues

Equipment sales revenues include revenues from sales of handsets and related accessories to both new and existing customers, as well as revenues from sales of handsets and accessories to agents. All equipment sales revenues are recorded net of rebates.

U.S. Cellular strives to offer a competitive line of quality handsets to both new and existing customers. U.S. Cellular's customer retention efforts include offering new handsets, such as smartphones and premium handsets, at discounted prices to existing customers as the expiration date of the customer's service contract approaches. U.S. Cellular also continues to sell handsets to agents; this practice enables U.S. Cellular to provide better control over the quality of handsets sold to its customers, establish roaming preferences and earn quantity discounts from handset manufacturers which are passed along to agents. U.S. Cellular anticipates that it will continue to sell handsets to agents in the future.

The decrease in 2009 Equipment sales revenues was driven primarily by a decline of 8% in average revenue per handset sold due to aggressive promotional pricing across all categories of handsets, partially offset by an increase in the total number of handsets sold. The increase in 2008 Equipment sales revenues was driven by an increase of 10% in average revenue per handset sold, primarily reflecting the sale of more expensive handsets with expanded capabilities, including smartphones and premium handsets.

Operating Expenses

System operations expenses (excluding Depreciation, amortization and accretion)

System operations expenses (excluding Depreciation, amortization and accretion) include charges from wireline telecommunications service providers for U.S. Cellular's customers' use of their facilities, costs related to local interconnection to the wireline network, charges for maintenance of U.S. Cellular's network, long-distance charges, outbound roaming expenses and payments to third-party data product and platform developers.

Key components of the overall increases in system operations expenses were as follows:

Maintenance, utility and cell site expenses increased $14.4 million, or 5%, in 2009 and $24.6 million, or 9% in 2008, driven primarily by increases in the number of cell sites within U.S. Cellular's network. The number of cell sites totaled 7,279 in 2009, 6,877 in 2008 and 6,383 in 2007, as U.S. Cellular continued to grow by expanding and enhancing coverage in its existing markets. In 2008 and 2007, growth also included acquisitions of existing wireless operations. The increase in 2009 and 2008 also was due to an increase in software maintenance costs to support rapidly growing data needs.

Expenses incurred when U.S. Cellular's customers used other carriers' networks while roaming increased $4.3 million, or 2%, in 2009 and $28.0 million, or 17%, in 2008. The increase in 2009 was due primarily to higher data usage. The increase in 2008 was due to an increase in roaming minutes of use driven by customer migration to national and wide area plans.

In 2009, the cost of network usage on U.S. Cellular's systems decreased $6.1 million, or 2%, due primarily to reduced interconnection costs, which reflected a change in estimate during the fourth quarter (as disclosed in Note (5) to Consolidated Quarterly Information (Unaudited) below), partially offset by an increase in data usage. In 2008, cost of network usage increased $14.4 million, or 5%, as voice and data usage on U.S. Cellular's systems increased driven primarily by continued migration to voice plans with a larger number of packaged minutes, text messaging plans, and other data offerings. In both years, data network and developer costs also increased due to the increase in data usage.

U.S. Cellular expects total system operations expenses to increase in the foreseeable future, driven by the following factors:

Increases in the number of cell sites and other network facilities within U.S. Cellular's systems as it continues to add capacity and enhance quality;

Continued expansion of 3G services to additional markets; and

Increases in total customer usage, driven by text messaging and other data usage, both on U.S. Cellular's network and by U.S. Cellular's customers on other carriers' networks when roaming.

Cost of equipment sold

Cost of equipment sold remained relatively flat in 2009 compared to 2008. A reduction in the average cost per handset sold, reflecting lower overall purchase costs, was offset by an increase in the total number of handsets sold. Cost of equipment sold increased in 2008 due primarily to a 13% increase in the average cost per handset sold as a result of sales of more expensive handsets with expanded capabilities, including smartphones and premium handsets.

U.S. Cellular expects loss on equipment, defined as equipment sales revenues less cost of equipment sold, to increase in the foreseeable future as wireless carriers continue to use handset availability and pricing as a means of competitive differentiation. New handsets with expanded capabilities, particularly smartphones and premium handsets, generally have higher purchase costs for carriers which, due to competitive market conditions, generally cannot be recovered through proportionately higher selling prices to customers.

Selling, general and administrative expenses

Selling, general and administrative expenses include salaries, commissions and expenses of field sales and retail personnel and facilities; telesales department salaries and expenses; agent commissions and related expenses; corporate marketing and merchandise management; and advertising. Selling, general and administrative expenses also include bad debts expense, costs of operating customer care centers and corporate expenses.

Key components of the net increases in Selling, general and administrative expenses were as follows:

2009

General and administrative expenses increased $57.4 million, or 7%, due primarily to higher bad debts expense as a result of higher bad debt write-offs and a change in estimate during the fourth quarter (as disclosed in Note (5) to Consolidated Quarterly Information (Unaudited) below); higher employee related expenses; costs of the Battery Swap program; and investments in multi-year initiatives as described in the Overview section. Partially offsetting these and other increases were lower USF

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contributions (most of the USF contribution expenses are offset by revenues for amounts passed through to customers).

Advertising expenses decreased $18.3 million, or 7%. Advertising expenses in 2008 included expenditures related to the launch in June 2008 of a new branding campaign, Believe in Something Better®.

Other selling and marketing expenses increased $8.6 million, or 2%, reflecting higher commissions due to a greater number of retail sales and renewals.

2008

General and administrative expenses increased $63.3 million, or 8%, due to increases in employee related expenses; increases related to bad debts expense (reflecting both higher revenues and higher bad debts as a percent of revenues); and increases in USF contributions and other regulatory fees and taxes. Partially offsetting these expenses were decreases in consulting and outsourcing expenses and billing expenses.

Advertising expenses increased $47.3 million, or 21%, due primarily to an increase in media purchases, including expenditures related to the launch in June 2008 of a new branding campaign, Believe in Something Better®.

Other selling and marketing expenses increased $31.9 million, or 6%, reflecting more retail sales associates, higher retail facilities expenses and higher commissions due to a greater number of retail sales and renewals.

U.S. Cellular expects Selling, general and administrative expenses to increase in the foreseeable future driven primarily by increases in expenses associated with acquiring, serving and retaining customers, as well as costs related to its multi-year initiatives discussed previously.

Depreciation, amortization and accretion

Depreciation, amortization and accretion decreased $6.3 million, or 1%, due primarily to fully depreciating Time Division Multiple Access ("TDMA") and analog network equipment in 2008, partially offset by accelerating depreciation of certain cell site and switch equipment in 2009. U.S. Cellular discontinued its TDMA-based service in 2009; in connection with such discontinuance, property, plant and equipment in service and accumulated depreciation of $452.0 million were eliminated from the Consolidated Balance Sheet.

See "Financial Resources" and "Liquidity and Capital Resources" for a discussion of U.S. Cellular's capital expenditures.

Loss on impairment of intangible assets

U.S. Cellular recognized impairment losses on licenses as indicated in the table below. The impairment loss in 2009 was incurred in connection with the annual impairment assessment of licenses and goodwill performed during the fourth quarter of 2009. The 2008 impairment loss was attributable to the deterioration in the credit and financial markets and the accelerated decline in the overall economy in the fourth quarter of 2008. These factors impacted U.S. Cellular's calculation of the estimated fair value of licenses in the fourth quarter of 2008 through the use of a higher discount rate when projecting future cash flows and lower than previously projected earnings in the wireless industry.

In 2007, $20.8 million of the impairment loss was recognized in conjunction with an exchange of personal communication licenses with Sprint Nextel. Of the remaining 2007 impairment loss, $2.1 million related to other licenses and $1.9 million related to impairments of customer lists.

The impact of impairment losses related to licenses was as follows:

(Dollars in millions, except per share amounts)	2009	2008	2007
Net income attributable to U.S. Cellular shareholders, excluding licenses impairments(1)	$ 224.7	$ 269.3	$ 329.2
Loss on impairment of intangible assets related to licenses(2)	(14.0)	(386.7)	(23.0)
Income tax benefit and noncontrolling interest impact of licenses impairments(1)	5.3	150.4	8.5
Impact of licenses impairments on Net income attributable to U.S. Cellular shareholders(1)	(8.7)	(236.3)	(14.5)
Net income attributable to U.S. Cellular shareholders	$ 216.0	$ 33.0	$ 314.7
Diluted earnings per share attributable to U.S. Cellular shareholders, excluding licenses impairments(1)	$ 2.58	$ 3.07	$ 3.72
Impact of licenses impairments on Diluted earnings per share attributable to U.S. Cellular shareholders(1)	(0.10)	(2.69)	(0.16)
Diluted earnings per share attributable to U.S. Cellular shareholders	$ 2.48	$ 0.38	$ 3.56

(1) These amounts are non-GAAP financial measures. The purpose of presenting these measures is to provide information on the impact of losses on impairment related to licenses on results of operations. Such impairments are discrete, significant amounts that impact the comparability of the results of operations, and U.S. Cellular believes it is useful to disclose these impacts. The income tax and noncontrolling interest impact is calculated by allocating the losses on impairment to the respective consolidated subsidiaries, and applying the income tax rate and noncontrolling interest percentages applicable to these respective subsidiaries.

(2) Loss on impairment of intangible assets on the Consolidated Statement of Operations for 2007 also included a $1.9 million loss on impairment related to customer lists.

See the section below entitled, "Application of Critical Accounting Policies and Estimates Goodwill and Licenses" for a further discussion of the 2009 and 2008 licenses impairments.

Loss on asset disposals, net

These amounts represent charges related to disposals of assets, trade-ins of older assets for replacement assets and other retirements of assets from service. In 2007, U.S. Cellular conducted a physical inventory of its significant cell site and switching assets. As a result, Loss on asset disposals, net included a charge of $14.6 million in 2007 to reflect the results of the physical inventory and related valuation and reconciliation.

Components of Other Income (Expense)

Year Ended December 31,	2009	Increase (Decrease)	Percentage Change	2008	Increase (Decrease)	Percentage Change	2007
(Dollars in thousands)							
Operating income	$ 326,407	$ 298,697	>100%	$ 27,710	$ (368,489)	(93)%	$ 396,199
Equity in earnings of unconsolidated entities	96,800	4,819	5%	91,981	1,948	2%	90,033
Interest and dividend income	3,597	(2,133)	(37)%	5,730	(7,329)	(56)%	13,059
Fair value adjustment of derivative instruments			N/M		5,388	N/M	(5,388)
Gain on disposition of investments		(16,628)	N/M	16,628	(121,359)	(88)%	137,987
Interest expense	(76,367)	823	1%	(77,190)	7,489	9%	(84,679)
Other, net	1,442	173	14%	1,269	1,979	>100%	(710)
Total investment and other income	25,472	(12,946)	(34)%	38,418	(111,884)	(74)%	150,302
Income before income taxes	351,879	285,751	>100%	66,128	(480,373)	(88)%	546,501
Income tax expense	114,103	(106,048)	>100%	8,055	208,656	96%	216,711
Net income	237,776	179,703	>100%	58,073	(271,717)	(82)%	329,790
Less: Net income attributable to noncontrolling interests, net of tax	(21,768)	3,315	13%	(25,083)	(10,027)	(67)%	(15,056)
Net income attributable to U.S. Cellular shareholders	$ 216,008	$ 183,018	>100%	$ 32,990	$ (281,744)	(90)%	$ 314,734

N/M Percentage change not meaningful

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities represents U.S. Cellular's share of net income from markets in which it has a noncontrolling interest and that are accounted for by the equity method. U.S. Cellular follows the equity method of accounting for unconsolidated entities over which it has the ability to exercise significant influence, generally entities in which its ownership interest is less than or equal to 50% but equals or exceeds 20% for corporations and 3% for partnerships and limited liability companies.

U.S. Cellular's investment in the Los Angeles SMSA Limited Partnership ("LA Partnership") contributed $64.7 million, $66.1 million and $71.2 million to Equity in earnings of unconsolidated entities in 2009, 2008 and 2007, respectively. U.S. Cellular also received cash distributions from the LA Partnership of $66.0 million in each of 2009, 2008 and 2007.

Fair value adjustment of derivative instruments

Fair value adjustment of derivative instruments in 2007 reflected the change in the fair value of the bifurcated embedded collars within the variable prepaid forward contracts related to the Vodafone Group American Depository Receipts ("ADRs"). U.S. Cellular settled the forward contracts related to the Vodafone ADRs and sold the remaining ADRs in May 2007.

Gain on disposition of investments

Gain on disposition of investments in 2008 related to the exchange of Rural Cellular Corporation ("RCC") shares for cash in conjunction with Verizon's acquisition of RCC. Gain on disposition of investments in 2007 included $131.7 million resulting from the settlement of variable prepaid forward contracts related to Vodafone ADRs and the disposition of the remaining Vodafone ADRs. See Note 4 Gain on Disposition of Investments in the Notes to Consolidated Financial Statements for additional information regarding these transactions.

Interest expense

Interest expense is summarized by related debt instrument in the following table:

Year Ended December 31, (Dollars in thousands)	2009	2008	2007
6.7% senior notes	$ 37,084	$ 37,085	$ 37,084
7.5% senior notes	25,114	25,113	25,113
8.75% senior notes(1)	11,166	11,383	11,380
Forward contracts(2)			3,514
Revolving credit facility	3,011	3,061	4,967
Other	(8)	548	2,621
Total interest expense	$ 76,367	$ 77,190	$ 84,679

(1) The 8.75% senior notes were due November 1, 2032. Interest was paid quarterly. U.S. Cellular redeemed the notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest on December 24, 2009, which resulted in a total redemption payment of $131.7 million.

(2) In May 2002, U.S. Cellular entered into the forward contracts relating to its investment in Vodafone ADRs. Taken together, the forward contracts allowed U.S. Cellular to borrow an aggregate of $159.9 million against the Vodafone ADRs. The forward contracts bore interest, payable quarterly, at the London InterBank Offered Rate ("LIBOR") plus 50 basis points.

Income tax expense

The effective tax rates on Income before income taxes ("pre-tax income") for 2009, 2008 and 2007 were 32.4%, 12.2% and 39.7%, respectively. The following significant discrete and other items impacted income tax expense for these years:

2009 Includes tax benefits of $7.7 million and $7.2 million resulting from a state tax law change and the release of state valuation allowances, respectively.

2008 Includes tax benefits of $7.6 million and $2.5 million resulting from a change in filing positions in certain states and the resolution of a prior period tax issue, respectively. The percentage impact of these benefits was magnified due to the 2008 Loss on impairment of intangible assets of $386.7 million, which decreased pre-tax income.

2007 Includes tax expense of $3.3 million and $4.6 million due to the increase in valuation allowances resulting from the restructuring of certain legal entities and the write-off of deferred tax assets for certain partnerships, respectively.

INFLATION

Management believes that inflation affects U.S. Cellular's business to no greater or lesser extent than the general economy.

RECENT ACCOUNTING PRONOUNCEMENTS

In general, recent accounting pronouncements did not have and are not expected to have a significant effect on U.S. Cellular's financial condition and results of operations.

See Note 1 Summary of Significant Accounting Policies and Recent Accounting Pronouncements in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

FINANCIAL RESOURCES

U.S. Cellular operates a capital- and marketing-intensive business. U.S. Cellular utilizes cash from its operating activities, cash proceeds from divestitures, short-term credit facilities and long-term debt financing to fund its acquisitions (including licenses), construction costs, operating expenses and Common Share repurchases. Cash flows may fluctuate from quarter to quarter and year to year due to seasonality, the timing of acquisitions, capital expenditures and other factors. The table below and the following discussion in this Financial Resources section summarize U.S. Cellular's cash flow activities in 2009, 2008 and 2007.

(Dollars in thousands)	**2009**	**2008**	**2007**
Cash flows from (used in)			
Operating activities	$ 881,808	$ 922,777	$ 863,078
Investing activities	(561,451)	(904,027)	(579,481)
Financing activities	(196,942)	(52,287)	(111,976)
Net increase (decrease) in cash and cash equivalents	$ 123,415	$ (33,537)	$ 171,621

Cash Flows From Operating Activities

The following table presents operating income before certain non-cash items and is included for purposes of analyzing changes in cash flows from operating activities:

(Dollars in thousands)	**2009**	**2008**	**2007**
Operating income	$ 326,407	$ 27,710	$ 396,199
Non-cash items			
Depreciation, amortization and accretion	570,658	576,931	578,186
Loss on impairment of intangible assets	14,000	386,653	24,923
Loss on asset disposals, net	15,176	23,378	34,016
Operating income before certain non-cash items(1)	$ 926,241	$ 1,014,672	$ 1,033,324

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(1) Operating income before certain non-cash items is a segment measure reported to the chief operating decision maker for purposes of making decisions about allocating resources and assessing performance of segments. U.S. Cellular has only one reportable segment, wireless operations; accordingly, this financial measure is reported only on a consolidated basis. U.S. Cellular believes this measure provides useful information to investors regarding U.S. Cellular's financial condition and results of operations because it highlights certain key cash and non-cash items and their impacts on cash flows from operating activities. This amount may also be commonly referred to by management as operating cash flow.

Cash flows from operating activities in 2009 were $881.8 million, a decrease of $41.0 million from 2008. Significant changes included the following:

Operating cash flow, as shown in the table above, decreased by $88.4 million.

Changes in accounts receivable, net of bad debts expense, required $1.8 million in 2009 and provided $5.1 million in 2008, resulting in a $6.9 million decrease in cash flows. This change was driven primarily by service credit promotions offered to customers in the fourth quarter of 2008.

Changes in inventory required $36.0 million in 2009 and $15.6 million in 2008. The $20.4 million decrease in cash flows was attributed to a higher volume of handsets on hand as well as the continued mix shift towards higher-cost premium and smartphone devices.

Changes in accounts payable, customer deposits and deferred revenues provided $45.3 million in 2009 and $4.1 million in 2008. The resultant $41.2 million increase in cash flows was driven primarily by timing differences in payments of accounts payable and lower deposit requirements for new customers in 2009.

Income tax payments, net of refunds, in 2009 and 2008 were $36.9 million and $116.5 million, respectively, resulting in an increase in cash flows of $79.6 million. The decrease in payments from 2008 to 2009 was due to a year-over-year decrease in forecasted income and an overpayment of income taxes in 2008.

In 2009, a $34.0 million deposit was paid to TDS for U.S. Cellular's proportionate share of a deposit TDS made to the Internal Revenue Service (IRS) to eliminate any potential interest due to the IRS subsequent to the date of the deposit. The deposit was recorded in Change in other assets and liabilities in the Consolidated Statement of Cash Flows in 2009. See Note 5 Income Taxes in the Notes to Consolidated Financial Statements for additional information.

Cash flows from operating activities in 2008 were $922.8 million, an increase of $59.7 million from 2007. Significant changes included the following:

Changes in accounts receivable, net of bad debts expense, provided $5.1 million in 2008 and required $31.7 million in 2007, resulting in a $36.8 million increase in cash flows. This change was due primarily to a receivable from an affiliate that was accrued in 2007 and paid in 2008, contributing to a $25.0 million increase in cash flows.

Changes in inventory required $15.6 million in 2008 and provided $16.3 million in 2007. The $31.9 million decrease in cash flows was attributable to more handsets on hand at December 31, 2008 relative to December 31, 2007, partially as a result of additional retail stores that commenced operations during 2008.

Cash Flows From Investing Activities

U.S. Cellular makes substantial investments to construct and upgrade modern high-quality wireless communications networks and facilities as a basis for creating long-term value for shareholders. In recent years, rapid changes in technology and new opportunities have required substantial investments in potentially revenue-enhancing and cost-reducing upgrades of U.S. Cellular's networks. Cash flows used for investing activities also represent cash required for the acquisition of wireless properties or licenses. Proceeds from exchanges and divestiture transactions have provided funds in recent years which have partially offset the cash requirements for investing activities; however, such sources cannot be relied upon to provide continuing or regular sources of financing.

The primary purpose of U.S. Cellular's construction and expansion expenditures is to provide for customer and usage growth, to upgrade service and to take advantage of service-enhancing and cost-reducing technological developments in order to maintain competitive services.

Cash used for property, plant and equipment and system development expenditures totaled $546.8 million in 2009, $585.6 million in 2008 and $565.5 million in 2007. These expenditures were made to construct new cell sites, increase capacity in existing cell sites and switches, upgrade technology including the overlay of 3G technology in certain markets, develop new and enhance existing office systems, and construct new and remodel existing retail stores.

Acquisitions required cash payments of $16.0 million in 2009, $341.7 million in 2008 and $21.5 million in 2007, respectively, as summarized below:

Cash Payment for Acquisitions(1) (Dollars in millions)	2009	2008	2007
Auction 73 licenses(2)	$	$ 300.5	$
All other licenses	15.8	32.3	3.2
Business acquisitions(3)		8.9	18.3
All other	0.2		
Total	$ 16.0	$ 341.7	$ 21.5

(1) Cash amounts paid for the acquisitions may differ from the purchase price due to cash acquired in the transactions and cash payments remitted in periods subsequent to the respective transactions.

(2) King Street Wireless L.P., an entity in which a subsidiary of U.S. Cellular is a limited partner with a 90% partnership interest, made these payments. U.S. Cellular loaned these funds to the partnership and the general partner and made direct capital investments to fund the auction payment.

(3) For purposes of presentation in this table, this line item includes the purchase of an entire business or the purchase of additional interests in entities already partially owned by U.S. Cellular.

In 2008, U.S. Cellular realized cash proceeds of $16.7 million from the disposition of Rural Cellular Corporation ("RCC") Common Shares in conjunction with Verizon Wireless' acquisition of RCC. In 2007, U.S. Cellular realized cash proceeds of $4.3 million related to the disposition of Vodafone ADRs. See Note 4 Gain on Disposition of Investments in the Notes to Consolidated Financial Statements for details of these transactions.

Cash Flows From Financing Activities

Cash flows from financing activities primarily reflect changes in short-term and long-term debt balances, distributions to noncontrolling interests, cash used to repurchase Common Shares and cash proceeds from re-issuance of Common Shares pursuant to stock-based compensation plans. U.S. Cellular has used short-term debt to finance acquisitions, for general corporate purposes and to repurchase Common Shares. Internally generated funds as well as proceeds from forward contracts and the sale of non-strategic wireless and other investments, from time to time, have been used to reduce short-term debt.

There were no short-term borrowings or repayments during 2009. Cash received from short-term borrowings under U.S. Cellular's revolving credit facility provided $100.0 million in 2008 and $25.0 million in 2007, while repayments required $100.0 million in 2008 and $60.0 million in 2007.

In 2009, U.S. Cellular redeemed its outstanding 8.75% senior notes for their principal amount of $130.0 million and retired its 9% installment notes payable in the amount of $10.0 million. There were no redemptions of long-term debt in 2008 or 2007.

In 2009, U.S. Cellular repurchased Common Shares at an aggregate cost of $33.6 million. In 2008, U.S. Cellular repurchased Common Shares at an aggregate cost of $32.9 million. U.S. Cellular also received $4.6 million in 2008 from an investment banking firm for the final settlement of Accelerated Share Repurchases ("ASR") made in 2007. In 2007, U.S. Cellular purchased Common Shares for $87.9 million from an investment banking firm in connection with three ASR programs. As discussed above, in 2008, U.S. Cellular received $4.6 million from the investment banking firm in final settlement of the ASR programs; thus, the net cost of Common Shares purchased pursuant to such programs was $83.3 million. See Note 15 Common Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information related to these transactions.

LIQUIDITY AND CAPITAL RESOURCES

U.S. Cellular believes that existing cash balances, expected cash flows from operating activities and funds available under its new revolving credit facility provide substantial liquidity and financial flexibility for U.S. Cellular to meet its normal financing needs (including working capital, construction and development expenditures, and share repurchases under its approved program) for the foreseeable future. In addition, U.S. Cellular may have access to public and private capital markets to help meet its financing needs.

Consumer spending significantly impacts U.S. D,"border-right:solid #000000 1.0pt;" -->

Statement of cash flow data net cash provided by (used in):

Operating activities	$101,508	$61,664	$95,112	$48,909	$12,921	$79,219
Investing activities(4)	63,160	199,414	(87,537)	(57,659)	(21,235)	(77,992)
Financing activities	(160,648)	(180,875)	2,161		(811)	

Balance Sheet data (as of end of period):

Cash and cash equivalents(5)	$8,772	$88,975	$96,550	$94,138	$81,647	$82,063
Property, plant and equipment, net	794,051	744,277	711,265	670,714	459,781	482,371
Total assets	1,571,540	1,273,078	1,183,677	1,103,969	646,036	661,772
Long-term debt(6)	989,700	1,074,500	1,085,797	1,097,369	300,000	300,000
Stockholders' equity (deficiency)	135,180	(72,516)	(180,264)	(262,796)	178,792	136,196

(1) Although the Company emerged from bankruptcy on October 28, 2010, the Predecessor adopted "fresh-start" accounting as of October 31, 2010. Under the provisions of fresh-start accounting, a new entity is deemed created for financial reporting purposes. References to "Successor" refer to the Company after October 31, 2010 after giving effect to provisions of the Plan of Reorganization and application of fresh-start accounting. References to "Predecessor" refer to the Company on and prior to October 31, 2010.

(2) In 2007, the Company sold its directories publishing segment to an unrelated entity which resulted in a gain on sale of $231.8 million.

(3) The net income (loss) for the years ended December 31, 2008 and 2009, for the period from January 1 to October 31, 2010, for the period November 1 to December 31, 2010 and for the year ended December 31, 2011 includes gain (charges) for reorganization items amounting to ($7.9) million, ($43.0) million, $251.7 million, ($0.5) million and ($1.1) million, respectively. Net income for the year ended December 31, 2007 includes a $42.2 million gain on settlement of a legal dispute.

(4) The Company's investing activities during the year ended December 31, 2007 include the sale of the directories publishing segment.

(5) Cash and cash equivalents at December 31, 2007 excludes segregated cash of $271.5 million in a short-term Treasury money market account. Proceeds from the sale of the directories publishing segment had been temporarily invested in this account.

(6) Long-term debt includes debt classified as liabilities subject to compromise.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

The statements in the discussion and analysis regarding industry outlook, our expectations regarding the future performance of our business and the other non-historical statements in the discussion and analysis are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Item 1A, "Risk Factors." Our actual results may differ materially from those contained in any forward-looking statements. You should read the following discussion together with Item 6, "Selected Financial Data" and our consolidated financial statements and related notes thereto included elsewhere in this annual report.

Chapter 11 Reorganization

On December 1, 2008, we and certain of our subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code and on October 28, 2010, the Company emerged from Chapter 11. For further information regarding these petitions, see Note 21 to the consolidated financial statements.

Under the Plan of Reorganization, all of the existing common stock and stock options were cancelled upon emergence and the equity holders received no recovery. Our emergence from Chapter 11 on the emergence date resulted in a new reporting entity and the new shares of common stock were issued to the former secured lenders and swap counterparties. We adopted fresh-start reporting as of October 31, 2010. As required by fresh-start accounting, our assets and liabilities have been adjusted to fair value. Accordingly, our financial condition and results of operations after October 31, 2010 are not comparable to the financial condition and result of operations for periods prior to and on October 31, 2010.

Operational Matters

We are in the process of implementing strategies which focus on growing the business, delivering superior service and improving financial performance. We continue to evaluate the feasibility of various new product and service offerings in order to respond to customer demand and gain market share in our business, consumer and wholesale channels. We may also pursue other business development opportunities, cost reduction initiatives and asset rationalization options to improve financial performance and liquidity. There can be no assurance that these new strategies will be successful or even if successful whether the Company will have the resources to fund such strategies, or that the investments in these new strategies will be recovered.

In the second quarter of 2011, we initiated a restructuring of selective operations in our wireline segment to align such operations with our current strategic plan. The restructuring has resulted in terminiation of approximately six percent of our workforce in the second half of 2011. The restructuring includes closure of our remaining retail stores, outsourcing of toll operators and downsizing of various other legacy functions. Costs of the restructuring of $1.8 million were recognized in 2011.

On June 24, 2011, the State of Hawaii's Department of Commerce and Consumer Affairs approved our video franchise application, allowing us to offer video services on the island of Oahu. On July 1, 2011, we commercially launched our television services to selected areas of Oahu. We are rolling out Hawaiian Telcom TV gradually to selected areas to ensure delivery of superior service and an ongoing excellent customer experience. We have converted the majority of our trial customers for

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television service to paying connections and have initiated targeted marketing efforts resulting in penetration rates exceeding expectations. As of December 31, 2011, we had approximately 1,600 subscribers or a 5.8% subscriber penetration of the 27,400 homes enabled. This volume is anticipated to ramp up significantly as more homes become enabled for video service. We expect to expand both the availability and the capabilities of our Hawaiian Telcom TV service over the next several years through additional capital investment and innovation.

On October 24, 2011, after several extensions beyond the original September 12, 2011 expiration date, our collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 ("IBEW") expired. The agreement covers approximately half of our work force. On October 31, 2011 the IBEW announced that a majority of union-represented employees rejected our last, best and final offer. On December 13, 2011, the IBEW announced that a revised last, best and final offer was also rejected. We have concluded that we have bargained in good faith and reached an impasse. As such, we have implemented the terms of employment of our revised last, best and final offer as of January 1, 2012, which included a freeze of pension benefits effective March 1, 2012. In January 2012, the IBEW filed an unfair labor practices charge with the National Labor Relations Board ("NLRB") regarding the implementation of the terms of employment and two other matters. If the NLRB were to issue a complaint against us and found an unfair labor practice with regard to the implementation of the terms of employment, we believe the remedy would be an order to continue good faith bargaining with the IBEW and to reinstate the benefits and terms and conditions of employment existing prior to the unilateral implementation of the last best and final offer. Therefore, in such case, we could be required to delay or reverse the March 1, 2012 freeze of pension benefits.

Segments and Sources of Revenue

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

Wireline Services

The Wireline Services segment derives revenue from the following sources:

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

Network Access Services We receive revenue for access to our network for special access, switched access and subscriber line charges imposed on end users. Special access includes charges to other carriers, business customers and other institutions for data lines and Dedicated Internet Access. Switched access revenue compensates us for origination, transport and termination of calls for long distance and other interexchange carriers.

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

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

Other Services and Sales Other services and sales include television, managed services, inside wire maintenance, and installation and maintenance of customer premise equipment.

Other

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

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Results of Operations for the Years Ended December 31, 2011, 2010 and 2009

As discussed above, we emerged from chapter 11 and adopted fresh-start reporting on October 31, 2010. References to "Predecessor" refer to the Company prior to and on October 31, 2010. References to "Successor" refer to the Company after October 31, 2010 after giving effect to the plan of reorganization and application of fresh-start reporting. As a result of the application of fresh-start reporting, the Successor's financial statements are not comparable with the Predecessor's financial statements. However, for purposes of the discussion of the results of operations, the combined ten months ended October 31, 2010 and two months ended December 31, 2010 have been compared to the year ended December 31, 2011 along with a separate comparison to the year ended December 31, 2009. We believe this combined information is useful to the readers of this Annual Report in understanding changes in our results of operations. Significant changes in operating results for the Successor, as compared to Predecessor periods, relate primarily to depreciation and amortization because of changes in the basis of long-lived assets, and changes in interest expense with a new borrowing facility in place. In this discussion, we will disclose the fresh-start and other impacts on our results of operations that vary from historical Predecessor periods to aid in the understanding of our financial performance.

Operating Revenues

The following tables summarize our volume information as of December 31, 2011, 2010 and 2009, and our operating revenues for the years ended December 31, 2011, 2010 and 2009.

Volume Information

	Successor		Predecessor	2011 vs. 2010 Change		2010 vs. 2009 Change	
	December 31, 2011	December 31, 2010	December 31, 2009	Number	Percentage	Number	Percentage
Voice access lines							
Residential	223,009	241,506	262,428	(18,497)	(7.7)%	(20,922)	(8.0)%
Business	189,035	194,890	202,649	(5,855)	(3.0)%	(7,759)	(3.8)%
Public	4,623	4,791	4,947	(168)	(3.5)%	(156)	(3.2)%
	416,667	441,187	470,024	(24,520)	(5.6)%	(28,837)	(6.1)%
High-Speed Internet lines							
Residential	84,634	81,770	79,256	2,864	3.5%	2,514	3.2%
Business	17,442	16,728	15,530	714	4.3%	1,198	7.7%
Wholesale	1,156	1,206	1,242	(50)	(4.1)%	(36)	(2.9)%
	103,232	99,704	96,028	3,528	3.5%	3,676	3.8%
Long distance lines							
Residential	136,921	147,983	158,354	(11,062)	(7.5)%	(10,371)	(6.5)%
Business	76,160	79,323	81,669	(3,163)	(4.0)%	(2,346)	(2.9)%
	213,081	227,306	240,023	(14,225)	(6.3)%	(12,717)	(5.3)%

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2011 compared to 2010

Operating Revenues (dollars in thousands)

	Successor For the Year Ended December 31, 2011	Combined For the Year Ended December 31, 2010	Successor Period from November 1 to December 31, 2010	Predecessor Period from January 1 to October 31, 2010	Year-over-Year Change Amount	Year-over-Year Change Percentage
Wireline Services						
Local services	$ 146,921	$ 155,982	$ 25,004	$ 130,978	$ (9,061)	(5.8)%
Network access services	133,748	132,771	22,764	110,007	977	0.7%
Long distance services	31,945	34,694	5,539	29,155	(2,749)	(7.9)%
High-Speed Internet	35,426	34,302	5,949	28,353	1,124	3.3%
Other services and sales	42,845	38,961	6,732	32,229	3,884	10.0%
	390,885	396,710	65,988	330,722	(5,825)	(1.5)%
Other	4,271	4,735	771	3,964	(464)	(9.8)%
	$ 395,156	$ 401,445	$ 66,759	$ 334,686	$ (6,289)	(1.6)%

The decrease in local services revenues was caused primarily by the decline in switched access lines of 5.6% ($8.7 million of the decline in revenue). Continued competition in the telecommunications industry has increasingly resulted in customers using technologies other than traditional phone lines for voice and data. Residential customers are increasingly moving local voice service to VoIP technology offered by cable providers, as well as using wireless services in place of traditional wireline phone service. Generally, VoIP technology offered by cable providers is less expensive than traditional wireline phone service, requiring us to respond with more competitive pricing. Additionally, Competitive Local Exchange Carriers (CLECs) and our cable competitor continue to focus on business customers and selling services to our customer base.

In an effort to slow the rate of line loss, we are continuing retention and acquisition programs, and are increasingly focusing efforts on bundling of services. We have instituted various "saves" 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 are also reemphasizing 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.

Network access revenue for the year ended December 31, 2011 was comparable to the same period in the prior year as increased revenue related to the demand for data services of $4.2 million was offset by the revenue impact of the decline in voice access lines.

The decrease in long distance revenue was primarily because of the decline in long distance lines and customers moving to wireless and VoIP based technologies for long distance calling.

HSI revenues increased when compared to the prior year primarily because an approximate 3.5% growth in our HSI subscribers ($1.2 million of the increase in revenue). We are continuing to focus on upgrading our network to expand the reach of our higher bandwidth premium services.

Other services and sales increased for the year ended December 31, 2011 as compared to the prior year because of more sales and installations of customer premise equipment for certain large government customers in 2011. Revenue from equipment sales varies from period to period based on the volume of large installation projects. The volume of such projects in future periods is uncertain.

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Other revenues, primarily consisting of revenues generated from our wireless operation, decreased as we attempted to focus our marketing efforts on other segments of our business.

2010 compared to 2009

Operating Revenues (dollars in thousands)

	Combined	Successor	Predecessor			
	For the Year Ended December 31, 2010	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009	Year-over-Year Change Amount	Year-over-Year Change Percentage
Wireline Services						
Local services	$ 155,982	$ 25,004	$ 130,978	$ 172,094	$ (16,112)	(9.4)%
Network access services	132,771	22,764	110,007	130,068	2,703	2.1%
Long distance services	34,694	5,539	29,155	35,703	(1,009)	(2.8)%
High-Speed Internet	34,302	5,949	28,353	33,864	438	1.3%
Other services and sales	38,961	6,732	32,229	31,404	7,557	24.1%
	396,710	65,988	330,722	403,133	(6,423)	(1.6)%
Other	4,735	771	3,964	5,462	(727)	(13.3)%
	$ 401,445	$ 66,759	$ 334,686	$ 408,595	$ (7,150)	(1.7)%

The decrease in local services revenues in 2010 was caused by the decline in switched access lines. The decline in switched access lines from 2009 to 2010 was caused by the same factors discussed previously for the decline from 2010 to 2011.

For 2010, network access revenue increased compared to 2009. The increase in demand for data services generated additional revenue of $7.1 million which was partially offset by the decline in switched access lines.

The decrease in long distance revenue was primarily because of the decline in long distance lines partially offset by customers switching to flat rate and bundled plans which has increased the average rate per long distance line.

HSI revenues increased slightly when compared to the prior year as a 3.8% growth in our HSI subscriber growth was partially offset by lower rates in response to the competitive environment.

The increase in other services and sales was related to more sales and installations of customer premise equipment for certain large government customers in 2010.

Other revenues, primarily consisting of revenues generated from our wireless operation, decreased as we focused our marketing efforts on other segments of our business.

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Operating Costs and Expenses

2011 compared to 2010

The following table summarizes our costs and expenses for 2011 compared to the costs and expenses for 2010 (dollars in thousands):

	Successor For the Year Ended December 31, 2011	Combined For the Year Ended December 31, 2010	Successor Period from November 1 to December 31, 2010	Predecessor Period from January 1 to October 31, 2010	Year-over-Year Change Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$ 159,822	$ 162,231	$ 27,117	$ 135,114	$ (2,409)	(1.5)%
Selling, general and administrative expenses	120,390	127,751	21,938	105,813	(7,361)	(5.8)%
Depreciation and amortization	63,806	146,384	9,723	136,661	(82,578)	(56.4)%
	$ 344,018	$ 436,366	$ 58,778	$ 377,588	$ (92,348)	(21.2)%

The Company's total headcount as of December 31, 2011 was 1,309 compared to 1,431 as of December 31, 2010. Employee related costs are included in both cost of revenues and selling, general and administrative expenses.

Cost of revenues consists of costs we incur to provide our products and services including those for operating and maintaining our networks, installing and maintaining customer premise equipment, and cost of goods sold directly associated with various products. The cost of revenues for the year ended December 31, 2011 decreased $6.6 million due to a decline in wages and employee benefit costs on lower headcount and pension costs offset by higher electricity costs of $4.4 million on higher electricity rates.

Selling, general and administrative expenses include costs related to sales and marketing, information systems and other administrative functions. The decrease in such expenses was because of more favorable rates on information technology outsourcing for a benefit of $6.2 million and a decline in bad debt expense of $2.6 million with improved collection efforts and bad debt recovery. The decrease was offset by a $2.0 million increase in stock compensation expense and $1.8 million in restructuring charges.

Depreciation and amortization decreased because of the new lower basis assigned to our long-lived assets in fresh-start accounting.

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2010 compared to 2009

The following table summarizes our costs and expense for the year ended December 31, 2010 compared to the year ended December 31, 2009 (dollars in thousands).

	Combined	Successor	Predecessor		Year-over-Year Change	
	For the Year Ended December 31, 2010	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009	Amount	Percentage
Cost of revenues (exclusive of depreciation and amortization)	$ 162,231	$ 27,117	$ 135,114	$ 158,196	$ 4,035	2.6%
Selling, general and administrative expenses	127,751	21,938	105,813	142,817	(15,066)	(10.5)%
Depreciation and amortization	146,384	9,723	136,661	164,376	(17,992)	(10.9)%
	$ 436,366	$ 58,778	$ 377,588	$ 465,389	$ (29,023)	(6.2)%

The Company's total headcount as of December 31, 2010 was 1,431 compared to 1,450 as of December 31, 2009.

The increase in cost of revenues was because of an increase in customer premise equipment costs of $8.9 million as a result of increased customer premise equipment revenues offset by a decline in long distance costs, wireless costs and reciprocal compensation of $4.7 million with better management of the related connection agreements with other carriers.

Selling, general and administrative expenses decreased because of more favorable rates on information technology outsourcing for a benefit of $8.1 million, a decline in bad debt costs with improved collection efforts of $3.4 million and a decline of $3.4 million in certain wage related transition costs.

The decrease in depreciation and amortization from 2009 to 2010 was caused by the same factors discussed previously for the decline from 2010 to 2011.

Other Income and (Expense)

2011 compared to 2010

The following table summarizes other income (expense) for the years ended December 31, 2011 and 2010 (dollars in thousands).

	Successor	Combined	Successor	Predecessor	Year-over-Year Change	
	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	Amount	Percentage
Interest expense	$ (25,339)	$ (27,727)	$ (4,329)	$ (23,398)	$ 2,388	(8.6)%
Interest income and other	65	90	16	74	(25)	(27.8)%
	$ (25,274)	$ (27,637)	$ (4,313)	$ (23,324)	$ 2,363	(8.6)%

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Interest expense decreased primarily because the Company was no longer accruing paid-in-kind interest on debt in conjunction with the Chapter 11 proceeding.

2010 compared to 2009

The following table summarizes other income (expense) for the years ended December 31, 2010 and 2009 (dollars in thousands).

	Combined	Successor	Predecessor			
	For the Year Ended December 31, 2010	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009	Year-over-Year Change Amount	Year-over-Year Change Percentage
Interest expense	$ (27,727)	$ (4,329)	$ (23,398)	$ (30,089)	$ 2,362	(7.9)%
Loss on interest rate swaps				(3,967)	3,967	(100.0)%
Interest income and other	90	16	74	136	(46)	(33.8)%
	$ (27,637)	$ (4,313)	$ (23,324)	$ (33,920)	$ 6,283	(18.5)%

Interest expense decreased for 2010 compared to 2009 because of the elimination of debt issue cost amortization as such costs were written off in December 2009.

In the first quarter of 2009, as we negotiated the terms of our restructuring with our lenders, we concluded the notional amount being hedged in our hedge effectiveness documentation was greater than the expected amount of debt outstanding during the remaining term of the original hedges because of an agreed upon reduction in the interest payments. A loss of $4.0 million was recognized in the first quarter of 2009 for the additional amount of ineffectiveness on our interest rate swaps.

Reorganization Items

Reorganization items represent amounts incurred as a direct result of the Company's Chapter 11 filing and are presented separately in our consolidated statements of operations. Such (income) and expense items consist of the following (dollars in thousands):

	Successor	Successor	Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Professional fees	$ 1,050	$ 539	$ 10,586	$ 33,904
Cancellation of liability				(733)
Effects of the plan of reorganization			(708,590)	
Fresh-start valuation of assets and liabilities			445,796	
Expense deferred financing costs				9,870
Other			534	(36)
	$ 1,050	$ 539	$ (251,674)	$ 43,005

Reorganization professional fees declined as the activity related to the Chapter 11 reorganization has diminished.

The implementation of the plan of reorganization resulted in income of $708.6 million. This reflects the discharge of prepetition liabilities in accordance with the plan of reorganization offset by the value of new debt and equity issued in conjunction with the plan.

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In conjunction with the adoption of the plan of reorganization, we adopted fresh-start reporting resulting in changes to carrying value of assets and liabilities to reflect fair values. The loss recorded from the adoption of fresh-start amounted to $445.8 million.

Income Tax Benefit

The income tax benefit differs from amounts determined by applying the statutory federal income tax rate of 34% to the income or loss before income taxes primarily because of changes in the valuation allowance established for the recovery of deferred income tax assets.

A valuation allowance has been provided at December 31, 2011 and 2010 for our deferred tax assets because of the uncertainty as to the realization of such assets. We assess the recoverability of the deferred income tax assets and the related valuation allowance on a quarterly basis. To the extent that we consistently generate taxable income in future periods and it is determined that such valuation allowance is no longer required, the tax benefit of all or a portion of the remaining deferred tax assets will be recognized at such time.

Liquidity and Capital Resources

As of December 31, 2011, we had cash of $82.1 million. From an ongoing operating perspective, our cash requirements going into 2012 consist of supporting the development and introduction of new products, capital expenditure projects, pension funding obligations and other changes in working capital. A combination of cash-on-hand and cash generated from operating activities will be used to fund our operating activities.

We have continued to take actions to conserve cash and improve liquidity. Actions have also been taken to generate further operating efficiencies and focus on expense management. In order to reduce our cash usage we will continue to execute our cash management program.

We have taken a number of other actions to improve operating results, including efforts to simplify product offerings, introduce new products and services, improve our customer service experience and increase our revenue enhancement activities. There can be no assurance that these additional actions will result in improved overall cash flow. We continue to have sizable retirement obligations for our existing employee base. Sustained declines in the value of pension trust assets and 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. Generally, this prohibits us from currently paying 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

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. Available cash and borrowing capacity is expected to be sufficient to fund cash requirements for the next twleve months.

Net cash provided by operations amounted to $79.2 million for the year ended December 31, 2011. Net cash provided by operations amounted to $61.8 million for 2010 on a combined basis. Our cash flows from operations are impacted by our results of operations, changes in working capital and

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payments on certain long-term liabilities such as pension obligations. Our results of operations were discussed above. The increase in cash provided by operating activities is attributed to lower reorganization costs. Pension plan contributions amounted to $17.0 million and $23.9 million for the years ended December 31, 2011 and 2010, respectively. We typically generate positive cash flow from operations and expect to do so in 2012. We anticipate using the cash generated by operations for capital expenditures and, in future periods, for required debt payments.

Cash used in investing activities was comprised of $78.0 million for the year ended December 31, 2011. Cash used in investing activities was comprised of $21.2 million of capital expenditures for the period from November 1 to December 31, 2010 and $57.7 million for the period January 1 to October 31, 2010. The level of capital expenditures for 2012 is expected to be comparable to 2011 as we invest in systems to support new product introductions and transform our network to enable next-generation technologies.

Cash used in financing activities for the year ended December 31, 2011 amounted to $0.8 million and was comprised primarily of payments on a capital lease of $0.6 million and revolving loan refinancing costs of $0.3 million. Cash provided by financing activities for the period from January 1 to October 31, 2010 was from the receipt of proceeds of $2.1 million from the sale of stock.

Outstanding Debt and Financing Arrangements

As of December 31, 2011, we had outstanding $300.0 million in aggregate long-term debt and an undrawn $30.0 million revolving line of credit.

Our 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 December 31, 2011: leverage with maximum allowed ratio of 3.15:1 of indebtedness to earnings before interest, taxes, depreciation and amortization, as defined; minimum liquidity of cash and available unused revolver borrowing no less than $35.0 million; and a maximum level of annual capital expenditures of $100.9 million. We were in compliance with these covenants as of December 31, 2011.

On February 29, 2012, we refinanced the existing term debt with a new five year term loan. The new loan provides for interest at an Alternate Base Rate, as defined, plus a margin of 4.75% or a Eurocurrency rate of no less than 1.25% per annum plus a margin of 5.75%. Initially, we selected the Eurocurrency rate resulting in a new nominal interest rate of 7.00%. The new term loan requires quarterly principal payments beginning December 2012 of $0.8 million. Other terms of the new debt are similar in nature to the existing term debt.

In conjunction with the refinancing, we paid a call premium on the retirement of our existing debt of $6.0 million, original issue discount on the new debt of $4.5 million and fees of $3.7 million.

With our new debt structure, we do not expect to generate the necessary cash flow from operations to repay the facility in its entirety by the maturity date and repayment is dependent on our ability to refinance the credit facility at reasonable terms. The ability to refinance the indebtedness at reasonable terms before maturity cannot be assured.

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Contractual Obligations

The following table sets forth our long-term debt and contractual obligations for the next several years. Pension funding obligations are based on known funding. Additional obligations are expected in future periods. Obligations are as follows (dollars in thousands):

	2012 to 2014	2015 and 2016	2017 and Thereafter	Total
Term loan facility(1)	2,600	297,400		300,000
Debt interest(2)	80,357	22,305		102,662
Pension funding obligations(3)	16,108			16,108
Operating leases	3,582	2,087	10,699	16,368
Supplier contracts	30,746	1,765		32,511
Total	$ 133,393	$ 323,557	$ 10,699	$ 467,649

(1) Existing debt at December 31, 2011.

(2) Computed based on debt outstanding and the interest rate in effect at December 31, 2011 for the contractual term.

(3) Represents pension funding expected for 2012. Additional funding will be required in future years.

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

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. The following is a summary of certain policies considered critical by management.

Indefinite-Lived Intangible Assets

Intangible assets not subject to amortization are tested for impairment annually in the fourth quarter, or when events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Fair value is an estimate based on the present value of an expected range of future cash flows. For the brand name intangible asset, future cash flows were estimated using a relief of royalty method using an assumed royalty rate for the brand name asset of one percent applied to projected revenues. The expected range of future cash flows is based on internal forecasts developed utilizing management's knowledge of the business and the anticipated effects of market forces. The use of different assumptions or estimates of future cash flows could produce different impairment amounts (or none at all). Significant assumptions which are reasonably possible of changing in future periods relate to projection of future cash flows generated by the indefinite-lived intangible assets which are dependent on projections of company-wide revenues in future periods.

Impairment of Long-Lived Assets and Definite-Lived Intangibles

We assess the recoverability of long-lived assets, including property, plant and equipment and definite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying

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amount of an asset may not be recoverable. In such cases, if the sum of the expected cash flows, undiscounted and without interest, resulting from use of the asset is less than the carrying amount, an impairment loss is recognized based on the difference between the carrying amount and the fair value of the assets. When determining future cash flow estimates, we consider historical operating results, as adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by us in such areas as future economic conditions, industry specific conditions and necessary capital expenditures. The use of different assumptions or estimates for future cash flows could produce different impairment amounts (or none at all) for long-lived assets, including identifiable intangible assets subject to amortization. Significant assumptions which are reasonably possible of changing in future periods relate to projection of future cash flows generated by the long-lived assets which are dependent on projections of company-wide profitability and capital expenditures for maintaining our network in future periods. In addition, estimates of the cash generating useful lives are also critical to such evaluations.

Revenue Recognition

We recognize revenue when evidence of an arrangement exists, the earnings process is complete and collectability is reasonably assured. We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. In general, fixed fees for local telephone, Internet access, television and certain other services are billed one month in advance and recognized the following month when earned. Revenue from other products that are not fixed fee or that exceed contracted amounts is recognized when such services are provided. Long distance revenues are generally billed in arrears and recognized as service is provided.

Allowance for Doubtful Accounts

Our allowance for doubtful accounts reflects reserves for customer receivables to reduce receivables to amounts expected to be collected. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While we believe our process effectively addresses our exposure for doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance for doubtful accounts recognized by us.

Income Taxes

Management calculates the income tax provision, current and deferred income taxes along with the valuation allowance based upon various complex estimates and interpretations of income tax laws and regulations. Deferred tax assets are reduced by a valuation allowance to the extent that it is more likely than not that they will not be realized. The most significant assumption in this process are projections of future income which are reasonably possible of changing in future periods. To the extent we begin to generate taxable income in future years and it is determined the valuation allowance is no longer required, the tax benefit for the remaining deferred tax assets will be recognized at such time.

Employee-Related Benefits

We incur certain employee-related costs associated with pensions and post-retirement health care benefits. In order to measure the expense associated with these employee-related benefits, management must make a variety of estimates, including discount rates used to measure the present value of certain liabilities, assumed rates of return on assets set aside to fund these expenses, compensation increases, employee turnover rates, anticipated mortality rates and anticipated healthcare costs. The estimates used by management are based on our historical experience, as well as current facts and circumstances. We use third-party specialists to assist management in appropriately measuring the expenses associated with these employee-related benefits. Different estimates could result in our recognizing different amounts of expense over different time periods.

The discount rate used for determining the year-end benefit plan obligation was generally calculated using a weighting of expected benefit payments and rates associated with high-quality U.S. corporate bonds for each year of expected payment to derive a single estimated rate at which the benefits could be effectively settled.

The estimated return on plan assets was based on historical trends combined with long-term expectations. In selecting the rate of return on plan assets for purposes of determining net periodic benefit cost, we considered economic forecasts for the types of investments held by the plans (primarily equity and fixed income investments), and the plans' asset allocations. While primary emphasis was on the economic forecasts of long-term returns, consideration of given to the past performance of the plans' assets. The assumption is based on consideration of all inputs, with a focus on long-term trends to avoid short-term market influences. Assumptions are not changed unless structural trends in the underlying economy are identified, our asset strategy changes, or there are significant changes in other inputs. The method for selecting the expected return on plan assets did not change from prior periods.

Fresh-Start Reporting

We adopted fresh-start reporting as of October 31, 2010. Fresh-start reporting was required because holders of existing voting stock before filing and confirmation of the plan of reorganization received less than 50% of the voting shares of the emerging entity and our reorganization value was less than our post petition liabilities and allowed claims. Fresh-start required us to allocate our reorganization value to our assets and liabilities in a manner similar to which is required for purchase business combinations. Under the provisions of fresh-start accounting, a new entity has been deemed created for financial reporting purposes.

We allocated the reorganization value to our tangible assets and liabilities and identifiable intangible assets. The allocation of the reorganization value requires management to make significant estimates in determining the fair value of Predecessor assets and liabilities as well as with respect to new intangible assets. These estimates are based on historical experience and information obtained from management. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy and validity of such estimates.

The fair value of property, plant and equipment was based on the highest and best use of specific properties. To determine fair value we considered and applied either the market approach or cost approach depending on the nature of the asset and the availability of information. The market or sales comparison approach relies upon recent sales or offerings of similar assets on the market to arrive at a probable selling price. Certain adjustments were made to reconcile differences in attributes between the comparable sales and the appraised assets. The cost approach considers the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments in value for physical deterioration, functional obsolescence and economic obsolescence.

The fair value of intangible assets including the brand name and customer relationship intangibles was determined based on discounted cash flows from projections of results for our operations.

Long-term debt was based on the debt issued in conjunction with the plan of reorganization. This was assumed to approximate fair value given that the terms of the debt were negotiated recently between us and our lenders in conjunction with development of the plan of reorganization. The employee benefit obligations were recognized based on the funded status of the benefit plans.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2011, our floating rate obligations consisted of $300.0 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 December 31, 2011 and assuming a 1.0 percentage point increase in the average interest rate under these borrowings, we estimate that our annual interest expense would increase by approximately $3.0 million.

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Item 8. Financial Statements and Supplementary Data

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Management's Annual Report on Internal Control over Financial Reporting

Management of Hawaiian Telcom Holdco, Inc. (the "Company"), including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal controls were designed to provide assurance as to the reliability of its financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. There are inherent limitations in the effectiveness of any system of internal control over financial reporting; however, based on the evaluation, management has concluded the Company's internal control over financial reporting was effective as of December 31, 2011.

The Company's independent registered public accounting firm has audited the accompanying consolidated financial statements and the Company's internal control over financial reporting. The report of the independent registered public accounting firm is included in this Annual Report on Form 10-K and begins on the following page.

/s/ ERIC K. YEAMAN	/s/ ROBERT F. REICH
Eric K. Yeaman	Robert F. Reich
Chief Executive Officer	*Senior Vice President and Chief Financial Officer*
March 14, 2012	March 14, 2012

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Hawaiian Telcom Holdco, Inc.
Honolulu, Hawaii

We have audited the accompanying consolidated balance sheets of Hawaiian Telcom Holdco, Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and other comprehensive income (loss), and cash flows for the year ended December 31, 2011, for the two months ended December 31, 2010 (Successor Company operations), for the ten months ended October 31, 2010 and for the year ended December 31, 2009 (Predecessor Company operations). We also have audited the Company's internal control over financial reporting as of December 31, 2011 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the

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risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 21 to the consolidated financial statements, on December 30, 2009, the Bankruptcy Court entered an order confirming the plan of reorganization which became effective after the close of business on October 28, 2010. Accordingly, the accompanying financial statements have been prepared in conformity with Accounting Standards Codification 852, Reorganizations, for the Successor Company as a new entity with assets, liabilities, and a capital structure having carrying values not comparable with prior periods as described in Note 22 to the consolidated financial statements.

In our opinion, the Successor Company's consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hawaiian Telcom Holdco, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the year ended December 31, 2011 and for the two months ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor Company consolidated financial statements referred to above present fairly, in all material respects, the results of its operations and its cash flows for the ten months ended October 31, 2010, and for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Honolulu, Hawaii
March 14, 2012

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Hawaiian Telcom Holdco, Inc.

Consolidated Statements of Operations

(Dollars in thousands, except per share amounts)

	Successor		Predecessor	
	For the Year Ended December 31, 2011	**Period from November 1 to December 31, 2010**	**Period from January 1 to October 31, 2010**	**For the Year Ended December 31, 2009**
Operating revenues	$ 395,156	$ 66,759	$ 334,686	$ 408,595
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization)	159,822	27,117	135,114	158,196
Selling, general and administrative	120,390	21,938	105,813	142,817
Depreciation and amortization	63,806	9,723	136,661	164,376
Total operating expenses	344,018	58,778	377,588	465,389
Operating income (loss)	51,138	7,981	(42,902)	(56,794)
Other income (expense):				
Interest expense (contractual interest was $62,642 for the period from January 1 to October 31, 2010 and $79,667 for the year ended December 31, 2009)	(25,339)	(4,329)	(23,398)	(30,089)
Loss on interest rate swaps				(3,967)
Interest income and other	65	16	74	136
Total other expense	(25,274)	(4,313)	(23,324)	(33,920)
Income (loss) before reorganization items and income tax benefit	25,864	3,668	(66,226)	(90,714)
Reorganization items (income) expense	1,050	539	(251,674)	43,005
Income (loss) before income tax benefit	24,814	3,129	185,448	(133,719)
Income tax benefit	(1,341)		(346)	(2,985)
Net income (loss)	$ 26,155	$ 3,129	$ 185,794	$ (130,734)
Net income (loss) per common share				
Basic	$ 2.58	$ 0.31	$ 434.10	$ (305.45)
Diluted	$ 2.41	$ 0.30	$ 434.10	$ (305.45)
Weighted average shares used to compute net income (loss) per common share				
Basic	10,147,561	10,135,063	428,000	428,000
Diluted	10,843,542	10,302,542	428,000	428,000

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except per share information)

	December 31, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 82,063	$ 81,647
Receivables, net	37,712	39,222
Material and supplies	8,190	8,431
Prepaid expenses	4,107	5,707
Other current assets	2,127	4,566
Total current assets	134,199	139,573
Property, plant and equipment, net	482,371	459,781
Intangible assets, net	40,745	43,315
Other assets	4,457	3,367
Total assets	$ 661,772	$ 646,036
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 2,600	$
Accounts payable	24,785	24,162
Accrued expenses	23,811	28,752
Advance billings and customer deposits	14,672	14,948
Other current liabilities	3,649	2,810
Total current liabilities	69,517	70,672
Long-term debt	297,400	300,000
Employee benefit obligations	155,428	94,453
Other liabilities	3,231	2,119
Total liabilities	525,576	467,244
Commitments and contingencies (Note 15)		
Stockholders' equity		
Common stock, par value of $0.01 per share, 245,000,000 shares authorized and 10,190,526 and 10,135,063 shares issued and outstanding at December 31, 2011 and 2010, respectively	102	101
Additional paid-in capital	164,328	162,169
Accumulated other comprehensive income (loss)	(57,518)	13,393
Retained earnings	29,284	3,129
Total stockholders' equity	136,196	178,792
Total liabilities and stockholders' equity	$ 661,772	$ 646,036

See accompanying notes to consolidated financial statements.

Hawaiian Telcom Holdco, Inc.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Cash flows from operating activities:				
Net income (loss)	$ 26,155	$ 3,129	$ 185,794	$ (130,734)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	63,806	9,723	136,661	164,376
Employee retirement benefits	(9,920)	1,463	(13,366)	11,244
Stock based compensation	2,135	109	65	80
Provision for uncollectibles	2,940	674	4,851	8,898
Loss on interest rate swaps				3,967
Interest cost added to loan principal			11,573	11,297
Reorganization items	1,050	539	(251,674)	43,005
Changes in operating assets and liabilities:				
Receivables	(2,930)	840	(2,961)	2,244
Material and supplies	240	(2,936)	(1,624)	2,391
Prepaid expenses and other current assets	4,039	4,626	(4,925)	(3,462)
Accounts payable and accrued expenses	(6,058)	(1,615)	(1,158)	5,964
Advance billings and customer deposits	(276)	(714)	1,708	(1,363)
Other current liabilities	1,421	174	413	72
Other, net	(990)	(26)	1,410	2,494
Net cash provided by operating activities before reorganization items	81,612	15,986	66,767	120,473
Operating cash flows used by reorganization items	(2,393)	(3,065)	(17,858)	(25,361)
Net cash provided by operating activities	79,219	12,921	48,909	95,112
Cash flows from investing activities:				
Capital expenditures	(77,992)	(21,235)	(57,659)	(87,537)
Net cash used in investing activities	(77,992)	(21,235)	(57,659)	(87,537)
Cash flows from financing activities:				
Proceeds from stock issuance	49		2,161	
Repayments of capital lease	(582)			
Revolving loan refinancing costs	(253)			
Taxes paid related to net share settlement on equity awards	(25)			
Net cash provided by (used in) financing activities	(811)		2,161	
Net change in cash and cash equivalents	416	(8,314)	(6,589)	7,575
Cash and cash equivalents, beginning of period	81,647	89,961	96,550	88,975
Cash and cash equivalents, end of period	$ 82,063	$ 81,647	$ 89,961	$ 96,550

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Other Comprehensive Income (Loss)

(Dollars in thousands, except share information)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficiency)
Balance, January 1, 2009 (Predecessor)	428,000	$ 4	$ 428,913	$ (56,097)	$ (445,336)	$ (72,516)
Stock based compensation			80			80
For the year ended December 31, 2009:						
Net loss					(130,734)	(130,734)
Other comprehensive income Gain on cash flow hedging derivatives				5,156		5,156
Retirement plans gain				17,846		17,846
Unrealized loss on investments				(96)		(96)
Total other comprehensive income						22,906
Comprehensive loss						(107,828)
Balance, December 31, 2009 (Predecessor)	428,000	4	428,993	(33,191)	(576,070)	(180,264)
Stock based compensation			65			65
For the period January 1 to October 31, 2010:						
Net income					185,794	185,794
Other comprehensive loss Retirement plans loss				(6,017)		(6,017)
Gain on cash flow hedging derivatives				416		416
Unrealized gain on investments				6		6
Total other comprehensive loss						(5,595)
Comprehensive income						180,199
Balance, October 31, 2010 (Predecessor)	428,000	4	429,058	(38,786)	(390,276)	
Cancellation of Predecessor common stock	(428,000)	(4)	4			
Elimination of Predecessor accumulated deficit and accumulated other comprehensive loss			(429,062)	38,786	390,276	
Issuance of new equity interests in connection with emergence from Chapter 11	10,000,000	100	159,900			160,000
Sale of common stock	135,063	1	2,160			2,161
Balance, November 1, 2010 (Successor)	10,135,063	$ 101	$ 162,060	$	$	$ 162,161

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Deficiency) and Other Comprehensive Income (Loss) (Continued)

(Dollars in thousands, except share information)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficiency)
	Shares	Amount				
Balance, November 1, 2010 (Successor)	10,135,063	$ 101	$ 162,060	$	$	$ 162,161
Stock based compensation			109			109
For the period November 1 to December 31, 2010:						
Net income					3,129	3,129
Other comprehensive income Retirement plans gain				13,409		13,409
Unrealized loss on investments				(16)		(16)
Total other comprehensive income						13,393
Comprehensive income						16,522
Balance, December 31, 2010 (Successor)	10,135,063	101	162,169	13,393	3,129	178,792
Stock based compensation			2,135			2,135
Sale of stock under warrant agreements	4,021		49			49
Common stock issued for stock compensation plans, net of shares withheld and withholding paid for employee taxes	51,442	1	(25)			(24)
For the year ended December 31, 2011:						
Net income					26,155	26,155
Other comprehensive income (loss) Retirement plans loss				(70,894)		(70,894)
Unrealized loss on investments				(17)		(17)
Total other comprehensive loss						(70,911)
Comprehensive loss						(44,756)
Balance, December 31, 2011 (Successor)	10,190,526	$ 102	$ 164,328	$ (57,518)	$ 29,284	$ 136,196

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements

1. Description of Business

Business Description

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

The communication services the Company provides are subject to regulation by the Public Utilities Commission of the State of Hawaii (HPUC) with respect to intrastate rates and services and other matters, and the State of Hawaii Department of Commerce and Consumer Affairs with respect to television. Certain agreements with the HPUC limit the amount of dividends and other distributions the Company may pay as well as place restrictions on certain transactions affecting the operations and capital structure of the Company. The Federal Communication Commission (FCC) regulates rates that the Company charges long-distance carriers and other end-user subscribers for interstate access services and interstate traffic.

As a result of the adoption of fresh-start reporting, the financial statements before and on October 31, 2010 are not comparable to the financial statements for the period after October 31, 2010. References to "Successor" refer to the Company after October 31, 2010 after giving effect to the adoption of fresh-start reporting. References to "Predecessor" refer to the Company prior to and on October 31, 2010. See Notes 21 and 22 for further details.

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. Hawaiian Telcom Insurance Company, Incorporated is a captive insurance subsidiary of Hawaiian Telcom, Inc. and, until December 31, 2003, provided auto liability, general liability and worker's compensation insurance to its parent. The captive subsidiary continues to settle claims related to incidents which occurred prior to January 1, 2004. The Company insures current incidents with external carriers.

2. Summary of Significant Accounting Policies

The accompanying 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Principles of Consolidation

The consolidated financial statements of the Company include the results of operations, financial position, and cash flows of Hawaiian Telcom Holdco, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Revenue is recognized when evidence of an arrangement exists, the earnings process is complete and collectibility is reasonably assured. The prices for most services are filed in tariffs with the regulatory body that exercises jurisdiction over the services.

Basic local service, enhanced calling features such as caller ID, special access circuits, long-distance flat rate calling plans, most data services, HSI, television and wireless services 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 and recorded as a liability in advance billings and customer deposits.

Amounts billed to customers for activating wireline service are deferred and recognized over the average customer relationship. The costs associated with activating such services are deferred and recognized as an operating expense over the same period. Costs in excess of revenues are recognized as expense in the period in which activation occurs.

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

Universal Service revenues are government-sponsored support received in association with providing service in mostly rural, high-cost areas. These revenues are typically based on information provided by the Company and are calculated by the government agency responsible for administering the support program. These revenues are recognized in the period the service is provided.

Telecommunication systems and structured cabling project revenues are recognized on a percentage completion basis, generally based on the relative portion of costs incurred to total estimated costs of a project, except for short duration projects which are recognized upon completion of the project. Maintenance services are recorded when the service is provided.

With respect to arrangements with multiple deliverables, the Company determines whether more than one unit of accounting exists in an arrangement. To the extent that the deliverables are separable into multiple units of accounting, total consideration is allocated to the individual units of accounting based on their relative fair value, determined by the price of each deliverable when it is regularly sold on a stand-alone basis. Revenue is recognized for each unit of accounting as delivered or as service is performed depending on the nature of the deliverable comprising the unit of accounting.

Taxes Collected from Customers

The Company presents taxes collected from customers and remitted to governmental authorities on a gross basis, including such amounts in the Company's reported operating revenues. Such amounts

Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

represent primarily Hawaii state general excise taxes and HPUC fees. Such taxes and fees amounted to $6.8 million for the year ended December 31, 2011, $1.1 million for the period from November 1, 2010 to December 31, 2010, $5.2 million for the period from January 1 to October 31, 2010 and $5.9 million for the year ended December 31, 2009.

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 December 31, 2011 are held in one bank in demand deposit accounts.

Supplemental Non-Cash Investing and Financing Activities

Accounts payable included $4.0 million and $0.9 million at December 31, 2011 and 2010, respectively, for additions to property, plant and equipment.

Receivables

The Company recognizes accounts receivable net of an allowance for doubtful accounts. The Company makes estimates of the uncollectibility of its accounts receivable by specifically analyzing accounts receivable and historic bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. After multiple attempts at collection of delinquent accounts, the balance due is deemed uncollectible and charged against the allowance.

Material and Supplies

Material and supplies which consist mainly of cable, supplies and replacement parts, are stated at the lower of cost, determined principally by the average cost method, or net realizable value.

Property and Depreciation

Property, plant and equipment are carried at cost. Depreciation has been calculated using the composite remaining life methodology and straight-line depreciation rates. The composite method depreciates the remaining net investment in telephone plant over remaining economic asset lives by asset category. This method requires periodic review and revision of depreciation rates. The average economic lives utilized for assets recognized in conjunction with the Company's fresh-start accounting in October 2010 (see Note 22) are as follows: buildings 18 years; cable and wire 11 years; switching and circuit equipment 3 years; and other property 2 to 4 years. The average economic lives utilized by the Predecessor for assets acquired in conjunction with the acquisition of the Company in May 2005 were as follows: buildings 34 years; cable and wire 5 to 20 years; switching and circuit equipment 1 to 15 years; and other property 1 to 20 years. The average economic lives for all other assets (i.e., primarily new additions) are as follows: building 34 years; cable and wire 11 to 37 years; switching and circuit equipment 6 to 15 years; and other property 5 to 17 years.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Software

The Company capitalizes the costs associated with externally acquired software for internal use. Project costs associated with internally developed software are segregated into three project stages: preliminary project stage, application development stage and post-implementation stage. Costs associated with both the preliminary project stage and post-implementation stage are expensed as incurred. Costs associated with the application development stage are capitalized. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line method basis over its useful life, not to exceed five years.

Intangible Assets

Indefinite-lived intangible assets are not amortized. Such assets are reviewed annually, or more frequently under various conditions, for impairment. Impairment occurs when the fair value of the asset is less than the carrying value. The Company performs its annual impairment test during the fourth quarter, primarily using a discounted cash flow methodology. Intangible assets with definite lives, including the value assigned to the customer base, are being amortized over the remaining estimated lives. For customer relationship intangibles, amortization is calculated using a declining balance method in relation to estimated retention lives of acquired customers.

Impairment of Long-Lived Assets

The Company assesses the recoverability of long-lived assets, including property, plant and equipment and definite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, if the sum of the expected cash flows, undiscounted and without interest, resulting from use of the asset are less than the carrying amount, an impairment loss is recognized based on the difference between the carrying amount and the fair value of the assets.

Debt Issuance

Deferred financing costs, included in other assets on the consolidated balance sheet, are amortized over the term of the related debt issuance.

Derivative Financial Instruments

The Company accounts for all derivative financial instruments, such as interest rate swap agreements, by recognizing the derivative on the balance sheet at fair value, regardless of the purpose or intent of holding them. In addition, for derivative financial instruments that qualify for hedge accounting, changes in the fair value will either be offset against the change in the fair value of the hedged assets, liabilities, or firm commitment, through earnings, or recognized in stockholders' equity as a component of accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. The Company measures hedge effectiveness by formally assessing, at least quarterly, the historical and probable future high correlation of changes in the fair value of expected future cash flows of the hedged item. The ineffective portion of a derivative's change in fair value will be immediately recognized in other income or expense.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

Deferred 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 the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is unlikely they will be realized.

The Company recognizes interest and penalties related to unrecognized tax benefits within income tax expense in the accompanying consolidated statements of operations.

Employee Benefit Plans

Pension and postretirement health and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

Maintenance and Repairs

The cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, is charged to expense as these costs are incurred.

Advertising

Advertising costs are expensed as incurred. Advertising expense amounted to $4.4 million for the year ended December 31, 2011, $1.0 million for the period from November 1 to December 31, 2010, $4.4 million for the period January 1 to October 31, 2010 and $5.7 million for the year ended December 31, 2009.

Stock Based Compensation

The Company accounts for stock-based compensation at fair value.

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 computation of diluted earnings per share excludes the impact of outstanding stock options, for Predecessor periods as they were antidilutive to earnings per share. For the Successor,

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

restricted stock units that were excluded as they were antidilutive were not significant. The denominator used to compute basic and diluted earnings per share by the Successor was as follows:

	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010
Basic earnings per share weighted average shares	10,147,561	10,135,063
Effect of dilutive securities:		
Employee and director restricted stock units	145,429	50,554
Warrants	550,552	116,925
Diluted earnings per share weighted average shares	10,843,542	10,302,542

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of comprehensive income. The new guidance is effective for fiscal years and interim periods that begin after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial statements.

In May 2011, the FASB issued amendments to achieve common fair value measurement and disclosure requirements in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). The amendments explain how to measure fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The guidance is effective for interim and annual periods that begin after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial statements.

3. Receivables

Receivables consisted of the following (dollars in thousands):

	December 31, 2011	December 31, 2010
Customers and other	$ 40,636	$ 40,024
Allowance for doubtful accounts	(2,924)	(802)
	$ 37,712	$ 39,222

The Company grants credit to customers in the normal course of business. At December 31, 2011 and 2010, the Company did not have customer balances representing more than 10% of total receivables. During the year ended December 31, 2011, the periods November 1 to December 31, 2010 and January 1 to October 31, 2010, and for the year ended December 31, 2009, the Company had no customers that represented more than 10% of total revenues.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

3. Receivables (Continued)

The following is a summary of activity for the allowance for doubtful accounts (dollars in thousands):

	Beginning Balance	Additional Charges to Costs and Expenses	Recoveries to (Deductions from) Allowance	Ending Balance
Successor				
January 1 to December 31, 2011	$ 802	$ 2,940	$ (818)	$ 2,924
November 1 to December 31, 2010		674	128	802
Predecessor				
January 1 to October 31, 2010	$ 13,000	$ 4,851	$ (5,407)	$ 12,444
Year ended December 31, 2009	18,453	8,898	(14,351)	13,000

In the second quarter of 2011, the Company recovered $2.5 million on two large receivable balances previously assumed to be uncollectible.

4. Property, Plant and Equipment

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

	December 31, 2011	December 31, 2010
Land	$ 72,909	$ 74,809
Buildings	95,521	89,224
Central office equipment	93,638	74,264
Outside communications plant	203,080	180,174
Furniture, vehicles and other work equipment	21,662	12,043
Construction in progress	35,574	25,895
Software	22,361	11,435
Other	4,093	471
	548,838	468,315
Less accumulated depreciation and amortization	66,467	8,534
Total property, plant and equipment, net	$ 482,371	$ 459,781

Depreciation expense amounted to $61.2 million for the year ended December 31, 2011, $8.7 million for the period from November 1 to December 31, 2010, $103.1 million for the period from January 1 to October 31, 2010 and $121.3 million for the year ended December 31, 2009.

5. Intangible Assets

In conjunction with fresh-start accounting as of October 31, 2010, the Successor recognized identifiable intangible assets of $44.3 million.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Intangible Assets (Continued)

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

	December 31, 2011			December 31, 2010		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Subject to amortization:						
Customer relationships	$ 17,000	$ 3,555	$ 13,445	$ 17,000	$ 985	$ 16,015
	17,000	3,555	13,445	17,000	985	16,015
Not subject to amortization:						
Brand name	27,300		27,300	27,300		27,300
	27,300		27,300	27,300		27,300
	$ 44,300	$ 3,555	$ 40,745	$ 44,300	$ 985	$ 43,315

The estimated useful lives for customer relationship intangibles are 10 years. The determination of useful lives for customer relationships was made based on historical and expected customer attrition rates. The Company uses an accelerated amortization method reflecting the rate of expected customer attrition.

Amortization expense amounted to $2.6 million for the year ended December 31, 2011, $1.0 million for the period from November 1 to December 31, 2010, $33.6 million for the period from January 1 to October 31, 2010 and $43.1 million for the year ended December 31, 2009. Estimated amortization expense for the next five years and thereafter is as follows (dollars in thousands):

2012	$ 2,730
2013	2,421
2014	2,112
2015	1,803
2016	1,494
Thereafter	2,885
	$ 13,445

6. Accrued Expenses

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

	December 31, 2011	December 31, 2010
Salaries and benefits	$ 17,519	$ 21,382
Interest	4,875	4,875
Other taxes	1,417	2,495
	$ 23,811	$ 28,752

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

7. Long-Term Debt

Long-term debt consists of a term loan which has an original principal amount of $300.0 million ($2.6 million current and $297.4 million long-term) and will mature on October 28, 2015. For each fiscal year that the Company has a cash balance that is greater than $67.5 million, the Company shall prepay, no later than 105 days after fiscal year end, loans in an aggregate amount equal to the lesser of: (a) 75% of excess cash flow, as defined, for such fiscal year; and (b) the amount by which the cash balance exceeds $67.5 million. In addition, the Company must make prepayment on loans in the case of certain prepayment events such as large asset sales. A term loan prepayment of $2.6 million is required for 2012 under such agreement.

The term loan bears interest at a Eurocurrency rate on deposits for one, two, three or six month periods but no less than 3% plus a margin of 6%. The interest rate on the debt at December 31, 2011 was 9%.

The term loan includes a provision whereby members of the lender group may request that the Company make an offer to exchange term loan debt for equity at the then fair value of common equity shares. The Company, in its sole discretion, can make the offer or not. The Company, in its sole discretion, can also initiate an offer to exchange term loan debt for equity at the then fair value of common equity shares. Members of the lender group are not required to accept such offers.

On October 3, 2011, the Company extended its revolving credit facility to mature on October 3, 2015. The Company incurred costs in conjunction with the refinancing amounting to $0.3 million. The facility has an available balance of $30.0 million with no amounts drawn during the year ended and as of December 31, 2011. A commitment fee is payable quarterly to the lender under the facility. Interest on amounts outstanding is based on, at the Company's option, the bank prime rate plus a margin of 3.0% to 6.0% or the Eurocurrency rate for one, two, three or six month periods plus a margin of 4.0% to 5.5%. The margin is dependent on the Company's leverage, as defined in the agreement, at the time of the borrowing. The prior revolving credit facility had a maturity of October 27, 2012 with no amounts drawn on the line at any time.

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 consisting of a leverage ratio, minimum liquidity and a maximum level of capital expenditures.

Capitalized Interest

Interest capitalized by the Company amounted to $2.3 million for the year ended December 31, 2011, $0.4 million for the period from November 1 to December 31, 2010, $0.8 million for the period from January 1 to October 31, 2010 and $1.5 million for the year ended December 31, 2009.

Contractual Interest Expense

The Company recorded postpetition interest on prepetition obligations only to the extent it believed the interest would be paid during the bankruptcy proceedings or that it was probable that the interest would be an allowed claim. Had the Company recorded interest expense based on all of the

Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

7. Long-Term Debt (Continued)

prepetition contractual obligations, interest expense would have increased by $39.2 million for the period from January 1 to October 31, 2010 and $49.6 million for the year ended December 31, 2009.

Refinancing

On February 29, 2012, the Company refinanced the existing term debt with a new five year term loan. The new loan provides for interest at an Alternate Base Rate, as defined, plus a margin of 4.75% or a Eurocurrency rate of no less than 1.25% per annum plus a margin of 5.75%. Initially, the Company selected the Eurocurrency rate resulting in a new nominal interest rate of 7.00%.

In conjunction with the refinancing, the Company paid a call premium on the retirement of the Company's existing debt of $6.0 million, original issue discount on the new debt of $4.5 million and fees of $3.7 million.

8. Derivative Instruments and Hedging Activities

Prior to 2010, the Company utilized a combination of fixed-rate and variable-rate debt to finance its operations. The variable-rate debt exposed the Company to variability in interest payments due to changes in interest rates. Management believed that it was prudent to mitigate the interest rate risk on a portion of its variable-rate borrowings. To meet this objective, management maintained interest rate swap agreements to manage fluctuations in cash flows resulting from adverse changes in interest rates on its term loans and notes.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with the Company's variable-rate debt obligations are reported in accumulated other comprehensive loss. These amounts are subsequently reclassified into interest expense as a yield adjustment of the hedged interest payment in the same period in which the related interest payments affect earnings.

In the first quarter of 2009, as the Company negotiated the terms of its restructuring with its lenders, the Company concluded that the notional amount being hedged in the Company's hedge effectiveness documentation was greater than the expected amount of debt outstanding during the remaining term of the original hedges because of the agreed upon reduction in interest payments. A loss of $4.0 million was recognized in the first quarter of 2009 for the additional amount of ineffectiveness in the Company's interest rate swaps.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

8. Derivative Instruments and Hedging Activities (Continued)

The impact of the interest rate swaps, classified as cash flow hedges, was as follows (dollars in thousands):

	Predecessor	
	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Amount of loss reclassified from accumulated other comprehensive loss into income (effective portion) recognized as interest expense	$ 416	$ 1,189
Loss recognized in income on derivative (ineffective portion) included in other income (expense)		(3,967)

Amounts included in accumulated other comprehensive loss for the cash flow hedges were reclassified into earnings as cash interest was paid on the underlying debt that was hedged. There are no ongoing interest rate hedging activities.

9. Employee Benefit Plans

Pension and Other Postretirement Benefits

Upon adoption of fresh-start accounting on October 31, 2010, the Company completed a revaluation of the pension and other postretirement benefit liabilities. The Company also accelerated the recognition of net unrecognized actuarial gains and losses.

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

As further discussed in Note 15, the Company implemented new terms of employment for union employees effective January 1, 2012. The terms of employment include a provision that provides for a freeze of pension benefits related to service and wage increases effective March 1, 2012. The Company has not recognized the impact of the freeze as of December 31, 2011. The freeze of the union pension is expected to result in a reduction of the projected benefit obligation by the difference between the accumulated benefit obligation and projected benefit obligation. This reduction in the liability will be used to offset actuarial losses previously recognized in the accumulated other comprehensive loss. In addition, the periodic benefit cost is expected to decline as there will no longer be any service cost. In January 2012, the union filed an unfair labor practices charge with the National Labor Relations Board ("NLRB") regarding the implementation of the terms of employment and two other matters. In February 2012, the NLRB issued a consolidated unfair labor practices complaint against the Company that combined allegations from two other unfair labor practices charges filed by the IBEW. A hearing on the complaint is scheduled for April 24, 2012. If the NLRB were to issue a complaint against the Company and found an unfair labor practice, the Company believes the remedy would be an order to continue good faith bargaining with the IBEW and to reinstate the benefits and terms and conditions of employment existing prior to the unilateral implementation of the last best and final offer.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Employee Benefit Plans (Continued)

Therefore, in such case, the Company could be required to delay or reverse the March 1, 2012 freeze of pension benefits.

The change in projected benefit obligation, change in plan assets, funded status and weighted average actuarial assumptions were as follows (dollars in thousands):

Pension Benefits

	Successor		Predecessor
	December 31, 2011	December 31, 2010	October 31, 2010
Change in projected benefit obligation:			
Obligation at beginning of period	$ 204,715	$ 205,597	$ 181,087
Service cost	7,621	1,279	5,948
Interest cost	10,400	1,759	8,332
Actuarial (gain) loss	50,631	(3,775)	10,834
Benefits paid	(23,516)	(145)	(604)
Obligation at end of period	249,851	204,715	205,597
Change in plan assets:			
Fair value of plan assets at beginning of period	145,036	139,592	104,310
Actual return on plan assets	3,141	5,589	12,026
Employer contributions	17,024		23,860
Benefits paid	(23,516)	(145)	(604)
Fair value of plan assets at end of period	141,685	145,036	139,592
Funded status:			
Plan assets less than projected benefit obligation	$ (108,166)	$ (59,679)	$ (66,005)
Amounts recognized on balance sheet:			
Employee benefit obligation, noncurrent	$ (108,166)	$ (59,679)	$ (66,005)
Actuarial gain (loss) recognized in accumulated other comprehensive income (loss)	$ (51,504)	$ 7,534	$ (3,976)
Actuarial assumptions:			
Measurement date	12/31/2011	12/31/2010	10/31/2010
Discount rate	4.44% to 4.59%	5.47% to 5.64%	5.18% to 5.52%
Rate of compensation increase	3.50% to 5.00%	3.50% to 5.00%	3.50% to 5.00%

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Employee Benefit Plans (Continued)

Other Postretirement Benefits

	Successor		Predecessor
	December 31, 2011	December 31, 2010	October 31, 2010
Change in projected benefit obligation:			
Obligation at beginning of period	$ 36,901	$ 42,451	$ 38,926
Service cost	948	183	940
Interest cost	2,053	402	1,920
Actuarial (gain) loss	11,485	(5,875)	1,952
Benefits paid	(1,656)	(260)	(1,287)
Obligation at end of period	49,731	36,901	42,451
Change in plan assets:			
Fair value of plan assets at beginning of period			
Employer contributions	1,656	260	1,287
Benefits paid	(1,656)	(260)	(1,287)
Fair value of plan assets at end of period			
Funded status:			
Plan assets less than projected benefit obligation	$ (49,731)	$ (36,901)	$ (42,451)
Amounts recognized on balance sheet:			
Other current liabilities	$ (2,469)	$ (2,127)	$ (2,057)
Employee benefit obligation, noncurrent	(47,262)	(34,774)	(40,394)
Net amount recognized	$ (49,731)	$ (36,901)	$ (42,451)
Actuarial gain (loss) recognized in accumulated other comprehensive income (loss)	$ (5,980)	$ 5,875	$ (2,041)
Actuarial assumptions:			
Measurement date	12/31/2011	12/31/2010	10/31/2010
Discount rate	4.85% to 5.09%	5.65% to 5.96%	5.55% to 5.98%
Assumed health care cost trend rate, current	8.00%	8.50%	9.00%
Assumed health care cost trend rate, ultimate	5.00%	5.00%	5.00%
Assumed health care cost trend rate, ultimate year	2018	2018	2018

The estimated amount of the actuarial loss to be amortized from accumulated other comprehensive income (loss) during 2012 is $2.5 million for pension benefits and $0.2 million for other postretirement benefits.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Employee Benefit Plans (Continued)

The Company accrues the costs of pension and postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits. The following provides the components of benefit costs and weighted average actuarial assumptions for the year ended December 31, 2011, for the period from November 1 to December 31, 2010, for the period from January 1 to October 31, 2010, and for the year ended December 31, 2009 (dollars in thousands):

Pension Benefits

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Service cost	$ 7,621	$ 1,279	$ 5,948	$ 6,957
Interest cost	10,400	1,759	8,332	9,442
Expected asset return	(11,567)	(1,831)	(6,597)	(5,934)
Amortization of net (gain) loss	19		1,428	2,838
Total benefit cost	$ 6,473	$ 1,207	$ 9,111	$ 13,303
Actuarial assumptions:				
Discount rate	5.47% to 5.64%	5.18% to 5.52%	5.85%	6.25%
Expected return on plan assets	8.00%	8.00%	8.00%	8.00%
Long-term rate of compensation increase	3.50% to 5.00%	3.50% to 5.00%	3.50% to 5.00%	3.50% to 5.00%

Other Postretirement Benefits

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Service cost	$ 947	$ 183	$ 940	$ 1,027
Interest cost	2,053	402	1,920	2,091
Amortization of net (gain) loss	(367)		(89)	(271)
Total benefit cost	$ 2,633	$ 585	$ 2,771	$ 2,847
Actuarial assumptions:				
Discount rate	5.65% to 5.96%	5.55% to 5.98%	6.20%	6.25%
Assumed health care cost trend rate, current	8.00%	8.50%	9.00%	9.00%
Assumed health care cost trend rate, ultimate	5.00%	5.00%	5.00%	5.00%
Assumed health care cost trend rate, ultimate year	2018	2018	2018	2018

The measurement date for all plans was December 31, 2011, December 31, 2010 and October 31, 2010. The accumulated benefit obligation for the pension plans amounted to $219.7 million and

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Employee Benefit Plans (Continued)

$178.3 million at December 31, 2011 and 2010, respectively. For the union plan, the accumulated benefit obligation was in excess of plan assets as of December 31, 2011 and 2010. For the management plan, the accumulated benefit obligation approximated plan assets at December 31, 2011 and was in excess of plan assets at December 31, 2010.

The Company based its selection of an assumed discount rate for 2012 net periodic benefit cost and December 31, 2011 disclosure on a cash flow matching analysis that utilized bond information provided from a published bond index for all non-callable, high quality bonds (i.e., rated AA- or better) as of December 31, 2011. The matching of bond income to anticipated benefit cash flows and the basic methods of selecting the assumed discount rate and expected return on plan assets at December 31, 2011 did not change from December 31 2010.

In selecting the expected rate of return on plan assets of 7.75% for 2012 net periodic benefit cost, the Company considered economic forecasts for the types of investments held by the plans (primarily equity and fixed income investments), the plans' asset allocations and the past performance of the plans' assets. The expected rate of return on plan assets was based on various factors including historical experience and long-term inflation assumptions. The Company's expected long-term rate of return on plan assets is determined using the target allocation of assets which is based on the goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from a security class will not have a significant adverse impact on the entire portfolio.

The Company's overall investment strategy is to primarily invest for long-term growth with sufficient investments available to fund near-term benefit payments. The Company aims for diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 60 percent equity securities and 40 percent fixed income securities. Equity securities primarily include investments in equity funds and common stock of individual companies. Together these investments are diversified in both large and small cap companies located in the United States and internationally. Fixed income securities are in funds that invest in bonds of companies from diversified industries, mortgage-backed securities and U.S. Treasuries.

Accounting standards establish a fair value hierarchy when measuring the fair value of pension plan assets. The three levels of inputs within the hierarchy are defined as follows. Level 1 is quoted prices for identical assets or liabilities in active markets. Level 2 is significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 3 is significant unobservable inputs that reflect the Company's own assumptions as to how market participants would price an asset.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Employee Benefit Plans (Continued)

The fair values of the Company's pension plan assets at December 31, 2011 and 2010, based on trading values or fund net asset value, by asset category and basis of valuation are as follows (dollars in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2011				
Common stocks domestic large cap	$ 14,569	$	$	$ 14,569
Equity funds large cap index		73,012		73,012
Fixed income funds diversified bond		53,380		53,380
Short term investment funds		724		724
	$ 14,569	$ 127,116	$	$ 141,685
2010				
Common stocks domestic large cap	$ 6,438	$	$	$ 6,438
Equity funds large cap index		88,692		88,692
Fixed income funds diversified bond		49,698		49,698
Short term investment funds		208		208
	$ 6,438	$ 138,598	$	$ 145,036

The fair values of the financial instruments shown in the table above represent the Company's best estimates of the amounts that would be received upon sale of those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances.

The Company used the following valuation methodologies for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

Equity securities (Level 1) were valued at the closing price reported on the active market on which the individual securities are traded.

Fixed income securities, equity securities, and mutual funds (Level 2) were valued as follows. Fixed income securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Equity securities and mutual funds include commingled equity funds that are not open to public investment and are valued at the net asset value per share.

All contributions made were as required by law. The Company expects to contribute $16.1 million to its defined benefit pension plans in 2012. This contribution level factors in the impact of the amendment of the union plan effective March 1, 2012 to freeze union plan benefits as discussed above.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

9. Employee Benefit Plans (Continued)

The Company projects that it will make the following benefit payments for the years ended December 31 (dollars in thousands):

	Pension Plans Benefits Paid	Other Postretirement Benefits Paid
2012	$ 20,298	$ 2,529
2013	21,072	2,782
2014	19,065	2,999
2015	20,477	3,203
2016	20,475	3,210
2017 through 2021	85,900	17,630
	$ 187,287	$ 32,353

Assumed health care costs trend rates have a significant impact on the amounts reported for other postretirement benefits. A one-percentage point change in the assumed health care cost trend rates would have the following annual effects (dollars in thousands):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest costs components	$ 162	$ (147)
Effect on postretirement benefit obligation	2,555	(2,172)

401(k) Plan

The Company participates in two 401(k) employee savings plans that allow for voluntary contributions into designated investment funds by eligible employees with the Company matching employee contributions, up to a maximum of 5% of compensation for union employees hired before September 13, 2008, 6% for union employees hired on or after September 13, 2008, and 6% of compensation for non-union employees. Company contributions were $3.9 million for the year ended December 31, 2011, $0.8 million for the period from November 1 to December 31, 2010, $3.2 million for the period from January 1 to October 31, 2010 and $3.6 million for the year ended December 31, 2009.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes

The components of the income tax benefit are as follows (dollars in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Current				
Federal	$	$	$	$ (2,229)
State and local	(1,341)		(346)	(756)
	(1,341)		(346)	(2,985)
Deferred				
Total income tax benefit	$ (1,341)	$	$ (346)	$ (2,985)

For the year ended December 31, 2009, the Company recognized a benefit of $2.2 million for 2008 net operating losses that could be carried back, as provided for by the Worker, Homeownership, and Business Assistance Act of 2009, to reduce the alternative minimum tax that the Company paid in prior years. The credit for income taxes differs from the amounts determined by applying the statutory federal income tax rate of 34% to the income or loss before income taxes for the following reasons (dollars in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Income tax (benefit) at federal rate	$ 8,437	$ 1,064	$ 63,052	$ (46,802)
Increase (decrease) resulting from:				
State income taxes, net of federal income tax	1,105	132	7,833	(5,349)
Permanent differences	1,176	31,322	1,498	
Other, net	136	(210)	(346)	(756)
Valuation allowance	(12,195)	(32,308)	(72,383)	49,922
Total income tax benefit	$ (1,341)	$	$ (346)	$ (2,985)

The permanent difference for the period from November 1 to December 31, 2010 was primarily related to certain gains recognized only for income tax purposes related to emergence from Chapter 11. During the year ended December 31, 2011, the permanent difference was attributed primarily to certain tax credits and the Company recognizing adjustments to certain tax attributes for income tax purposes.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

Deferred income taxes consisted of the following (dollars in thousands):

	December 31, 2011	December 31, 2010
Deferred tax liabilities:		
Property and equipment	$ 52,383	$ 32,643
Other basis differences	5,645	77
	58,028	32,720
Deferred tax assets:		
Net operating loss and credit carryforwards	24,575	2,473
Intangible assets	86,219	92,615
Expenses deferred for tax	9,291	7,377
Employee benefits	41,594	22,061
Other basis differences	3,567	3,388
	165,246	127,914
Valuation allowance	(107,218)	(95,194)
	58,028	32,720
Deferred tax liability, net	$	$

As a result of the Company's emergence from bankruptcy, the Company reduced the available federal and state net operating loss carryforward and adjusted the tax reporting basis of tangible and intangible assets for the discharge of indebtedness income. Because of the distribution of new common stock to the secured lenders, the Company reduced net operating loss carryforward for certain interest payments made to those lenders for the three years prior to emergence from bankruptcy. In addition to the adjustment to the tax reporting basis as described above, the fresh-start accounting adjustments also created additional basis differences between income tax and financial reporting. As of December 31, 2011, net operating losses available for carry forward through 2031 amounted to $64.6 million.

A valuation allowance has been provided at December 31, 2011 and 2010 for the deferred tax assets because of the uncertainty of future realization of such amounts. The Company has a short history as a new entity (post Chapter 11). Although the Company's ability to achieve profitability was enhanced by the costs and liability reductions that occurred as a result of the Chapter 11 process, the Predecessor operating results remain relevant. The fundamental business and inherent risks in which the Company operates did not change from those in which the Predecessor operated. As such, subsequent to the Chapter 11 process, due primarily to historical pre-tax losses, at December 31, 2011 the Company determined that it was still more likely than not that the deferred income tax assets would not be realized. If additional positive evidence becomes available, the conclusion regarding the

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

need for full valuation allowances may change resulting in the reversal of some or all of the valuation allowances. The following is a summary of activity for the valuation allowance (dollars in thousands):

	Beginning Balance	Charge (Credit) to Income Tax Expense or Equity	Ending Balance
Successor			
January 1 to December 31, 2011	$ 95,194	$ 12,024	$ 107,218
November 1 to December 31, 2010	127,502	(32,308)	95,194
Predecessor			
January 1 to October 31, 2010	$ 249,415	$ (72,383)	$ 177,032
Year ended December 31, 2009	209,200	40,215	249,415

The Company evaluates its tax positions for liability recognition. As of December 31, 2011, the Company had no unrecognized tax benefit. No interest or penalties related to tax assessments were recognized in the Company's consolidated statements of operations for the years ended December 31, 2011, 2010 or 2009. All tax years from 2007 remain open for both federal and Hawaii state purposes.

11. Stockholder's Equity

Successor

The plan of reorganization became effective and the Company emerged from bankruptcy on October 28, 2010. The Company applied fresh-start reporting effective October 31, 2010. The Predecessor's common stock was cancelled as of the Emergence Date with no distribution made to holders of such stock. The equity structure of the Successor is discussed below.

Successor Common Stock

On the Emergence Date, the Successor Company, a Delaware Corporation, filed a new certificate of incorporation authorizing 245,000,000 shares of new common stock with $0.01 par value per share. Pursuant to the plan of reorganization, the Successor issued 10,000,000 shares of new common stock to certain creditors in satisfaction of claims. The Company received gross proceeds of $2.1 million from the sale of 135,063 shares of new common stock.

Warrants to purchase 1,481,055 shares of new common stock for $14.00 per share were issued to holders of the Predecessor senior floating rate notes and senior fixed rate notes. The warrants to purchase shares may be exercised anytime from January 26, 2011 to the maturity on October 28, 2015. The warrants are included in the reorganization equity valuation of $160.0 million. As of December 31, 2011, 1,476,140 warrants were outstanding.

Successor Equity Incentive Plan

On the Emergence Date, the new equity incentive plan became effective pursuant to the plan of reorganization. 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

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

11. Stockholder's Equity (Continued)

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

As of December 31, 2011, all awards were restricted stock units.

Restricted Stock Units

Restricted stock units are generally subject to forfeiture if employment terminates prior to release of the restrictions. The Company expenses the cost of restricted stock units, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse.

Restricted stock units have either service conditions or performance conditions for vesting. Those with service conditions vest in equal installments on each of the first through fourth anniversaries of the date of grant except for those granted to directors which vest over three years. Those with performance conditions vest in equal installments over four years based on the achievement of performance goals to be established by the Compensation Committee of the Company's Board of Directors. Shares of common stock delivered in respect of vested performance based units shall be subject to transfer restrictions which lapse in equal installments on each of the first three anniversaries of the date on which the performance based stock units become vested.

Activity with respect to outstanding restricted stock units for the year ended December 31, 2011 and for the period from November 1 to December 31, 2010 was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at October 31, 2010		$
Granted	253,595	12
Vested		
Forfeited	(6,817)	12
Nonvested at January 1, 2011	246,778	12
Granted	111,193	24
Vested	(53,096)	12
Forfeited	(55,924)	15
Nonvested at December 31, 2011	248,951	$ 17

As of December 31, 2011, restricted stock units for 166,038 performance based shares had been distributed but the specific performance goals had yet to be determined and communicated. As such, the restricted stock units were not deemed granted for accounting purposes.

As of December 31, 2011, there was $2.0 million of unrecognized share-based compensation expense related to nonvested restricted stock unit awards expected to vest. The cost is expected to be recognized over a weighted-average period of 3 years.

The Successor recognized compensation expense of $2.1 million for the year ended December 31, 2011 and $0.1 million for the period from November 1 to December 31, 2010.

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Notes to Consolidated Financial Statements (Continued)

11. Stockholder's Equity (Continued)

The fair value as of the vesting date for the restricted stock units that vested during the year ended December 31, 2011 was $0.7 million. 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 1,654 and were based on the value of the restricted stock units as determined by the Company's closing stock price. Total payments for the employees' tax obligations to the tax authorities were less than $0.1 million. Other than reimbursements for tax withholdings, there was no cash received under all share-based arrangements.

Predecessor

On November 8, 2005, the Predecessor adopted a stock option plan (the "Plan") that permitted the grant of options to its key employees and independent directors and those of its wholly owned subsidiaries. The purpose of the Plan was primarily to align compensation for key executives with the performance of the Company. All options were to be granted at an exercise price that was greater than or equal to the fair value of the common stock of the Company on the date the stock option was granted. All options were cancelled with the effectiveness of the plan of reorganization.

The Predecessor recognized share-based compensation expense of $0.1 million for both the period from January 1 to October 31, 2010 and for the year ended December 31, 2009 related to option grants.

12. Restructuring

In 2011, the Company recorded a restructuring expense of $1.8 million included in selling, general and administrative expenses in conjunction with a cost reduction plan in the wireline segment. The plan is primarily to align the Company's operations to its current strategic plan and resulted in the termination of approximately six percent of the Company's workforce. The restructuring included closure of the Company's remaining retail stores, outsourcing of toll operators and downsizing of various other legacy functions. In conjunction with closure of the retail stores, the Company recognized a liability for the termination of three retail space leases.

The following is a summary of the major components of the restructuring charges and the remaining accrual balance relating to the restructuring plan (dollars in thousands):

	Severance	Lease Termination	Total
Restructuring expense	$ 1,376	$ 473	$ 1,849
Cash payments	(1,339)	(473)	(1,812)
Balance at December 31, 2011	$ 37	$	$ 37

13. Leases

The Company leases certain facilities and equipment for use in the Company's operations under several operating agreements. Certain of the leases provide for escalation or renegotiation of rental rates, and for extension of lease terms. Total rent expense for the Company amounted to $2.9 million for the year ended December 31, 2011, $0.5 million for the period from November 1, 2010 to December 31, 2010, $2.4 million for the period from January 1 to October 31, 2010 and $3.0 million for the year ended December 31, 2009.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

13. Leases (Continued)

Information on the aggregate minimum rental commitments under non-cancelable operating leases is as follows (dollars in thousands):

Years ended, December 31:	
2012	$ 1,359
2013	1,104
2014	1,119
2015	1,126
2016	961
Thereafter	10,699
	$ 16,368

14. Accumulated Other Comprehensive Income (Loss)

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

	Gain (Loss) on Cash Flow Hedging of Derivatives	Unrealized Gain (Loss) on Investments	Defined Benefit Postretirement Plans	Total
January 1, 2009 (Predecessor)	$ (5,618)	$ 119	$ (50,598)	$ (56,097)
Other comprehensive income (loss) for 2009	5,156	(96)	17,846	22,906
December 31, 2009 (Predecessor)	(462)	23	(32,752)	(33,191)
Other comprehensive income (loss) for the period from January 1 to October 31, 2010	416	6	(6,017)	(5,595)
October 31, 2010 (Predecessor)	(46)	29	(38,769)	(38,786)
Elimination of Predecessor accumulated other comprehensive loss	46	(29)	38,769	38,786
November 1, 2010 (Successor)				
Other comprehensive income (loss) for the period from November 1 to December 31, 2010		(16)	13,409	13,393
December 31, 2010 (Successor)		(16)	13,409	13,393
Other comprehensive income (loss) for 2011		(17)	(70,894)	(70,911)
December 31, 2011 (Successor)	$	$ (33)	$ (57,485)	$ (57,518)

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

15. Commitments and Contingencies

Long-Term Fixed Supplier Commitments

The Company has entered into agreements with various entities under long-term fixed contractual commitments primarily for technology related services. Annual fixed fee commitments for agreements in effect at December 31, 2011, amounted to the following (dollars in thousands):

Years ended, December 31:	
2012	$ 12,811
2013	12,851
2014	5,084
2015	1,765
	$ 32,511

Under the long-term agreements, the Company incurred fees amounting to $14.7 million for the year ended December 31, 2011, $3.1 million for the period from November 1 to December 31, 2010, $13.1 million for the period January 1 to October 31, 2010 and $15.4 million for the year ended December 31, 2009.

In March 2009, the Company entered into an agreement with Accenture to provide information technology application maintenance services for a period of five years at a monthly cost ranging from $0.8 million to $1.1 million for a total commitment of $49.1 million. The contract allows for cancellation with the payment of certain wind-down expenses. The contract was subject to approval by the Bankruptcy Court which was received in April 2009. The contract includes a provision to waive payment of prepetition liabilities to Accenture amounting to $0.7 million. The Company recognized the cancellation of this liability in the second quarter of 2009 when the Bankruptcy Court approval was obtained.

Collective Bargaining Agreement

On October 24, 2011, after several extensions beyond the original September 12, 2011 expiration date, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 ("IBEW") expired. The agreement covers approximately half of the Company's work force. On October 31, 2011 the IBEW announced that a majority of union-represented employees rejected the Company's last, best and final offer. On December 13, 2011, the IBEW announced that a revised last, best and final offer was also rejected. The Company has concluded that it has bargained in good faith and reached an impasse. As such, the Company implemented the terms of employment of its revised last, best and final offer as of January 1, 2012, which included a freeze of pension benefits effective March 1, 2012 as discussed in Note 9. In January 2012, the IBEW filed an unfair labor practices charge with the National Labor Relations Board ("NLRB") regarding the implementation of the terms of employment and two other matters. In February 2012, the NLRB issued a consolidated unfair labor practices complaint against the Company that combined allegations from two other unfair labor practices charges filed by the IBEW. A hearing on the complaint is scheduled for April 24, 2012. If the NLRB were to issue a complaint against the Company and found an unfair labor practice, the Company believes the remedy would be an order to continue good faith bargaining with the IBEW and to reinstate the benefits and terms and conditions of employment existing prior to the unilateral implementation of the last best and final offer. Therefore, in such case, the Company could be required to delay or reverse the March 1, 2012 freeze of pension benefits.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

15. Commitments and Contingencies (Continued)

Third Party Claims

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

Litigation

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

16. 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 because of the short maturities of these instruments.

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

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

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

	Carrying Value	Fair Value
December 31, 2011		
Assets investment in U.S. Treasury obligations (Level 1)	$ 1,718	$ 1,718
Liabilities long-term debt (carried at cost)	300,000	306,000
December 31, 2010		
Assets investment in U.S. Treasury obligations (Level 1)	$ 1,805	$ 1,805
Liabilities long-term debt (carried at cost)	300,000	300,000

Fair Value Measurements

Fair value for accounting purposes is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

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

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

16. Fair Value of Financial Instruments (Continued)

Assets measured at fair value on a recurring basis represent investment securities included in other assets. A summary is as follows (dollars in thousands):

	December 31, 2011	December 31, 2010
Fair value measurements using:		
Quoted prices in active markets for identical assets (Level 1)	$ 1,718	$ 1,805
Significant other observable inputs (Level 2)		
Significant unobservable inputs (Level 3)		
	$ 1,718	$ 1,805

Assets and liabilities measured at fair value on a non-recurring basis for the year ended December 31, 2010 represent all asset and liabilities recognized in conjunction with fresh-start accounting as of October 31, 2010. A summary of the revalued assets and liabilities is included in Note 22 including a discussion of the valuation methodology. The majority of assets and liabilities were revalued using level 3 significant unobservable inputs.

17. Cash Flow Information

Supplemental cash flow information is as follows:

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Cash paid during the year:				
Income taxes paid, net of refunds	$	$	$	$
Interest paid, net of amounts capitalized	25,323		10,865	14,863
Non-cash investing activities receipt of equipment for settlement of receivable or for capital lease	2,250			

18. Segment Information

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

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

18. Segment Information (Continued)

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

	Wireline Services	Other	Intersegment Elimination	Total
Successor				
For the year ended and as of December 31, 2011				
Operating revenues				
Local voice and other retail services	$ 257,137	$ 5,616	$ (1,345)	$ 261,408
Network access services	133,748			133,748
	$ 390,885	$ 5,616	$ (1,345)	$ 395,156
Depreciation and amortization	$ 63,806	$	$	$ 63,806
Net income (loss)	27,881	(1,726)		26,155
Capital expenditures	81,075			81,075
Assets	661,101	671		661,772
Period from November 1 to December 31, 2010				
Operating revenues				
Local voice and other retail services	$ 43,224	$ 1,009	$ (238)	$ 43,995
Network access services	22,764			22,764
	$ 65,988	$ 1,009	$ (238)	$ 66,759
Depreciation and amortization	$ 9,723	$	$	$ 9,723
Net income (loss)	3,640	(511)		3,129
Capital expenditures	19,134			19,134
Assets as of December 31, 2010	$ 645,425	$ 611	$	$ 646,036
Predecessor				
Period from January 1 to October 31, 2010				
Operating revenues				
Local voice and other retail services	$ 220,714	$ 5,179	$ (1,214)	$ 224,679
Network access services	110,007			110,007
	$ 330,721	$ 5,179	$ (1,214)	$ 334,686
Depreciation and amortization	$ 136,564	$ 97	$	$ 136,661
Net income (loss)	188,398	(2,604)		185,794
Capital expenditures	60,053			60,053
For the year ended and as of December 31, 2009				
Operating revenues				
Local voice and other retail services	$ 273,065	$ 6,906	$ (1,444)	$ 278,527
Network access services	130,068			130,068
	$ 403,133	$ 6,906	$ (1,444)	$ 408,595
Depreciation and amortization	$ 164,247	$ 129	$	$ 164,376
Net loss	(127,351)	(3,383)		(130,734)
Capital expenditures	89,361			89,361
Assets	1,182,783	894		1,183,677

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

19. Quarterly Financial Information (Unaudited)

The Company's quarterly operating results are presented in the following table (dollars in thousands, except per share amounts):

	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings per share basic	Earnings per share diluted
Successor					
Year Ended December 31, 2011:					
First Quarter	$ 98,505	$ 12,494	$ 5,538	$ 0.55	$ 0.51
Second Quarter	100,744	13,190	6,733	0.66	0.61
Third Quarter	97,040	12,833	7,373	0.73	0.68
Fourth Quarter	98,867	12,621	6,511	0.64	0.63
Total	$ 395,156	$ 51,138	$ 26,155	$ 2.58	$ 2.41
November 1 to December 31, 2010	$ 66,759	$ 7,981	$ 3,129	$ 0.31	$ 0.30
Predecessor					
January 1 to October 31, 2010:					
First Quarter	$ 100,253	$ (14,811)	$ (23,321)	$ (54.49)	$ (54.49)
Second Quarter	99,621	(13,111)	(22,303)	(52.11)	(52.11)
Third Quarter	101,455	(13,237)	(23,478)	(54.86)	(54.86)
October 1 to October 31, 2010	33,357	(1,743)	254,896	595.55	595.55
Total	$ 334,686	$ (42,902)	$ 185,794	$ 434.10	$ 434.10

20. Restricted Net Assets and Parent Company Condensed Financial Information

Agreements with the HPUC and the debt agreements of Hawaiian Telcom Communications, Inc. limit the ability of the Company's subsidiaries to pay dividends to the parent company and restrict the net assets of all of the Company's subsidiaries.

The following condensed financial information for Hawaiian Telcom Holdco, Inc. reflects parent company financial information only. Such financial information should be read in conjunction with the consolidated financial statements of the Company.

The parent company has accounted for its investment in its consolidated subsidiary on the equity method of accounting. Because the parent company guarantees the debt of its subsidiary, it continued to record losses of its subsidiary even though such losses exceeded its basis in the investment. No dividends were paid by the subsidiaries to the parent company at any time during the existence of the parent company.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

20. Restricted Net Assets and Parent Company Condensed Financial Information (Continued)

Hawaiian Telcom Holdco, Inc.
(Parent Company Only)
Condensed Statements of Operations
(Dollars in Thousands)

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Equity in earnings (loss) of Hawaiian Telcom Communications, Inc.	$ 24,814	$ 3,129	$ 185,448	$ (133,719)
Income tax benefit	(1,341)		(346)	(2,985)
Net income (loss)	$ 26,155	$ 3,129	$ 185,794	$ (130,734)

Hawaiian Telcom Holdco, Inc.
(Parent Company Only)
Condensed Balance Sheets
(Dollars in Thousands)

	December 31, 2011	December 31, 2010
Assets		
Investment in Hawaiian Telcom Communications, Inc.	$ 136,196	$ 178,792
Total assets	$ 136,196	$ 178,792
Stockholders' Equity		
Common stock, par value $0.01 per share, 245,000,000 shares authorized and 10,190,526 and 10,135,063 shares issued and outstanding	$ 102	$ 101
Additional paid-in capital	164,328	162,169
Accumulated other comprehensive income (loss)	(57,518)	13,393
Retained earnings	29,284	3,129
Total stockholders' equity	$ 136,196	$ 178,792

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

20. Restricted Net Assets and Parent Company Condensed Financial Information (Continued)

Hawaiian Telcom Holdco, Inc.
(Parent Company Only)
Condensed Statements of Cash Flows
(Dollars in Thousands)

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Net income (loss)	$ 26,155	$ 3,129	$ 185,794	$ (130,734)
Undistributed (earnings) loss of Hawaiian Telcom Communications, Inc.	(26,155)	(3,129)	(185,794)	130,734
Net cash provided by operating activities,net change in cash and ending balance of cash	$	$	$	$

21. Chapter 11 Reorganization

On December 1, 2008 (the "Petition Date"), Hawaiian Telcom Holdco, Inc. and its subsidiaries, with the exception of Hawaiian Telcom Insurance Company, Incorporated (the "Non-Debtor"), filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware. The cases were transferred to the District of Hawaii on December 22, 2008 (the "Bankruptcy Court"). The cases were being jointly administered under Case No. 08-02005. The Debtors continued to operate as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and orders of the Bankruptcy Court. In general, as debtors-in-possession, the Debtors were authorized under Chapter 11 to continue to operate as an ongoing business but could not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On June 3, 2009, the Debtors filed a plan of reorganization with the Bankruptcy Court together with the disclosure statement. On August 28, 2009, the Bankruptcy Court approved distribution of the disclosure statement for vote by the prepetition creditors. On November 13, 2009, the judge of the Bankruptcy Court ruled that the plan as presented was approved. The final confirmation order was issued by the Court on December 30, 2009. The plan of reorganization, including the proposed debt and equity structure, was subject to approval of the HPUC and Federal Communications Commission (FCC). Approvals were obtained in September 2010 and relevant appeal periods expired in October 2010. After satisfying all conditions precedent to emergence under the Plan, the Company emerged from Chapter 11 effective as of October 28, 2010 ("Emergence Date"). On January 27, 2012, the Bankruptcy Court issued a final decree closing the Chapter 11 cases.

Pursuant to the plan of reorganization, allowed administrative, priority tax, priority non-tax, secured tax and other secured claims will be paid in full in cash. For certain Predecessor contracts that were accepted by the Successor, the Company paid cure amounts for prepetition claims amounting to $6.7 million. All other claims are to be settled for a fraction of the claim for cash not exceeding $0.5 million.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

22. Fresh-Start Reporting

Although the Company emerged from bankruptcy on October 28, 2010, the Predecessor adopted "fresh-start" accounting as of October 31, 2010 for accounting convenience. Fresh-start accounting was required because holders of existing voting shares immediately before filing and confirmation of the plan of reorganization received less than 50% of the voting shares of the emerging entity and the Company's reorganization value was less than its post petition liabilities and allowed claims. Fresh-start accounting requires the Successor to allocate its reorganization value to its assets and liabilities in a manner similar to that which is used for purchase business combinations. Under the provisions of fresh-start accounting, a new entity is deemed created for financial reporting purposes. References to Successor refer to the Company after October 31, 2010 after giving effect to provisions of the plan and application of fresh-start accounting. References to Predecessor refer to the Company prior to and on October 31, 2010. Accordingly, the financial information disclosed under the heading Successor is presented on a basis different from, and is therefore not comparable to, the financial information disclosed under the heading Predecessor.

The consolidated balance sheet as of December 31, 2010 gives effect to adjustments to the carrying value of assets or amounts and classifications of liabilities that were necessary when adopting fresh-start accounting. The statements of operations and cash flows for the period from January 1, 2010 to October 31, 2010 reflect the operations of the Predecessor which includes the gain from discharge of debt and application of fresh-start reporting. The adoption of fresh-start accounting had a material effect on the consolidated financial statements as of October 31, 2010 and will have a material impact on the consolidated statements of operations for periods subsequent to October 31, 2010.

The emergence from Chapter 11 proceedings on the Emergence Date resulted in a new reporting entity and adoption of fresh-start accounting as of October 31, 2010. Reorganization adjustments have been made in the financial information to reflect the discharge of prepetition liabilities and the adoption of fresh-start accounting. Reorganization adjustments resulted primarily from the: (i) changes in the carrying values of assets and liabilities to reflect fair values including the establishment of certain intangible assets; (ii) discharge of the Company's prepetition liabilities; (iii) addition of new financing; (iv) cash distributions paid or payable to prepetition creditors; and (v) issuance of Successor new common stock and cancellation of old common stock.

To facilitate the calculation of the enterprise value of the Successor, the Company developed a set of financial projections included in the plan of reorganization. Based on these financial projections, the equity value was determined by the Company using various valuation methods including (i) a comparison of the Company and its projected performance to the market values of comparable companies; (ii) a review and analysis of several recent transactions of companies in similar industries to the Company; and (iii) a calculation of present value of the future cash flows of the Company under its projections. Sensitive assumptions used in these analyses include the Company's current earnings capacity, the appropriate market multiple to apply to such earnings capacity, the Company's future cash flows which were projected for a period of five years, and the weighted average cost of capital which was developed with a traditional capital asset pricing model.

The estimated enterprise value, and corresponding equity value, is highly dependent on achieving the future financial results in the projections as well as the realization of certain other assumptions. The estimated equity value of the Company was calculated to be approximately $160.0 million. The estimates and assumptions made in this valuation are inherently subject to significant uncertainties and the resolution of contingencies beyond the reasonable control of the Company. Accordingly, there can

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

22. Fresh-Start Reporting (Continued)

be no assurance that the estimates, assumptions and amounts reflected in the valuations will be realized and the actual results could vary materially. Moreover, the market value of the Company's common stock may differ materially from the equity valuation.

The effects of the plan of reorganization and fresh-start reporting as of October 31, 2010 are as follows (dollars in thousands):

	Predecessor October 31, 2010	Plan Reorganization Adjustments	Fresh-Start Valuation Adjustments	Successor October 31, 2010(a)
Assets				
Current assets				
Cash and cash equivalents	$ 94,138	$ (4,177)(b)(c)	$	$ 89,961
Receivables, net	40,736			40,736
Material and supplies	5,495			5,495
Prepaid expenses	6,494			6,494
Other current assets	11,448		(3,043)(d)	8,405
Total current assets	158,311	(4,177)	(3,043)	151,091
Property, plant and equipment, net	670,714		(221,801)(d)	448,913
Intangible assets, net	268,293		(223,993)(d)	44,300
Other assets	6,651		(3,107)(d)	3,544
Total assets	$ 1,103,969	$ (4,177)	$ (451,944)	$ 647,848
Liabilities and Stockholders' Equity (Deficiency)				
Liabilities not subject to compromise				
Current liabilities				
Accounts payable	$ 26,907	$ 898(b)	$	$ 27,805
Accrued expenses	31,392			31,392
Advance billings and customer deposits	15,662			15,662
Other current liabilities	5,679		(3,043)(d)	2,636
Total current liabilities	79,640	898	(3,043)	77,495
Long-term debt		300,000(b)		300,000
Employee benefit obligations	106,400			106,400
Other liabilities	4,899		(3,107)(d)	1,792
Total liabilities not subject to compromise	190,939	300,898	(6,150)	485,687
Liabilities subject to compromise	1,175,826	(1,175,826)(b)		
Total liabilities	1,366,765	(874,928)	(6,150)	485,687
Stockholders' equity (deficiency)				
Common stock	4	97(c)	(e)	101
Additional paid-in capital	429,058	162,064(c)	(429,062)(e)	162,060
Accumulated other comprehensive loss	(38,786)		38,786(e)	
Accumulated deficit	(653,072)	708,590(c)	(55,518)(e)	
Total stockholders' equity (deficiency)	(262,796)	870,751	(445,794)	162,161

Total liabilities and stockholders' equity (deficiency)	$ 1,103,969	$ (4,177)	$ (451,944)	$ 647,848

(a) The consolidated balance sheet reflects the effect of implementing the plan of reorganization and fresh start reporting which were required for financial reporting upon emergence. Under fresh-start reporting, reorganization enterprise value of $460.0 million was allocated $160.0 million to equity and $300.0 million to the new term loan.

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

22. Fresh-Start Reporting (Continued)

(b) Reflects the discharge of prepetition liabilities in accordance with the plan of reorganization and the reclassification of the remaining liabilities subject to compromise to the appropriate liability accounts. Liabilities were satisfied with the payment of cash $6.3 million (including contract cure costs), a new term loan of $300.0 million and issuance of equity of $160.0 million for both common stock and warrants.

(c) Reflects the issuance of new common stock and warrants to prepetition creditors and the gain on discharge of liabilities subject to compromise. This includes sale of stock for proceeds of $2.1 million, net of cancellation of old common stock.

(d) Reflects changes to the carrying value of assets and liabilities to reflect fair values.

(e) Reflects the elimination of historical accumulated deficit and other equity accounts and an adjustment to shareholders' equity to result in the estimated reorganized equity value.

In conjunction with the adoption of fresh-start accounting, the majority of assets and liabilities were recorded at fair value as of October 31, 2010. The major assumptions used in determining the new basis were as follows.

For cash and cash equivalents, accounts receivable, other short-term assets, accounts payable and other short-term liabilities the Predecessor carrying amount approximated fair value because of the short-term maturity of these assets and liabilities. Gross contractual cash flows due on accounts receivable at October 31, 2010 amounted to $53.2 million and the estimated uncollectible balance was $12.4 million.

Deferred activation fee revenue and related costs were given no recognition by the Successor as there is no continuing legal obligation to provide services to customers. The related assets and liabilities are included in other current assets, other assets, other current liabilities and other liabilities.

The fair value of property, plant and equipment was based on the highest and best use of specific properties. To determine fair value the Company considered and applied either the market approach or cost approach depending on the nature of the asset and the availability of information. The market or sales comparison approach relies upon recent sales or offerings of similar assets on the market to arrive at a probable selling price. Certain adjustments were made to reconcile differences in attributes between the comparable sales and the appraised assets. The cost approach considers the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments in value for physical deterioration, functional obsolescence and economic obsolescence.

The fair value of intangible assets including the brand name and customer relationship intangibles was determined based on discounted cash flows from projections of results for the Company's operations.

Long-term debt was based on the debt issued in conjunction with the plan of reorganization. This was assumed to approximate fair value given that the terms of the debt were negotiated recently between the Company and lenders in conjunction with development of the plan of reorganization. The employee benefit obligations were recognized based on the funded status of the benefit plans.

23. Reorganization

The accompanying consolidated financial statements have been prepared in accordance with accounting standards for financial reporting by entities in reorganization under the Bankruptcy Code. The Predecessor's consolidated statements of operations for the period from January 1 to October 31, 2010 and for the year ended December 31, 2009 present the results of operations during the

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Hawaiian Telcom Holdco, Inc.

Notes to Consolidated Financial Statements (Continued)

23. Reorganization (Continued)

Chapter 11 proceedings. As such, any revenues, expenses, and gains and losses realized or incurred that are directly related to the bankruptcy case are reported separately as reorganization items due to the bankruptcy. The operations and financial position of the Non-Debtor, included in the consolidated statements of operations and consolidated balance sheets, are not significant.

Reorganization Items

Reorganization items represent expense or income amounts that were recognized as a direct result of the Chapter 11 filing and are presented separately in the consolidated statements of operations. Such (income) and expense items consist of the following (dollars in thousands):

	Successor		Predecessor	
	For the Year Ended December 31, 2011	Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010	For the Year Ended December 31, 2009
Professional fees	$ 1,050	$ 539	$ 10,586	$ 33,904
Cancellation of liability				(733)
Effects of the plan of reorganization			(708,590)	
Fresh-start valuation of assets and liabilities			445,794	
Expense deferred financing costs				9,870
Other			536	(36)
	$ 1,050	$ 539	$ (251,674)	$ 43,005

Deferred financing costs amounting to $9.9 million were expensed in December 2009 when the Bankruptcy Court approved the amount of the allowed claims for the bank and senior notes debt. The amount of the approved claim was equivalent to the carrying value of the debt, exclusive of the debt issuance costs.

Professional fees relate to legal, financial advisory and other professional costs directly associated with the reorganization process. The cancellation of liability relates to amounts owed to Accenture (see Note 15).

Net cash paid for reorganization items, consisting of professional and other fees, amounted to $2.4 million for the year ended December 31, 2011, $3.1 million for the period from November 1 to December 31, 2010, $17.9 million for the period from January 1 to October 31, 2010 and $25.4 million for the year ended December 31, 2009.

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Item 9. Change In and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Eric K. Yeaman, Chief Executive Officer, and Robert F. Reich, Chief Financial Officer, have evaluated the disclosure controls and procedures of Hawaiian Telcom Holdco, Inc. (the "Company') as of December 31, 2011. Based on their evaluations, as of December 31, 2011, they have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective in ensuring that information required to be disclosed by the Company in reports the Company files or submits under the Securities Exchange Act of 1934:

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

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

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Annual Report on Internal Control over Financial Reporting

Management of Hawaiian Telcom Holdco, Inc. (the "Company") has prepared an annual report on internal control over financial reporting. The Company's independent registered public accounting firm has rendered an opinion on the Company's internal control over financial reporting. Management's report, together with the opinion of the independent registered public accounting firm, is set forth in Part II, Item 8 of this report.

Item 9B. Other Information

None

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

A.

Directors

For information about the Directors and corporate governance of the Company, see the section captioned "Election of Directors" in the Company's Proxy Statement for its 2012 Annual Meeting of Stockholders (the "2012 Proxy Statement"), which section is incorporated herein by reference.

B.

Executive Officers

The following table provides information regarding our executive officers as of March 1, 2012:

Name	Age	Position(s)
Officers		
Eric K. Yeaman	44	President, Chief Executive Officer and Director
Kurt Hoffman	58	Chief Operating Officer
Robert F. Reich	52	Senior Vice President and Chief Financial Officer
Michael E. Czerwinski	48	Senior Vice President Customer Operations
Bradley J. Fisher	41	Senior Vice President Strategy and Marketing
Craig T. Inouye	50	Senior Vice President Sales
John T. Komeiji	58	Senior Vice President and General Counsel
Kevin T. Paul	56	Senior Vice President Technology

Eric K. Yeaman became our President, Chief Executive Officer and a Director in June 2008. He was an executive officer and Director of the Company at the time of its chapter 11 filing in December 2008. Prior to joining us, Mr. Yeaman served as Senior Executive Vice President and Chief Operating Officer of Hawaiian Electric Company, Inc. (HECO) from January 2008 to June 2008, where he was responsible for its Oahu operations, energy solutions, public affairs and the financial and administrative process areas. From January 2003 to January 2008, Mr. Yeaman served as Financial Vice President, Treasurer and Chief Financial Officer of Hawaiian Electric Industries, Inc. (HEI), HECO's parent company. At HEI, he oversaw the controller, treasury, investor relations, corporate tax, information technology and enterprise risk management functions. Mr. Yeaman began his career at Arthur Andersen LLP in September 1989. Mr. Yeaman is a director of the United States Telecom Association and serves as a director of several Hawaii non-profit organizations, including as Chairman of the Board of Trustees of The Queen's Health Systems.

Kurt Hoffman became our Chief Operating Officer in April 2011. Mr. Hoffman oversees day-to-day operations of the Company's sales, marketing (including product development), customer operations and technology teams, and is tasked with integrating them to drive the implementation of our strategic plan. Prior to joining us, Mr. Hoffman was Chief Operating Officer of Speakeasy Networks, a Seattle-based telecommunications company, from 2002 until 2010, during which time he managed product development, customer support, network engineering, network planning, operations, software engineering, IT and HR teams while the company transformed from a start-up venture to a nationwide provider of broadband voice, data, managed hosting, and co-location services. He also coordinated design and development of new products. Prior to joining Speakeasy, Mr. Hoffman held executive positions at iBEAM Broadcasting, Level 3 Communications, and Sprint/Global One.

Robert F. Reich became our Senior Vice President and Chief Financial Officer in May 2008. He previously served as our Senior Vice President and interim Chief Financial Officer from March 2008 and Vice President, Finance and Controller from April 2007 to March 2008. Mr. Reich oversees our financial operations, including financial analysis and reporting, corporate and regulatory accounting, tax, risk management, treasury and investor relations. Prior to joining us, Mr. Reich was with McLeodUSA

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Incorporated from 2002 to 2007, a facilities-based competitive local exchange carrier servicing small and mid-sized businesses in the Western and Midwestern United States, serving most recently as Vice President, Controller and Treasurer. Mr. Reich is a Certified Public Accountant.

Michael E. Czerwinski became our Senior Vice President Customer Operations in June 2011. Mr. Czerwinski leads the team that is responsible for all facets of our customer experience, overseeing functions such as order entry, provisioning, customer care, field operations, revenue assurance, billing operations, and network reliability. He has more than 20 years of experience in telecommunications operations, having previously served at Speakeasy Networks as Chief Operating Officer from May 2010 to January 2011 and Vice President of Operations from May 2006 to May 2010. From May 2011 to June 2011, Mr. Czerwinski provided consulting services to us in the area of customer experience.

Bradley J. Fisher became our Senior Vice President Strategy and Marketing in February 2010. Mr. Fisher brings an extensive communications background to the Company, with 13 years' experience in developing, managing and marketing new products and services at Bell Canada, Canada's largest communications provider. At Bell Canada, Brad served as Vice President, Consumer Internet Services from 2005 to 2008 and as General Manager, Services Development from 2000 to 2005, where he led the innovation, design and implementation of new products and new lines of business for Bell Canada's voice, video and Internet divisions. Just prior to joining us, Mr. Fisher served as a consultant working with us in leading the successful effort to rebuild and restart our video development program.

Craig T. Inouye became our Senior Vice President Sales in July 2008. Mr. Inouye is in charge of our business sales, retail stores, wireless, customer contact centers, public communications, equipment sales and wholesale markets. Prior to joining the Company, Mr. Inouye worked at Sun Innovation Holding, LTD from June 2004 to July 2008, where he served as Director. Mr. Inouye began his career in telecommunications at our predecessor GTE Hawaiian Tel, where he worked for more than a decade.

John T. Komeiji became our Senior Vice President and General Counsel in June 2008 and is responsible for our legal, government affairs, support services, external affairs, and as of November 2010, human resources and labor relations. Prior to joining us, Mr. Komeiji was senior partner at Watanabe Ing & Komeiji LLP from 1998 to June 2008, where his practice focused on litigation of complex commercial, personal injury and professional liability matters. He is the past president of the Hawaii State Bar Association and has served on the American Bar Association's Standing Committee on Lawyer Competence.

Kevin T. Paul became our Senior Vice President Technology in August 2011 and is responsible for the architecture, engineering, development, test and support of our network and systems. Mr. Paul has held leadership technology roles for over 25 years. Prior to joining us, he served in various capacities at Level 3 Communications since 2000, including as Vice President of Content Engineering & Development from January 2009 to July 2011, where he had responsibility for the architecture, engineering, development, test and tier IV support of Level 3's CDN and VYVX services, and Vice President of Network Integration from November 2005 to December 2008, where he had responsibility for network due diligence, integration, planning and execution.

Item 11. Executive Compensation

For information about executive compensation, see the section captioned "Compensation of the Named Executive Officers and Directors" in the Company's 2012 Proxy Statement, which section is incorporated herein by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the section captioned "Security Ownership of Certain Stockholders, Directors and Executive Officers" in the Company's 2012 Proxy Statement, which section is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

See the sections captioned "Certain Relationships and Related Transactions" and "Director Independence" in the Company's 2012 Proxy Statement, which sections are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

See the section captioned "Ratification of the Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for 2012" in the Company's 2012 Proxy Statement, which section is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are being filed as part of this report.

1. Consolidated Financial Statements. Financial statements and supplementary data required by this Item 15 are set forth at the pages indicated in Item 8 above.

2. Financial Statement Schedules. All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable or not material, or the information called for thereby is otherwise included in the financial statements and therefore has been omitted.

3. Exhibits required by Item 601 of Regulation S-K.

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Exhibit No.	Description of Exhibit
2.1	Plan of Reorganization, dated December 30, 2009, confirmed by the Bankruptcy Court (incorporated by reference to Exhibit 2.1 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).
3.1	Amended and Restated Certificate of Incorporation of Hawaiian Telcom Holdco, Inc., filed October 28, 2010 with The State of Delaware (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
3.2	Bylaws of Hawaiian Telcom Holdco, Inc., amended and restated effective November 9, 2010 (incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.6 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
4.2	Warrant Agreement and form of Warrant Certificate dated October 28, 2010, between Hawaiian Telcom Holdco, Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.7 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
10.1	Supply Chain Services Agreement by and between Hawaiian Telcom Communications, Inc. and KGP Logistics, Inc. (KGP) dated December 7, 2009 (incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).
10.2	Intellectual Property Agreement between GTE Corporation, Hawaiian Telcom Holdco, Inc., Verizon HoldCo LLC and Hawaiian Telcom Communications, Inc., dated May 2, 2005 (incorporated by reference to Exhibit 10.11 of Hawaiian Telcom Communications, Inc.'s Form S-4, File No. 333-131152, filed with the SEC on January 19, 2006).
10.3	Verizon Proprietary Software License Agreement between GTE Corporation and Hawaiian Telcom Communications, Inc., effective as of May 2, 2005 (incorporated by reference to Exhibit 10.12 of Hawaiian Telcom Communications, Inc.'s Form S-4, File No. 333-131152, filed with the SEC on January 19, 2006).
10.4	Amendment No. 1, dated March 5, 2007, to the Verizon Proprietary Software License Agreement between GTE Corporation and Hawaiian Telcom Communications, Inc., effective as of May 2, 2005 (incorporated by reference to Exhibit 10.17 of Hawaiian Telcom Communications, Inc.'s Form 10-K, File No. 333-131152, filed with the SEC on April 2, 2007).
10.5	Production Agreement between Dataprose, Inc. and Hawaiian Telcom Communications, Inc., dated as of October 15, 2005 (incorporated by reference to Exhibit 10.24 of Hawaiian Telcom Communications, Inc.'s Form S-4, File No. 333-131152, filed with the SEC on January 19, 2006).
10.6	Amendment No. 1 to the Production Agreement between Dataprose, Inc. and Hawaiian Telcom Communications, Inc., dated February 1, 2006 (incorporated by reference to Exhibit 10.29 of Hawaiian Telcom Communications, Inc.'s Amendment No. 1 to Form S-4, File No. 333-131152, filed with the SEC on March 31, 2006).
10.7	Amended and Restated Master Application Services Agreement effective as of March 13, 2009, by and between Hawaiian Telcom Communications, Inc. and Accenture LLP (incorporated by reference to Exhibit 10.14 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).

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Exhibit No.	Description of Exhibit
10.8*	Amended and Restated Employment Agreement dated as of April 5, 2010, by and between Eric K. Yeaman and Hawaiian Telcom Holdco, Inc. (incorporated by reference to Exhibit 10.15 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).
10.9*	Amendment dated May 12, 2011 to Amended and Restated Employment Agreement, dated as of April 5, 2010, by and between Eric K. Yeaman and Hawaiian Telcom Holdco, Inc. (incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q, File No. 0-54196, filed with the SEC on May 16, 2011).
10.10*	Employment Agreement, effective as of March 8, 2007, by and between Robert F. Reich and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.1 of Hawaiian Telcom Communications, Inc.'s Form 8-K, File No. 333-131152, filed with the SEC on March 28, 2007).
10.11*	Amendment dated May 13, 2008 to Employment Agreement, effective as of March 8, 2007, by and between Robert F. Reich and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.3 of Hawaiian Telcom Communications, Inc.'s Form 8-K, File No. 333-131152, filed with the SEC on March 28, 2007).
10.12*	Amendment dated December 21, 2009 to Employment Agreement, effective as of March 8, 2007, by and between Robert F. Reich and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.18 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).
10.13*	Employment Agreement, effective as of July 28, 2008, by and between John T. Komeiji and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.21 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).
10.14*	Amendment dated December 21, 2009 to Employment Agreement, effective as of July 28, 2008, by and between John T. Komeiji and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.22 of the Registrant's Form 10-12B, File No. 1-34686, filed with the SEC on April 7, 2010).
10.15*	General Waiver and Release of Claims, dated May 11, 2011, by and between Michael F. Edl and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q, File No. 0-54196, filed with the SEC on May 16, 2011).
10.16*	Employment Agreement, effective as of April 4, 2011, by and between Kurt Hoffman and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K, File No. 0-54196, filed with the SEC on March 28, 2011).
10.17*	Amended and Restated Employment Agreement, effective as of November 21, 2011, by and between Bradley J. Fisher and Hawaiian Telcom Communications, Inc.
10.18	Senior Secured Loan Agreement, dated as of October 28, 2010, among Hawaiian Telcom Holdco, Inc., Hawaiian Telcom Communications, Inc., the lenders party thereto, and Wilmington Trust FSB, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.29 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).

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Exhibit No.	Description of Exhibit
10.19	Guarantee and Collateral Agreement, dated as of October 28, 2010, among Hawaiian Telcom Holdco, Inc., Hawaiian Telcom Communications, Inc., the subsidiaries of Hawaiian Telcom Communications, Inc. identified therein, and Wilmington Trust FSB, as collateral agent (incorporated by reference to Exhibit 10.30 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
10.20	Amended and Restated Revolving Line of Credit Agreement, dated as of October 3, 2011, by and among Hawaiian Telcom Communications, Inc., First Hawaiian Bank, as agent, and each of the lenders from time to time party thereto (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K, File No. 1-34686, filed with the SEC on October 6, 2011).
10.21	Amended and Restated Guaranty, dated as of October 3, 2011, by and among Hawaiian Telcom Holdco, Inc., Hawaiian Telcom, Inc., Hawaiian Telcom Services Company, Inc., and First Hawaiian Bank (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K, File No. 1-34686, filed with the SEC on October 6, 2011).
10.22*	Hawaiian Telcom 2010 Equity Incentive Plan, dated as of October 29, 2010 (incorporated by reference to Exhibit 10.31 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
10.23*	Form of Restricted Stock Unit Agreement for Executives pursuant to the Hawaiian Telcom 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.32 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
10.24*	Form of Restricted Stock Unit Agreement for the CEO pursuant to the Hawaiian Telcom 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.33 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
10.25*	Form of Restricted Stock Unit Agreement for Non-Employee Directors pursuant to the Hawaiian Telcom 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.34 of the Registrant's Form 10-12G, File No. 0-54196, filed with the SEC on November 16, 2010).
10.26*	Hawaiian Telcom Performance Compensation Plan, dated as of March 21, 2011 (incorporated by reference to Exhibit 10.36 on the Registrant's Form 10-K, File No. 0-54196, filed with the SEC on March 28, 2011).
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 of Hawaiian Telcom Communications, Inc.'s Form S-4, File No. 333-131152, filed with the SEC on January 19, 2006).
23.1	Consent of Deloitte & Touche LLP dated March 14, 2012.
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.
101.INS#	XBRL Instance Document

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Exhibit No.	Description of Exhibit
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document

* Identifies each management contract or compensatory plan or arrangement.

\# Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 14, 2012

By: /s/ ROBERT F. REICH

Robert F. Reich
Senior Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ ERIC K. YEAMAN Eric K. Yeaman	Chief Executive Officer (Principal Executive Officer)	March 14, 2012
/s/ ROBERT F. REICH Robert F. Reich	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 14, 2012
/s/ KURT M. CELLAR Kurt M. Cellar	Director	March 14, 2012
/s/ WALTER A. DODS, JR. Walter A. Dods, Jr.	Director	March 14, 2012
/s/ WARREN H. HARUKI Warren H. Haruki	Director	March 14, 2012
/s/ RICHARD A. JALKUT Richard A. Jalkut	Director	March 14, 2012
/s/ STEVEN C. OLDHAM Steven C. Oldham	Director	March 14, 2012
/s/ BERNARD R. PHILLIPS III Bernard R. Phillips III	Director	March 14, 2012