
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 333-131152

Hawaiian Telcom Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

16-1710376
(I.R.S. Employer Identification No.)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated Filer" and "Large Accelerated Filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Number of shares of common stock outstanding as of August 14, 2006: 1,000

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

Hawaiian Telcom Communications, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, Dollars in thousands)

| | <u>Company</u> | | <u>Predecessor</u> | <u>Company</u> | | <u>Predecessor</u> |
|---|---------------------------|--------------------|--------------------|-------------------------|--------------------|---------------------|
| | <u>Three Months Ended</u> | | <u>Period from</u> | <u>Six Months Ended</u> | | <u>Period from</u> |
| | <u>June 30,</u> | | <u>April 1 to</u> | <u>June 30,</u> | | <u>January 1 to</u> |
| | <u>2006</u> | <u>2005</u> | <u>May 1, 2005</u> | <u>2006</u> | <u>2005</u> | <u>May 1, 2005</u> |
| Operating revenues | \$144,674 | \$ 81,023 | \$ 51,800 | \$286,193 | \$ 81,023 | \$ 200,700 |
| Operating expenses: | | | | | | |
| Cost of services and sales (exclusive of depreciation and amortization) | 55,680 | 35,855 | 19,600 | 121,345 | 35,855 | 76,300 |
| Selling, general and administrative | 45,411 | 50,313 | 12,100 | 90,861 | 65,970 | 48,900 |
| Depreciation and amortization | 45,162 | 26,648 | 10,300 | 85,629 | 26,648 | 39,600 |
| Total operating expenses | <u>146,253</u> | <u>112,816</u> | <u>42,000</u> | <u>297,835</u> | <u>128,473</u> | <u>164,800</u> |
| Operating income (loss) | <u>(1,579)</u> | <u>(31,793)</u> | <u>9,800</u> | <u>(11,642)</u> | <u>(47,450)</u> | <u>35,900</u> |
| Other income (expense): | | | | | | |
| Interest expense | (29,299) | (24,348) | (2,900) | (56,348) | (24,348) | (11,700) |
| Other income and expense, net | 148 | 596 | 100 | 212 | 596 | 600 |
| Total other income (expense) | <u>(29,151)</u> | <u>(23,752)</u> | <u>(2,800)</u> | <u>(56,136)</u> | <u>(23,752)</u> | <u>(11,100)</u> |
| Income (loss) before provision for income taxes | (30,730) | (55,545) | 7,000 | (67,778) | (71,202) | 24,800 |
| Provision for income taxes | 1,500 | 1,200 | 2,500 | 3,043 | 1,200 | 8,700 |
| Net income (loss) | <u>\$ (32,230)</u> | <u>\$ (56,745)</u> | <u>\$ 4,500</u> | <u>\$ (70,821)</u> | <u>\$ (72,402)</u> | <u>\$ 16,100</u> |

See accompanying notes to condensed consolidated financial statements.

Hawaiian Telecom Communications, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, Dollars in thousands, except per share information)

| | Company | |
|---|---------------------------|---------------------------|
| | June 30, 2006 | December 31, 2005 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,706 | \$ 10,321 |
| Receivables, net | 95,292 | 78,940 |
| Material and supplies | 5,788 | 5,711 |
| Prepaid expenses | 7,877 | 4,364 |
| Other current assets | 5,542 | 6,346 |
| Total current assets | 117,205 | 105,682 |
| Property, plant and equipment, net | 829,831 | 817,333 |
| Deferred financing and other assets | 66,674 | 52,067 |
| Intangible assets, net | 615,209 | 647,199 |
| Goodwill | 136,779 | 134,273 |
| Total assets | <u>\$1,765,698</u> | <u>\$1,756,554</u> |
| Liabilities and Stockholder's Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 60,510 | \$ 50,387 |
| Accrued expenses | 28,597 | 32,572 |
| Advance billings and customer deposits | 16,740 | 16,006 |
| Current maturities of long-term debt | 11,500 | 3,000 |
| Other current liabilities | 6,689 | 9,306 |
| Total current liabilities | 124,036 | 111,271 |
| Long-term debt | 1,386,500 | 1,343,500 |
| Deferred income taxes | 7,100 | 4,100 |
| Employee benefit obligations | 49,762 | 44,141 |
| Other liabilities | 9,471 | 7,345 |
| Total liabilities | <u>1,576,869</u> | <u>1,510,357</u> |
| Commitments and contingencies (Note 13) | | |
| Stockholder's equity | | |
| Common stock, par value of \$0.01 per share, 1,000 shares authorized and issued | — | — |
| Additional paid-in capital | 428,024 | 428,000 |
| Accumulated other comprehensive income | 24,704 | 11,275 |
| Accumulated deficit | (263,899) | (193,078) |
| Total stockholder's equity | <u>188,829</u> | <u>246,197</u> |
| Total liabilities and stockholder's equity | <u>\$1,765,698</u> | <u>\$1,756,554</u> |

See accompanying notes to condensed consolidated financial statements.

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

| | <u>Company</u> | | <u>Predecessor Period from January 1 to May 1, 2005</u> |
|--|-------------------------|--------------------|---|
| | <u>Six Months Ended</u> | | |
| | <u>June 30,</u> | | |
| | <u>2006</u> | <u>2005</u> | |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ (70,821) | \$ (72,402) | \$ 16,100 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | | |
| Depreciation and amortization | 85,629 | 26,648 | 39,600 |
| Deferred income taxes, net | 3,000 | 1,200 | (11,700) |
| Employee retirement benefits | 5,621 | 3,031 | (300) |
| Changes in operating assets and liabilities: | | | |
| Receivables | (18,608) | (212) | 11,400 |
| Material and supplies | (77) | 501 | (3,300) |
| Other current assets | (2,709) | (8,636) | (400) |
| Accounts payable and accrued expenses | 6,835 | 6,780 | (8,800) |
| Other current liabilities | (2,818) | 1,952 | 1,400 |
| Other, net | 972 | 4,536 | (7,800) |
| Net cash provided by (used in) operating activities | <u>7,024</u> | <u>(36,602)</u> | <u>36,200</u> |
| Cash flows from investing activities: | | | |
| Capital expenditures | (66,139) | (21,709) | (22,800) |
| Purchase of Verizon's Hawaii Business, net of cash acquired | — | (1,337,729) | — |
| Net change in note receivable | — | — | 11,300 |
| Other | — | — | (200) |
| Net cash used in investing activities | <u>(66,139)</u> | <u>(1,359,438)</u> | <u>(11,700)</u> |
| Cash flows from financing activities: | | | |
| Capital contribution | — | 428,000 | — |
| Proceeds from issuance of debt | 241,000 | 1,021,800 | — |
| Payment of deferred debt issue costs | — | (37,763) | — |
| Repayment of debt | (189,500) | — | (283,800) |
| Net change in parent funding | — | — | 259,700 |
| Other | — | — | 100 |
| Net cash provided by (used in) financing activities | <u>51,500</u> | <u>1,412,037</u> | <u>(24,000)</u> |
| Net change in cash and cash equivalents | (7,615) | 15,997 | 500 |
| Cash and cash equivalents, beginning of period | 10,321 | — | 1,200 |
| Cash and cash equivalents, end of period | <u>\$ 2,706</u> | <u>\$ 15,997</u> | <u>\$ 1,700</u> |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid, net of amounts capitalized | \$ 58,509 | \$ 5,710 | \$ 18,800 |
| Income taxes paid | — | — | 4,400 |
| Supplemental disclosure of non cash financing activities: | | | |
| Assumption of existing debentures in connection with acquisition of Verizon's Hawaii Business | — | 300,000 | — |

See accompanying notes to condensed consolidated financial statements.

Hawaiian Telcom Communications, Inc.
Condensed Consolidated Statements of Changes in Stockholder's Equity
(Unaudited, Dollars in thousands)

| | <u>Common Stock</u> | | <u>Additional Paid-In Capital</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Accumulated Deficit</u> | <u>Total Stockholder's Equity</u> |
|--|---------------------|---------------|---|---|--------------------------------|---|
| | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance, January 1, 2006 | 1,000 | \$ — | \$428,000 | \$ 11,275 | \$ (193,078) | \$ 246,197 |
| Stock based compensation | — | — | 24 | — | — | 24 |
| Net loss | — | — | — | — | (70,821) | (70,821) |
| Other comprehensive income - | | | | | | |
| Gains on cash flow hedging derivatives | — | — | — | 13,428 | — | 13,428 |
| Unrealized gain on investments | — | — | — | 1 | — | 1 |
| Balance, June 30, 2006 | <u>1,000</u> | <u>\$ —</u> | <u>\$428,024</u> | <u>\$ 24,704</u> | <u>\$ (263,899)</u> | <u>\$ 188,829</u> |

See accompanying notes to condensed consolidated financial statements.

Hawaiian Telcom Communications, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited, Dollars in thousands, except per share information)

1. Description of Business

Business Description

Hawaiian Telcom Communications, Inc. and subsidiaries (the "Company") is the incumbent local exchange carrier for the State of Hawaii and is estimated to be one of the ten largest incumbent local exchange carriers in the United States with an integrated telecommunications network servicing approximately 626,000 switched access lines as of June 30, 2006. The Company also served approximately 289,000 long distance lines and had 89,000 retail High Speed Internet connections as of that date.

Acquisition

On May 21, 2004, the Company and Hawaiian Telcom Holdco, Inc. ("Holdco"), the parent of the Company, both new entities formed by the private equity firm of The Carlyle Group, entered into an Agreement of Merger, which was subsequently amended and restated on April 8, 2005, with GTE and Verizon HoldCo LLC, both subsidiaries of Verizon Communications Inc. ("Verizon"), to acquire Verizon's Hawaii Business (the "Predecessor"). The merger was consummated on May 2, 2005 (the "Acquisition").

Organization

The Company has two direct 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. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial position, the results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2005, that are included in the Company's Amendment No. 1 to Form S-4 Registration Statement filed on March 31, 2006.

The Company

The Company has included the results of Verizon's Hawaii Business from the May 2, 2005 acquisition date. Hence, the Company's statements of operations and cash flows for the three and six months ended June 30, 2005 do not include the results of Verizon's Hawaii Business. The Predecessor's historical combined statements of operations from April 1, 2005 to May 1, 2005 and January 1, 2005 to May 1, 2005, and cash flows for the period from January 1, 2005 to May 1, 2005 are included in the accompanying condensed consolidated financial statements. The Predecessor financial statements have not been adjusted to give effect to the Acquisition. Accordingly, the accompanying condensed consolidated financial statements of the Company are not comparable to the Predecessor financial statements.

The Predecessor

The Predecessor financial statements include the activities of Verizon conducted in Hawaii, with certain exceptions. Verizon's Hawaii Business was comprised of Verizon Hawaii Inc. (now Hawaiian Telcom, Inc.) and carved-out components of Verizon Information Services ("VIS"), GTE.NET LLC (dba Verizon Online) ("VOL"), Bell Atlantic Communications Inc. (dba Verizon Long Distance) ("VLD") and Verizon Select Services, Inc. ("VSSI") (collectively, the "Hawaii Business"). To prepare these statements, management of Verizon specifically identified, assigned or apportioned revenues and expenses of Verizon to the Hawaii Business. However, because of the Hawaii Business's relationship with Verizon and its other affiliates, the revenues and expenses are not necessarily indicative of what they would have been had the Hawaii Business operated without the shared resources of Verizon and its affiliates. Accordingly, these Predecessor financial statements are not necessarily indicative of future results of operations.

The Subsidiary and Parent Guarantors

Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. guarantee the Company's senior notes and notes payable to banks. Financial statements of the subsidiary guarantors have not been presented as Hawaiian Telcom Communications, Inc. has no independent assets or operations, the guarantees are full and unconditional and joint and several, and the assets of Hawaiian Telcom Insurance Company, Incorporated, which are excluded from the guarantee, are not significant.

Holdco, the Company's parent, also is a guarantor for the Company's notes payable to banks. Financial statements of Holdco have not been presented as it has no independent assets, liabilities or operations and the guarantees are full and unconditional and joint and several.

Earnings per Share

Because the Company has only one shareholder, Holdco, information on earnings (loss) per share is not meaningful and has not been presented.

3. Accounting Change

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" using the prospective method to all new awards granted, modified or settled after January 1, 2006. The following table illustrates the effect on the net loss for the three and six months ended June 30, 2006 if the fair value method had been applied to all outstanding and unvested options.

| | <u>Three Months Ended</u> <u>June 30, 2006</u> | <u>Six Months Ended</u> <u>June 30, 2006</u> |
|--|---|---|
| Net loss, as reported | \$ (32,230) | \$ (70,821) |
| Add: Stock option related employee compensation expense included in net loss | 18 | 24 |
| Deduct: Total stock option related employee compensation expense determined under fair value based method for all awards | (466) | (920) |
| Pro forma net loss | <u>\$ (32,678)</u> | <u>\$ (71,717)</u> |

4. Recently Issued Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." The Company is in the process of assessing the impact this interpretation will have on its financial statements. This Interpretation provides a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006.

5. Receivables

Receivables for the Company consist of the following:

| | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|---------------------------------|--------------------------|------------------------------|
| Customers and other | \$110,961 | \$ 87,098 |
| Receivable from Verizon | 1,334 | 1,559 |
| Allowance for doubtful accounts | (17,003) | (9,717) |
| | <u>\$ 95,292</u> | <u>\$ 78,940</u> |

6. Accrued Expenses

Accrued expenses for the Company consisted of the following:

| | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|-----------------------|--------------------------|------------------------------|
| Salaries and benefits | \$14,126 | \$ 13,273 |
| Other taxes | 1,377 | 1,738 |
| Interest | 13,094 | 17,561 |
| | <u>\$28,597</u> | <u>\$ 32,572</u> |

7. Long-Term Debt

Long-term debt is comprised of the following:

| | Interest Rate at June 30, 2006 | Final Maturity | June 30, 2006 | December 31, 2005 |
|---|---|-------------------|--------------------|----------------------|
| Notes payable to banks, revolving credit facility | 7.48% | April 30, 2012 | \$ 149,000 | \$ 96,500 |
| Notes payable to banks, Tranche A term loan | 7.23% | April 30, 2012 | 150,000 | — |
| Notes payable to banks, Tranche B term loan | 7.23% | October 31, 2012 | 449,000 | 450,000 |
| Existing debentures, Series A | NA | February 1, 2006 | — | 150,000 |
| Existing debentures, Series B | 7.38% | September 1, 2006 | 150,000 | 150,000 |
| Senior floating rate notes | 10.79% | May 1, 2013 | 150,000 | 150,000 |
| Senior fixed rate notes | 9.75% | May 1, 2013 | 200,000 | 200,000 |
| Senior subordinated notes | 12.50% | May 1, 2015 | 150,000 | 150,000 |
| | | | <u>1,398,000</u> | <u>1,346,500</u> |
| Current portion | | | <u>11,500</u> | <u>3,000</u> |
| | | | <u>\$1,386,500</u> | <u>\$1,343,500</u> |

Notes Payable to Banks

The revolving credit facility has a principal balance of \$200,000 which will mature on April 30, 2012. As of June 30, 2006, the available balance on the facility amounted to \$50,900 (subject to covenants and a \$100 outstanding letter of credit).

The term loan facilities include a delayed draw Tranche A term loan facility in a total principal amount of \$300,000. Borrowings under the Tranche A term loan facility are available only through September 1, 2006 to fund the repayment of the Existing Debentures. On February 1, 2006, \$150,000 was drawn on the Tranche A term loan to fund repayment of the Existing Debentures, Series A.

Existing Debentures

The Debentures Series A matured on February 1, 2006 and were repaid using the Tranche A term loan facility. The Debenture Series B mature on September 1, 2006 and bear interest at the rate of 7.38% payable semi-annually. The Debentures Series B are classified as noncurrent in the accompanying consolidated balance sheet at June 30, 2006 because the Company has the intent and ability to refinance such Debentures on a long term basis.

8. Derivative Instruments and Hedging Activities

The Company utilizes a combination of fixed-rate and variable-rate debt to finance its operations. The variable-rate debt exposes the Company to variability in interest payments due to changes in interest rates. Management believes that it is prudent to mitigate the interest rate risk on a portion of its variable-rate borrowings. To meet this objective, management entered into six 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 income. 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. During the three and six months ended June 30, 2006, the Company had \$5,401 and \$13,428, respectively, of unrealized gains included in other comprehensive income. The fair value of the interest rate swap of \$24,814 is included in deferred financing and other assets on the consolidated balance sheet at June 30, 2006.

9. Employee Benefit Plans

The Company sponsors a defined benefit pension plan and postretirement medical and life insurance benefits for union employees. The Company also sponsors a cash balance pension plan for nonunion employees. Nonunion Company employees with 10 or more years of service with Verizon as of January 1, 2002 will, upon retirement, receive the higher of the cash balance benefit or an actuarially determined pension benefit. Nonunion employees hired by Verizon prior to January 1, 2005 are also entitled to postretirement medical benefits.

The Company accrues the costs, as determined by an actuary, of the pension and the 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 net periodic benefit costs for the three and six months ended June 30, 2006.

| | Three Months Ended June 30, 2006 | | Six Months Ended June 30, 2006 | |
|-----------------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| | Pension Benefits | Other Postretirement Benefits | Pension Benefits | Other Postretirement Benefits |
| Service cost | \$ 3,011 | \$ 500 | \$ 6,136 | \$ 1,000 |
| Interest cost | 2,810 | 482 | 5,652 | 964 |
| Expected asset return | (4,000) | — | (8,029) | — |
| | <u>\$ 1,821</u> | <u>\$ 982</u> | <u>\$ 3,759</u> | <u>\$ 1,964</u> |

The Company previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute \$2,700 to its pension plan in 2006. As of June 30, 2006, \$258 of contributions have been made. The Company presently anticipates contributing an additional \$2,442 to fund its pension plans in 2006 for a total of \$2,700.

10. Income Taxes

The provision for income taxes differs from the amounts determined by applying the statutory federal income tax rate of approximately 35% to income (loss) before income taxes for the following reasons:

| | Company | | Predecessor Period from April 1 to May 1, 2005 | Company | | Predecessor Period from January 1 to May 1, 2005 |
|--|--|-----------------|---|--------------------------------------|-----------------|---|
| | Three Months Ended June 30, 2006 | 2005 | | Six Months Ended June 30, 2006 | 2005 | |
| Expense (benefit) at federal rate | \$(10,755) | \$(19,441) | \$ 2,500 | \$(23,722) | \$(24,921) | \$ 8,700 |
| Increase (decrease) resulting from: | | | | | | |
| State income taxes, net of federal benefit | (922) | (1,666) | 200 | (2,033) | (2,136) | 700 |
| Other, net | — | — | (200) | — | — | (700) |
| Valuation allowance | 13,177 | 22,307 | — | 28,798 | 28,257 | — |
| Total income tax expense | <u>\$ 1,500</u> | <u>\$ 1,200</u> | <u>\$ 2,500</u> | <u>\$ 3,043</u> | <u>\$ 1,200</u> | <u>\$ 8,700</u> |

A valuation allowance has been provided at June 30, 2006 and December 31, 2005 by the Company for the deferred tax assets because of the uncertainty of future realization of such amounts. The Company will continue to assess the recoverability of deferred tax assets and the related valuation allowance. To the extent that the Company generates taxable income in future years and it determines that such valuation allowance is no longer required, the tax benefit of the remaining deferred tax assets will be recognized at that time.

11. Stock Option Plan

On November 8, 2005, Holdco adopted the Stock Option Plan of Hawaiian Telcom Holdco, Inc. (the "Plan") that permits the grant of options to its key employees and independent directors and those of its wholly owned subsidiaries. The total number of shares of Holdco that were reserved for issuance under the Plan was 37,217 or 8.7% of the Holdco shares currently outstanding. The purpose of the Plan is primarily to align compensation for key executives with the performance of the Company. All options are to be granted at an exercise price that is equal to the fair value of the common stock of Holdco on the date the stock option is granted.

In November 2005, Holdco awarded options to various key employees and independent directors for an aggregate of 35,532 shares. The grants were subject to the definitive Plan terms which were approved by the Board of Holdco on November 8, 2005. The options were granted at an exercise price of \$1,000 per share.

In March 2006, options for an additional 1,174 shares were granted at an exercise price of \$1,000 per share. The Company recognized \$18 and \$24 of compensation expense during the three and six months ended June 30, 2006, respectively, related to these option grants.

Outstanding options for key employees under the Plan will vest in two segments. Subject to the optionee's continued employment with the Company, 25% of the options granted generally will vest automatically in equal annual installments of 5% on the anniversary of the optionee's hire and 75% will vest in full on the day immediately preceding the eighth anniversary of the grant date subject, however, to earlier vesting if certain performance conditions are met. The performance condition component of the Plan provides that an installment equal to 5% (15% if all three conditions are met) of the option will vest for each fiscal year, beginning with the year of grant and ending with the fourth year thereafter, for the following three targets, as defined in the Plan: Revenue, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and Free Cash-Flow. Options granted to independent directors vest automatically in equal annual installments of 20% over five years and exclude a performance component.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used in determining the fair value for all grants (both those in November 2005, see Note 3, and those in March 2006): dividend yield of 0%; expected volatility of 33%; risk-free interest rate of 4.5%; expected term to exercise of 6.5 years; and forfeiture rate of 2%. The fair value for each individual option granted during 2006 and 2005 amounted to \$400.

12. Comprehensive Income (Loss)

A summary of components of comprehensive income (loss) is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------------|------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net loss | \$(32,230) | \$(56,745) | \$(70,821) | \$(72,402) |
| Other comprehensive income (loss) - | | | | |
| Gains (losses) on cash flow hedging derivatives | 5,401 | (5,399) | 13,428 | (5,399) |
| Unrealized gain (loss) on investments | (59) | — | 1 | — |
| Other comprehensive income (loss) | 5,342 | (5,399) | 13,429 | (5,399) |
| Comprehensive loss | <u>\$(26,888)</u> | <u>\$(62,144)</u> | <u>\$(57,392)</u> | <u>\$(77,801)</u> |

13. Commitments and Contingencies

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 financial statements.

14. Transactions with Verizon

Historically, the Predecessor was allocated charges for various centralized services including network related services, and overhead and support services. Costs may have been directly assigned or allocated.

Transition Services Agreement

In conjunction with the Acquisition, the Company entered into a Transition Services Agreement with Verizon to provide information technology services, customer support, customer billing, accounting, network operations, call center, plant engineering and Internet support. The agreement was for an initial term of nine months and could be extended under certain circumstances. In December 2005, the Company arranged with Verizon to extend the agreement for a two month period through March 31, 2006. Expenses incurred under the Transition Services Agreement amounted to \$368 and \$29,497 for the three and six month periods ended June 30, 2006, respectively. Costs incurred under the Transition Services Agreement amounted to \$18,879 for both the three and six months ended June 30, 2005.

Predecessor

Transactions with Verizon were as follows:

| | Period from April 1 to May 1, 2005 | Period from January 1 to May 1, 2005 |
|---------------------------------|--|--|
| Operating revenues | \$ 1,300 | \$ 4,900 |
| Operating expenses | 7,700 | 31,600 |
| Other income and (expense), net | — | 100 |
| Interest expense | 1,100 | 3,700 |

15. Segment Information

The Company has two reportable segments consisting of telecommunications services and publishing based on how the Company's chief operating decision maker makes decisions about allocating resources and assessing performance. The telecommunications 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 telecommunications services segment provides long distance services, customer premise equipment distribution, data solutions and systems integration, billing and collection, logistics, pay telephone services, Internet access services and wireless services. The publishing business includes the sale of advertising in printed and electronic directories in Hawaii.

The following tables provide operating financial information for the Company's and Predecessor's two reportable segments:

| | <u>Telecom-</u> <u>munications</u> | <u>Publishing</u> | <u>Total</u> |
|---|---------------------------------------|-------------------|--------------|
| Company — For the three months ended and as of June 30, 2006 | | | |
| Operating revenues | \$ 127,757 | \$ 16,917 | \$ 144,674 |
| Depreciation and amortization | 42,971 | 2,191 | 45,162 |
| Net income (loss) | (39,569) | 7,339 | (32,230) |
| Assets | 1,573,533 | 192,165 | 1,765,698 |
| Company — For the six months ended June 30, 2006 | | | |
| Operating revenues | \$ 253,791 | \$ 32,402 | \$ 286,193 |
| Depreciation and amortization | 81,247 | 4,382 | 85,629 |
| Net income (loss) | (84,859) | 14,038 | (70,821) |
| Capital expenditures | 66,139 | — | 66,139 |
| Company—Assets as of December 31, 2005 | \$1,561,157 | \$195,397 | \$1,756,554 |
| Company — For the three months ended and as of June 30, 2005 | | | |
| Operating revenues | \$ 81,023 | \$ — | \$ 81,023 |
| Depreciation and amortization | 25,060 | 1,588 | 26,648 |
| Net income (loss) | (50,185) | (6,560) | (56,745) |
| Company — For the six months ended June 30, 2005 | | | |
| Operating revenues | \$ 81,023 | \$ — | \$ 81,023 |
| Depreciation and amortization | 25,060 | 1,588 | 26,648 |
| Net income (loss) | (65,842) | (6,560) | (72,402) |
| Capital expenditures | 21,709 | — | 21,709 |
| Predecessor — For the period April 1, 2005 to May 1, 2005 | | | |
| Operating revenues | \$ 46,300 | \$ 5,500 | \$ 51,800 |
| Depreciation and amortization | 10,300 | — | 10,300 |
| Net income | 2,400 | 2,100 | 4,500 |
| Predecessor — For the period from January 1, 2005 to May 1, 2005 | | | |
| Operating revenues | \$ 178,700 | \$ 22,000 | \$ 200,700 |
| Depreciation and amortization | 39,500 | 100 | 39,600 |
| Net income | 7,700 | 8,400 | 16,100 |
| Capital expenditures | 22,800 | — | 22,800 |

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

Forward-Looking Statements

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

- our ability to operate as a stand-alone telecommunications provider;
- our ability to implement our anticipated cost structure;
- our ability to enter into arrangements with third-party service providers;
- changes in regulations and legislation applicable to providers of telecommunications services;
- changes in demand for our products and services; and
- technological changes affecting the telecommunications industry.

These and other factors may cause our actual results to differ materially from any forward-looking statement. Refer to our most recently filed Form S-4, as amended, for a detailed discussion on risks that could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of this quarterly report and, except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission (“SEC”), we assume no obligation to update or revise them or to provide reasons why actual results may differ.

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

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 Communications, Inc., wholly-owned by Hawaiian Telcom Holdco, Inc., and its subsidiaries after giving effect to the Hawaii Business Acquisition (as defined below); “Verizon” refers to Verizon Communications Inc.; “GTE” refers to GTE Corporation; and, “Verizon’s Hawaii Business” refers, collectively, to Verizon Hawaii Inc. and the carved-out components of Verizon Information Services, Inc., GTE.NET LLC (dba Verizon Online), Bell Atlantic Communications Inc. (dba Verizon Long Distance) and Verizon Select Services Inc. that were acquired in the Acquisition.

On May 21, 2004, the Company and Hawaiian Telcom Holdco, Inc. entered into an Agreement of Merger, which was subsequently amended and restated on April 8, 2005, with GTE and Verizon HoldCo, LLC, both subsidiaries of Verizon, to acquire Verizon’s Hawaii Business. The merger was consummated on May 2, 2005 (the “Hawaii Business Acquisition”).

We have operated as a stand-alone company since the Hawaii Business Acquisition. However, we have provided a discussion and analysis of a comparison of the results of the Company for the three and six months ended June 30, 2006 to the combined results of the Company and Predecessor for the three and six months ended June 30, 2005. We believe such financial information may be important to an understanding of our future operations. The combined presentation is not in accordance with GAAP and the periods presented are not comparable because of the change in the historical carrying value or basis of assets and liabilities that resulted from the Hawaii Business Acquisition. Historical periods of our Predecessor do not reflect the impact the Hawaii Business Acquisition has had on us, most notably significantly increased leverage and liquidity requirements. Because our relationship with Verizon and its affiliates changed upon the Hawaii Business Acquisition, our cost structure has changed from that reflected in the historical results of operations of our Predecessor. We have presented the combined results of operations to provide a more meaningful discussion of the periods presented.

Segments and Sources of Revenue

We operate in two reportable segments (Telecommunications and Publishing) based on how our chief operating decision maker makes decisions about allocating resources and assessing performance.

Telecommunications

The telecommunications segment derives revenue from the following sources:

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

Network Access Services – We receive revenue from charges established to compensate us for origination, transport and termination of calls for long distance and other interexchange carriers. These include subscriber line charges imposed on end users, and switched and special access charges paid by carriers and others.

Long Distance Services – We receive revenue from providing toll, or long distance, services to our customers.

High Speed Internet and Other Internet – We receive revenue from monthly recurring charges for High Speed Internet and dial-up Internet access services.

Other Telecommunication Services and Sales – Other services and sales include inside line care and sale and maintenance of customer premise equipment, as well as revenue from wireless services.

Publishing

We receive revenue from the sale of advertising in printed and electronic directories in Hawaii. The deferred revenue and related deferred costs of our Predecessor related to such sales in printed directories prior to the Hawaii Business Acquisition were not carried over to our balance sheet. The effect of this accounting treatment is to exclude revenue and related costs that would otherwise have been recognized in our operating results subsequent to the consummation of the Hawaii Business Acquisition. We started recognizing revenue and related costs upon distribution of directories beginning in October 2005. We did not recognize revenue from all of our directories until publication of certain directories in February of 2006.

Our New Cost Structure and Transition

The historical financial information of our Predecessor includes expenses directly incurred in Hawaii, as well as allocated expenses related to services that were provided from the mainland United States by Verizon and its affiliates. Calculating such allocated expenses required management of Verizon and GTE to make certain assumptions and we were not involved in the identification or calculation of the allocated costs. The allocated expenses reflected in the historical financial information of our Predecessor are not indicative of our expenses as a stand-alone provider of telecommunications services.

For the transition period that ended March 31, 2006, services that had historically been provided by Verizon and its affiliates were being provided by:

- Verizon and its affiliates (pursuant to the Transition Services Agreement and Verizon Master Services Agreement);
- our internal team (for such functions as human resources, marketing and legal); and
- third-party service providers.

For the period from April 1, 2006 to June 30, 2006, all services were provided by our internal team or third parties other than Verizon.

BearingPoint

On April 1, 2006, we ceased receiving services under the Transition Services Agreement with Verizon and began to process all transactions as a stand-alone provider of telecommunications services. The major network operational systems continued to work without significant problems at and after cutover. However, we experienced a number of other system issues that continue to present challenges. These systems related issues have resulted in significantly higher call handling times and manual activities in our business.

We utilized the services of BearingPoint to build much of our information technology infrastructure, including, with few exceptions, our operating, financial and administrative systems. In total, 77 systems are to be built, are being built or are being converted by BearingPoint to replace systems previously provided by Verizon. Despite BearingPoint's efforts to deliver more functionality from these systems, there are still critical areas that require further work. We are currently in discussions and working aggressively on various alternatives with BearingPoint to ensure that we will obtain more complete functionality from these systems as soon as possible, including but not limited to possibly adding a strategic partner.

To accommodate the need for additional time for BearingPoint to develop the back office systems for us, we extended through March 31, 2006 the Verizon Master Services Agreement, under which we received long distance voice and data services from Verizon during the transition period, and the Transition Services Agreement. Under the terms of our Master Services Agreement with BearingPoint, BearingPoint must pay us for various costs and other damages related to the delay in cutover and for the costs we incur to provide other methods to accommodate the lack of full BearingPoint system functionalities. We currently estimate that the costs, to date, to provide for other methods to accommodate the lack of full BearingPoint system functionalities at cutover through June 30, 2006 total approximately \$4.8 million. Other costs related to the delay in cutover have yet to be fully quantified. Additional costs will be incurred until full functionality has been delivered. We are continuing to discuss with BearingPoint regarding additional reimbursements for costs incurred as a result of the delay and for the lack of full functionality.

Results of Operations

We reported a net loss for the three months ended June 30, 2006 and 2005 of \$32.2 million and \$56.7 million, respectively. Our Predecessor reported net income of \$4.5 million for the period from April 1, 2005 to May 1, 2005.

We reported a net loss for the six months ended June 30, 2006 and 2005 of \$70.8 million and \$72.4 million, respectively. Our Predecessor reported net income of \$16.1 million for the period from January 1, 2005 to May 1, 2005.

Purchase Accounting Adjustments and Other Comparability Items

Predecessor deferred publishing revenue and related costs as of the date of the Hawaii Business Acquisition were not carried over to our balance sheet due to the application of purchase accounting. Similarly, deferred activation fee revenue and the related costs were not recognized in the purchase of Verizon's Hawaii Business. The application of purchase accounting also increased depreciation and amortization as compared to what our Predecessor would have incurred, primarily related to increased intangible assets amortization.

In conjunction with the Hawaii Business Acquisition, Verizon agreed to reimburse us \$12.0 million to fund a customer appreciation credit. We recognized the reimbursement as a reduction of the purchase price of the Hawaii Business Acquisition. The actual credits granted to customers amounted to approximately \$11.3 million (this amount was recognized as a reduction of revenue during the five month period from May to September 2005). Local telephone service customers as of the date of the Hawaii Business Acquisition received a one time credit during the fifth month after the Hawaii Business Acquisition (as agreed to with Hawaii Public Utilities Commission or HPUC). The remaining amount of \$0.7 million was contributed in the fourth quarter of 2005 to local charitable and not for profit organizations to satisfy the terms of the acquisition.

The impact of purchase accounting and other comparability items on our statement of operation for the periods ended June 30, 2006 and 2005 is as indicated in the following table (dollars in thousands). Positive amounts represent items that had the effect of increasing our reported income and negative amounts represent items that had the effect of decreasing reported income.

| | 2006 | | | 2005 | | |
|---------------------------------------|------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Revenue | Expenses | Operating Loss | Revenue | Expenses | Operating Loss |
| Three months ended June 30, | | | | | | |
| Publishing deferred revenue and costs | \$ — | \$ — | \$ — | \$(11,000) | \$ 2,300 | \$ (8,700) |
| Wireline activation | (2,400) | 2,400 | — | (1,900) | 1,900 | — |
| Depreciation and amortization | — | (11,300) | (11,300) | — | (6,700) | (6,700) |
| Customer appreciation credit | — | — | — | (4,800) | — | (4,800) |
| | <u>\$(2,400)</u> | <u>\$ (8,900)</u> | <u>\$(11,300)</u> | <u>\$(17,700)</u> | <u>\$(2,500)</u> | <u>\$(20,200)</u> |
| Six months ended June 30, | | | | | | |
| Publishing deferred revenue and costs | \$ (900) | \$ 200 | \$ (700) | \$(11,000) | \$ 2,300 | \$ (8,700) |
| Wireline activation | (4,900) | 4,900 | — | (1,900) | 1,900 | — |
| Depreciation and amortization | — | (22,600) | (22,600) | — | (6,700) | (6,700) |
| Customer appreciation credit | — | — | — | (4,800) | — | (4,800) |
| | <u>\$(5,800)</u> | <u>\$(17,500)</u> | <u>\$(23,300)</u> | <u>\$(17,700)</u> | <u>\$(2,500)</u> | <u>\$(20,200)</u> |

Revenues

The following tables summarize our volume and revenue information as of or through June 30, 2006 and June 30, 2005. For comparability, we also present customer activity as of June 30, 2006 compared to March 31, 2006.

Volume Information

Through March 31, 2006 volume information was provided by Verizon in connection with our Transition Services Agreement. The information as of June 30, 2006 was developed directly from our own systems from records available at the end of the second quarter. Differences in reported lines from prior periods are likely due, in part, to differences in line count methodology procedures from those employed by Verizon.

June 2006 compared to June 2005

| | June 30, 2006 | June 30, 2005 | Change | |
|---|------------------|------------------|-----------------|--------------|
| | | | Number | Percentage |
| Switched access lines | | | | |
| Residential | 390,483 | 421,514 | (31,031) | -7.4% |
| Business | 229,983 | 234,142 | (4,159) | -1.8% |
| Public | 5,901 | 5,913 | (12) | -0.2% |
| | <u>626,367</u> | <u>661,569</u> | <u>(35,202)</u> | <u>-5.3%</u> |
| High Speed Internet lines - retail | | | | |
| Residential | 73,872 | 64,284 | 9,588 | 14.9% |
| Business | 15,381 | 7,865 | 7,516 | 95.6% |
| | <u>89,253</u> | <u>72,149</u> | <u>17,104</u> | <u>23.7%</u> |
| Long distance lines | | | | |
| Residential | 204,417 | 216,198 | (11,781) | -5.4% |
| Business | 84,174 | 75,204 | 8,970 | 11.9% |
| | <u>288,591</u> | <u>291,402</u> | <u>(2,811)</u> | <u>-1.0%</u> |

June 2006 compared to March 2006

| | June 30, 2006 | March 31, 2006 | Change | |
|---|------------------|-------------------|-----------------|--------------|
| | | | Number | Percentage |
| Switched access lines | | | | |
| Residential | 390,483 | 400,436 | (9,953) | -2.5% |
| Business | 229,983 | 232,651 | (2,668) | -1.1% |
| Public | 5,901 | 5,845 | 56 | 1.0% |
| | <u>626,367</u> | <u>638,932</u> | <u>(12,565)</u> | <u>-2.0%</u> |
| High Speed Internet lines - retail | | | | |
| Residential | 73,872 | 73,824 | 48 | 0.1% |
| Business | 15,381 | 9,751 | 5,630 | 57.7% |
| | <u>89,253</u> | <u>83,575</u> | <u>5,678</u> | <u>6.8%</u> |
| Long distance lines | | | | |
| Residential | 204,417 | 214,786 | (10,369) | -4.8% |
| Business | 84,174 | 76,207 | 7,967 | 10.5% |
| | <u>288,591</u> | <u>290,993</u> | <u>(2,402)</u> | <u>-0.8%</u> |

Revenue (dollars in thousands)

For Three Months

| | Company Three Months Ended June 30, 2006 | Combined Company and Predecessor Three Months Ended June 30, 2005 | Change | |
|--|--|---|------------------|-------------|
| | | | Amount | Percentage |
| Telecommunications: | | | | |
| Local services | \$ 57,961 | \$ 53,905 | \$ 4,056 | 7.5% |
| Network access services | 38,378 | 37,943 | 435 | 1.1% |
| Long distance services | 10,733 | 10,939 | (206) | -1.9% |
| High Speed Internet and other Internet | 10,238 | 8,658 | 1,580 | 18.2% |
| Other services and sales | 10,447 | 15,878 | (5,431) | -34.2% |
| | <u>127,757</u> | <u>127,323</u> | <u>434</u> | <u>0.3%</u> |
| Directories | 16,917 | 5,500 | 11,417 | 207.6% |
| | <u>\$ 144,674</u> | <u>\$ 132,823</u> | <u>\$ 11,851</u> | <u>8.9%</u> |

For Six Months

| | Company Six Months Ended June 30, 2006 | Combined Company and Predecessor Six Months Ended June 30, 2005 | Change | |
|--|--|---|-----------------|--------------|
| | | | Amount | Percentage |
| Telecommunications: | | | | |
| Local services | \$ 115,308 | \$ 115,305 | \$ 3 | 0.0% |
| Network access services | 76,607 | 75,743 | 864 | 1.1% |
| Long distance services | 20,672 | 21,039 | (367) | -1.7% |
| High Speed Internet and other Internet | 19,760 | 16,658 | 3,102 | 18.6% |
| Other services and sales | 21,444 | 30,978 | (9,534) | -30.8% |
| | <u>253,791</u> | <u>259,723</u> | <u>(5,932)</u> | <u>-2.3%</u> |
| Directories | 32,402 | 22,000 | 10,402 | 47.3% |
| | <u>\$ 286,193</u> | <u>\$ 281,723</u> | <u>\$ 4,470</u> | <u>1.6%</u> |

For the three months ended June 30, 2006, local services revenues increased \$4.1 million, or 7.5%, as compared to same period in 2005. The increase was primarily due to the one-time HPUC credit of \$4.8 million which reduced 2005 revenue, offset by the impact of the decline in switched access lines. Local service revenues for the six months ended June 30, 2006 were consistent with the same period in 2005. Revenue declines due to losses in switched access lines were offset by the \$4.8 million HPUC credit.

The decline in switched access lines reflects increased competition resulting in customers using wireless, VoIP technology and cable services instead of phone lines for voice and data. In addition, second lines continue to be disconnected as customers switch from dial-up Internet services to DSL and cable broadband service. In an effort to slow the rate of line loss, we have instituted a "save-the-line" campaign and will focus efforts on bundling of services.

For the three months ended June 30, 2006, network access services revenue increased by \$0.4 million or 1.1%, as compared to the three months ended June 30, 2005. For the six months ended June 30, 2006, network access revenues increased \$0.9 million, or 1.1%, as compared to the same period in the prior year. The increase in access revenues relates primarily to the increase in special access services.

Long distance revenues decreased \$0.2 million, or 1.9%, for the quarter ended June 30, 2006 as compared to the quarter ended June 30, 2005. Long distance revenue decreased \$0.4 million, or 1.7%, for the six months ended June 30, 2006 as compared to the six months ended June 30, 2005. The revenue decline results from a reduction in switched access lines (fewer customers utilizing toll services) and competitive pressures similar to local service. We began promoting a flat-rate long distance plan in late September 2005 and reduced the price of service in the first quarter of 2006 to increase its appeal customers. The flat rate plan is intended to extend the service life of existing customers who use significant amounts of long distance while attracting new long distance users from other providers. We are in the process of deploying future product bundling with long distance later in 2006. It is uncertain at this time as to how successful we will be in marketing these new plans and to what extent it will impact the trend in long distance service revenue.

High Speed Internet and other Internet revenues increased \$1.6 million, or 18.2%, for three months ended June 30, 2006 as compared to first three months of 2005. High Speed Internet and other Internet revenues increased \$3.1 million, or 18.6% for the six months ended June 30, 2006 as compared to the same period in the prior year. The revenue increase was related primarily to the increase in subscribers during these periods (see table under "Volume Information").

Other services and sales decreased \$5.4 million, or 34.2%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005 and decreased \$9.5 million, or 30.8%, for the six months ended June 30, 2006 as compared to the same period in the prior year. These decreases were primarily related to a decline in sales and installation (and related revenue) of customer premise equipment. In addition, most of the billing and collection agreements (and related revenue) maintained by the Predecessor were not retained by us.

Wireless services (included in the other services and sales revenue category) are still in the early stages of development. As of June 30, 2006, we had approximately 11,900 external wireless subscribers and recognized revenue of approximately \$1.7 million for the three months ended June 30, 2006 and \$3.2 million for the six months ended June 30, 2006.

Directories revenue increased by \$11.4 million, or 207.6%, for the second quarter of 2006 compared to the second quarter of 2005. Directories revenue increased by \$10.4 million, or 47.3%, for the six months ended June 30, 2006 compared to same period in the prior year. The increase was caused primarily by the application of purchase accounting. The deferred revenue and related deferred costs of the Predecessor as of the Acquisition were not carried over to our balance sheet. The effect of this accounting treatment is to reduce revenue and related costs that would have otherwise been recognized in our operating results in 2005 subsequent to the Acquisition date (see table under "Purchase Accounting Adjustments and Other Comparability Items").

Transition Costs and Other Cost Structure Changes

Our cost structure has changed considerably during the first six months of 2006 when compared to the first six months of 2005. The most significant area of change is related to the composition of third-party service providers utilized in our operations such as Verizon and BearingPoint.

Through March 31, 2006, Verizon provided services to us under the Transition Services Agreement. The cost of such services amounted to \$0.4 million and \$29.5 million for the three and six months ended June 30, 2006, respectively. Costs incurred under the Transition Services Agreement amounted to \$18.9 million for both the three and six months ended June 30, 2005.

We have an agreement with BearingPoint to build and manage our information technology infrastructure. The majority of costs for the build services, including the expense component, were recognized as of March 31, 2006. The costs for managing our information technology infrastructure which are currently all expensed amounted to \$5.4 million and \$8.4 million for the three and six months ended June 30, 2006, respectively. BearingPoint costs for managing our information technology infrastructure were not significant during the three and six months ended June 30, 2005.

Because of the lack of full system functionality provided by BearingPoint, it was necessary for us to temporarily obtain additional resources to assist with processing transactions. Acquiring such resources resulted in use of additional third party service providers and additional internal labor costs (primarily in the form of overtime pay). Through June 30, 2006, such incurred costs amounted to approximately \$4.8 million. We expect to incur additional costs in the next two to three quarters though the level of such costs should be reduced as we go through this period and our system functionality improves. Under the terms of our Master Services Agreement with BearingPoint, BearingPoint must pay us for various costs and other damages related to the delay in cutover and for the costs we incur to provide other methods to accommodate the lack of full BearingPoint system functionalities. As such, these costs are not reflected in our expenses for the period.

We are incurring significant expenses in our efforts to become a stand-alone provider of telecommunication services. The major components of such expenses incurred for the three and six months ended June 30, 2006 are summarized as follows (dollars in thousands):

| | <u>Three Months Ended June 30, 2006</u> | <u>Six Months Ended June 30, 2006</u> |
|---|---|---|
| Expense component of BearingPoint contract to build information technology infrastructure | \$ — | \$ 1,842 |
| Verizon transition and other services, components estimated by management to reflect transition services net of expense recovery from BearingPoint to defer costs of transition services because of delay in completion | 390 | 23,048 |
| Facilities renovation costs | 1,886 | 1,886 |
| Employee relocation costs | 508 | 877 |
| Other | 3,793 | 6,215 |
| | <u>\$ 6,577</u> | <u>\$ 33,868</u> |

We expect that these costs will continue to decline as we complete our transition.

Our operating expenses are significantly impacted by not incurring expenses that were allocated by Verizon and its affiliates to our Predecessor for services performed. Such expenses amounted to \$7.7 million for the period from April 1, 2005 to May 1, 2005 and \$31.6 million for the period from January 1, 2005 to May 1, 2005.

Operating Costs and Expenses

The following table summarizes our costs and expenses for the three and six months ended June 30, 2006 compared to the combined costs and expenses for the three and six months ended June 30, 2005 (dollars in thousands):

For Three Months

| | Company Three Months Ended June 30, 2006 | Combined Company and Predecessor Three Months Ended June 30, 2005 | Change | |
|--|---|--|-------------------|--------------|
| | | | Amount | Percentage |
| Costs of services and sales | \$ 55,680 | \$ 55,455 | \$ 225 | 0.4% |
| Selling, general and administrative expenses | 45,411 | 62,413 | (17,002) | -27.2% |
| Depreciation and amortization | 45,162 | 36,948 | 8,214 | 22.2% |
| | <u>\$ 146,253</u> | <u>\$ 154,816</u> | <u>\$ (8,563)</u> | <u>-5.5%</u> |

For Six Months

| | Company Six Months Ended June 30, 2006 | Combined Company and Predecessor Six Months Ended June 30, 2005 | Change | |
|--|---|--|-----------------|-------------|
| | | | Amount | Percentage |
| Costs of services and sales | \$ 121,345 | \$ 112,155 | \$ 9,190 | 8.2% |
| Selling, general and administrative expenses | 90,861 | 114,870 | (24,009) | -20.9% |
| Depreciation and amortization | 85,629 | 66,248 | 19,381 | 29.3% |
| | <u>\$ 297,835</u> | <u>\$ 293,273</u> | <u>\$ 4,562</u> | <u>1.6%</u> |

Costs of services and sales increased by \$0.2 million, or 0.4%, for the three months ended June 30, 2006 as compared to the three months ended June 30, 2005. Costs of services and sales increased by \$9.2 million, or 8.2%, for the six months ended June 30, 2006 as compared to the same period in the prior year. The increase in expense is related to changes in our cost structure, offset in part by the purchase adjustment related to deferred activation costs.

Selling, general and administrative expenses decreased by \$17.0 million, or 27.2%, for the second quarter of 2006 compared to the same period in the prior year. Selling, general and administrative expenses decreased by \$24.0 million, or 20.9%, for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The decline in selling, general and administrative expenses is primarily related to changes in our cost structure. An allowance for bad debt of \$3.7 million in excess of our plan levels was recognized in the second quarter of 2006. The additional allowance was necessary as we transitioned the collection activities during the quarter from Verizon for enterprise and carrier accounts.

Depreciation and amortization increased by \$8.2 million, or 22.2%, for the three months ended June 30, 2006 when compared to same period in 2005. Depreciation and amortization increased by \$19.4 million, or 29.3%, for the six months ended June 30, 2006 when compared to the six months ended June 30, 2005. The increase is the result of the impact of purchase accounting associated with the recognition of amortizable intangible assets. In addition, we are now depreciating the cost of the systems developed by BearingPoint.

Interest Expense

In connection with the Hawaii Business Acquisition, we incurred substantial indebtedness. The interest expense relating to this debt has and will continue to adversely affect our earnings. Interest expense increased by \$2.1 million for the three months ended June 30, 2006 compared to that of the combined interest for the Company and Predecessor for the three months ended June 30, 2005. Interest expense increased by \$20.3 million for the six months ended June 30, 2006 compared to that of the combined interest for the Company and Predecessor for the six months ended June 30, 2005. The increase was because of the increase in interest rates on our floating rate debt as well as an increase in the overall level of Company debt.

Income Tax Expense

A valuation allowance has been provided at June 30, 2006 for our deferred tax assets because of the uncertainty as to the realization of such assets. We will continue to assess the recoverability of deferred tax assets and the related valuation allowance. To the extent that we generate taxable income in future years and it is determined that such valuation allowance is no longer required, the tax benefit of the remaining deferred tax assets will be recognized at such time.

Other Business Matters

During 2006, we announced our effort to develop a network capable of providing integrated digital television, high-speed broadband and voice services in order to provide additional bundled service offerings to new and existing customers. In conjunction therewith, an application for a cable television franchise is pending with the State of Hawaii, Department of Commerce and Consumer Affairs, Cable Television Division. We have developed plans to build out our network to offer such services. We are working with our vendors to develop the requisite hardware and software platform and are negotiating for programming content. Our ability to provide an attractive and profitable video offering will depend significantly on the results of these regulatory and infrastructure development efforts.

Recently, we were admitted as a member of the National Cable Television Cooperative, Inc. (NCTC). Through joint purchasing and negotiation, the NCTC functions similar to a multi-system operator (MSO) by taking advantage of volume discounts offered by programming networks, hardware manufacturers, and other providers.

Liquidity and Capital Resources

Our short-term and long-term liquidity requirements primarily arise from: (i) interest and principal payments related to our senior credit facilities; (ii) capital expenditures; (iii) working capital requirements; and (iv) certain transition related expenditures.

We intend to fund our operations, interest expense, debt principal payments and working capital requirements from our cash from operations and our revolving credit facility, subject to covenant restrictions.

Our ability to service our indebtedness will depend on our ability to generate cash in the future. Given our high level of debt and related debt service requirements, we may not have significant cash available to meet any large unanticipated liquidity requirements, other than from available borrowings, if any, under our revolving credit facility. As a result, we may not retain a sufficient amount of cash to finance growth opportunities, including acquisitions, or unanticipated capital expenditures, or to fund our operations. If we do not have sufficient cash for these purposes, our financial condition and our business could suffer.

Cash Flows

Net cash provided by operations of \$7.0 million for the six months ended June 30, 2006 was related primarily to our net loss of \$70.8 million as adjusted to exclude non-cash items and working capital movements of \$77.8 million. The most significant non-cash item during the period was depreciation and amortization expense of \$85.6 million. Our significant costs of transition to a stand-alone provider of telecommunication services, system administration costs, as well as interest charges have resulted in losses.

Cash used in investing activities was \$66.1 million of capital expenditures for the six months ended June 30, 2006. This includes \$18.5 million related to our efforts to build our back-office and IT infrastructure.

Cash provided by financing activities was \$51.5 million for the six months ended June 30, 2006. This was related entirely to borrowing activity.

Outstanding Debt and Financing Arrangements

As of June 30, 2006, we had outstanding \$1,398.0 million in aggregate indebtedness, excluding unused commitments, with \$50.9 million of additional borrowing capacity available, subject to covenant restrictions, under our revolving credit facility. As a result of the Hawaii Business Acquisition, our liquidity requirements have been significantly increased, primarily due to increased debt service obligations. In connection with the Hawaii Business Acquisition, we incurred \$485.0 million of borrowings under our senior credit facilities and \$500.0 million of indebtedness with the issuance of notes and we assumed \$300.0 million of Verizon Hawaii debt.

Our senior credit facilities consist of a revolving credit facility and term loan facilities. Our revolving credit facility is available for general corporate purposes and comprised of loans in a total principal amount of up to \$200.0 million, of which \$149.0 million has been drawn and \$50.9 million was available as of June 30, 2006 (subject to the covenants described below and a \$0.1 million outstanding letter of credit). The term loan facilities are comprised of a Tranche A term loan facility in a total principal amount of \$300.0 million (\$150.0 million was drawn and \$150.0 million was undrawn as of June 30, 2006 which we anticipate drawing to fund the repayment of the \$150.0 million remaining balance of Existing Debentures on September 1, 2006) and a Tranche B term loan facility in a total principal amount of \$449.0 million, the proceeds of which were used to fund the Hawaii Business Acquisition. Our ability to draw our Tranche A term loan facility to repay the Existing Debentures is conditioned on several factors, including continued compliance with covenants in our Credit Agreement. Our total outstanding balance on our senior credit



SIGNATURES

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

HAWAIIAN TELCOM COMMUNICATIONS, INC.

August 14, 2006

/s/ Michael S. Ruley

Michael S. Ruley
Chief Executive Officer

August 14, 2006

/s/ Daniel P. O'Brien

Daniel P. O'Brien
Senior Vice President and Chief Financial Officer

August 14, 2006

/s/ Patrick T. Hogan

Patrick T. Hogan
Vice President, Finance and Controller



EXHIBIT INDEX

- 10.30 Amendment No. 1 dated December 15, 2005 to Master Services Agreement, dated as of August 6, 2004, by and between Hawaiian Telcom Communications, Inc. (f/k/a Hawaiian Telcom MergerSub, Inc.) and BearingPoint, Inc.
- 10.31 Amendment One effective April 28, 2005 to Supply Chain Services Agreement by and between Hawaiian Telcom Communications, Inc. (f/k/a Hawaiian Telcom MergerSub, Inc.) and Sprint North Supply Company, dated December 10, 2004.
- 10.32 Amendment Two effective June 5, 2006 to Supply Chain Services Agreement by and between Hawaiian Telcom Communications, Inc. (f/k/a Hawaiian Telcom MergerSub, Inc.) and Sprint North Supply Company, dated December 10, 2004.
- 10.33 Amendment No. 2 dated April 1, 2006 to Master Services Agreement by and between Hawaiian Telcom Services Company, Inc. and Verizon Select Services, Inc. dated December 1, 2005.
- 10.34 Amendment No. 3 dated June 23, 2006 to Master Services Agreement by and between Hawaiian Telcom Services Company, Inc. and Verizon Select Services, Inc. dated December 1, 2005.
- 10.35 First Amendment dated March 16, 2006 to Sprint Wholesale Master Services Agreement between Sprint Communications Company L.P. and Hawaiian Telcom Communications, Inc., dated December 5, 2005.
- 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.



Exhibit 10.30

Hawaiian Telcom/Supplier Confidential

Amendment No. 1

To

MASTER SERVICES AGREEMENT

THIS AMENDMENT NO. 1 TO MASTER SERVICES AGREEMENT (this “**Amendment No. 1**”) is made as of December 15, 2005 by and between BearingPoint, Inc., a Delaware corporation with offices at 1676 International Drive, McLean, VA 22102 (“**BearingPoint**”), and Hawaiian Telcom Communications, Inc. (formerly named Hawaiian Telcom MergerSub, Inc.), a Delaware corporation with offices at 1177 Bishop Street, Honolulu, HI 96813 (“**Hawaiian Telcom**”) (BearingPoint and Hawaiian Telcom each being a “**Party**” and collectively, the “**Parties**”).

WHEREAS, the Parties entered into that certain Master Services Agreement dated as of August 6, 2004 (the “**MSA**”); and

WHEREAS, in order to facilitate the process for documenting Hawaiian Telcom’s Acceptance of Deliverables by permitting Acceptance by electronic notification, the Parties desire to amend the MSA.

NOW, THEREFORE, in consideration of the forgoing and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties, intending to be legally bound, agree as follows.

1. DEFINED TERMS

Capitalized terms used but not defined in this Amendment No. 1 have the meanings given them in the MSA.

2. AMENDMENT TO EXHIBIT A (DEFINITIONS)

The definition of “Acceptance” in Exhibit A is hereby amended to read as follows:

“means, with respect to each Deliverable, written notification from Hawaiian Telcom to the Supplier, either signed by the Hawaiian Telcom Contract Executive or contained in an e-mail message from such individual originating from the hawaiiantel.com domain, indicating that the Deliverable satisfies the applicable Acceptance Criteria or, if there are no Acceptance Criteria, that the Deliverable does not contain any Nonconformities. Such notice shall be provided promptly and shall not be unreasonably withheld. For System Deliverables (which are subject to Conditional Acceptance and Final Acceptance), “Acceptance” means Final Acceptance. Notwithstanding the rejection of any Deliverable by Hawaiian Telcom, operational use (i.e., use for other than testing, piloting, demonstration or diagnostic purposes) of such Deliverable shall also be deemed to constitute Acceptance, if such Deliverable is a Non-System Deliverable, or Conditional Acceptance, if such Deliverable is a System Deliverable.”

The Parties agree that the effective date of this amendment to Exhibit A shall be February 4, 2005.

3. FULL FORCE AND EFFECT

The MSA, as amended by this Amendment No. 1, remains in full force and effect.



Hawaiian Telcom/Supplier Confidential

IN WITNESS WHEREOF, each of the Parties has executed this Amendment No.1 as of the date first written above.

HAWAIIAN TELCOM COMMUNICATIONS, INC.

BEARINGPOINT, INC.

By: /s/ David A. Torline

By: /s/ Miriam Hernandez-Kakol

Name: David A. Torline

Name: Miriam Hernandez-Kakol

Title: SVP & CIO

Title: Senior Vice President

Master Services Agreement
Amendment No. 1

2

December 15, 2005



Exhibit 10.31

Hawaiian Telcom Confidential

AMENDMENT ONE TO SUPPLY CHAIN SERVICES AGREEMENT
BETWEEN
SPRINT NORTH SUPPLY COMPANY AND HAWAIIAN TELCOM MERGERSUB,
INC.

This Amendment One (“Amendment One”) to the Supply Chain Services Agreement dated December 10, 2004 (“Agreement”) is effective April, 28, 2005 is between Sprint North Supply Company, an Ohio Corporation (“Supplier”) and Hawaiian Telcom MergerSub, Inc., a Delaware Corporation (“Hawaiian Telcom”). Except as otherwise indicated, defined terms in this Amendment One have the same meaning as in the Agreement.

1. General

Supplier shall provide to Hawaiian Telcom OSP copper cable Product designated as consigned inventory in Section 10 (“Consigned Inventory”) which shall be located at Hawaiian Telcom’s warehouse facility (“Warehouse”) located in Honolulu, Hawaii. Locations may be added or deleted upon mutual agreement.

2. Hawaiian Telcom Responsibilities

- (a) Hawaiian Telcom shall receive, warehouse, cut to designated length, seal and ship Consigned Inventory on steel or wooden reels to Hawaiian Telcom’s end user Hawaiian Telcom base. Hawaiian Telcom will be responsible for entering all inventory transactions into Supplier’s computer systems described in Section 3(d) below in accordance with the guidelines and instructions issued by Supplier.
- (b) Hawaiian Telcom will not grant any security interest in or permit the creation of any lien or encumbrance upon Consigned Inventory and will not permit any creditor of Hawaiian Telcom to assert any right to or any claim of any kind or nature for Consigned Inventory.
- (c) Hawaiian Telcom shall separate Consigned Inventory from other inventory in Warehouse and shall clearly label Consigned Inventory for easy identification.
- (d) Hawaiian Telcom will perform periodic physical inventories at the direction of Supplier and in accordance with the guidelines and instructions issued by Supplier, provided that Hawaiian Telcom shall not be obligated to conduct such inventories more than once in a calendar year.

3. Supplier Responsibilities

- (a) Supplier will identify and purchase from Hawaiian Telcom current supplier of Consigned Inventory existing consigned inventory (i.e., such inventory existing at



Hawaiian Telcom Confidential

Hawaiian Telcom's Warehouse as of the date this Amendment One is executed by both Parties) that, at Supplier's reasonable discretion, is deemed by the Supplier to be "good" and "usable" lengths.

- (b) During the term, Supplier shall ship Consigned Inventory to the Warehouse as necessary to maintain adequate inventory levels based on historical demand, forecasts, criteria for consignment eligibility (i.e. Master reel turns) as mutually developed between the parties, and as necessary to meet any applicable Service Levels as mutually agreed upon by parties.
- (c) Hawaiian Telcom shall send orders to Supplier and Supplier shall update Supplier's computer system located at the Warehouse by allocating such orders to the Consigned Inventory and shall otherwise process the orders for invoicing in accordance with the Agreement.
- (d) Supplier will provide, install, and test at its cost and expense Computer terminals and other equipment at Hawaiian Telecom's warehouse that will enable Hawaiian Telcom to enter and process the orders through the cut cycle. The Supplier shall retain all ownership interest in the computer terminals and other equipment furnished to Hawaiian Telcom under this Amendment One.

4. Pricing

Cable requirements and Pricing are outlined in Attachment No. Two, Honolulu Cut Center. Steel Reel Costs are outlined in Attachment No. Three, Steel Reel Replacement Costs. Prices are subject to change quarterly due to fluctuation in copper costs. Current prices at the time of purchase are held firm.

Supplier shall invoice Hawaiian Telcom for all Consigned Inventory ordered by Hawaiian Telcom at the time Hawaiian Telcom enters the order for such inventory into the Supplier equipment described in Section 3(d), and Hawaiian Telcom shall pay such invoices in accordance with Section 10 of the Agreement. For clarity, Supplier shall itemize all Consigned Inventory orders for such month (including type of product, length of cut, and date of order) on the report described in Section 10.3(b) of the Agreement.

5. Quality Assurance/Inspection

Supplier has the option to audit Consigned Inventory upon forty-eight hours notice to Hawaiian Telcom. Consigned Inventory audits must be conducted during normal business hours or at a specific time mutually agreed to between Supplier and Hawaiian Telcom. Supplier may inspect, count or catalog Consigned Inventory located at Hawaiian Telcom's facility. Any condition which does not conform to the terms of this Agreement shall be promptly corrected by Hawaiian Telcom.



Hawaiian Telcom Confidential

6. Title And Risk Of Loss

Title to Consigned inventory shall remain with Supplier until Consigned Inventory has been staged for shipment from Warehouse. Hawaiian Telcom shall be responsible for any and all loss or damage to Consigned Inventory while in the possession Hawaiian Telcom including losses stemming from cutting errors. Title to the Consigned Inventory shall pass to Hawaiian Telcom upon Hawaiian Telcom's staging of Consigned Inventory for shipment from Warehouse. For the purposes of this Section, Staging shall be when Consigned Inventory is cut by Hawaiian Telcom in preparation of Hawaiian Telcom's use of such inventory.

7. Liability For Inventory Discrepancies

Supplier shall notify Hawaiian Telcom of any discrepancy discovered during a Consigned Inventory audit. If Supplier demonstrates that Supplier has not received payment for any Consigned Inventory no longer located at the Warehouse, Supplier shall invoice Hawaiian Telcom for such Consigned Inventory. Payment shall be due to Supplier within thirty (30) days after the receipt of Supplier's invoice.

8. Insurance

Upon request by Supplier, Hawaiian Telcom shall provide certificates of insurance from insurance companies acceptable to Supplier representing comprehensive general liability insurance and property insurance policies with appropriate property casualty coverage that include liability coverage for such amounts and against such loss or damage from such hazards and risks as is usually carried by companies owning properties similar to the Warehouse and operating in the same general areas in which Hawaiian Telcom operates. Hawaiian Telcom shall provide to Supplier written notice at least ten (10) days prior to any cancellation or lapse of any such policy of insurance.

9. Scrap

Supplier's minimum scrap length for all Consigned Inventory shall be one hundred (100) feet. Once individual Consigned Inventory lengths fall below the one hundred (100) foot minimum, Consigned Inventory shall be removed from the reel and placed in the scrap containers provided by Supplier. Full scrap containers shall be returned to Supplier at Supplier's expense. Hawaiian Telcom shall arrange for the loading of scrap containers on Supplier's carrier at designated Warehouse locations; however, Supplier's agent or subcontractor shall be responsible for properly securing scrap containers before leaving Hawaiian Telcom's Warehouse. Supplier shall provide scrap containers as required.

10. Inventory Taxes

Supplier shall be responsible for all local or federal taxes on Consigned Inventory located at Hawaiian Telcom's Warehouse.



Hawaiian Telcom Confidential

11. Termination

Upon termination of the Agreement for convenience, Hawaiian Telcom may either return to Supplier as outlined in Attachment No. Four, Steel Reel Return Policy or purchase any remaining Consigned Inventory at the Warehouse. If Hawaiian Telcom elects to purchase all or a portion of the Consigned Inventory upon termination, Supplier shall invoice Hawaiian Telcom for such Consigned Inventory upon termination and payment shall be due to Supplier within thirty (30) days after the receipt of Supplier's invoice. In the event of Termination for Cause, the non-terminating party is responsible for any associated freight and/or shipping charges related to remaining Consigned Inventory.

12. Consigned Inventory

The parties agree that the Consigned Inventory listed in Attachment No. Two Cable Requirements will be available to Hawaiian Telcom at the Warehouse as of the date of Parties mutually defined inventory audit prior to close as outlined in Attachment No. One Audit Process with current third party and during the Term. Actual Consigned Inventory during the Term may vary as agreed by the Parties. In the event of Termination for Cause, the non-terminating party is responsible for any associated freight and/or shipping charges related to remaining Consigned Inventory.

Except as expressly provided in this Amendment One, all terms of the Agreement applicable to "Products" shall be applicable to Consigned Inventory, and all services provided by Supplier under this addendum shall be deemed "Services" under the Agreement.

SIGNED:

SPRINT NORTH SUPPLY COMPANY

HAWAIIAN TELCOM MERGERSUB, INC.

(Signature) /s/ John Campanelli

(Signature) /s/ Harvey Plummer

(Name) John Campanelli
(Title) Vice President-Field Sales and Client Solutions
(Date) May 3, 2005

(Name) Harvey Plummer
(Title) SVP Operations
(Date) April 29, 2005



Exhibit 10.32

AMENDMENT Two

**AMENDMENT TWO TO SUPPLY CHAIN SERVICES AGREEMENT
 BETWEEN EMBARQ LOGISTICS AND HAWAIIAN TELCOM COMMUNICATIONS, INC.**

This Amendment Two (“Amendment Two”) to the Supply Chain Services Agreement (“Agreement”) effective June 5, 2006 (“Amendment Two Effective Date”) is between Embarq Logistics, f/k/a Sprint North Supply Company, an Ohio corporation (“Embarq”) and Hawaiian Telcom Communications, Inc., f/k/a Hawaiian Telcom MergerSub, Inc., a Delaware corporation (“Hawaiian Telcom”). Except as otherwise indicated, defined terms in this Amendment Two have the same meaning as in the Agreement.

I. Background

- A. Hawaiian Telcom and Embarq entered into the Agreement December 10, 2004.
- B. Previous Amendments:
 Amendment One effective April 28, 2005
- C. Embarq and Hawaiian Telcom agree to modify the Agreement as set forth in this Amendment Two.

The parties agree as follows:

II. Amendment

The Agreement is amended by identifying Sprint North Supply Company’s name change to Embarq Logistics, effective June 5, 2006. All references to Supplier within the Agreement, Exhibits, Attachments, Schedules, and Amendments are references to Embarq Logistics.

The Agreement is further amended by identifying Hawaiian Telcom MergerSub’s name change to Hawaiian Telcom Communications, Inc., effective May 2005. All references to Hawaiian Telcom within the Agreement, Exhibits, Attachments, Schedules, and Amendments remain references to Hawaiian Telcom.

III. General

Other than as set forth above, the Agreement remains unchanged and in full force and effect. In the event of a conflict between the terms of the Agreement, Amendment One, and this Amendment Two, this Amendment Two will control. This Amendment Two, executed by authorized representatives of Embarq and Hawaiian Telcom is incorporated into the terms of the Agreement.

SIGNED:

EMBARQ LOGISTICS

HAWAIIAN TELCOM COMMUNICATIONS, INC.

(Signature) /s/ Cathy R. Colton, C.P.M.

(Signature) /s/ Harvey A. Plummer

(Print Name) Cathy R. Colton

(Print Name) Harvey A. Plummer

(Title) Contracts Negotiator 3

(Title) SVP – Engineering & Operations

(Date) August 9, 2006

(Date) July 19, 2006

Embarq Proprietary Information - Restricted



Exhibit 10.33

AMENDMENT NO. 2 TO MASTER SERVICES AGREEMENT

This **Amendment No. 2 to Master Services Agreement** (this “Amendment”) is entered into this 1st day of April 2006 between Hawaiian Telcom Services Company, Inc. (“HTSC”) and Verizon Select Services Inc. (“VSSI”).

WHEREAS, HTSC and VSSI are parties to that certain Master Services Agreement effective May 2, 2005 (as amended by Amendment No 1, the “Agreement”);

WHEREAS, pursuant to the Agreement, VSSI provides HTSC with certain communications and related services; and

WHEREAS, upon the scheduled termination of the Agreement, HTSC intends to cease using Carrier Identification Code (“CIC”) 6224 and begin using a different CIC obtained by HTSC and to transition Data Circuits to an alternative provider;

WHEREAS, the Parties anticipate that HTSC will need to continue to use VSSI’s Services for a limited period of time as it transitions to the new CIC and new Data Circuit provider;

WHEREAS, VSSI and HTSC desire to extend and modify certain aspects of the Agreement to accommodate this transition,

NOW, THEREFORE in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

1. Capitalized terms not otherwise defined herein shall have the meaning given them in the Agreement.
2. In Section 1 of the Agreement, the term “Initial Term” is amended and restated in its entirety as follows:
 “**Initial Term**” shall mean the period commencing on the Effective Date and expiring at 12:01 am Eastern Time, June 1, 2006.
3. The phrase “There shall be a monthly fee of \$855,000 for the period from Effective Date through January 31, 2006, and a monthly fee of \$956,000 for the period February 1, 2006 until the end of the Initial Term, conditioned upon:” and Section A (Thresholds) of amended Annex A are deleted in their entirety as is the final paragraph of Section B (Prices). For avoidance of doubt, the rates that shall apply to the switched Services provided by VSSI under this Amendment shall be the minute of use rates specified in Annex A, Section B (Prices).
4. The following is added to Annex A, Section B (Prices):

Monthly recurring charges for the embedded base of Data Circuits are set forth in Annex B. If a Data Circuit is disconnected prior to the end of its monthly billing cycle, the charges shall be



prorated using a formula the numerator of which is the number of days in the month the Circuit was active and the denominator is 30, multiplied by the monthly recurring charge. HTSC shall not order any new Data Circuits on or after April 1, 2006.

5. Section 6.8 of the Agreement is re-designated as Section 6.8(a) and the following Section 6.8(b) is added:

On and after April 1, 2006, HTSC shall use commercially reasonable efforts promptly to transfer all of its End Users to alternative service arrangements and acknowledges that VSSI will terminate all Services no later than June 1, 2006.

6. Except as expressly amended herein, all terms of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each Party has caused its duly authorized representative to execute this Amendment on such Party's behalf on the date first set forth above.

Verizon Select Services Inc.

Hawaiian Telcom Services Company, Inc.

By: Stephen E. Smith
Title: V.P. – Business Development

By: Alan M. Oshima
Title: SVP, General Counsel & Secretary



Exhibit 10.34

AMENDMENT NO. 3 TO MASTER SERVICES AGREEMENT

This **Amendment No. 3 to Master Services Agreement** (this “Amendment”) is entered into this 23rd day of June 2006 between Hawaiian Telcom Services Company, Inc. (“HTSC”) and Verizon Select Services Inc. (“VSSI”).

WHEREAS, HTSC and VSSI are parties to that certain Master Services Agreement effective May 2, 2005 (as amended by Amendment No 1 and Amendment No 2, the “Agreement”);

WHEREAS, pursuant to the Agreement, VSSI provides HTSC with certain communications and related services; and

WHEREAS, upon the scheduled termination of the Agreement, HTSC intends to cease using Carrier Identification Code (“CIC”) 6224 and begin using a different CIC obtained by HTSC and to transition Data Circuits to an alternative provider;

WHEREAS, the Parties anticipate that HTSC will need to continue to use VSSI’s Services for a limited period of time as it transitions to the new CIC and new Data Circuit provider;

WHEREAS, VSSI and HTSC desire to extend and modify certain aspects of the Agreement to accommodate this transition,

NOW, THEREFORE in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

1. Capitalized terms not otherwise defined herein shall have the meaning given them in the Agreement.
2. In Section 1 of the Agreement, the term “Initial Term” is amended and restated in its entirety as follows:
 “**Initial Term**” shall mean the period commencing on the Effective Date and expiring at 12:01 am Eastern Time, June 28, 2006.
3. For avoidance of doubt, the rates that shall apply to the switched Services provided by VSSI under this Amendment shall be the minute of use rates specified in Annex A, Section B (Prices) as previously amended.



4. Except as expressly amended herein, all terms of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, each Party has caused its duly authorized representative to execute this Amendment on such Party's behalf on the date first set forth above.

Verizon Select Services Inc.

Hawaiian Telcom Services Company, Inc.

By: Stephen E. Smith
 Title: Authorized Representative

By: Alan M. Oshima
 Title: SVP, General Counsel & Secretary



Exhibit 10.35

No. WSG0510-0871
 Date: March 16, 2006
 Page 1 of 2

FIRST AMENDMENT TO SPRINT MASTER SERVICE AGREEMENT

Customer Name: **Hawaiian Telcom Communications, Inc.**
 Address: 1177 Bishop Street
 Honolulu, HI 96813

This First Amendment (WSG0501-0871) is made to the Sprint Master Service Agreement (WSG0501-0023) between **SPRINT COMMUNICATIONS COMPANY L.P.** ("Sprint") and **Hawaiian Telcom Communications, Inc.** ("Customer"), signed by Customer on November 23, 2005 and Sprint on December 5, 2005 (the "Agreement"), as amended by:

| <u>AMENDMENT NUMBER</u> | <u>WSG #</u> | <u>CUSTOMER SIGNATURE DATE</u> | <u>SPRINT SIGNATURE DATE</u> |
|-------------------------|--------------|--------------------------------|------------------------------|
| N/A | N/A | N/A | N/A |

The term "Agreement" as referred to here includes all changes incorporated by previous amendments. The following modified and added terms and conditions are made a part of the Agreement effective March 1, 2006 ("First Amendment Commencement Date"). If during the First Amendment implementation process, a Service bills after the First Amendment Commencement Date at a rate other than the rate stated in this First Amendment, Sprint will adjust Customer's invoice to apply the appropriate rate within 90 days after the date of the invoice containing the incorrect rate.

Sprint and Customer agree as follows:

- The Agreement is amended in Section 2.2 by adding a new Exhibit 5: Wholesale Operator Services (WOS), which is attached and incorporated by this reference.
- The Agreement is amended by adding a new Exhibit 5: Attachment A, which is attached and incorporated by this reference.
- The Agreement is amended by adding a new Exhibit 5: Attachment B, which is attached and incorporated by this reference.
- The Agreement is amended by adding a new Exhibit 5: Attachment C, which is attached and incorporated by this reference.
- The Agreement is amended by adding a new Exhibit 5: Attachment D, which is attached and incorporated by this reference.
- The Agreement is amended by deleting Section 3.3 in its entirety and replacing it with the following:

3.3 Minimum Term Commitment (MTC):

Customer's MTC shall be as set forth in the table below.

| <u>Effective Date of Termination</u> | <u>Minimum Term Commitment</u> |
|--------------------------------------|---|
| During Contract Year 1 | None |
| During Contract Year 2 and 3 | 24 x 70% x A, where A equals the average recurring amounts paid by Customer to Sprint under Exhibits 1, 2, and 5 during the last three (3) months of Contract Year 1. There are no MMCs under this Exhibit. |
| During Renewal Contract Years | None |

- The Agreement is amended by adding new Section 11 to Exhibit 1: Attachment A-1 as follows:

11. Customer Provided Access / Co-Located Access Promotional MRC and NRC Waivers.

RESTRICTED
SPRINT CONFIDENTIAL & PROPRIETARY INFORMATION



No. WSG0510-0871
 Date: March 16, 2006
 Page 2 of 2

FIRST AMENDMENT TO SPRINT MASTER SERVICE AGREEMENT

Customer Name: **Hawaiian Telcom Communications, Inc.**
 Address: 1177 Bishop Street
 Honolulu, HI 96813

Customer Provided Access to the Sprint POP (CPA to POP) Sprint will waive 100% of CPA to the POP Domestic COC MRC and NRC charges on OC12 and lower bandwidth Services local dedicated access CPA to the POP lines installed during the Term.

Customer Provided Access to the Sprint Serving Wire Center (CPA to SWC) Sprint will waive 100% of CPA to the SWC Domestic COC MRC and NRC charges, 50% of CPA to the SWC Domestic EFC MRC charges, and 100% of the CPA to the SWC Domestic EFC NRC charges on OC12 and lower bandwidth Services local dedicated access CPA to the SWC lines installed during the Term.

Co-Located Access (COLOC) Sprint will waive 100% of Domestic Co-Located Access COC MRC charges on OC12 and lower bandwidth Services local access COLOC lines installed during the Term.

8. The Agreement is amended in Exhibit 2 by deleting Exhibit 2: Attachment Frame Relay – 2 in its entirety and replacing it with Exhibit 2: Attachment Frame Relay - 2, which is attached and incorporated by this reference.
9. All other terms and conditions in the Agreement, not amended above, will remain in effect. This Amendment and any information concerning its terms and conditions are Sprint’s proprietary information and are governed by the parties’ nondisclosure agreement. Alterations to this Amendment will not be valid unless accepted in writing by a Sprint officer or authorized designee. To become effective, this Amendment must be:
 - 9.1. Signed by a Customer representative;
 - 9.2. Delivered to Sprint within 45 days after March 16, 2006; and
 - 9.3. Signed by a Sprint officer or authorized designee.

HAWAIIAN TELCOM COMMUNICATIONS, INC.

SPRINT COMMUNICATIONS COMPANY L.P.

By: /s/ David A. Torline
 Name: David A. Torline
 Title: SVP & Chief Information Officer

By: /s/ David A. Falter
 Name: David A. Falter
 Title: Managing Director/Vice President, Wholesale Services Group

Date: March 22, 2006

Date: April 10, 2006

Address: 1177 Bishop Street
 Honolulu, HI 96813

Address: 5020 Riverside Drive
 Irving, TX 75039

Approved as to Legal Form
 LKP 3-16-06

Sprint Law Dept.

RESTRICTED
SPRINT CONFIDENTIAL & PROPRIETARY INFORMATION



Exhibit 31.1

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

I, Michael S. Ruley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian Telcom Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2006

/s/ Michael S. Ruley

Michael S. Ruley
Chief Executive Officer



Exhibit 31.2

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

I, Daniel P. O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian Telecom Communications, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2006

/s/ Daniel P. O'Brien

Daniel P. O'Brien
Senior Vice President and Chief Financial Officer



Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hawaiian Telcom Communications, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael S. Ruley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 14, 2006

/s/ Michael S. Ruley
Michael S. Ruley
Chief Executive Officer



Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hawaiian Telcom Communications, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel P. O'Brien, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 14, 2006

/s/ Daniel P. O'Brien

Daniel P. O'Brien
Senior Vice President and Chief Financial Officer