

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 March 31, 2008

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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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 May 14, 2008: 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)

	Three Months Ended	
	March 31,	
	2008	2007
Operating revenues	\$ 112,435	\$ 125,463
Operating expenses:		
Cost of services and sales (exclusive of depreciation and amortization)	43,435	45,045
Selling, general and administrative	43,758	44,292
Settlement with BearingPoint	-	(45,681)
Depreciation and amortization	39,377	41,748
Total operating expenses	126,570	85,404
Operating income (loss)	(14,135)	40,059
Other income (expense):		
Interest expense	(23,177)	(20,670)
Loss on early extinguishment of debt	(2,662)	-
Loss on interest rate swap	(735)	-
Interest income and other	592	143
Total other expense	(25,982)	(20,527)
Income (loss) from continuing operations before provision for income taxes	(40,117)	19,532
Provision for income taxes	-	1,900
Income (loss) from continuing operations	(40,117)	17,632
Loss from discontinued operations, net of tax	-	(2,095)
Net income (loss)	\$ (40,117)	\$ 15,537

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 93,019	\$ 8,772
Segregated cash	-	271,464
Receivables, net	60,424	65,392
Material and supplies	6,336	6,600
Prepaid expenses	2,184	3,343
Other current assets	5,703	4,890
Total current assets	167,666	360,461
Property, plant and equipment, net	779,364	794,051
Deferred financing and other assets	22,050	25,891
Intangible assets, net	445,894	457,437
Total assets	<u>\$ 1,414,974</u>	<u>\$ 1,637,840</u>
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	\$ 45,521	\$ 54,099
Accrued expenses	37,279	27,396
Income taxes payable	-	1,150
Advance billings and customer deposits	15,830	15,496
Current maturities of long-term debt	-	263,000
Other current liabilities	9,188	16,648
Total current liabilities	107,818	377,789
Long-term debt	1,074,500	989,700
Employee benefit obligations	59,955	57,176
Other liabilities	22,371	11,695
Total liabilities	<u>1,264,644</u>	<u>1,436,360</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	428,811	428,565
Accumulated other comprehensive loss	(17,975)	(6,696)
Accumulated deficit	(260,506)	(220,389)
Total stockholder's equity	<u>150,330</u>	<u>201,480</u>
Total liabilities and stockholder's equity	<u>\$ 1,414,974</u>	<u>\$ 1,637,840</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income (loss)	\$ (40,117)	\$ 15,537
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	39,377	43,675
Deferred income taxes, net	-	1,500
Employee retirement benefits	2,779	4,259
Provision for uncollectibles	2,743	2,218
Write-down of software costs	-	18,593
Loss on early extinguishment of debt	2,662	-
Loss on interest rate swap	735	-
Changes in operating assets and liabilities:		
Receivables	2,225	23,216
Material and supplies	264	916
Other current assets	345	1,332
Accounts payable and accrued expenses	10,114	(48,454)
Other current liabilities	(6,150)	(287)
Other, net	1,453	2,735
Net cash provided by operating activities	16,430	65,240
Cash flows from investing activities:		
Capital expenditures	(22,772)	(16,061)
Transfer of segregated cash	271,464	-
Net cash provided by (used in) investing activities	248,692	(16,061)
Cash flows from financing activities:		
Proceeds from issuance of debt	86,800	16,000
Payment of settlement on interest rate swap	(2,675)	-
Repayment of debt	(265,000)	(65,000)
Net cash used in financing activities	(180,875)	(49,000)
Net change in cash and cash equivalents	84,247	179
Cash and cash equivalents, beginning of period	8,772	4,752
Cash and cash equivalents, end of period	\$ 93,019	\$ 4,931
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 8,951	\$ 15,580
Income taxes paid	1,150	-

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)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholder's Equity
	Shares	Amount				
Balance, January 1, 2008	1,000	\$ -	\$ 428,565	\$ (6,696)	\$ (220,389)	\$ 201,480
Stock based compensation	-	-	246	-	-	246
Net loss	-	-	-	-	(40,117)	(40,117)
Other comprehensive income (loss)						
Loss on cash flow hedging derivatives	-	-	-	(11,336)	-	(11,336)
Unrealized gain on investments	-	-	-	57	-	57
Balance, March 31, 2008	1,000	\$ -	\$ 428,811	\$ (17,975)	\$ (260,506)	\$ 150,330

See accompanying notes to condensed consolidated financial statements.

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

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 with an integrated telecommunications network servicing approximately 545,000 switched access lines as of March 31, 2008. The Company also served approximately 260,000 long distance lines and had 94,000 High-Speed Internet (HSI) connections as of that date.

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, 2007, that are included in the Company's annual report on Form 10-K.

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.

Hawaiian Telcom Holdco, Inc. (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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and money market accounts with maturities at acquisition of three months or less. The majority of cash balances at March 31, 2008 are held in two short-term Treasury money-market accounts.

Segregated Cash

At December 31, 2007, the Company presented segregated cash which represented cash proceeds from the sale of its directories publishing segment as such funds were required to be used to repay long term debt based on an agreement with the Hawaii Public Utilities Commission (HPUC) and terms of its bank debt agreement. As such repayments had been made by March 31, 2008 there is no segregated cash at that date.

Taxes Collected from Customers

The Company presents taxes collected from customers and remitted to governmental authorities on a gross basis, including such amounts in the Company's reported operating revenues. Such amounts represent primarily Hawaii state excise taxes and HPUC fees. Such taxes and fees amounted to \$1.7 million and \$2.5 million for the three months ended March 31, 2008 and 2007, respectively.

Earnings per Share

Because the Company has only one shareholder, Holdco, and has no common stock trading in a public market, information on earnings (loss) per share is not meaningful and has not been presented.

Stock Based Compensation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment," the Company accounts for stock-based compensation at fair value using the prospective method for all new awards granted, modified or settled after January 1, 2006. The following table summarizes the effect on net income (loss) for the three months ended March 31, 2008 and 2007 if the fair value method had been applied to all outstanding options (dollars in thousands):

	Three Months Ended March 31,	
	2008	2007
Net income (loss), as reported	\$ (40,117)	\$ 15,537
Add: Stock option related employee compensation expense included in net income (loss)	246	63
Deduct: Total stock option related employee compensation expense determined under fair value based method for all awards	(393)	(510)
Pro forma net income (loss)	\$ (40,264)	\$ 15,090

Interest expense allocation

Interest expense has been allocated to discontinued operations based on the amount of debt required to be repaid as a result of the sale of the Directories Publishing segment in November 2007. Interest has been allocated for periods prior to the sale.

3. Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This standard requires enhanced disclosures related to derivative instruments and hedging activities. The Company is in the process of evaluating the impact this standard will have on its financial statements. This standard is effective for the Company's fiscal year beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) establishes principles and requirements for how an acquiring Company recognizes and measures the assets acquired (including goodwill), the liabilities assumed and any noncontrolling interest. The Company is in the process of evaluating the impact this standard will have on its financial statements. This standard is effective for the Company's fiscal year beginning January 1, 2009.

4. Discontinued Operations

On April 29, 2007, the Company entered into an agreement to sell its directories publishing segment to an unrelated entity. The sale was consummated on November 30, 2007.

The following table summarizes the results of the discontinued operations, which were reclassified from continuing operations, for the three months ended March 31, 2007 (dollars in thousands):

Operating revenues	\$ 17,670
Operating expenses, includes amortization of \$1,928 for the three months ended March 31, 2007	<u>11,150</u>
Income from operations of discontinued segment	6,520
Interest expense	<u>(9,015)</u>
Loss from discontinued segment before benefit for income taxes	(2,495)
Benefit for income taxes	<u>(400)</u>
Loss from discontinued operations	<u>\$ (2,095)</u>

The net proceeds from the sale were required by the HPUC and the bank debt agreement to be used to repay debt.

5. Receivables

Receivables consisted of the following (dollars in thousands):

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Customers and other	\$ 82,174	\$ 89,433
Allowance for doubtful accounts	<u>(21,750)</u>	<u>(24,041)</u>
	<u>\$ 60,424</u>	<u>\$ 65,392</u>

6. Accrued Expenses

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

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Salaries and benefits	\$ 12,963	\$ 16,732
Other taxes	1,721	1,559
Interest	<u>22,595</u>	<u>9,105</u>
	<u>\$ 37,279</u>	<u>\$ 27,396</u>

7. Long-Term Debt

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

	Interest Rate at March 31, 2008	Final Maturity	March 31, 2008	December 31, 2007
Notes payable to banks, revolving credit facility	4.90%	April 30, 2012	\$ 89,800	\$ 57,000
Notes payable to banks, Tranche C term loan	7.08%	June 1, 2014	484,700	695,700
Senior floating rate notes	10.32%	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
			1,074,500	1,252,700
Current portion			-	263,000
			<u>\$ 1,074,500</u>	<u>\$ 989,700</u>

Notes Payable to Banks

In January 2008, the Company repaid \$211.0 million of the Tranche C debt using the proceeds from the sale of the directories publishing segment. In addition, in January 2008, the Company requested a permanent reduction in the revolving credit facility from \$200.0 million to \$150.0 million. As a result of the repayment of debt and reduction in the availability on the revolving credit facility, the Company expensed \$2.7 million of deferred financing costs resulting in a loss on early extinguishment of debt.

The revolving credit facility has a principal balance of \$150.0 million that will mature on April 30, 2012. Of the \$150.0 million revolver commitment, only \$90.0 million is currently available to the Company though the Company may elect, on or before June 1, 2008, to increase the available commitment by up to the full \$150.0 million pursuant to HPUC approval, which the Company requested in February 2008. As of March 31, 2008, the revolving credit facility had an outstanding balance of \$89.8 million and a \$0.2 million outstanding letter of credit balance.

One of the syndicated lenders is an affiliate of The Carlyle Group, a private equity firm, with an approximately three percent participation in the Tranche C term loan. The Carlyle Group formed the Company as its sponsor and is deemed an affiliate of the Company.

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 maintains interest rate swap agreements to manage fluctuations in cash flows resulting from adverse changes in interest rates on its term loans and notes. The interest rate swap agreements have a cumulative notional amount that ranges from \$461.8 million at March 31, 2008 to a balance of \$202.4 million at maturity on December 31, 2010.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with the Company's variable-rate debt obligations are reported in accumulated other comprehensive loss. These amounts are subsequently reclassified into interest expense as a yield adjustment of the hedged interest payment in the same period in which the related interest payments affect earnings. For the three months ended March 31, 2008 and 2007, the Company had a \$11.3 million and a \$3.1 million unrealized loss, respectively, included in other comprehensive income (loss). The fair value of the interest rate swap reflecting a liability of \$16.1 million and \$6.5 million is included in other current liabilities and other liabilities, as applicable, on the condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007, respectively. For the three months ended March 31, 2008, the ineffectiveness related to the change in fair value of the hedges resulted in a loss on the interest rate swap of \$0.7 million recognized in the condensed consolidated statement of operations.

In January 2008, the Company terminated one of its swaps with a notional value of \$115.4 million. As a result, the Company paid \$2.7 million which represented the fair value of the hedge on the settlement date. The swap was previously designated as a cash flow hedge maturing December 31, 2010. The fair value adjustments to the hedged instrument are being recognized as an increase to interest expense over the remaining term of the previously hedged instrument.

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.

The Company accrues the costs 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 benefit costs (income) for the three months ended March 31, 2008 and 2007 (dollars in thousands):

Pension

	Three Months Ended	
	March 31,	
	2008	2007
Service cost	\$ 2,019	\$ 3,227
Interest cost	2,854	3,112
Expected asset return	(3,260)	(3,903)
Net periodic benefit cost	1,613	2,436
Termination benefit cost	420	1,860
Settlement gain	-	(876)
Total benefit cost	<u>\$ 2,033</u>	<u>\$ 3,420</u>

Other Postretirement Benefits

	Three Months Ended	
	March 31,	
	2008	2007
Service cost	\$ 327	\$ 398
Interest cost	577	548
Net periodic benefit cost	<u>\$ 904</u>	<u>\$ 946</u>

During the first quarter of 2008, the Company provided an early retirement benefit to selected employees in conjunction with a planned reduction in the Company's workforce. The cost of such benefit amounted to \$0.4 million.

During the first quarter of 2007, the Company provided an early retirement benefit to selected employees. The cost of such benefit amounted to \$1.9 million. Upon retirement, the majority of such employees elected lump sum payments resulting in deemed settlements of \$22.0 million and a gain on settlement of \$0.9 million. In addition, the Company froze the benefits in the pension plan for nonunion employees effective April 1, 2007.

The Company previously disclosed in its financial statements for the year ended December 31, 2007 that it expected to contribute \$0.6 million to its pension plan in 2008. As of March 31, 2008, no contributions have been made. The Company presently anticipates contributing the full amount during the remainder of 2008.

10. Income Taxes

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

	Three Months Ended	
	March 31,	
	2008	2007
Expense (benefit) at federal rate	\$ (14,041)	\$ 6,836
Increase (decrease) resulting from:		
State income taxes, net of federal benefit	(1,605)	781
Valuation allowance	15,646	(5,717)
Provision for income taxes	<u>\$ -</u>	<u>\$ 1,900</u>

A valuation allowance has been provided at March 31, 2008 and December 31, 2007 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 periods 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.

The Company evaluates its tax positions in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109." As of March 31, 2008, the Company had no unrecognized tax benefits. No interest or penalties related to tax assessments were recognized in the Company's statements of operations for the three months ended March 31, 2008 or 2007. All tax years since the Company's inception in 2004 remain open for both federal and Hawaii state purposes.

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 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 greater than or equal to the fair value of the common stock of Holdco on the date the stock option is granted.

The Company recognized compensation expense of \$0.2 million and \$0.1 million during the three months ended March 31, 2008 and 2007, respectively.

12. Comprehensive Income (Loss)

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

	Three Months Ended	
	March 31,	
	2008	2007
Net income (loss)	\$ (40,117)	\$ 15,537
Other comprehensive loss -		
Gains (losses) on cash flow hedging derivatives	(11,336)	(3,067)
Unrealized gain (loss) on investments	57	(1)
Other comprehensive loss	(11,279)	(3,068)
Comprehensive income (loss)	\$ (51,396)	\$ 12,469

13. Commitments and Contingencies

BearingPoint

The Company had previously engaged BearingPoint to build and operate an information technology solution environment including software applications and systems and hardware that the Company uses in its business. Effective February 6, 2007, the Company and BearingPoint entered into an agreement to settle disputes and transition work to a third party resulting in a gain on settlement of \$45.7 million. The settlement gain was net of a charge for \$18.6 million representing the write-down of certain software costs for the estimated additional costs to remediate deficiencies in certain systems that had been developed by BearingPoint.

Litigation

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

14. Transactions with The Carlyle Group

In 2005, the Company entered into a management consulting agreement with The Carlyle Group (the “Sponsor”). The agreement allows the Company access to the Sponsor’s expertise in areas such as corporate management, financial transactions, product strategy, investment, acquisitions and other matters that relate to the Company’s business, administration and policies. Under the agreement, the Company incurred advisory fees of \$0.3 million for both the three months ended March 31, 2008 and 2007.

15. Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements,” which provides a framework for measuring fair value. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that the Company believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs of the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

There were no significant assets measured at fair value on a recurring basis at March 31, 2008. Liabilities measured at fair value on a recurring basis reflect derivative liabilities at March 31, 2008 and are as follows (dollars in thousands):

Fair value measurements at March 31, 2008 using:	
Quoted prices in active markets for identical assets (Level 1)	\$ -
Significant other observable inputs (Level 2)	16,100
Significant unobservable inputs (Level 3)	-
	<u>\$ 16,100</u>

16. Segment Information

The Company operates in two reportable segments (Wireline Services and Other) based on how resources are allocated and performance is assessed by the Company’s chief operating decision maker. The Wireline Services segment provides local telephone service including voice and data transport, enhanced custom calling features, network access, directory assistance and private lines. In addition, the Wireline Services segment provides HSI, long distance services, customer premise equipment, data solutions, billing and collection, and pay telephone services. The Company also is currently incurring certain costs related to the development of a video services offering. The Other segment consists primarily of wireless services.

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

	Wireline Services	Other	Intersegment Elimination	Total
For the three months ended and as of March 31, 2008				
Operating revenues	\$ 110,069	\$ 2,680	\$ (314)	\$ 112,435
Depreciation and amortization	39,345	32	-	39,377
Loss from continuing operations	(39,519)	(284)	(314)	(40,117)
Capital expenditures	22,772	-	-	22,772
Assets	1,413,783	1,191	-	1,414,974
Assets as of December 31, 2007				
	\$ 1,636,413	\$ 1,427	\$ -	\$ 1,637,840
For the three months ended March 31, 2007				
Operating revenues	\$ 123,163	\$ 2,576	\$ (276)	\$ 125,463
Depreciation and amortization	41,748	-	-	41,748
Income (loss) from continuing operations	19,979	(2,071)	(276)	17,632
Capital expenditures	16,061	-	-	16,061

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

Forward-Looking Statements

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

- our ability to operate as a stand-alone telecommunications provider;
- our ability to build and operate the IT infrastructure;
- 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 annual report on Form 10-K for the year ended December 31, 2007 for a detailed discussion of 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.

Segments and Sources of Revenue

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

Overview

We operate the incumbent local telecommunications company that serves business and residential customers in the State of Hawaii. We offer our customers a variety of telecommunication services including local telephone, network access, long distance, High-Speed Internet (HSI) and other Internet, and other telecommunication services and sales. At March 31, 2008, we had approximately 640,000 switched access lines and HSI lines.

Wireline Services

The Wireline Services segment derives revenue from the following sources:

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

Network Access Services – We receive revenue 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.

Internet Services – We provide HSI and dial-up Internet to our residential and business customers.

Other Telecommunication Services and Sales – Other services and sales include inside wire maintenance, and installation and maintenance of customer premise equipment. We are also incurring certain costs related to the potential development of a potential video services offering.

Other

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

Results of Operations

We reported a net loss of \$40.1 million and net income of \$15.5 million for the three months ended March 31, 2008 and 2007, respectively.

Recent Developments

During the first quarter of 2008, the Company's Chief Executive Officer along with certain other senior executives resigned and the Board of Directors engaged Kroll Zolfo Cooper LLC, a corporate recovery and advisory firm, to provide interim executive management services to the Company. From October 2007 through the first quarter of 2008, we reduced our management headcount by approximately 100 positions. We have taken a number of other initiatives designed to improve the Company's operating results. These include efforts to improve and simplify our product offerings, improve our customer service experience, increase our revenue enhancement activities and improve cost efficiencies.

Operating Revenues

The following tables summarize our volume and revenue information as of or through March 31, 2008 and March 31, 2007. For comparability, we also present customer activity as of March 31, 2008 compared to December 31, 2007.

Volume Information

March 2008 compared to March 2007

	March 31, 2008	March 31, 2007	Change	
			Number	Percentage
Switched access lines				
Residential	317,858	357,809	(39,951)	-11.2%
Business	222,065	231,079	(9,014)	-3.9%
Public	5,525	5,676	(151)	-2.7%
	<u>545,448</u>	<u>594,564</u>	<u>(49,116)</u>	<u>-8.3%</u>
High-Speed Internet lines				
Residential	76,747	74,988	1,759	2.3%
Business	15,932	15,990	(58)	-0.4%
Wholesale	1,551	1,821	(270)	-14.8%
	<u>94,230</u>	<u>92,799</u>	<u>1,431</u>	<u>1.5%</u>
Long distance lines				
Residential	175,961	189,284	(13,323)	-7.0%
Business	84,237	86,252	(2,015)	-2.3%
	<u>260,198</u>	<u>275,536</u>	<u>(15,338)</u>	<u>-5.6%</u>

March 2008 compared to December 2007

	March 31, 2008	December 31, 2007	Change	
			Number	Percentage
Switched access lines				
Residential	317,858	328,370	(10,512)	-3.2%
Business	222,065	226,483	(4,418)	-2.0%
Public	5,525	5,564	(39)	-0.7%
	<u>545,448</u>	<u>560,417</u>	<u>(14,969)</u>	<u>-2.7%</u>
High-Speed Internet lines				
Residential	76,747	76,091	656	0.9%
Business	15,932	15,776	156	1.0%
Wholesale	1,551	1,579	(28)	-1.8%
	<u>94,230</u>	<u>93,446</u>	<u>784</u>	<u>0.8%</u>
Long distance lines				
Residential	175,961	179,215	(3,254)	-1.8%
Business	84,237	84,667	(430)	-0.5%
	<u>260,198</u>	<u>263,882</u>	<u>(3,684)</u>	<u>-1.4%</u>

Operating Revenues (dollars in thousands)

	Three Months Ended March 31,		Change	
	2008	2007	Amount	Percentage
Wireline Services				
Local services	\$ 49,582	\$ 53,937	\$ (4,355)	-8.1%
Network access services	33,110	40,730	(7,620)	-18.7%
Long distance services	8,963	8,273	690	8.3%
High-Speed Internet and other Internet	8,800	9,028	(228)	-2.5%
Other services and sales	9,614	11,195	(1,581)	-14.1%
	<u>110,069</u>	<u>123,163</u>	<u>(13,094)</u>	<u>-10.6%</u>
Other	2,366	2,300	66	2.9%
	<u>\$ 112,435</u>	<u>\$ 125,463</u>	<u>\$ (13,028)</u>	<u>-10.4%</u>

For the three months ended March 31, 2008, local services revenues decreased \$4.4 million, or 8.1%, compared to same period in 2007. The decrease in revenues was caused by the decline in switched access lines.

The decline in switched access lines reflects two categories of factors:

- General industry trends – continued competition in the telecommunications industry has increasingly resulted in customers using technologies other than traditional phone lines for voice and data. Residential customers are increasingly moving local voice service to VoIP technology offered by cable providers, as well as using wireless services in place of traditional wireline. Also, residential “second lines” continue to be disconnected as customers switch from dial-up Internet services to HSI and cable broadband service. Additionally, Competitive Local Exchange Carriers (CLECs) continue to focus on business customers and selling services to our customer base.
- Specific impact of our systems implementation effort -- our on-going effort to stabilize our systems has limited our ability to launch new products and robustly support customer service requirements for both residential and business customers. As our systems stabilization progresses, the impact of this effort is expected to have a diminished effect on switched access line loss.

In an effort to slow the rate of line loss, we have instituted retention and acquisition programs, and are increasingly focusing efforts on bundling of services. We have instituted a “saves” campaign designed to focus on specific circumstances where we believe customer churn is controllable. This campaign includes certain promotional tools designed to enhance customer retention. We are also reemphasizing win-back and employee referral programs. Additionally, we are intensifying our efforts relative to developing tools and training to enhance our customer service capability to improve customer retention.

For the three months ended March 31, 2008, network access services revenue decreased by \$7.6 million or 18.7%, compared to the three months ended March 31, 2007. Network access revenue in the first quarter of 2007 was beneficially impacted by revenue assurance efforts that concluded with back-billing to certain wholesale customers amounting to approximately \$3.3 million. Network access revenue also decreased due to the erosion of switched access lines as well as billing adjustments in connection with the resolution of various wholesale disputes recognized in the first quarter of 2008.

Long distance revenues increased \$0.7 million, or 8.3%, for the quarter ended March 31, 2008 compared to the quarter ended March 31, 2007 reflecting, in part, a higher than normal volume of billing credits that adversely impacted the first quarter of 2007 related to the resolution of various billing matters.

HSI and other Internet revenues decreased \$0.2 million, or 2.5%, for three months ended March 31, 2008 compared to the same period in the prior year. The decrease was primarily due to competitive rate pressures resulting in a reduction in rates. Late in 2007, the Company began offering HSI residential customers the option of purchasing higher speed services in an effort to enhance revenues and attract new customers. The higher speed services are made possible by recent enhancements to our network. We believe this premium-priced offering will mitigate the impact of promotional pricing.

Other services and sales decreased \$1.6 million, or 14.1%, for the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The decrease was related to the decline in sales and installations of customer premise equipment.

Other revenues, primarily consisting of revenues generated from our wireless operation, were flat for the three months ended March 31, 2008 compared to the same period in the prior year. We had approximately 17,100 external wireless subscribers as of March 31, 2008.

Transition Costs and Other Cost Structure Changes

We are continuing to incur certain expenses in our efforts to become a stand-alone provider of telecommunication services as well as certain costs associated with the realignment of our management workforce. In addition, the Company continues to incur costs related to systems remediation and manual work around efforts. These expenses, referred to as contingency costs (both for internal labor and contracted services), represent additional amounts paid to external vendors and internal personnel to maintain acceptable operating performance until certain system remediation work led by Accenture can be completed. The major components of such expenses incurred for the three months ended March 31, 2008 and 2007 are summarized as follows (dollars in thousands):

	Three Months Ended March 31,	
	2008	2007
Employee separation costs	\$ 3,416	\$ 893
Pension termination benefits	420	984
Transition management team	1,063	-
Contingency internal labor costs	-	625
Contingency contracted services	1,871	6,323
Other	847	594
	<u>\$ 7,617</u>	<u>\$ 9,419</u>

Operating Costs and Expenses

The following table summarizes our costs and expenses for the three months ended March 31, 2008 compared to the costs and expenses for the three months ended March 31, 2007 (dollars in thousands):

	Three Months Ended March 31,		Change	
	2008	2007	Amount	Percentage
Costs of services and sales	\$ 43,435	\$ 45,045	\$ (1,610)	-3.6%
Selling, general and administrative expenses	43,758	44,292	(534)	-1.2%
Settlement with BearingPoint	-	(45,681)	45,681	-100.0%
Depreciation and amortization	39,377	41,748	(2,371)	-5.7%
	<u>\$ 126,570</u>	<u>\$ 85,404</u>	<u>\$ 41,166</u>	<u>48.2%</u>

The Company's total headcount as of March 31, 2008 was 1,499 compared to 1,697 as of March 31, 2007. Employee related costs are included in both cost of services and sales and selling, general and administrative expenses.

Cost of services and sales consists of costs we incur to provide our products and services including those for operating and maintaining our networks, installing and maintaining customer premise equipment, and cost of goods sold directly associated with various products. Costs of services and sales decreased by \$1.6 million, or 3.6%, for the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The decrease was primarily caused by the decline in costs related to sales and installations of customer premise equipment.

Selling, general and administrative expenses include costs related to sales and marketing, customer service, information systems and other administrative functions. Selling, general and administrative expenses decreased by \$0.5 million, or 1.2%, for the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The decrease for the three month period is primarily attributed to our cost reduction efforts including lower salaries and wages in connection with the reduction in headcount, reductions in pension and other benefits, reduced taxes (other than income taxes) on lower revenues and reduced advertising costs. These cost reduction efforts were partially offset by severance costs as a result of employee separations during the first quarter of 2008.

Effective February 6, 2007, the Company and BearingPoint entered into an agreement to settle disputes and transition work to a third party resulting in a gain on settlement of \$45.7 million. The settlement gain was net of a charge for \$18.6 million representing the write-down of certain software costs for the estimated additional costs to remediate deficiencies in certain systems that had been developed by BearingPoint.

Depreciation and amortization decreased by \$2.4 million, or 5.7%, for the three months ended March 31, 2008 compared to same period in 2007. The decrease resulted primarily from the reduced declining balance rates for intangible amortization and certain assets which became fully depreciated in 2007.

Interest Expense

Interest expense increased by \$2.5 million, or 12.1%, for the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The increase was primarily because of additional debt when adjusted for the allocation of interest expense to the directories publishing segment for the quarter ended March 31, 2007. Interest expense on debt repaid using the proceeds from the sale of the directories publishing segment has been allocated to discontinued operations. Subsequent to the sale of the directories publishing segment on November 30, 2007, all interest on the remaining debt is allocated to continuing operations.

Income Tax Expense

A valuation allowance has been provided at March 31, 2008 and December 31, 2007 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.

Discontinued Operations

Loss from discontinued operations is attributable to our directories publishing business. On April 29, 2007, we entered into an agreement to sell our directories publishing segment. The sale was consummated on November 30, 2007.

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, in such situation we may not have 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 \$16.4 million for the three months ended March 31, 2008 was related primarily to our net loss of \$40.1 million as adjusted to exclude non-cash items and working capital movements of \$56.5 million. The most significant non-cash item during the period was depreciation and amortization expense of \$39.4 million. Net cash provided by operations amounted to \$65.2 million for the three months ended March 31, 2007. The first quarter of 2007 included a receipt of \$52.0 million in conjunction with the BearingPoint settlement.

Cash provided by investing activities was \$248.7 million for the three months ended March 31, 2008. Cash used in investing activities was \$16.1 million for the three months ended March 31, 2007. In the first quarter of 2008, capital expenditures amounted to \$22.8 million, an increase of \$6.7 million from the same period in the prior year. The increase was because of payments related to information technology projects completed in late 2007. We continue to expect our 2008 capital expenditures to be lower than 2007 capital expenditures primarily related to lower levels of spending for our back-office and IT infrastructure. Transfers from segregated cash (cash obtained from the sale of the directories publishing segment to be used to repay long-term debt) amounted to \$271.5 million in the first quarter of 2008.

Cash used in financing activities was \$180.9 million and \$49.0 million for the three months ended March 31, 2008 and 2007, respectively. All financing activities related to borrowing activity. In January 2008, we repaid \$261.0 million of debt with the remaining proceeds from the sale of the directories publishing segment including \$211.0 million of Tranche C term debt and \$50.0 million on our revolving credit facility. In March 2008, we borrowed the remaining available principal amount under our revolving credit facility thereby increasing the total amount drawn under our revolver to \$89.8 million and a \$0.2 million letter credit balance at the end of the first quarter. We drew the remaining available balance on our revolving credit facility in response to uncertain conditions in financial markets.

Outstanding Debt and Financing Arrangements

As of March 31, 2008, we had outstanding \$1,074.5 million in aggregate indebtedness.

The revolving credit facility has a commitment of \$150.0 million that will mature on April 30, 2012. Of the \$150.0 million revolver commitment, only \$90.0 million is currently available to us and has been drawn though we may elect, on or before June 1, 2008, to increase the available commitment up to the full \$150.0 million pursuant to HPUC approval, which we requested in February 2008. Our ability to draw on any incremental revolver capacity is subject to the terms and covenants governing our debt arrangements, including limitations on indebtedness and liens pursuant to the terms of the indentures governing our senior notes and senior subordinated notes.

Our credit facilities contain various negative and affirmative covenants that restrict, among other things, incurrence of additional indebtedness, payment of dividends, redemptions of stock, other distributions to shareholders and sales of assets. In addition, there are financial covenants consisting of a leverage ratio and a maximum level of capital expenditures.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and certain transition related expenses will depend on our ability to generate cash in the future. This ability, to a certain extent, is subject to general economic, competitive, regulatory and other factors that are beyond our control. We cannot provide assurance that our business will generate sufficient cash flow from operations or that future borrowing will be available to us under our revolving credit facility to enable us to pay our indebtedness or to fund our other liquidity needs. In addition, our cost structure may be higher than currently anticipated. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot provide assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Contractual Obligations

During the three months ended March 31, 2008, the Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2007 in our Form 10-K with the exception of the balance on our revolving credit facility which is now \$89.8 million.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. The Company's critical accounting policies that require the use of estimates and assumptions were discussed in detail in our annual report on Form 10-K for the year ended December 31, 2007, and have not changed materially from that discussion.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2008, our floating rate obligations consisted of \$89.8 million of debt outstanding under our revolving credit facility, \$484.7 million of debt outstanding under our Tranche C term loan facility and \$150.0 million in aggregate principal amount of outstanding senior floating rate notes. Accordingly, our earnings and cash flow are affected by changes in interest rates. Based on our borrowings at March 31, 2008 and assuming a 0.125 percentage point increase in the average interest rate under these borrowings, we estimate that our annual interest expense would increase by approximately \$0.9 million if not otherwise impacted by the interest rate swap agreements described below.

We utilize a combination of fixed-rate and variable-rate debt to finance our operations. The variable-rate debt exposes us to variability in interest payments due to changes in interest rates. Our management believes that it is prudent to mitigate our interest rate risk on a portion of our variable-rate borrowings.

To manage fluctuations in cash flows resulting from adverse changes in interest rates on our term loan facilities and notes, we maintain interest rate swap agreements to hedge against the effects of increases in interest rates associated with floating rate debt on our term loan facilities and notes. The interest rate swap agreements have a cumulative notional amount that ranges from \$461.8 million at March 31, 2008 to a balance of \$202.4 million at maturity on December 31, 2010. The fixed rate is 4.36% from December 31, 2006 to December 31, 2010. The interest rate swaps effectively change the variable-rate cash flow exposure on our debt obligations to fixed cash flows. Under the terms of the interest rate swap agreements, we receive fluctuating interest rate payments and make fixed rate payments, thereby creating the equivalent of fixed-rate interest payments. We do not speculate using derivative financial instruments and do not enter into derivative instruments for any purpose other than cash-flow-hedging purposes. The fair value of the swap amounted to a liability of \$16.1 million as of March 31, 2008. Changes in the fair value of these swaps are recognized in other comprehensive income to the extent of the swaps' effectiveness.

By using derivative financial instruments to hedge exposures to changes in interest rates, we expose ourselves to market risk. Market risk may involve the adverse or beneficial effects on the value of a financial instrument resulting from changes in interest rates. While we expect such changes in value may be significant, the market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Market risk may have significantly changed the value of our swap agreements subsequent to the date of the most recent balance sheet presented.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) as of March 31, 2008 (the “Evaluation Date”). Based upon that evaluation the Chief Executive Officer and Chief Financial Officer conclude that, as of the Evaluation Date, our disclosure controls and procedures were not effective as a result of the material weaknesses described below. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those written policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company’s financial reporting.

Our management assessed the effectiveness of the Company's internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) as of March 31, 2008, and this assessment identified the following material weaknesses in the Company's internal control over financial reporting:

1. We did not maintain effective control for revenues related to completeness, accuracy and timeliness of transactions. Specifically, there is a lack of validation procedures to ensure that services ordered by our customers are provisioned completely, accurately and timely. In addition, effective controls do not exist to ensure that valid customer orders are ultimately transmitted to our billing systems. Timely reconciliations do not exist between ordering and provisioning systems or provisioning to billing systems.

The majority of the information technology systems utilized to process revenue transactions were implemented on or after March 31, 2006. We are still making modifications and enhancements to certain of these systems as well as certain internal control processes associated with these systems. We continue to experience system functionality issues which prevent certain orders from flowing through seamlessly to our billing systems. This condition causes data to not be synchronized between systems. These current system functionality limitations introduce data integrity concerns and risk of error for certain revenue transactions.

Our remediation efforts are ongoing and management is committed to addressing this material weakness as expeditiously as possible. We have established a task force that has responsibility for reviewing and enhancing the business processes, workflows and internal control procedures related to order entry, provisioning and billing. We also have a team that is responsible for identifying differences between our ordering, provisioning and billing systems, establishing thresholds for acceptable differences and developing processes for resolving differences above established thresholds. In addition, we engaged the services of Accenture as a strategic partner with specific expertise in information technology processes. These continuing activities are intended to facilitate improvement in the functionality of our systems and operation of internal controls.

2. We did not maintain effective controls over our accounting for property, plant and equipment related to fixed assets, project costing and recording of asset retirements.

Our fixed asset subsidiary ledger and our project costing records for telephone plant under construction were not reconciled to the general ledger on a timely basis to ensure complete and accurate financial reporting. Also, the project costing subsidiary ledger was not reviewed in a timely manner to properly update project status, creating discrepancies between the project costing subsidiary ledger and the general ledger.

In addition, the existing process to track and record the retirement of assets is not effective to ensure that disposals and retirements are recorded completely and accurately. Retirements are recorded through estimates and such estimates do not include non-network fixed asset categories. Retirements for non-network fixed asset categories are recorded annually.

Our remediation efforts are ongoing and include an effort to synchronize the status of the project costing records for telephone plant under construction to those maintained by our engineering department, thus facilitating the reconciliation of the project costing subsidiary ledger to the general ledger. We had completed a reconciliation of our fixed asset subsidiary ledger to the general ledger as of December 31, 2007 and are in the process of developing a monthly reconciliation routine. In addition, we are developing a process for accounting personnel to receive actual retirement information to facilitate recording disposals and retirements on a timely and accurate basis.

3. We did not maintain effective controls over access to certain information technology systems, including lack of policies and procedures to ensure the existence of proper authorizations, periodic reviews of security configurations, formal review over administrator activity and procedures for application access removal.

Our remediation efforts are ongoing and include updating formal information technology security policies and procedures to include definition and responsibility assignment of overall IT governance, for application system and shared drive owners, for all user access requests and user access removals, and periodic reviews of security configurations.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Other than ordinary routine litigation incidental to the business, we are not involved in any material pending legal proceedings that are likely to have a material adverse effect on us.

Item 5. Other Information

As previously disclosed in a Current Report on Form 8-K filed by Hawaiian Telcom Communications, Inc. (the “Company”) on May 12, 2008, Eric K. Yeaman was named President and Chief Executive Officer of the Company effective June 16, 2008. An employment agreement (the “Employment Agreement”) subsequently was entered into between Mr. Yeaman and Hawaiian Telcom Holdco, Inc. (“Holdco”), the parent of the Company, to serve as President and Chief Executive Officer of Holdco and its subsidiaries, including the Company. The Employment Agreement commences on June 16, 2008, has an initial term of four years, and will be automatically extended for successive one-year periods unless either party gives notice of non-extension. Under the Employment Agreement, Mr. Yeaman will receive an annual base salary of \$600,000 and be eligible to participate in an annual performance-based bonus plan at a target level of 100% of his base salary paid in the applicable year, subject to a maximum of 200% of base salary. For fiscal year 2008, Mr. Yeaman’s bonus will be calculated as though he had been employed by the Company for the full year and will be a minimum of \$450,000. In addition, Mr. Yeaman is entitled to receive a cash “realization bonus” in the event of (i) a change in control which closes prior to any qualified initial public offering or (ii) certain exit events by Holdco’s principal stockholder and certain affiliates as described in the Employment Agreement following a change in control but prior to the closing on a qualified initial public offering, the amount of which would be calculated in accordance with a formula tied to the amount of consideration paid in such change in control or exit event, as more fully described in the Employment Agreement. Mr. Yeaman also is entitled to receive a stock option (the “Stock Option”) to purchase 42,800 shares of Holdco common stock at a price of \$100 per share, subject to the terms and conditions of the Employment Agreement. The Stock Option will only become exercisable if a qualified initial public offering occurs prior to the complete disposition of the principal stockholder’s (and any of its affiliates’) equity and debt interest in Holdco, and will become exercisable with respect to a portion of the shares it covers, determined in accordance with a formula tied to the offering price in such initial public offering, as more fully described in the Employment Agreement. In the event the Employment Agreement is terminated by Holdco without “cause” or by Mr. Yeaman for “good reason”, subject to Mr. Yeaman’s execution of a general release in Holdco’s customary form, Holdco will pay Mr. Yeaman a lump-sum severance equal to three times the sum of his annual base salary and his target level annual bonus. A copy of the Employment Agreement is attached hereto as Exhibit 10.1 and incorporated herein by reference.

As previously disclosed in a Current Report on Form 8-K filed by the Company on May 12, 2008, Alan M. Oshima will be transitioning from Senior Vice President and General Counsel to Senior Advisor. On May 13, 2008, Holdco entered into a consulting agreement with Mr. Oshima’s company, AMO Consulting, LLC (the “Consulting Agreement”), pursuant to which Mr. Oshima will serve as a Senior Advisor to Holdco and perform services as authorized by the Chief Executive Officer. Such services shall not include legal services or the fiduciary duties and responsibilities as a member of Holdco’s Board of Directors. The Consulting Agreement is effective June 1, 2008 and has a one-year term which may be terminated by either party after six months and may be extended by mutual agreement. The monthly consulting fee will be \$46,000 plus Hawaii general excise taxes during the first six months of the term, and \$20,000 plus Hawaii general excise taxes thereafter. A copy of the Consulting Agreement is attached hereto as Exhibit 10.2 and incorporated herein by reference.

As previously disclosed in a Current Report on Form 8-K filed by the Company on May 12, 2008, Robert F. Reich was appointed permanent Chief Financial Officer of the Company effective May 6, 2008. On May 13, 2008, the Company and Mr. Reich entered into an amendment to Mr. Reich's employment agreement (the "Amendment") to reflect his position as Senior Vice President and Chief Financial Officer of the Company. Under the Amendment, (i) Mr. Reich's annual base salary increased to \$235,000 effective March 7, 2008 and further increased to \$312,000 effective May 6, 2008, (ii) his target level bonus was increased to 75% of his bonus-eligible salary, (iii) he is eligible to receive one or more additional stock option grants in amounts to be determined by the Board or the Compensation Committee, (iv) he is entitled to participate in the Company employee benefit plans and programs made available to Senior Vice Presidents of the Company, and (v) he will no longer be entitled to receive a housing allowance following May 2008. In the event of termination without cause, subject to the terms and conditions specified in the Amendment, Mr. Reich will be entitled to (i) continued payment of his base salary and continued group health benefits for up to one year following the date of termination, (ii) a pro-rated bonus for the year of termination, and (iii) if such termination occurs prior to the third anniversary following the effective date of his employment agreement, reimbursement for (a) reasonable relocation expenses incurred to relocate back to the mainland United States and (b) real estate commissions on the sale of his home in Hawaii, subject to limitations set forth in the Amendment. A copy of the Amendment is attached hereto as Exhibit 10.3 and incorporated herein by reference.

Item 6. Exhibits

See Exhibit Index following the signature page of this Report.

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.

May 14, 2008

/s/ Stephen F. Cooper
Stephen F. Cooper
Chief Executive Officer

May 14, 2008

/s/ Robert F. Reich
Robert F. Reich
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

- 10.1 Employment Agreement, dated as of May 9, 2008 and effective June 16, 2008 by and between Hawaiian Telcom Holdco, Inc. and Eric K. Yeaman.
- 10.2 Consulting Agreement, dated as of May 13, 2008, by and between Hawaiian Telcom Holdco, Inc. and AMO Consulting, LLC.
- 10.3 Amendment dated May 13, 2008 to employment letter agreement, effective as of March 8, 2007, by and between Robert F. Reich and Hawaiian Telcom Communications, Inc.
- 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.

Employment Agreement

This Employment Agreement (the “Agreement”) dated as of May 9, 2008 and effective June 16, 2008 (the “Effective Date”), is made by and between Hawaiian Telcom Holdco, Inc. (together with any successor thereto, the “Company”) and Eric K. Yeaman (the “Executive”).

RECITALS

- A. It is the desire of the Company to assure itself of the services of the Executive by engaging the Executive to perform services under the terms hereof.
- B. The Executive desires to provide services to the Company on the terms herein provided.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements set forth below the parties hereto agree as follows:

1. Certain Definitions.

- (a) “Affiliate” shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, such Person where “control” shall have the meaning given such term under Rule 405 of the Securities Act. For the purpose of the Plan and Agreement, Affiliates of Carlyle Partners III, L.P., a Delaware limited partnership, shall include all Persons directly or indirectly controlled by TC Group, LLC, a Delaware limited liability company.
 - (b) “Annual Base Salary” shall have the meaning set forth in Section 3(a).
 - (c) “Board” shall mean the Board of Directors of the Company.
 - (d) The Company shall have “Cause” to terminate the Executive’s employment hereunder upon:
 - (i) the Executive’s failure to follow a legal order of the Board, other than any such failure resulting from the Executive’s Disability, and such failure is not remedied within 30 days after receipt of written notice;
 - (ii) Executive’s gross or willful misconduct in the performance of duties that causes or is reasonably likely to cause damage to the Company;
 - (iii) Executive’s conviction of a felony or crime involving material dishonesty or moral turpitude;
 - (iv) Executive’s fraud or personal dishonesty involving the Company’s assets; or
-

- (v) the Executive's unlawful use (including being under the influence) or possession of illegal drugs on the Company's premises or while performing the Executive's duties and responsibilities under this Agreement.
- (e) "Change in Control" shall mean a change in ownership or control of the Company effected through a transaction or series of transactions (other than an offering of Common Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries, a Principal Stockholder, any Affiliate of a Principal Stockholder or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company or a Principal Stockholder) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's securities outstanding immediately after such acquisition; provided, that the transaction or event described in this subsection constitutes a "change in control event," as defined in Treasury Regulation §1.409A-3(i)(5).
- (f) "Common Stock" shall mean the common stock, par value \$0.01 per share, of the Company.
- (g) "Company" shall have the meaning set forth in the preamble hereto.
- (h) "Compensation Committee" means the Compensation Committee of the Board.
- (i) "Date of Termination" shall mean (i) if the Executive's employment is terminated by his death, the date of his death; or (ii) if the Executive's employment is terminated pursuant to Section 4(a)(ii) – (vi) either the date indicated in the Notice of Termination or the date specified by the Company pursuant to Section 4(b), whichever is earlier.
- (j) "Disability" shall mean the absence of the Executive from the Executive's duties to the Company on a full-time basis for a total of six months during any 12-month period as a result of incapacity due to mental or physical illness which is determined to be reasonably likely to extend beyond the completion of the Term and which determination is made by a physician selected by the Executive and acceptable to the Company or the Company's legal representative (such agreement as to acceptability not to be withheld unreasonably). A Disability shall not be "incurred" hereunder until, at the earliest, the last day of the sixth month of such absence.
- (k) "Executive" shall have the meaning set forth in the preamble hereto.
- (l) "Executive Bonus Plan" shall have the meaning set forth in Section 3(b).

- (m) “Exit Event” shall mean any disposition of (a) a debt interest in the Company by any of the Principal Stockholders, Carlyle Partners IV, L.P. or Carlyle Partners V, L.P. or any of their respective co-investment vehicles or (b) an equity interest in the Company by any of the Principal Stockholders or any of their Affiliates.
- (n) (i) The Executive shall have “Good Reason” to resign his employment during the six month period which follows the occurrence of any of the following:
- (A) failure of the Company to continue the Executive in the position of President and Chief Executive Officer;
 - (B) a material diminution in the nature or scope of the Executive’s responsibilities, duties or authority;
 - (C) failure of the Principal Stockholders to satisfy their requirements pursuant to Section 2 (c) of this Agreement;
 - (D) the Company’s material breach of this Agreement;
 - (E) the relocation of the Executive’s principal office, without his consent, to a location that is in excess of 100 miles from Honolulu, Hawaii; or
 - (F) failure of the Company to make any material payment or provide any material benefit in accordance with this Agreement.
- (ii) The Executive may not resign his employment for Good Reason unless:
- (A) the Executive provided the Company with at least 30 days prior written notice of his intent to resign for Good Reason (which notice must be provided within 90 days following the occurrence of the event(s) purported to constitute Good Reason); and
 - (B) the Company has not remedied the alleged violation(s) within the 30-day period.
- (o) “Qualified Initial Public Offering” shall mean the consummation of an underwritten public offering of Common Stock pursuant to an effective registration statement under the Securities Act of 1933 (the “Securities Act”) on Form S-1 (as defined in the Securities Act) or any comparable or successor form or forms with aggregate gross proceeds to the Company of not less than \$100 million and resulting in the listing of the Common Stock on a national securities exchange. For the avoidance of doubt, there can only be one Qualified Initial Public Offering.
- (p) “Inventions” shall have the meaning set forth in Section 8.

- (q) “Notice of Termination” shall have the meaning set forth in Section 4(b).
- (r) “Principal Stockholder Proceeds” shall have the meaning set forth in Section 3(c).
- (s) “Principal Stockholders” shall mean Carlyle Partners III, L.P. a Delaware limited partnership and any of its related co-investment vehicles.
- (t) “Term” shall have the meaning set forth in Section 2(b).

2. Employment.

- (a) The Company shall employ the Executive and the Executive shall enter the employ of the Company, for the period set forth in Section 2(b), in the position set forth in Section 2(c), and upon the other terms and conditions herein provided.
- (b) The initial term of employment under this Agreement (the “Initial Term”) shall be for the period beginning on the Effective Date of this Agreement and ending on the fourth anniversary thereof, unless earlier terminated as provided in Section 4. The employment term hereunder shall automatically be extended for successive one-year periods (“Extension Terms” and, collectively with the Initial Term, the “Term”) unless either party gives notice of non-extension to the other no later than 90 days prior to the expiration of the then-applicable Term.
- (c) Position and Duties.
 - (i) The Executive shall serve as President and Chief Executive Officer of the Company and those subsidiaries of the Company set forth on Exhibit A hereto and shall have the authorities duties and responsibilities customarily commensurate with such position and such additional customary responsibilities, duties and authority, as may from time to time be reasonably assigned to the Executive by the Board. The Executive shall report to the Board. The Executive shall devote his full working time, attention and efforts to the business and affairs of the Company and its subsidiaries. The Executive agrees to observe and comply with the Company’s rules and policies as adopted by the Company from time to time. During the Term, it shall not be a violation of this Agreement for the Executive to (i) serve on industry trade, civic or charitable boards or committees; (ii) deliver lectures or fulfill speaking engagements; or (iii) manage personal investments, as long as such activities do not materially interfere with the performance of the Executive’s duties and responsibilities to the Company. The Executive shall be permitted to serve on for-profit corporate boards of directors and advisory committees if approved in advance by the Board, which approval shall not unreasonably be withheld.
 - (ii) As of the Effective Date, the Principal Stockholders shall cause the Executive to be appointed or elected to the Board and the boards of directors of those subsidiaries of the Company set forth on Exhibit A hereto. During the Term, the Board shall propose the Executive for re-election to the Board and the

Principal Stockholders shall vote all of their shares of Common Stock in favor of such re-election.

3. Compensation and Related Matters.

- (a) Annual Base Salary. During the Term, the Executive shall receive a base salary at a rate of \$600,000 per annum, which shall be paid in accordance with the customary payroll practices of the Company, subject to any increase as determined at least annually by the Compensation Committee in its sole discretion (the "Annual Base Salary"). Annual Base Salary may be increased, but not decreased, from time to time by the Board.
- (b) Annual Performance Bonus. During the Term, the Executive will participate in an annual performance-based bonus plan ("Executive Bonus Plan") established by the Compensation Committee at a target level of 100% of the Executive's Annual Base Salary paid in the applicable year ("Target Level"), subject to a maximum level of 200% of the Executive's Annual Base Salary. Such bonus (the "Annual Bonus") shall be payable at such time as bonuses are paid to other senior executive officers who participate therein. The actual amount, if any, of such Annual Bonus for each such fiscal year shall be determined based upon the Company's attainment of reasonable performance goals approved by the Board in its sole discretion. Notwithstanding the foregoing, the Annual Bonus with respect to the fiscal year ending December 31, 2008 shall be calculated as though the Executive had been employed by the Company for the full fiscal year 2008 and shall be a minimum of \$450,000. Each such Annual Bonus shall be payable on such date as is determined by the Board after the Board determines that the performance goals have been met; provided that such bonus payment date shall be not later than 90 days following the end of the applicable fiscal year. Notwithstanding any other provision of this Section 3(b), no bonus shall be payable pursuant to this Section 3 (b) unless the Executive remains continuously employed with the Company through the applicable bonus payment date or his employment has been terminated after the close of the applicable fiscal year pursuant to Sections 4(a)(i), (ii), (iv) or (v).
- (c) Realization Bonus.
- (i) (A) With respect to the first Change in Control which closes prior to the closing of any Qualified Initial Public Offering, Executive shall be paid a cash bonus (a "Realization Bonus") equal to the product of (1) 4.75% and (2) the Vested Percentage and (3) the Principal Stockholder Proceeds with respect thereto.
- (B) With respect to each Exit Event which follows a Change in Control but which closes prior the closing of a Qualified Initial Public Offering, Executive shall be paid a Realization Bonus equal to the product of (1) 4.75% and (2) the Vested Percentage and (3) the Principal Stockholder Proceeds with respect thereto.

(C) If the Exit Event which constitutes the complete disposition of the Principal Stockholders' (or any of their Affiliates') equity and debt interest in the Company (i) occurs prior to any Qualified Initial Public Offering and (ii) the total of the Realization Bonuses paid to the Executive pursuant to that and all prior Exit Events (the "Realization Bonus Total") is less than \$5 million, then with respect to such Exit Event, Executive shall be paid an amount equal to the positive excess of (x) the product of the Bonus Vested Percentage and \$5 million over (y) the Realization Bonus Total. For the avoidance of doubt, no Realization Bonus will be paid with respect to any Change in Control or other Exit Event which follows a Qualified Initial Public Offering. If the Executive requests, the Company will arrange for a third party guarantee of the payment described in this Section 3(c)(i)(C).

(ii) (x) The "Vested Percentage" shall (A) initially be zero and shall increase by 25% on each of the first four anniversaries of the Effective Date on which Executive remains employed hereunder; (B) if the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, be increased by one-half of the difference between the otherwise applicable Vested Percentage and 100%, and (C) with respect to a Change in Control or Qualified Initial Public Offering, be 100% if the Executive remains employed hereunder on the date of such event.

(y) The "Bonus Vested Percentage" shall (A) initially be zero, (B) be 100% if the Executive is employed hereunder on the earliest of (1) the third anniversary of the Effective Date, (2) the Exit Event which constitutes the complete disposition of the Principal Stockholders' (or any of their Affiliates') equity and debt interest in the Company, and (3) any Change in Control or Qualified Initial Public Offering, and (C) be equal to the Vested Percentage if, prior to the earliest to occur of the events described in (B), the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason.

(iii) The Principal Stockholder Proceeds with respect to an Exit Event will be determined pursuant to the following rules:

(A) The Principal Stockholder Proceeds with respect to an Exit Event which is not a Change in Control shall be equal to the excess of (1) the aggregate fair market value of all consideration received (excluding any management or similar fees, but including any transaction bonuses) by the Principal Stockholders in connection with an Exit Event after taking into account all post closing adjustments over (2) the value of payments under Sections 3(c), and (d) hereof (and similar provisions of agreements with other service providers to the Company) made or to be made with respect to such Exit Event (treating the spread on stock options which become exercisable by reason of such Exit Event as a "payment" hereunder (calculated on the date the options first became exercisable)), provided, however, that if the Executive terminates employment hereunder prior to the last Exit Event, the Principal Stockholder Proceeds with

respect to any future Exit Events shall not be higher than the amount determined as if the 100% of the Company's equity were sold, as of the date of such termination, to a third party in an arm's length transaction (the "Value"). If the parties cannot agree on the amount of the Value, then the Value shall be determined by appraisal based on the following procedure (the "Valuation Procedure"): (1) the Value shall be determined in good faith by the Board in its sole discretion; (2) if the Executive disagrees with such determination by the Company, he shall provide written notice of such disagreement to the Company within 10 days of receipt of written notice of the Company's determination; (3) the Company shall engage an investment banking firm or independent appraiser mutually acceptable to the Company and the Executive to determine the Value and the determination of such firm or appraiser shall be final and binding upon the Company and the Executive and shall not be subject to appeal or arbitration; and (4) the costs and expenses incurred in connection with the determination made by the investment banking firm or independent appraiser shall be paid by the Company; provided, however, that if the Value as determined by the investment banking firm or independent appraiser is not more than 10% higher or lower than the Value as previously determined by the Company, then all such costs and expenses shall be paid by the Executive.

(B) The Principal Stockholder Proceeds with respect to the first Change in Control shall be the sum of the Principal Stockholder Proceeds with respect to the Exit Event which is such Change in Control and the Principal Stockholder Proceeds with respect to any prior Exit Events which had not previously been taken into account under this Section 3(c)(iii)(B).

(iv) Payment of the Realization Bonus with respect to the first Change in Control or any other Exit Event shall be made within 30 days following (but in no event later than the last day of the calendar year in which occurs) the first day upon which the calculation of the amount of the payment is administratively practicable.

- (d) **Stock Option.** As of the Effective Date the Company shall grant the Executive an option (a "Stock Option") to purchase 42,800 shares of the Common Stock at a price of \$100.00 per share, which shall not be less than the fair market value of a share of Common Stock as of the date of grant. Such grant shall be made pursuant to the Stock Option Plan of Hawaiian Telcom Holdco, Inc. and a form of stock option grant agreement containing the Company's customary terms and the following terms:

(i) The Stock Option shall only become exercisable if a Qualified Initial Public Offering occurs prior to the complete disposition of the Principal Stockholders' (and any of their Affiliates') equity and debt interest in the Company. Upon such Qualified Initial Public Offering, the Stock Option shall become exercisable with respect to the lesser of (A) the total number of shares of Common Stock covered by such option and (B) the number of shares of Common Stock equal to the ratio of (1) the greater of (x) 4.75% of the Vested Percentage of

the Deemed Proceeds and (y) the positive excess of (xx) the product of the Bonus Vested Percentage and \$5 million over (yy) the total of all Realization Bonuses paid to Executive to (2) the positive excess of (x) the initial gross public offering price (i.e. without reduction for underwriting discounts or commissions or any other reduction) over (y) \$100.00; where “Deemed Proceeds” are equal to the Principal Stockholder Proceeds that would have obtained had 100% of the equity had been sold in a Change in Control transaction at the price derived from the initial gross public offering price, provided, however, that if the Executive’s employment is terminated hereunder prior to a Qualified Initial Public Offering, the Deemed Proceeds with respect to the Qualified Initial Public Offering shall not be higher than the amount determined as if the Qualified Initial Public Offering closed as of the date of such termination. If the parties cannot agree on this amount then it shall be determined by the Valuation Procedure described in Section 3(c)(i)(A).

(ii) The Stock Option shall cease to be exercisable in any respect on the tenth anniversary of the Effective Date and, for the avoidance of doubt, shall also cease to be exercisable on the closing of any Qualified Initial Public Offering except to the extent described in subsection (d)(ii).

(iii) Example: Assume a Qualified Initial Public Offering with a gross offering price of \$11.00 per share (following a 100 to 1 stock split) which produces Deemed Proceeds of \$400 million. Assume further that the total of prior Realization Bonuses is \$2 million and that the Vested Percentage is 100%. The Option will become exercisable with respect to the number of shares of Common Stock equal to the ratio of (A) the greater of (1) \$19 million [4.75% of \$400 million] and (2) \$3 million [the excess of \$5 million over \$2 million] to (B) \$10.00 [the excess of \$11.00 over \$1.00], or 1.9 million shares of Common Stock [assuming that this number is less than the total number of shares of Common Stock covered by the Option]. The Option will thereupon be forfeited with respect to any other shares of Common Stock.

- (e) Benefits. The Executive shall be entitled to participate in all employee benefit plans, programs and arrangements of the Company which are applicable to the senior officers of the Company at a level commensurate with the Executive’s position, including without limitation health insurance and retirement programs.
- (f) Expenses. During the Term, the Company shall reimburse the Executive for all reasonable travel and other business expenses incurred by him in the performance of his duties to the Company in accordance with the Company’s expense reimbursement policy.
- (g) Vacation. During the Term, the Executive shall be entitled to five weeks paid vacation each calendar year. Any vacation shall be taken at the reasonable and mutual convenience of the Company and the Executive. Paid vacation for a calendar year that has not been taken by Executive during such calendar year shall carry over to any subsequent period up to a maximum accumulated ten weeks.

4. Termination.

The Executive's employment hereunder may be terminated by the Board or the Executive, as applicable, without any breach of this Agreement only under the following circumstances:

- (a) Circumstances.
 - (i) Death. The Executive's employment hereunder shall terminate upon his death.
 - (ii) Disability. If the Executive has incurred a Disability, the Board may give the Executive written notice of its intention to terminate the Executive's employment. In that event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive, provided that within the 30 days after such receipt, the Executive shall not have returned to full-time performance of his duties.
 - (iii) Termination for Cause. The Board may terminate the Executive's employment for Cause.
 - (iv) Termination without Cause. The Board may terminate the Executive's employment without Cause.
 - (v) Resignation for Good Reason. The Executive may resign his employment for Good Reason.
 - (vi) Resignation without Good Reason. The Executive may resign his employment without Good Reason.
- (b) Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive under this Section 4 (other than termination pursuant to paragraph (a)(i)) shall be communicated by a written notice to the other party hereto indicating the specific termination provision in this Agreement relied upon, setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and specifying a Date of Termination which, if submitted by the Executive, shall be at least 30 days following the date of such notice (a "Notice of Termination") provided, however, that the Company may, in its sole discretion, change the Date of Termination to any date following the Company's receipt of the Notice of Termination. A Notice of Termination submitted by the Company may provide for a Date of Termination on the date the Executive receives the Notice of Termination, or any date thereafter elected by the Company in its sole discretion. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting

such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

- (c) Company obligations upon termination. Subject to Section 5, upon termination of the Executive's employment, the Executive (or the Executive's estate) shall be entitled to receive a lump sum equal to the Executive's Annual Base Salary through the Date of Termination not theretofore paid, any bonus if declared or earned but not yet paid for a completed fiscal year, any expenses owed to the Executive, any accrued vacation pay owed to the Executive, and any amount arising from the Executive's participation in, or benefits under any employee benefit plans, programs or arrangements, which amounts shall be payable in accordance with the terms and conditions of such employee benefit plans, programs or arrangements.

5. Severance Payments.

- (a) Termination due to death, Disability, for Cause or resignation without Good Reason. If the Executive's employment shall terminate pursuant to Sections 4(a)(i), (ii), (iii) or (vi), the Executive shall not be entitled to any severance payment or benefits (other than as expressly provided for herein or under any benefit plan).
- (b) Termination without Cause or resignation for Good Reason . If the Executive's employment is terminated by the Company without Cause pursuant to Section 4(a)(iv) or the Executive resigns his employment for Good Reason pursuant to Section 4(a)(v), the Company shall, so long as Executive executes and does not revoke a general release in the Company's customary form (the "Release"), pay the Executive a lump-sum amount equal to three times the sum of the Executive's Annual Base Salary and his Target Level Annual Bonus. Additionally, if the Executive is employed on the last day of the fiscal year and his employment is terminated by the Company without Cause pursuant to Section 4(a)(iv) or the Executive resigns his employment for Good Reason pursuant to Section 4(a)(v) following such date but before the date of payment of the Annual Bonus and the Executive has not yet been paid his Annual Bonus, such lump sum amount described in the preceding sentence shall also include his earned but not yet paid Annual Bonus. The payments described in this Section 5(b) will be made within 30 days following the Date of Termination, but following the expiration of Executive's period to revoke the Release.
- (c) Notwithstanding any provision to the contrary in this Agreement: (i) no amount shall be payable pursuant to Section 5(b) unless the Executive's termination of employment constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Department of Treasury Regulations. If the Executive is deemed at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Internal Revenue Code of 1986, as amended (the "Code"), to the extent delayed commencement of any portion of the termination benefits to which Executive is entitled under this Agreement is

required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such portion of Executive's termination benefits shall not be provided to Executive prior to the earlier of (i) the expiration of the six-month period measured from the date of the Executive's "separation from service" with the Company (as such term is defined in the Treasury Regulations issued under Section 409A of the Code) or (ii) the date of Executive's death. Upon the earlier of such dates, all payments deferred pursuant to this Section 5(c) shall be paid in a lump sum to the Executive (together with interest for the period such payments are deferred pursuant to this Section 5(c), with such interest to accrue at the prime rate in effect at Citibank, N.A. at the time of the separation from service), and any remaining payments due under the Agreement shall be paid as otherwise provided herein. The determination of whether the Executive is a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code as of the time of his separation from service shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder (including without limitation Treasury Regulation Section 1.409A-1(i) and any successor provision thereto).

- (d) **Survival.** The expiration or termination of the Term shall not impair the rights or obligations of any party hereto, which shall have accrued prior to such expiration or termination.
- (e) **Mitigation.** The Executive shall have no duty to mitigate the amount of any payment provided for hereunder by seeking other employment, and any income earned by the Executive from other employment or self-employment shall not be offset against any obligations of the Company to the Executive hereunder.

6. Competition.

- (a) The Executive shall not, at any time during the Term or during the 24-month period following the later of the expiration of the Term or the Date of Termination directly or indirectly engage in, have any equity interest in, or manage or operate any person, firm, corporation, partnership or business (whether as director, officer, employee, agent, representative, partner, security holder, consultant or otherwise) that engages in any business which competes with any business of the Company or any entity owned by the Company whose financial results are material to the Company anywhere in the United States provided, however, that the Executive shall be permitted to acquire a passive stock or equity interest in such a business provided the stock or other equity interest acquired is not more than five percent (5%) of the outstanding interest in such business. Nothing herein shall prevent the Executive from engaging in any activity with, or holding any financial interest in, a non-competitive division, subsidiary or affiliate of an entity engaged in a business that competes with the Company.
- (b) During the Term and during the term set forth in Section 6(a), the Executive will not, except in the performance of his duties for the Company, and will not knowingly permit any of his affiliates to, directly or indirectly, recruit or

otherwise solicit or induce any non-clerical employee, customer, subscriber or supplier of the Company to terminate its employment or arrangement with the Company, otherwise change its relationship with the Company, or establish any relationship with the Executive or any of his affiliates for any business purpose that is prohibited by subsection (a) above. Nothing herein shall prevent the Executive from serving as a reference.

- (c) In the event the terms of this Section 6 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it will be interpreted to extend only over the maximum period of time for which it may be enforceable, over the maximum geographical area as to which it may be enforceable, or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action.
- (d) As used in this Section 6, the term “Company” shall include the Company, its parent and any of its direct or indirect subsidiaries whose financial results are material to the Company.

7. Nondisclosure of Proprietary Information.

- (a) Except as required in the faithful performance of the Executive’s duties hereunder or pursuant to Section 7(c), the Executive shall, in perpetuity, maintain in confidence and shall not directly, indirectly or otherwise, use, disseminate, disclose or publish, or use for his benefit or the benefit of any person, firm, corporation or other entity any confidential or proprietary information or trade secrets of or relating to the Company, including, without limitation, information with respect to the Company’s operations, processes, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of employment, or deliver to any person, firm, corporation or other entity any document, record, notebook, computer program or similar repository of or containing any such confidential or proprietary information or trade secrets. The parties hereby stipulate and agree that as between them the foregoing matters are important, material and confidential proprietary information and trade secrets and affect the successful conduct of the businesses of the Company (and any successor or assignee of the Company).
- (b) Upon termination of the Executive’s employment with the Company for any reason, the Executive will promptly deliver to the Company all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, or any other documents concerning the Company’s customers, business plans, marketing strategies, products or processes that are in his possession, custody or control. The Executive shall be permitted to retain his rolodex (and similar address and telephone directories).

- (c) The Executive may respond to a lawful and valid subpoena or other legal process but shall: (i) give the Company the earliest reasonably possible notice thereof, (ii) as much reasonably in advance of the return date as possible, make available to the Company and its counsel the documents and other information sought, and (iii) reasonably assist (the “Assistance”) such counsel in resisting or otherwise responding to such process. The Company shall reimburse the Executive for all reasonable expenses he incurs in providing such Assistance. Notwithstanding Section 7(a), the Executive may use or disclose information that is public knowledge.
- (d) As used in this Section 7, the term “Company” shall include the Company, its parent and any of its direct or indirect subsidiaries.

8. Inventions.

All rights to discoveries, inventions, improvements and innovations (including all data and records pertaining thereto) directly related to the Company’s business, whether or not patentable, copyrightable, registrable as a trademark, or reduced to writing, that the Executive may discover, invent or originate during the Term, either alone or with others and whether or not during working hours or by the use of the facilities of the Company (“Inventions”), shall be the exclusive property of the Company. The Executive shall promptly disclose all Inventions to the Company, shall execute at the request of the Company any assignments or other documents the Company may deem necessary to protect or perfect its rights therein, and shall assist the Company, at the Company’s expense, in obtaining, defending and enforcing the Company’s rights therein. The Executive hereby appoints the Company as his attorney-in-fact to execute on his behalf any assignments or other documents deemed necessary by the Company to protect or perfect its rights to any Inventions.

9. Non-Disparagement.

The Executive agrees not to disparage the Company, any of its products or practices, or any of its directors, officers, agents, representatives, stockholders or affiliates, either orally or in writing, at any time. The Company agrees to instruct its executives and the members of its Board not to disparage the Executive, either orally or in writing, at any time. The foregoing provisions of this paragraph 9 shall not preclude any party from giving truthful testimony in any proceeding or otherwise complying with applicable law.

10. Injunctive Relief.

It is recognized and acknowledged by the Executive that a breach of the covenants contained in Sections 6, 7, 8 and 9 will cause irreparable damage to Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, the Executive agrees that in the event of a breach of any of the covenants contained in Sections 6, 7, 8 and 9, in addition to any other remedy which may be available at law or in equity, the Company will be entitled to specific performance and injunctive relief.

11. Assignment and Successors.

The Company may assign its rights and obligations under this Agreement to any entity, including any successor to all or substantially all the assets of the Company, by merger or otherwise, and may assign or encumber this Agreement and its rights hereunder as security for indebtedness of the Company and its affiliates, provided said successor entity assumes all of the obligations of the Company hereunder. The Executive may not assign his rights or obligations under this Agreement to any individual or entity, except his estate upon his death. This Agreement shall be binding upon and inure to the benefit of the Company, the Executive and their respective successors, assigns, personnel and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable.

12. Governing Law.

This Agreement shall be governed, construed, interpreted and enforced in accordance with the substantive laws of the state of New York, without reference to the principles of conflicts of law of New York or any other jurisdiction, and where applicable, the laws of the United States.

13. Notices.

Any notice, request, claim, demand, document and other communication hereunder to any party shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by telex, telecopy, overnight courier service or certified or registered mail, postage prepaid, as follows:

- (a) If to the Company:

The Carlyle Group
1001 Pennsylvania Avenue, N.W.
Suite 200
Washington, D.C. 20004
Fax: (202) 347-1692
Attn: William E. Kennard

The Carlyle Group
520 Madison Avenue
42nd Floor
New York, N.Y. 10022
Fax: (212) 381-4845
Attn: James A. Attwood, Jr.

and a copy to:

Latham & Watkins LLP
885 Third Avenue
New York, New York 10022

Fax: (212) 751-4864
Attn: Jed W. Brickner

(b) If to the Executive:

Eric K. Yeaman
647 Ulumaika Street
Honolulu, Hawaii 96816

or at any other address as any party shall have specified by notice in writing to the other party.

14. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

15. Entire Agreement.

The terms of this Agreement and the other agreements and instruments contemplated hereby or referred to herein (collectively the "Related Agreements") are intended by the parties to be the final expression of their agreement with respect to the employment of the Executive by the Company and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement and the Related Agreements shall constitute the complete and exclusive statement of their terms and that except as required by applicable law no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceeding to vary the terms of this Agreement and the Related Agreements.

16. Amendments; Waivers.

This Agreement may not be modified, amended, or terminated except by an instrument in writing, signed by the Executive and a duly authorized officer of Company. By an instrument in writing similarly executed, the Executive or a duly authorized officer of the Company may waive compliance by the other party or parties with any provision of this Agreement that such other party was or is obligated to comply with or perform, provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure. No failure to exercise and no delay in exercising any right, remedy, or power hereunder preclude any other or further exercise of any other right, remedy, or power provided herein or by law or in equity.

17. No Inconsistent Actions.

The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

18. Construction.

This Agreement shall be deemed drafted equally by both the parties. Its language shall be construed as a whole and according to its fair meaning. Any presumption or principle that the language is to be construed against any party shall not apply. The headings in this Agreement are only for convenience and are not intended to affect construction or interpretation. Any references to paragraphs, subparagraphs, sections or subsections are to those parts of this Agreement, unless the context clearly indicates to the contrary. Also, unless the context clearly indicates to the contrary, (a) the plural includes the singular and the singular includes the plural; (b) “and” and “or” are each used both conjunctively and disjunctively; (c) “any,” “all,” “each,” or “every” means “any and all,” and “each and every”; (d) “includes” and “including” are each “without limitation”; (e) “herein,” “hereof,” “hereunder” and other similar compounds of the word “here” refer to the entire Agreement and not to any particular paragraph, subparagraph, section or subsection; and (f) all pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the entities or persons referred to may require.

19. Arbitration.

In the event that any dispute arises between the Company and the Executive regarding or relating to this Agreement and/or any aspect of the Executive’s employment relationship with the Company, AND IN LIEU OF LITIGATION AND A TRIAL BY JURY, the parties consent to resolve such dispute through mandatory arbitration before a single arbitrator in New York, New York to be administered by JAMS in accordance with its rules then in effect. Judgment may be entered on the arbitration award in any court having jurisdiction, provided, however, that the Company shall be entitled to seek a restraining order or injunction in any court of competent jurisdiction to prevent any continuation of any violation of the provisions of Sections 6, 7, 8 or 9 of the Agreement and the Executive hereby consents that such restraining order or injunction may be granted without requiring the Company to post a bond. In the event action is brought to enforce the provisions of this Agreement pursuant to this Section 19, the non-prevailing parties shall be required to pay the reasonable attorney’s fees and expenses of the prevailing parties to the extent determined to be appropriate by the arbitrator, acting in its sole discretion. The parties hereby consent to the exclusive jurisdiction in the state and Federal courts of or in the State of New York for purposes of seeking such injunctive or equitable relief as set forth above. Within 20 days of the closure of the arbitration record, the arbitrator shall prepare written findings of fact and conclusions of law. It is mutually agreed that the written decision of the arbitrator shall be valid, binding, final and non-appealable, provided however, that the parties hereto agree that the arbitrator shall not be empowered to award punitive damages against any party to such arbitration. The arbitrator shall require the non-prevailing party to pay the arbitrator’s full fees and expenses or, if in the arbitrator’s opinion there is no prevailing party, the arbitrator’s fees and expenses will be borne equally by the parties thereto.

20. Code Section 409A.

The parties hereto acknowledge and agree that, to the extent applicable, this Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code and the Department of Treasury Regulations and other interpretive

guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of this Agreement to the contrary, in the event that the Company determines that any amounts payable hereunder will be immediately taxable to the Executive under Section 409A of the Code and related Department of Treasury guidance, the Company and the Executive shall cooperate in good faith to (a) adopt such amendments to this Agreement and appropriate policies and procedures, including amendments and policies with retroactive effect, that they mutually determine to be necessary or appropriate to preserve the intended tax treatment of the benefits provided by this Agreement, to preserve the economic benefits of this Agreement to both parties and/or (b) take such other actions as mutually determined to be necessary or appropriate to exempt the amounts payable hereunder from Section 409A of the Code or to comply with the requirements of Section 409A of the Code and thereby avoid the application of penalty taxes thereunder.

21. Code Section 280G

- (a) If any payment or benefit (all such payments and benefits, being hereinafter called “Total Payments”) received or to be received by the Executive in connection with a change in the ownership or effective control of the Company or the ownership of a substantial portion of the assets of the Company (all within the meaning of Section 280G(b)(2)(A)(i) of the Code) (whether pursuant to the terms hereof or otherwise) (a “280G Event”) would not be wholly deductible by the Company or other person making such payment or providing such benefit as a result of Section 280G of the Code, then, to the extent necessary to make such portion of the Total Payments deductible (and after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such arrangement), (i) any cash portion of the Total Payments shall first be reduced (if necessary, to zero), and (ii) all other non-cash Total Payments shall next be reduced (if necessary, to zero).
- (b) The limitation of Section 21(a) shall not apply to limit the Total Payments if (i) such payments or benefits, or portion thereof which would cause any of the Total Payments to be subject to disallowance of deductions under Section 280G of the Code absent stockholder approval are approved by the stockholders of the Company in a manner which satisfies the requirements of Code Section 280G(b)(5)(B); or (ii) immediately prior to the consummation of the 280G Event, any stock of the Company is “readily tradable on an established securities market or otherwise” (within the meaning of Section 280G(5)(A)(ii)(I)) or the requirements of Section 280G(5)(A)(ii)(I) are otherwise not met.
- (c) The Company agrees that, unless the condition of Section 21(b)(ii) is satisfied, it will submit to the stockholders of the Company for a separate vote a proposal to approve, in compliance with the requirements of Section 280G(b)(5)(B) of the Code, the Executive’s conditional right to receive the portion of the Total Payments otherwise subject to reduction under Section 21(a). Without limiting the foregoing, the Company shall recommend to all holders of voting stock that such approval be granted; provided that if the Company breaches this Section 21(c), then Sections 21(a) and (b) shall be null and void. For the avoidance of

doubt, if the Company does not breach this Section 21(c), but the Executive's conditional right to receive the portion of the Total Payments otherwise subject to reduction under Section 21(a) is rejected by the stockholders, then Sections 21(a) and (b) shall continue to apply in full force and effect.

22. Validity; Enforcement.

If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable; this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a portion of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

23. Withholding.

The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local or foreign withholding or other taxes or charges which the Company is required to withhold. The Company shall be entitled to rely on an opinion of counsel if any questions as to the amount or requirement of withholding shall arise.

24. Sole Employment Agreement.

The Executive acknowledges and agrees that he has taken all actions required under the terms of any prior employment in order to terminate that employment and that the provisions contained in that employment agreement, if any, do not bind the Company.

25. Indemnification and Insurance.

The Company shall indemnify the Executive to the fullest extent permitted by the laws of the State of New York, as in effect at the time of the subject act or omission, and he will be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and senior executive officers against all costs, charges and expenses incurred or sustained by him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee the Company or any of its subsidiaries or his serving or having served any other enterprise, plan or trust as a director, officer, employee or fiduciary at the request of the Company (other than any dispute, claim or controversy arising under or relating to this Agreement (except for this Section 25)). The provisions of this Section 25 shall survive any termination of Executive's employment or any termination of this Agreement.

26. Principal Stockholders' Obligations.

Except as provided in Section 2(c), the Principal Stockholders shall have no obligations under this Agreement.

27. Employee Acknowledgement.

The Executive acknowledges that he has read and understands this Agreement, is fully aware of its legal effect, has not acted in reliance upon any representations or promises made by the Company other than those contained in writing herein, and has entered into this Agreement freely based on his own judgment.

28. Attorney's Fees.

Upon presentation of invoices evidencing such, the Company will reimburse the Executive for reasonable attorneys' fees incurred by him in connection with the negotiation of this Agreement and any related agreements contemplated hereunder to a maximum amount of \$15,000.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

COMPANY

By: /s/ James A. Attwood, Jr.
Name: James A. Attwood, Jr.
Title:

EXECUTIVE

By: /s/ Eric K. Yeaman
Eric K. Yeaman
Address:

EXHIBIT A

Hawaiian Telcom Communications, Inc.

Hawaiian Telcom, Inc.

Hawaiian Telcom Services Company, Inc.

Hawaiian Telcom Insurance Company, Incorporated

CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") dated as of May 13, 2008, and effective June 1, 2008 (the "Effective Date") is made by and between Hawaiian Telcom Holdco, Inc. a Delaware corporation (together with any successor thereto, the "Company"), and AMO Consulting, LLC (the "Consultant").

WHEREAS, Alan M. Oshima shall cease to be an employee of the Company as of the Effective Date and will be offering business consulting services to clients on an independent contractor basis through his company, AMO Consulting, LLC;

WHEREAS, the Company desires to engage the Consultant to provide services to the Company pursuant to this Agreement and the Consultant desires to provide such services to the Company pursuant to this Agreement.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein, the Company and the Consultant agree as follows:

1. Services.

(a) During the Consulting Term (as defined below) the Consultant shall serve as a Senior Advisor to the Company and shall provide assistance to the Company in the areas specified in subsection 1(c) below. During the Consulting Term (as defined below) the Consultant (1) will perform services for the Company only as authorized by the Company's Chief Executive Officer (the "CEO") and agreed to by the Consultant, and (2) will not, in his capacity as a Senior Advisor, incur any financial or legal obligation or liability on behalf of or binding upon the Company or any of its affiliates. The Consultant agrees that Alan M. Oshima will notify the Company of all pertinent facts if he is contacted by any government agency with reference to the business of the Company or any of its affiliates, or by any person contemplating or maintaining any claim or legal action against the Company or any of its affiliates, or by any agent or attorney of such person.

(b) The Consultant may, at all times during the Consulting Term, be engaged in other business activities, manage his personal investments, be involved in charitable and professional activities (including serving on charitable and professional boards), serve on for profit boards of directors and advisory committees and perform such other activities so long as such service does not materially interfere with the Consultant's obligations hereunder or conflict with the interests of the Company and its subsidiaries.

(c) The services provided by Consultant to the Company shall include, but not be limited to, consultation on business, regulatory, communications, real estate, labor and community strategies issues. It is understood and agreed by the Parties that (1) such services shall require approximately 60 hours per month by the Executive, (2) such services shall not include legal services, and (3) any services provided by Consultant under the terms and conditions of this Agreement are separate and distinct from any fiduciary duties and responsibilities Alan M. Oshima may have as member of the Company's Board of Directors.

2. Term.

(a) This Agreement shall be effective as of the Effective Date and shall continue for one year following the Effective Date (the "Initial Term"). The Parties may elect, within forty-five (45) days prior to the expiration of the Initial Term, to extend the term of this Agreement by the mutual written agreement (the "Continuation Term").

(b) During the first six (6) months of the Initial Term, this Agreement shall be non-terminable. Following the first six (6) months of the Initial Term, this Agreement may be terminated by either party upon thirty (30) days prior written notice to the other party. The

(c) Consultant's period of services under this Agreement (whether during the Initial Term or the Continuation Term) is hereinafter referred to as the "Consulting Term."

3. Payment for Services.

(a) During the first six (6) months of the Initial Term, the Company shall pay the Consultant for his services hereunder a monthly consulting fee in the amount of \$46,000 plus the Hawaii General Excise Tax with respect to such amount, with the first monthly payment due seven (7) days after the Effective Date, and subsequent monthly payments due every 30 days thereafter until the end of the Initial Term.

(b) During the remainder of the Consulting Term, the Company shall pay the Consultant for his services hereunder a monthly consulting fee in the amount of \$20,000 plus the Hawaii General Excise Tax with respect to such amount in monthly payments. Such monthly payments shall be due on the eighth (8th) day of each month until the end of the Consulting Term.

(c) The Company shall not be obligated to provide the Consultant with any retirement, welfare, or other fringe benefits under the terms of this Agreement.

(d) It is understood and agreed by the Parties that the fees paid to Consultant under the terms of this Agreement are separate and distinct from any retainer, meeting fees, options and/or expense reimbursements that are separate and distinct from any fiduciary duties and responsibilities Alan M. Oshima may have as member of the Company's Board of Directors.

4. Communications Equipment, Administrative Services, and Reimbursement for Business Expenses.

(a) In order to facilitate Consultant's services to the Company during the Consulting Term, the Company shall provide the Consultant with (1) an office and parking at the Company's Honolulu, Hawaii offices, (2) reasonable access to communications equipment and services (i.e. a cell phone, blackberry and personal computer connected to the Company's network), and (3) the services of Lisa Sunada as the Consultant's assistant, provided (i) she is employed by the Company and the services rendered to Consultant are reasonably consistent with her other duties to the Company, and (ii) if she is not employed by the Company during the term of this Agreement, then the services of another assistant shall be reasonably provided.

(b) The Consultant shall also be reimbursed in accordance with the Company's applicable policies and procedures for any ordinary, necessary and reasonable business expenses which are approved in advance by the CEO.

(c) Attorneys Fees. Consultant shall be reimbursed for reasonable attorneys' fees and costs incurred in connection with the negotiation and execution of this Agreement in an amount not to exceed \$5,000.

5. Amendments. This Agreement may not be amended or changed except by the written agreement of the Company and the Consultant.

6. Not an Employment Contract. This Agreement is not a contract of employment between the Consultant and the Company, and the Consultant and the Company hereby agree and acknowledge that this Agreement does not impose any obligation on the Company to offer employment to the Consultant at any time.

7. Governing Law. This Agreement, and any dispute arising under or relating to any provision of this Agreement, shall be governed by and construed in accordance with the laws of the state of Delaware.

8. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute and be one and the same instrument.

9. Relationship of the Parties. The Company and the Consultant agree that under this Agreement, the Consultant is an independent contractor who has contracted with the Company. The Company shall not withhold or in any way be responsible for the payment of any federal, state, or local income or occupational taxes, FICA taxes, FUTA, unemployment compensation, or workers' compensation contributions, vacation pay, sick leave, retirement benefits, or any other fringe benefits or payments for or on behalf of the Consultant. All such payments, withholdings and benefits are the sole responsibility of the Consultant and the Consultant hereby indemnifies and holds the Company harmless from any and all loss, damage or liability arising with respect to such payments, withholdings and benefits.

10. Liability and Indemnification.

(a) If a lawsuit, administrative complaint or other similar action is filed by a third party against the Company and/or the Consultant arising from any consulting services provided hereunder, both parties agree to cooperate with one another in the investigation and defense of the suit, administrative complaint or other action.

(b) The Company shall protect, defend, indemnify, and save harmless the Consultant, its agents and employees against and from all claims, damages, losses and expenses, including but not limited to attorneys' fees and costs, by reason of any suit, claim, demand, judgment or cause of action initiated by any person, arising or alleged to have arisen out of the Company's gross negligence, intentional misfeasance, willful misconduct, violation of any law or breach of this Agreement.

(c) The Consultant shall protect, defend, indemnify and save harmless the Company, its agents and employees against and from all claims, damages, losses and expenses, including but not limited to attorneys' fees and costs, by reason of any gross negligence, intentional misfeasance, willful misconduct, violation of any law, or breach of this Agreement.

(d) It is understood and agreed by the Parties that the foregoing obligations to defend and indemnify one another are separate and distinct from any obligations the Parties may owe to one another by virtue of are separate and distinct from any obligations and responsibilities that may arise out of Alan M. Oshima's position as a member of the Company's Board of Directors.

The parties hereto have executed this Agreement as of the date and year first above written.

HAWAIIAN TELCOM HOLDCO, INC.

By: /s/ Kevin J. Nystrom

Its: Chief Operating Officer

AMO CONSULTING, LLC

By: /s/ Alan M. Oshima

Its: Member

May 13, 2008

Mr. Robert F. Reich
150 S. Kainalu Drive
Kailua, HI 96734

Dear Bob:

This letter serves to amend, effective March 7, 2008 (the "Amendment Effective Date") except as provided in Paragraphs 1 and 2 below, your employment letter agreement with Hawaiian Telcom Communications, Inc. (the "Company") effective as of March 8, 2007 (the "Employment Agreement"). Notwithstanding anything herein to the contrary, you will continue to be an employee at-will of the Company.

1. Effective May 6, 2008, your position is changed from Senior Vice President and interim Chief Financial Officer to Senior Vice President and Chief Financial Officer. You will report directly to the Company's Chief Executive Officer, subject to change as deemed appropriate by the CEO. You will devote your best efforts and full business time to the Company. Your duties and responsibilities may be modified or expanded from time to time, as deemed appropriate by the CEO.

2. Your salary will be increased effective as of the Amendment Effective Date to an annual base salary of \$235,000.00, which will be payable in accordance with the Company's customary payroll practices, and further increased to \$312,000.00 effective May 6, 2008. This covers your promotion and the merit increase you otherwise would receive on or about March 7, 2008. Paydays are expected to be every other Friday (total of 26 pay days a year). Your paycheck shall be delivered to you or made available to you on such dates. If a payday falls on a holiday or weekend, you may pick up your paycheck on the weekday immediately preceding the payday.

3. Subject to your execution of the Business Protection Agreement referred to in Paragraph 8 below, you will be eligible to participate in an annual performance-based bonus plan (the "Bonus Plan") established by the Company's Board of Directors (the "Board") at a target level that is consistent with the Company's Bonus Plan (currently specified as 75% of your bonus-eligible salary) as it may be amended from time to time by the Board or Compensation Committee thereof. The actual bonus, if any, shall be pursuant to the terms and conditions set forth in the Bonus Plan and shall be payable at such time as bonuses are paid to other executive officers who participate therein. Payment of any annual bonus described in this Paragraph 3 will be subject to your continued employment by the Company through the date the bonus is paid pursuant to the Bonus Plan, except in the event Paragraph 7 (ii) below applies. In the event the Company modifies the target levels or other terms and conditions of the Bonus Plan applicable to the Senior Vice Presidents of the Company, the target level or other Bonus Plan terms and conditions applicable to you will be modified on a consistent basis.

4. You will be eligible to receive one or more additional grants of nonqualified stock options (in addition to the option previously granted to you) to purchase a number of shares of the common stock of Hawaiian Telcom Holdco, Inc. pursuant to the Company's stock option plan that are consistent with the long-term plan for the Company's stock option plan to be determined by the Company's Board or Compensation Committee thereof. In the event the Company's stock option plan and/or the stock options of the Senior Vice Presidents of the Company are modified, the stock options issued to you will be modified on a consistent basis.

5. You will participate in all Company employee benefits plans and programs (and to receive any other fringe benefits) made available to Senior Vice Presidents of the Company on a basis commensurate with your position, subject to the Company's prerogative to change or discontinue such plans or benefits in accordance with business needs. You will continue to be entitled to three weeks paid vacation each calendar year. Any vacation shall be taken at the reasonable and mutual convenience of the Company and you. Beginning with the 2008 year, paid vacation for a calendar year that has not been taken by you during such calendar year shall carry over to any subsequent period up to an increased maximum accumulated six weeks. In the event the Company modifies the employee benefits applicable to the Senior Vice Presidents of the Company (including paid vacation and carryover thereof), the employee benefits applicable to you will be modified on a consistent basis.

6. Immediately following payment of your housing allowance for May 2008, your housing allowance will terminate.

7. In the event that your employment is terminated by the Company without Cause, the Company shall, subject to your execution of a general waiver and release of claims agreement in the Company's customary form:

(i) continue to pay, in accordance with normal payroll practices, your base salary for the period beginning on the date of such termination of employment ("Date of Termination") and ending on the earliest to occur of (a) the one year anniversary of the Date of Termination, (b) the first date you violate any covenant contained in the Hawaiian Telcom Business Protection Agreement referred to in Paragraph 8 below, or (c) the first date of your employment or consultancy (whether as an employee, independent contractor, or otherwise) with another company based on more than twenty (20) hours per week (and you agree to inform the Company immediately upon your becoming such an employee or consultant with another company), such period referred to as the "Salary Continuation Period";

(ii) pay you a pro-rated bonus for the year of termination, which except for the pro-ration shall be pursuant to the terms and conditions set forth in the Bonus Plan and shall be payable at such time as bonuses are paid to other executive officers who participate therein;

(iii) continue coverage (at the Company's expense), for the period set forth in clause (i) above, for you and any dependents under all Company group health benefit

plans in which you and any dependents were entitled to participate immediately prior to the Date of Termination, excluding Exec-U-Care or similar supplemental coverage policies for senior executives;

(iv) reimburse you, in the event such termination occurs prior to the third anniversary of the Effective Date of your Employment Agreement, for all reasonable relocation expenses incurred by you due to your relocation back to the mainland United States at a location of your choice, in accordance with the Company's relocation plans and policies and subject to a limit of the lesser of (a) 30% of your annual base salary and (b) \$100,000; and

(v) reimburse you, in the event such termination occurs prior to the third anniversary of the Effective Date of your Employment Agreement, for any broker commissions (up to 6%) paid on the sale of your home in Hawaii in connection with the relocation described in clause (iv) above, offset by any amount that the selling price exceeds your cost basis in the home.

With respect to any reimbursements paid to you pursuant to clauses (iv) and (v) above which are taxable to you, you will be entitled to receive an additional payment from the Company in an amount such that, after payment by you of all income taxes imposed on the reimbursements and the additional payment, you would retain an amount equal to such reimbursements. In the event the Company modifies the Salary Continuation Period or other terms of the severance benefits applicable to Senior Vice Presidents of the Company, the severance benefits described in this Paragraph 7 will be modified on a consistent basis.

8. You will be required to sign and abide by the Hawaiian Telcom Business Protection Agreement in the form attached hereto as Exhibit A.

9. You shall be subject to the rules, regulations and restrictions set for in the Company's applicable Code of Business Conduct, employee handbook or any other similar policy or plan including but not limited to any applicable non-competition and confidentiality restrictions.

10. All payments to you under this letter shall be reduced by all applicable withholdings required by Federal, state or local law.

11. You will be required to sign and abide by the arbitration agreement attached hereto as Exhibit B, dealing with any legal claims which you or the Company may have in connection with your employment.

Please indicate your acceptance of the terms and provisions of this letter by signing both copies of this letter and returning one copy to me. The other copy is for your files. By accepting this position, you acknowledge that the terms of this letter supersede any conflicting terms of your Employment Agreement. By signing below, you acknowledge and agree that you have carefully read this letter in its entirety; fully understand and agree to its terms and provisions; and intend and agree that it be final and legally binding on you and the Company. This letter shall be governed and construed under the internal laws of the State of Hawaii and may be executed in several counterparts.

Congratulations on your promotion. I look forward to working with you in your new capacity.

Very truly yours,

/s/ Kevin J. Nystrom
Kevin J. Nystrom
Chief Operating Officer

Agreed and Accepted:

/s/ Robert F. Reich
Robert F. Reich

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

I, Stephen F. Cooper, 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.

May 14, 2008

/s/ Stephen F. Cooper
Stephen F. Cooper
Chief Executive Officer

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

I, Robert F. Reich, 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.

May 14, 2008

/s/ Robert F. Reich

Robert F. Reich
Senior Vice President and Chief Financial Officer

**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 March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen F. Cooper, 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.

May 14, 2008

/s/ Stephen F. Cooper

Stephen F. Cooper
Chief Executive Officer

**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 March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert F. Reich, 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.

May 14, 2008

/s/ Robert F. Reich

Robert F. Reich

Senior Vice President and Chief Financial Officer
