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**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, 2007

OR

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

For the transition period from                      to

Commission File Number: 333-131152

**Hawaiian Telcom Communications, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**16-1710376**

(I.R.S. Employer Identification No.)

**1177 Bishop Street**

**Honolulu, Hawaii 96813**

(Address of principal executive offices)

**808-546-4511**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Number of shares of common stock outstanding as of May 14, 2007: 1,000

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## Table of Contents

	<u>Page</u>
<u>Part I</u> <u>Financial Information</u>	
<u>Item 1</u> <u>Financial Statements</u>	3
<u>Item 2</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4</u> <u>Controls and Procedures</u>	24
<u>Part II</u> <u>Other Information</u>	
<u>Item 1</u> <u>Legal Proceedings</u>	27
<u>Item 6</u> <u>Exhibits</u>	28

**PART I — FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Operating revenues	\$143,133	\$141,519
Operating expenses:		
Cost of services and sales (exclusive of depreciation and amortization)	51,380	65,665
Selling, general and administrative	47,180	45,450
Settlement with BearingPoint	(45,681)	—
Depreciation and amortization	43,675	40,467
Total operating expenses	96,554	151,582
Operating income (loss)	46,579	(10,063)
Other income (expense):		
Interest expense	(29,685)	(27,049)
Other income and expense, net	143	64
Total other expense	(29,542)	(26,985)
Income (loss) before provision for income taxes	17,037	(37,048)
Provision for income taxes	1,500	1,543
Net income (loss)	\$ 15,537	\$ (38,591)

See accompanying notes to condensed consolidated financial statements.

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

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,931	\$ 4,752
Receivables, net	74,935	100,370
Material and supplies	8,998	9,915
Prepaid expenses	3,284	4,894
Other current assets	7,969	7,690
Total current assets	<u>100,117</u>	<u>127,621</u>
Property, plant and equipment, net	792,462	818,172
Deferred financing and other assets	41,678	46,372
Intangible assets, net	568,413	583,220
Goodwill	<u>136,779</u>	<u>136,779</u>
<b>Total assets</b>	<b><u>\$1,639,449</u></b>	<b><u>\$ 1,712,164</u></b>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities		
Accounts payable	\$ 35,143	\$ 91,690
Accrued expenses	37,407	23,941
Advance billings and customer deposits	15,855	15,540
Current maturities of long-term debt	37,750	26,500
Other current liabilities	3,477	3,764
Total current liabilities	<u>129,632</u>	<u>161,435</u>
Long-term debt	1,320,250	1,380,500
Deferred income taxes	11,800	10,300
Employee benefit obligations	55,133	50,874
Other liabilities	8,063	7,016
<b>Total liabilities</b>	<b><u>1,524,878</u></b>	<b><u>1,610,125</u></b>
Commitments and contingencies (Note 12)		
Stockholder's equity		
Common stock, par value of \$0.01 per share, 1,000 shares authorized and issued	—	—
Additional paid-in capital	428,181	428,118
Accumulated other comprehensive income	8,568	11,636
Accumulated deficit	<u>(322,178)</u>	<u>(337,715)</u>
<b>Total stockholder's equity</b>	<b><u>114,571</u></b>	<b><u>102,039</u></b>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$1,639,449</u></b>	<b><u>\$ 1,712,164</u></b>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 15,537	\$(38,591)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	43,675	40,467
Deferred income taxes, net	1,500	1,500
Employee retirement benefits	4,259	2,689
Provision for uncollectibles	2,218	4,619
Write-down of software costs	18,593	—
Changes in operating assets and liabilities:		
Receivables	23,216	8,286
Material and supplies	916	335
Other current assets	1,332	2,201
Accounts payable and accrued expenses	(48,454)	(2,994)
Other current liabilities	(287)	(245)
Other, net	2,735	733
Net cash provided by operating activities	<u>65,240</u>	<u>19,000</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(16,061)	(39,966)
Net cash used in investing activities	<u>(16,061)</u>	<u>(39,966)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of debt	16,000	184,000
Repayment of debt	(65,000)	(167,000)
Net cash provided by (used in) financing activities	<u>(49,000)</u>	<u>17,000</u>
Net change in cash and cash equivalents	179	(3,966)
Cash and cash equivalents, beginning of period	<u>4,752</u>	<u>10,321</u>
Cash and cash equivalents, end of period	<u>\$ 4,931</u>	<u>\$ 6,355</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid, net of amounts capitalized	\$ 15,580	\$ 20,556
Income taxes paid	—	—

See accompanying notes to condensed consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Other</u>	<u>Deficit</u>	<u>Stockholder's</u>
			<u>Capital</u>	<u>Comprehensive</u>		<u>Equity</u>
				<u>Income</u>		
Balance, January 1, 2007	1,000	\$ —	\$ 428,118	\$ 11,636	\$ (337,715)	\$ 102,039
Stock based compensation	—	—	63	—	—	63
Net income	—	—	—	—	15,537	15,537
Other comprehensive income (loss) -						
Loss on cash flow hedging derivatives	—	—	—	(3,067)	—	(3,067)
Unrealized loss on investments	—	—	—	(1)	—	(1)
Balance, March 31, 2007	<u>1,000</u>	<u>\$ —</u>	<u>\$ 428,181</u>	<u>\$ 8,568</u>	<u>\$ (322,178)</u>	<u>\$ 114,571</u>

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 and is estimated to be one of the ten largest incumbent local exchange carriers in the United States with an integrated telecommunications network servicing approximately 595,000 switched access lines as of March 31, 2007. The Company also served approximately 276,000 long distance lines and had 91,000 retail High Speed Internet 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, 2006, that are included in the Company's 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.

***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 taxes represent primarily Hawaii state excise taxes. Such taxes amounted to \$2.4 million and \$0.7 million for the three months ended March 31, 2007 and 2006, 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. 123R, “Share-Based Payment,” the Company accounts for stock-based compensation at fair value using the prospective method to all new awards granted, modified or settled after January 1, 2006. The following table illustrates the effect on the net income (loss) for the three months March 31, 2007 and 2006 if the fair value method had been applied to all outstanding and unvested options (dollars in thousands).

	Three Months Ended	
	March 31,	
	2007	2006
Net income (loss), as reported	\$ 15,537	\$(38,591)
Add: Stock option related employee compensation expense included in net income (loss)	63	6
Deduct: Total stock option related employee compensation expense determined under fair value based method for all awards	(510)	(454)
Pro forma net income (loss)	<u>\$ 15,090</u>	<u>\$(39,039)</u>

### *Reclassifications*

Certain amounts presented for cost of services and sales and selling, general and administrative expenses for the three months ended March 31, 2006 have been reclassified to conform to the presentation for the three months ended March 31, 2007.

### **3. Recently Issued Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” which allows entities to choose to measure many financial instruments and certain other assets and liabilities at fair value. 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, 2008.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).” Under this new standard, companies must recognize a net liability or asset to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets. The change in the funded status is to be recognized through comprehensive income the year in which the change occurs. In addition, companies are required to obtain the measurement of defined benefit plan assets and obligations as of the date of its fiscal year-end statement of financial position. 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 as of the end of its fiscal year ending December 31, 2007.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 provides a common definition for fair value under generally accepted accounting principles, establishes a framework for measuring fair value and expands disclosure requirements for fair value measurements. 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, 2008.

#### 4. Receivables

Receivables for the Company consisted of the following (dollars in thousands):

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Customers and other	\$ 102,224	\$ 106,426
Receivable from BearingPoint	—	24,129
Allowance for doubtful accounts	<u>(27,289)</u>	<u>(30,185)</u>
	<u>\$ 74,935</u>	<u>\$ 100,370</u>

#### 5. Accrued Expenses

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

	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Salaries and benefits	\$ 12,239	\$ 12,142
Other taxes	1,917	1,496
Interest	<u>23,251</u>	<u>10,303</u>
	<u>\$ 37,407</u>	<u>\$ 23,941</u>

#### 6. Long-Term Debt

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

	<u>Interest Rate at March 31, 2007</u>	<u>Final Maturity</u>	<u>March 31, 2007</u>	<u>December 31, 2006</u>
Notes payable to banks, revolving credit facility	7.57%	April 30, 2012	\$ 112,000	\$ 160,000
Notes payable to banks, Tranche A term loan	7.60%	April 30, 2012	300,000	300,000
Notes payable to banks, Tranche B term loan	7.60%	October 31, 2012	446,000	447,000
Senior floating rate notes	10.89%	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	<u>150,000</u>	<u>150,000</u>
			1,358,000	1,407,000
Current portion			<u>37,750</u>	<u>26,500</u>
			<u>\$ 1,320,250</u>	<u>\$ 1,380,500</u>

The revolving credit facility has a principal balance of \$200.0 million which will mature on April 30, 2012. As of March 31, 2007, the available balance on the facility amounted to \$87.8 million (subject to covenants and a \$0.2 million outstanding letter of credit).

## 7. Derivative Instruments and Hedging Activities

The Company utilizes a combination of fixed-rate and variable-rate debt to finance its operations. The variable-rate debt exposes the Company to variability in interest payments due to changes in interest rates. Management believes that it is prudent to mitigate the interest rate risk on a portion of its variable-rate borrowings. To meet this objective, management entered into six interest rate swap agreements to manage fluctuations in cash flows resulting from adverse changes in interest rates on its term loans and notes.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with the Company's variable-rate debt obligations are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment of the hedged interest payment in the same period in which the related interest payments affect earnings. For the three months ended March 31, 2007 and 2006, the Company had a \$3.1 million unrealized loss and a \$8.0 million unrealized gain, respectively, included in other comprehensive income. The fair value of the interest rate swap of \$8.5 million and \$11.6 million is included in deferred financing and other assets on the consolidated balance sheet at March 31, 2007 and December 31, 2006, respectively.

## 8. 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, as determined by an actuary, of the pension and the postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits. The following provides the components of benefit costs for the three months ended March 31, 2007 and 2006 (dollars in thousands).

### Pension

	Three Months Ended	
	March 31,	
	2007	2006
Service cost	\$ 3,227	\$ 3,125
Interest cost	3,112	2,842
Expected asset return	(3,903)	(4,029)
Net periodic benefit cost	2,436	1,938
Termination benefit cost	1,860	—
Settlement gain	(876)	—
Total benefit cost	<u>\$ 3,420</u>	<u>\$ 1,938</u>

## Other Postretirement Benefits

	Three Months Ended March 31,	
	2007	2006
Service cost	\$ 398	\$ 500
Interest cost	548	482
Net periodic benefit cost	<u>\$ 946</u>	<u>\$ 982</u>

During the first quarter of 2007, the Company provided a one-time early retirement benefit to selected employees. The cost of such benefit amounted to \$1.9 million. Upon retirement, the majority of such employees elected a lump sum payment 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 curtailment associated with this plan amendment resulted in a gain of \$0.9 million which will be recognized in the second quarter of 2007 when the plan amendment was adopted.

The Company previously disclosed in its financial statements for the year ended December 31, 2006, that it expected to contribute \$2.3 million to its pension plan in 2007. As of March 31, 2007, no contributions have been made. The Company presently anticipates contributing the full amount during the remainder of 2007.

## 9. Income Taxes

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

	Three Months Ended March 31,	
	2007	2006
Expense (benefit) at federal rate	\$ 5,963	\$(12,967)
Increase (decrease) resulting from:		
State income taxes, net of federal benefit	681	(1,111)
Valuation allowance	(5,144)	15,621
Total income tax expense	<u>\$ 1,500</u>	<u>\$ 1,543</u>

A valuation allowance has been provided at March 31, 2007 and December 31, 2006 by the Company for the deferred tax assets because of the uncertainty of future realization of such amounts. The Company will continue to assess the recoverability of deferred tax assets and the related valuation allowance. To the extent that the Company generates taxable income in future 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, 2007 and for the three month period then ended, the Company had no unrecognized tax benefits. No interest or penalties were recognized in the Company's statements of operations for the three months ended March 31, 2007 or 2006. All tax years since the Company's inception in 2004 remain open for both federal and Hawaii state purposes.

## 10. 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 \$63,000 and \$6,000 of compensation expense during the three months ended March 31, 2007 and 2006, respectively, related to these option grants.

## 11. Comprehensive Income (Loss)

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

	Three Months Ended	
	March 31,	
	2007	2006
Net income (loss)	\$ 15,537	\$ (38,591)
Other comprehensive income (loss) -		
Gains (losses) on cash flow hedging derivatives	(3,067)	8,027
Unrealized gain (loss) on investments	(1)	60
Other comprehensive income (loss)	(3,068)	8,087
Comprehensive income (loss)	<u>\$ 12,469</u>	<u>\$ (30,504)</u>

## 12. Commitment 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. The Company had agreed to a fixed fee for build services and operate services. Effective February 6, 2007, the Company and BearingPoint entered into an agreement to settle disputes and transition work to a third party. The settlement provided for a payment to the Company of \$52.0 million, which was received in March 2007, as well as waiving obligations to pay all outstanding BearingPoint invoices (amounting to \$38.6 million at February 6, 2007 including certain accrued costs).

During the year ended December 31, 2006 and for the period from January 1, 2007 to February 6, 2007, the Company recorded recoveries contractually due under the BearingPoint agreement of \$24.1 million and \$2.2 million, respectively. The remaining settlement consideration was recognized upon settlement in the first quarter of 2007 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.

### 13. Sale of Directories Publishing Segment

On April 29, 2007, the Company entered into an agreement to sell its directories publishing segment for \$435.0 million to an unrelated entity. The sale is subject to various conditions including approval of the Hawaii Public Utilities Commission. The sale is not expected to close until the fourth quarter of 2007 or first quarter of 2008.

### 14. Segment Information

The Company has two reportable segments consisting of telecommunications services and publishing based on how the Company's chief operating decision maker makes decisions about allocating resources and assessing performance. The telecommunications services segment provides local telephone service including voice and data transport, enhanced custom calling features, network access, directory assistance and private lines. In addition, the telecommunications services segment provides High Speed Internet, video services (in development), long distance services, customer premise equipment distribution, data solutions and systems integration, billing and collection, logistics, pay telephone services and wireless services. The publishing business includes the sale of advertising in printed and electronic directories in Hawaii.

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

	<u>Telecom- munications</u>	<u>Publishing</u>	<u>Total</u>
Company — For the three months ended and as of March 31, 2007			
Operating revenues	\$ 125,463	\$ 17,670	\$ 143,133
Depreciation and amortization	41,747	1,928	43,675
Net income	11,380	4,157	15,537
Capital expenditures	16,061	—	16,061
Assets	1,461,142	178,307	1,639,449
Company - Assets as of December 31, 2006			
	\$ 1,531,872	\$ 180,292	\$ 1,712,164
Company — For the three months ended March 31, 2006			
Operating revenues	\$ 126,034	\$ 15,485	\$ 141,519
Depreciation and amortization	38,276	2,191	40,467
Net income (loss)	(45,290)	6,699	(38,591)
Capital expenditures	39,966	—	39,966

## **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 Form 10-K, for a detailed discussion on risks that could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business operations.

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

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

### **Background**

In the following discussion and analysis of financial condition and results of operations, unless the context otherwise requires, “we,” “us” or the “Company” refers, collectively, to Hawaiian Telcom Communications, Inc., wholly-owned by Hawaiian Telcom Holdco, Inc., and its subsidiaries.

### **Segments and Sources of Revenue**

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

### ***Telecommunications***

The telecommunications segment derives revenue from the following sources:

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

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

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

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

**Other Telecommunication Services and Sales** — Other services and sales include inside line care and sale and maintenance of customer premise equipment, as well as revenue from wireless services. We are currently incurring development costs related to our plan to provide digital television services.

### ***Publishing***

We receive revenue from the sale of advertising in printed and electronic directories in Hawaii. On April 29, 2007, the Company entered into an agreement to sell its directories publishing segment.

### **Results of Operations**

We reported a net income of \$15.5 million and a net loss of \$38.6 million for the three months ended March 31, 2007 and 2006, respectively.

## Operating Revenues

The following tables summarize our volume and revenue information as of or through March 31, 2007 and March 31, 2006. For comparability, we also present customer activity as of March 31, 2007 compared to December 31, 2006.

### Volume Information

March 2007 compared to March 2006

	March 31, 2007	March 31, 2006	Change	
			Number	Percentage
<b>Switched access lines</b>				
Residential	357,809	400,436	(42,627)	-10.6%
Business	231,079	232,651	(1,572)	-0.7%
Public	5,676	5,845	(169)	-2.9%
	<u>594,564</u>	<u>638,932</u>	<u>(44,368)</u>	<u>-6.9%</u>
<b>High Speed Internet lines - retail</b>				
Residential	74,988	73,824	1,164	1.6%
Business	15,990	9,751	6,239	64.0%
	<u>90,978</u>	<u>83,575</u>	<u>7,403</u>	<u>8.9%</u>
<b>Long distance lines</b>				
Residential	189,284	214,786	(25,502)	-11.9%
Business	86,252	76,207	10,045	13.2%
	<u>275,536</u>	<u>290,993</u>	<u>(15,457)</u>	<u>-5.3%</u>

March 2007 compared to December 2006

	March 31, 2007	December 31, 2006	Change	
			Number	Percentage
<b>Switched access lines</b>				
Residential	357,809	369,105	(11,296)	-3.1%
Business	231,079	228,052	3,027	1.3%
Public	5,676	5,705	(29)	-0.5%
	<u>594,564</u>	<u>602,862</u>	<u>(8,298)</u>	<u>-1.4%</u>
<b>High Speed Internet lines - retail</b>				
Residential	74,988	74,636	352	0.5%
Business	15,990	15,684	306	2.0%
	<u>90,978</u>	<u>90,320</u>	<u>658</u>	<u>0.7%</u>
<b>Long distance lines</b>				
Residential	189,284	193,716	(4,432)	-2.3%
Business	86,252	83,601	2,651	3.2%
	<u>275,536</u>	<u>277,317</u>	<u>(1,781)</u>	<u>-0.6%</u>

**Operating Revenues (dollars in thousands)**

	<u>Three Months Ended March 31,</u>		<u>Change</u>	
	<u>2007</u>	<u>2006</u>	<u>Amount</u>	<u>Percentage</u>
<b>Telecommunications:</b>				
Local services	\$ 54,510	\$ 57,347	\$ (2,837)	-4.9%
Network access services	40,157	38,229	1,928	5.0%
Long distance services	8,273	9,939	(1,666)	-16.8%
High Speed Internet and other Internet	9,028	9,522	(494)	-5.2%
Other services and sales	13,495	10,997	2,498	22.7%
	<u>125,463</u>	<u>126,034</u>	<u>(571)</u>	<u>-0.5%</u>
Publishing	17,670	15,485	2,185	14.1%
	<u>\$ 143,133</u>	<u>\$ 141,519</u>	<u>\$ 1,614</u>	<u>1.1%</u>

For the three months ended March 31, 2007, local services revenues decreased \$2.8 million, or 4.9%, as compared to same period in 2006. The decrease in revenue was related primarily to the decline in the volume of switched access lines partially offset by a change in the level of estimated activation fee revenue which is being deferred.

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

- General industry trends — increased competition resulting in customers using wireless, VoIP technology and cable services instead of phone lines for voice and data. Residential “second lines” continue to be disconnected as customers switch from dial-up Internet services to DSL and cable broadband service. And finally, CLECs focused on business customers continue to sell services to our embedded customer base.
- Specific impact of our systems implementation effort — our on-going effort to stabilize and migrate 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 implementation progresses, the impact of this effort will have a significantly diminished effect on switched access line loss.

In an effort to slow the rate of line loss, we have instituted a “save-the-line” campaign and are increasingly focusing efforts on bundling of services. These efforts will include launching and promoting new products, as well as enhancing our customer service capability to improve customer retention.

For the three months ended March 31, 2007, network access services revenue increased by \$1.9 million or 5.0%, as compared to the three months ended March 31, 2006. Network access revenue increased as a result of increased demand for special access data services.

Long distance revenues decreased \$1.7 million, or 16.8%, for the quarter ended March 31, 2007 as compared to the quarter ended March 31, 2006. The revenue decline was related to the reduction in switched access lines (resulting in fewer customers utilizing toll services) and competitive pressures similar to those faced with local service. In addition, we experienced a higher volume of billing credits during the first quarter of 2007 related to the resolution of various billing matters. We continue to promote a flat-rate long distance plan and have reduced the price of service to increase its appeal to customers. The flat rate plan is intended to extend the service life of existing customers who use significant amounts of long distance while attracting new long distance users.

High Speed Internet and other Internet revenues decreased \$0.5 million, or 5.2%, for three months ended March 31, 2007 as compared to the same period in the prior year. The demand for High Speed Internet services has increased from 2006 to 2007. However, competitive rate pressures and the elimination of

the billing for (and related cost) of a government surcharge has caused revenue to decline in the first quarter of 2007 compared to the same period in 2006. Beginning in mid-September 2006, the Company began offering the first three months of High Speed Internet service at a significantly discounted price in an effort to compete with rate plans offered by other providers. In addition, there was a higher level of High Speed Internet disconnects during the fourth quarter of 2006 and first quarter of 2007 because of delays in processing orders.

Other services and sales increased \$2.5 million, or 22.7%, for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. The increase was primarily related to higher levels of customer premise equipment installations and corresponding maintenance arrangements.

Wireless services (included in the other services and sales revenue category) are still in the early stages. As of March 31, 2007, we had approximately 19,500 external wireless subscribers and recognized revenue of approximately \$2.3 million for the three months ended March 31, 2007 as compared to \$1.5 million for the same period in the prior year, also contributing to the increase in other services and sales.

Publishing revenue increased by \$2.2 million for the first quarter of 2007 compared to the first quarter of 2006. The increase was caused, in part, by the application of purchase accounting applied when we acquired Verizon's Hawaii Business on May 2, 2005. The predecessor deferred publishing revenue was not carried over to our balance sheet. This resulted in revenue for the three months ended March 31, 2006 being approximately \$0.9 million less. The remainder of the increase is attributed to additional directory advertising sales.

#### ***Transition Costs and Other Cost Structure Changes***

We are incurring significant expenses in our efforts to become a stand-alone provider of telecommunication services. The major components of such expenses incurred for the three months ended March 31, 2007 and 2006 are summarized as follows (dollars in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Employee separation costs	\$ 893	\$ —
Pension termination benefits, net of related settlement gain	984	
Expense component of BearingPoint contract to build information technology infrastructure and other BearingPoint transition	—	1,842
Verizon transition and other services, components estimated by management to reflect transition services net of expense recovery from BearingPoint to defer costs of transition services because of delay in completion	—	22,658
Employee relocation costs	—	369
Other	594	2,422
	<u>\$ 2,471</u>	<u>\$ 27,291</u>

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

In addition to the costs outlined above, the Company incurred systems related remediation and work around costs of \$7.0 million in the quarter ended March 31, 2007. These expenses, referred to as contingency costs, 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. These costs are expected to decline as the year progresses and to cease by year end as the systems remediation activities are completed.

## Operating Costs and Expenses

The following table summarizes our costs and expenses for the three months ended March 31, 2007 compared to the costs and expenses for the three months ended March 31, 2006 (dollars in thousands):

	<u>Three Months Ended March 31,</u>		<u>Change</u>	
	<u>2007</u>	<u>2006</u>	<u>Amount</u>	<u>Percentage</u>
Costs of services and sales	\$ 51,380	\$ 65,665	\$ (14,285)	-21.8%
Selling, general and administrative expenses	47,180	45,450	1,730	3.8%
Settlement with BearingPoint	(45,681)	—	(45,681)	N/A
Depreciation and amortization	43,675	40,467	3,208	7.9%
	<u>\$ 96,554</u>	<u>\$ 151,582</u>	<u>\$ (55,028)</u>	<u>-36.3%</u>

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, cost of goods sold directly associated with various products and production and distribution of directories. Costs of services and sales decreased by \$14.3 million, or 21.8%, for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. The decrease in expense is related to costs we incurred in the first quarter of 2006 to Verizon under the Transition Services Agreement offset, in part, by costs for services incurred in the first quarter of 2007 needed to replace those that previously were being provided by Verizon. These cost structure changes are more fully described below.

Selling, general and administrative includes expenses related to sales and marketing, customer service, information systems and other administrative functions. Selling, general and administrative expenses increased by \$1.7 million, or 3.8%, for the three months ended March 31, 2007 as compared to the same period in 2006. The increase was caused by contingency costs (discussed previously) which we incurred in the first quarter of 2007.

Effective February 6, 2007, the Company and BearingPoint entered into an agreement to settle disputes and transition work to a third party. The settlement provides for a payment to us of \$52.0 million, which was received in March 2007, as well as waiving obligations to pay all outstanding BearingPoint invoices (amounting to approximately \$38.6 million at February 6, 2007 including certain accrued costs) and to provide transition services to us at no cost.

During the year ended December 31, 2006 and for the period from January 1, 2007 to February 6, 2007, we recorded recoveries contractually due under the BearingPoint agreement of \$24.1 million and \$2.2 million, respectively. The remaining settlement consideration was recognized upon settlement in the first quarter of 2007 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.

Our cost structure has gone through significant changes during 2006 and 2007. The most significant area of change is related to the composition of third-party service providers utilized in our operations such as Verizon, BearingPoint, Accenture and LM Berry.

Through March 31, 2006, Verizon provided services to us under the Transition Services Agreement. The cost of such services amounted to \$29.1 million for the first quarter.

We previously had an agreement with BearingPoint to build and operate our information technology infrastructure. The costs of operating our information technology infrastructure amounted to \$3.9 million for the first quarter of 2006. There was no cost in the first quarter of 2007.

In conjunction with the transition to us from BearingPoint of the responsibility for the build and operate of our information technology infrastructure, we began utilizing the services of Accenture late in the third quarter of 2006. Fees to Accenture for operate services amounted to \$0.9 million in the first quarter of 2007.

Our agreement with L.M. Berry provides for them to receive a percentage of revenue for their services for sales, publishing, printing and distribution of our directories published beginning in 2006. The fees for publishing services amounted to \$7.1 million and \$3.1 million for the three months ended March 31, 2007 and 2006, respectively.

We have taken steps and are evaluating further actions to reduce the cost of operations. During the first quarter of 2007, we offered enhanced retirement benefits that resulted in the voluntary reduction of 60 employees and announced plans to outsource our directory assistance services to a third party.

Depreciation and amortization increased by \$3.2 million, or 7.9%, for the three months ended March 31, 2007 when compared to same period in 2006. The increase was primarily related to depreciation on new information technology infrastructure placed in service since April 1, 2006.

#### ***Interest Expense***

Interest expense increased by \$2.6 million, or 9.7%, for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The increase was due to an increase in average outstanding borrowings as well as an increase in rates.

#### ***Income Tax Expense***

A valuation allowance has been provided at March 31, 2007 and December 31, 2006 for our deferred tax assets because of the uncertainty as to the realization of such assets. We will continue to assess the recoverability of deferred tax assets and the related valuation allowance. To the extent that we generate taxable income in future years and it is determined that such valuation allowance is no longer required, the tax benefit of the remaining deferred tax assets will be recognized at such time.

#### **Other Business Matters**

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

#### **Liquidity and Capital Resources**

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

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

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

On April 29, 2007, we entered into an agreement to sell our directories publishing segment for \$435 million to an unrelated entity. The sale is subject to various conditions including approval of the Hawaii Public Utilities Commission. The sale is not expected to occur until the fourth quarter of 2007 or first quarter of 2008. It is expected that the net proceeds will be utilized to repay debt when the sale occurs.

### ***Cash Flows***

Net cash provided by operations of \$65.2 million for the three months ended March 31, 2007 was related primarily to our net income of \$15.5 million as adjusted to exclude non-cash items and working capital movements of \$49.7 million. The most significant non-cash item during the period was depreciation and amortization expense of \$43.7 million. Cash provided from operations amounted to \$19.0 million for the three months ended March 31, 2006. The increase in cash provided by operations from the first quarter of 2006 to the same period in 2007 was related primarily to the \$52.0 million received from the BearingPoint settlement and our improved cost structure.

Cash used in investing activities was comprised of \$16.1 million and \$40.0 million of capital expenditures for the three months ended March 31, 2007 and 2006, respectively. This includes \$13.8 million during the first quarter of 2006 related to our efforts to build our back-office and IT infrastructure. With most transition related capital spending having been completed, we expect our total capital spending in 2007 to be lower than 2006 levels.

Cash used in financing activities was \$49.0 million for the three months ended March 31, 2007. Cash provided by financing activities was \$17.0 million for the three months ended March 31, 2006. All financing activities related to borrowing activity. The change in borrowing activity from the first quarter of 2007 compared to the first quarter of 2006 related primarily to the receipt of \$52.0 million from the BearingPoint settlement which was utilized to repay debt.

### ***Outstanding Debt and Financing Arrangements***

As of March 31, 2007, we had outstanding \$1,358.0 million in aggregate indebtedness, excluding unused commitments, with \$87.8 million of additional borrowing capacity available, subject to covenant restrictions, under our revolving credit facility.

Our senior credit facilities consist of a revolving credit facility and term loan facilities. Our revolving credit facility is available for general corporate purposes and comprised loans in a total principal amount of up to \$200.0 million, of which \$112.0 million has been drawn and \$87.8 million was available as of March 31, 2007 (subject to the covenants described below and a \$0.2 million outstanding letter of credit). The term loan facilities are comprised of a Tranche A term loan facility in a total principal amount of \$300.0 million, and a Tranche B term loan facility in a total principal amount of \$446.0 million. Our total outstanding balance on our senior credit facilities amounted to \$858.0 million as of March 31, 2007. Our senior credit facilities bear interest at a rate equal to the applicable margin plus, at our option, either:

- a base rate determined by reference to the higher of (1) JPMorgan Chase Bank's prime rate and (2) the federal funds rate plus ½ of 1%; or
- a Eurocurrency rate on deposits for one-, two-, three- or six-month periods (or nine- or twelve-month periods if, at the time of the borrowing, all lenders agree to make such a duration available).

Our senior credit facilities also require us, and will require our existing and future restricted subsidiaries, with certain exceptions set forth in our credit agreement, to meet certain financial covenants and ratios, particularly a leverage ratio, a senior secured leverage ratio and an interest coverage ratio. We were in compliance with all covenants as of March 31, 2007.

Our senior floating rate notes in the aggregate principal amount of \$150.0 million mature on May 1, 2013 and bear interest at a rate reset and payable semi-annually at LIBOR, as defined, plus 5.50%. Our senior fixed rate notes in the aggregate principal amount of \$200.0 million mature on May 1, 2013 and bear interest at a rate of 9.75% per year. Our senior subordinated notes in the aggregate principal amount of \$150.0 million will mature on May 1, 2015 and bear interest at a fixed rate of 12.50% per year. Our senior notes are general unsecured obligations. A portion or all of our senior notes may be redeemed at various dates beginning May 1, 2007 at certain premiums based on specified terms. Our senior notes contain various covenants that restrict, among other things, incurrence of additional indebtedness, payment of dividends, redemptions of stock, other distributions to shareholders and sales of assets.

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, 2007, the Company's future contractual obligations have not changed materially from the amounts disclosed as of December 31, 2006 in our Form 10-K, with the exception of the decrease in the balance on the revolving credit facility to \$112.0 million and the addition of our obligation to Accenture as disclosed in our Form 10-K.

#### **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 Form 10-K, and have not changed materially from that discussion.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2007, our floating rate obligations consist of \$112.0 million of debt outstanding under our revolving credit facility, \$300.0 million of debt outstanding under our Tranche A term loan facility, \$446.0 million of debt outstanding under our Tranche B 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, 2007 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 \$1.3 million.

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, in June 2005, we entered into six 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 \$451.4 million at June 30, 2005, to a high of \$704.3 million at September 30, 2006, to a balance of \$253.0 million at maturity on December 31, 2010. The fixed rate is 3.98% for the period from June 30, 2005 to December 30, 2006 and 4.36% from December 31, 2006 to December 31, 2010. The interest rate swaps effectively change the variable-rate cash flow exposure on certain of 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 agreements amounted to approximately \$8.5 million as of March 31, 2007. 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. However, as our management does not currently intend to terminate our swap agreements prior to their maturities, such changes in value will only result in realization as an effective offset to the variability in cash flows associated with our variable rate debt.

#### **Item 4. Controls and Procedures**

We have disclosed to the auditors and to the Audit Committee of the Board of Directors of the Company a material weakness in the design and operation of internal controls which could adversely affect our ability to record, process, summarize, and report financial data. As most recently disclosed in our Form 10-K filed April 2, 2007, there was a significant change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of March 31, 2006 that did not materially affect our internal control over financial reporting during the fiscal quarter ended March 31, 2006. However, the significant change affected our internal control over financial reporting for the fiscal periods thereafter. We previously disclosed a material weakness in internal control over financial reporting and that we are still in the process of evaluating and adjusting the functionality of all new systems and making modifications and enhancements to internal control processes associated with these new systems. Specifically, the Company began processing transactions utilizing newly implemented operating, financial and administrative information technology systems during 2006. BearingPoint built or converted our back-office and IT infrastructure necessary to replace systems previously provided by Verizon but not all of these systems are functioning or functioning in an acceptable manner for our business. The Company has been using new processes, procedures and controls associated with these new systems for a short period of time.

A material weakness in internal control over financial reporting exists because there is more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented and detected. The material weakness results from significant weaknesses in several information technology systems and change management controls, as well as operating processes and controls needed to fully record, process, summarize and report financial data after our March 31, 2006 transition. These system deficiencies relate to (but are not limited to) the following:

- Accounts receivable balances/subsidiary ledger support,
- Billing and revenue assurance,
- Cash account reconciliations,
- Distribution of expenses and capital,
- Fixed assets and project costing,
- Management reporting,
- Order accuracy and system processing,
- Procurement (including accounts payable) and inventory valuation, and
- Tax and surcharge accuracy.

To help remediate deficiencies in these areas, we engaged the services of an international information technology consulting firm as a strategic partner with expertise in general computer controls and change management as well as specific expertise with information technology process controls. In addition, we formed a stabilization project team to perform an assessment of our control environment after the March 31, 2006 transition. FTI Consulting was hired in the third quarter of 2006 to project manage this team, which includes external resources with significant telecommunications experience. These activities, which continue in part, are intended to facilitate improvement in the design or operation of internal controls.

#### **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 Rule 13a-15(e) under the Exchange Act) as of March 31, 2007 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective 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.

## Changes in Internal Controls

There was a change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of March 31, 2006 that did not materially affect our internal control over financial reporting during the fiscal periods thereafter and is reasonably likely to affect our internal control over financial reporting in the future. Deficiencies in certain information technology systems and change management controls have continued during the three months ended March 31, 2007. Remedial measures to address the deficiencies in our internal controls over financial reporting are discussed in more detail below.

In order to facilitate our transition to becoming a stand-alone provider of communication services, Verizon and its affiliates provided us from May 2, 2005 to March 31, 2006 with services pursuant to the Transition Services Agreement. Under such agreement, Verizon and its affiliates provided us with services that were critical to the ongoing operation including, among other things:

- access to certain existing IT systems and applications;
- maintenance and support of certain IT applications and systems;
- support for our residential and business customers;
- accounting, payroll, accounts payable and transaction tax preparation services;
- customer billing operation services;
- network surveillance, maintenance and technical support of switches, relays, DSL and other Internet operations;
- call center support, systems and related services;
- infrastructure maintenance work for inside and outside plant engineering; and
- Internet operations and related support.

The Verizon Transition Services Agreement, including accounting services, ended on March 31, 2006 (Hawaii Time).

Subsequently, we began processing transactions utilizing the information technology systems that BearingPoint assisted us in building, which includes with few exceptions, our operating, financial and administrative systems. We are still in the process of evaluating and adjusting the functionality of all new systems and making modifications and enhancements in internal control processes associated with these systems. We disclosed previously a material weakness in internal control over financial reporting because of the high number of new systems implemented after March 31, 2006 and the short duration that the Company has been using associated new processes, procedures and controls.

A material weakness in internal control over financial reporting exists because there is more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented and detected. The material weakness results from significant weaknesses in several information technology systems and change management controls, as well as operating processes and controls needed to fully record, process, summarize and report financial data after our March 31, 2006 transition. These system deficiencies relate to (but are not limited to) the following:

- Accounts receivable balances/subsidiary ledger support,
- Billing and revenue assurance,
- Cash account reconciliations,
- Distribution of expenses and capital,
- Fixed assets and project costing,
- Management reporting,
- Order accuracy and system processing,
- Procurement (including accounts payable) and inventory valuation,
- Tax and surcharge accuracy.

To help remediate deficiencies in these areas we engaged the services of an international information technology consulting firm as a strategic partner with expertise in general computer controls and change

management as well as specific expertise with information technology process controls. In addition, we formed a stabilization project team to perform an assessment of our environment after the March 31, 2006 transition. FTI Consulting was hired in the third quarter of 2006 to project manage this team which includes external resources with significant telecommunications experience. These activities, which continue in part, are intended to facilitate improvement in the design or operation of internal controls.

## **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 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, 2007

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

May 14, 2007

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

May 14, 2007

/s/ Robert F. Reich  
Robert F. Reich  
Vice President, Finance and Controller

## EXHIBIT INDEX

- 10.45 Second Amendment dated March 16, 2007 to Sprint Wholesale Master Services Agreement between Sprint Communications Company L.P. and Hawaiian Telcom Communications, Inc., dated December 5, 2005.
- 10.46 Amendment Five to Directory Services Agreement by and between Hawaiian Telcom Communications, Inc. (f/k/a Hawaiian Telcom Merger Sub, Inc.) and L. M. Berry and Company, dated April 6, 2007.
- 10.47 Employment Agreement, dated as of March 28, 2007, by and between Paul H. Sunu and Hawaiian Telcom Communications, Inc. (incorporated by reference to Exhibit 10.1 on Hawaiian Telcom Communications, Inc.'s Form 8-K, filed with the SEC on April 2, 2007).
- 10.48 Purchase Agreement, dated as of April 29, 2007, by and among Hawaiian Telcom Communications, Inc., Hawaiian Telcom Services Company, Inc. and CBD Investor, Inc. (incorporated by reference to Exhibit 10.1 on Hawaiian Telcom Communications, Inc.'s Form 8-K, filed with the SEC on May 3, 2007).
- 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.

SECOND AMENDMENT TO SPRINT MASTER SERVICE AGREEMENT

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

This Second Amendment (WSG0611-0605) is made to the Sprint Master Service Agreement (WSG0501-0023) between **SPRINT COMMUNICATIONS COMPANY L.P.** (“Sprint”) and **Hawaiian Telcom Communications, Inc.** (“Customer”), signed by Customer on November 23, 2005 and Sprint on December 5, 2005 (the “Agreement”), as amended by:

<u>AMENDMENT NUMBER</u>	<u>WSG #</u>	<u>CUSTOMER SIGNATURE DATE</u>	<u>SPRINT SIGNATURE DATE</u>
First Amendment	WSG0510-0871	March 22, 2006	April 10, 2006

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

Sprint and Customer agree as follows:

- The Agreement is amended by deleting Section 3.3 in its entirety and replacing it with the following:

**3.3 Minimum Term Commitment (MTC):**

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

<u>Effective Date of Termination</u>	<u>Minimum Term Commitment</u>
During Contract Year 1	None
During Contract Year 2 and 3	\$ 13,464,586
During Renewal Contract Years	None

- The Agreement is amended by adding new 3.6 as follows:

**3.6 Minimum Term Commitment Surcharge.** If, at the end of Contract Year 3, Customer fails to meet the Minimum Term Commitment stated under Section 3.3, Customer must pay a surcharge for Services provided during the period equal to 25% of the difference between the Minimum Term Commitment for the period and Customer’s actual Net Usage during the period. Customer’s satisfaction of the Minimum Termination Commitment will not relieve Customer of any credit or security obligations in this Agreement.

- The Agreement is amended by adding a new Exhibit 2: Attachment IPL — 1 (a) (“International Private Line Pricing”), which is attached and incorporated by this reference.
- All other terms and conditions in the Agreement, not amended above, will remain in effect. This Amendment and any information concerning its terms and conditions are Sprint’s proprietary information and are governed by the parties’ nondisclosure agreement. Alterations to this Amendment will not be valid unless accepted in writing by a Sprint officer or authorized designee. To become effective, this Amendment must be:
  - Signed by a Customer representative;
  - Delivered to Sprint within 45 days after March 16, 2007; and

**RESTRICTED**  
**SPRINT CONFIDENTIAL & PROPRIETARY INFORMATION**

4.3. Signed by a Sprint officer or authorized designee.

**HAWAIIAN TELCOM COMMUNICATIONS, INC.**

**SPRINT COMMUNICATIONS COMPANY L.P.**

By: /s/ Harvey A. Plummer  
Name: Harvey A. Plummer  
Title: SVP — Engineering & Operations

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

Date: March 30, 2007  
Address: 1177 Bishop Street  
Honolulu, HI 96813

Date: April 5, 2007  
Address: 5020 Riverside Drive  
Irving, TX 75039

**AMENDMENT FIVE  
TO  
DIRECTORY SERVICES AGREEMENT**

This Amendment (“**Amendment**”) is made this 6<sup>th</sup> day of April, 2007, by and between HAWAIIAN TELCOM COMMUNICATIONS, INC. (as successor in interest to Hawaiian Telcom MergerSub, Inc., “**Publisher**”) and L.M. Berry and Company (“**Berry**”), and is incorporated into and made a part of that certain Directory Services Agreement (“**Agreement**”) by and between Hawaiian Telcom MergerSub, Inc. and Berry dated as of February 4, 2005, as previously amended.

**RECITALS**

**WHEREAS**, with respect to the internet yellow pages network owned and operated by Yellowpages.com LLC (“**YPC**”), the parties desire to distribute advertising from advertisers located within the state of Hawaii; and

**WHEREAS**, the parties desire for Berry to sell certain YPC media placement types to advertisers located within the state of Hawaii.

**NOW, THEREFORE**, the parties agree as follows:

1. Paragraph 1.4 “Directories” is hereby amended by appending the following to the end of such Paragraph:

“For purposes of clarity, Directories shall not include Internet directory products and services published by Persons other than Publisher.”

2. Clause (iii) of Paragraph 1.6, “Publisher Information” is hereby deleted in its entirety and replaced with the following:

“(iii) all proprietary and confidential information, data and materials provided by Publisher to Berry or to which Berry receives access from Publisher in the course of performing Services hereunder:”

3. Paragraph 4.2, “Internet” is hereby amended by appending the following to the end of such Paragraph:

“Berry may propose modifications to Publisher’s policies, practices or guidelines with respect to the sale or distribution of the products from YellowPages.com LLC (“**YPC.com**”) that may be necessary to conform with YPC.com’s policies, practices or guidelines. Publisher acknowledges and agrees that its failure to agree to any modifications to its policies, practices or guidelines proposed by Berry may result in limitations on Berry’s ability to distribute Publisher Information through the YPC

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Directory. Berry will provide Publisher with a copy of YPC.com's policies, practices and guidelines at such time as such policies, practices and guidelines are made available to Berry by YPC.com."

4. Paragraph 6.2, "License of Publisher Information" is hereby deleted in its entirety and replaced with the following:

" **6.2 License of Publisher Information.** Subject to the terms and conditions of this Agreement, Publisher hereby grants to Berry a non-exclusive, royalty free license to use, publish, distribute and/or copy Publisher Information solely for the purpose of performing the Services. The foregoing license includes the right for Berry to sublicense to third party Internet directory providers, including, without limitation, YPC.com, the right to use, publish, distribute and copy the Publisher Information solely for the purpose of performing the Services, but which shall not include the right to sublicense to such Internet directory providers the right to use, publish, distribute and/or copy Publisher's alphabetical or classified listings in their entirety."

5. Paragraph 6.3, "Access of Publisher Information" is hereby deleted in its entirety and replaced with the following:

" **6.3 Access of Publisher Information.** Publisher shall have access to all Publisher Information in Berry's possession, at all times during the term of this Agreement including, at Publisher's sole discretion and expense, the right to retain copies thereof. Further, Publisher shall have the right, during normal business hours, to review and make copies of all Publisher Information or at Berry's actual cost to have Berry supply Publisher or its designee copies of Publisher Information in a form requested by Publisher."

6. The Glossary (so labeled and an un-numbered section of the Agreement which immediately precedes Schedule 1: Directories) is hereby amended by adding the following at the end of such Glossary:

"YPC Directory" means the online directory services and products published by YellowPages.com LLC ("YPC.com") and its Affiliates, including the business directory, advertising and related services and data published through YPC.com's web site that is currently accessible via the URL [www.yellowpages.com](http://www.yellowpages.com)."

7. Section 2.02, "Advertising Rates" of Schedule 4 is hereby deleted in its entirety and replaced with the following:

"As part of the annual planning process, Berry shall recommend to Publisher advertising rates for each Directory and the products from YPC.com. Publisher shall, in its sole discretion, approve such rates for each of the foregoing products other than the YPC.com products and limited inventory or expanded geographic area placement types of products from YPC.com, and such approval shall be given in a timely

manner designed to meet both the parties' budgeting process and sales canvass planning requirements. The parties shall mutually agree upon and approve rates for any the YPC.com products and limited inventory or expanded geographic area placement types of products from YPC.com. In the event the parties cannot agree upon and approve the rates for YPC.com products and limited inventory or expanded geographic area placement types of products from YPC.com, then the default prices for such items shall be those set out on the most recently published YPC.com rate card."

8. Section 2.06, "Use of Contracting Forms" of Schedule 4 is hereby amended by appending the following to the end of such Section:

"In soliciting advertising for the products from YPC.com, Berry shall use forms containing, with respect to products from YPC.com, either a representation or indemnity from the advertiser with respect to (i) the non-infringement of the content thereof, (ii) the lawfulness of the content thereof, and (iii) any other terms and conditions required by YPC.com."

9. Section VII, "Intellectual Property" of Schedule 6 is hereby amended by appending the following paragraph to the end of such Section:

"For purposes of clarity, Publisher acknowledges YPC.com (and, as applicable, its Affiliates and licensors) owns all right, title and interest in and to the YPC Directory, and any modifications, derivative works, copies, translations or compilations or any part thereof, and any revisions, modifications, edits or additions thereof, including any rights under copyright. Nothing contained in this Agreement shall be construed as conveying any right or license in the YPC Directory by implication, estoppel or otherwise. No action by Berry hereunder, or publication by YPC.com of any Internet advertising, shall operate to create a new work, joint work, compilation or a derivative work, or in any way alter YPC.com's exclusive ownership of the YPC Directory."

10. The definition "Internet Production" on Schedule 7 "Service Levels" is hereby deleted in its entirety and replaced with the following:

"Measures maximum average time from time Berry's Internet Production group receives a closed sale to the time the customers ad is posted on the Internet."

11. Exhibit A to Schedule 8 is hereby deleted in its entirety and the Exhibit A-SCHEDULE OF DEFINED FEES AND EXPENSES attached to this Amendment Five is hereby substituted.

12. The paragraph labeled "CMRs" in Section 6.0 "Billing and Collections" of Schedule 8 is hereby amended by appending the following to the end of such paragraph:

“Notwithstanding anything in the Agreement to the contrary, this Agreement does not grant Berry or Publisher the right to market, promote, solicit or sell products or services from YPC.com to national advertisers.”

13. Schedule 9 “Subcontractors Approved as of Effective Date” is hereby amended by appending the following at the end of Section 1.0, “Internet”:

Yellowpages.com

IYP platform and distribution

14. For the avoidance of doubt, the parties agree that, notwithstanding anything in the Agreement, as amended (including this Amendment Five), to the contrary, the term of the YPC.com arrangement referenced in this Amendment Five will be co-terminus with the term of the Agreement, and entering into this Amendment Five will not result in an increase in the amount of any termination fee payable pursuant to Section 2.5 of Schedule 8 (Financial Terms).

15. Berry represents and warrants that it has full power and authority to enter into this Amendment No. 5 and to sell the YPC Products pursuant to the terms of the Agreement.

16. Except as amended herein, the Agreement, as previously amended, remains in full force and effect.

17. This Amendment No. 5 may be signed in multiple counterparts, all of which together shall constitute one and the same instrument.

*[Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

**HAWAIIAN TELCOM COMMUNICATIONS, INC.**

By: /s/ Alan M. Oshima  
Name: Alan M. Oshima  
Title: SVP, General Counsel & Secretary  
Date: April 12, 2007

**L. M. BERRY AND COMPANY**

By: /s/ Daniel J. Graham  
Name: Daniel J. Graham  
Title: President/CEO  
Date: April 6, 2007

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

I, Michael S. Ruley, certify that:

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

May 14, 2007

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

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

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

1. I have reviewed this quarterly report on Form 10-Q of Hawaiian 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, 2007

/s/ Daniel P. O'Brien

Daniel P. O'Brien

Senior Vice President and Chief Financial Officer

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**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, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael S. Ruley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

May 14, 2007

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

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**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, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel P. O'Brien, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

May 14, 2007

/s/ Daniel P. O'Brien

Daniel P. O'Brien

Senior Vice President and Chief Financial Officer

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