Hawaiian Telcom

Legal Department
P.O. Box 2200
Honolulu, Hawaii 96841
Phone: 808-546-3606
Fax: 808-546-7621

CABLE DIVISION
COMMERCE AND
CONSUMER AFFAIRS

2006 JUN 15 P 3:44

A___E___P___S___

FILE_______

June 15, 2006

VIA HAND DELIVERY (ORIGINAL + 3 COPIES)

Mr. Clyde Sonobe, Administrator
Cable Television Division
Department of Commerce and Consumer Affairs
335 Merchant Street, 1st Floor
Honolulu, Hawaii 96813

Re: In re Application of Hawaiian Telcom Services Company, Inc. for a Cable Franchise

Dear Mr. Sonobe:

We are enclosing an original and three (3) copies of the responses of Hawaiian Telcom Services Company, Inc. ("Applicant") to the Department of Commerce and Consumer Affairs First Request for Clarification/Supplemental Information dated May 31, 2006. Also enclosed, in a sealed envelope, are an original and three (3) copies of binders labeled "Confidential" that contain information Applicant considers to be confidential, proprietary, and/or highly competitive. Applicant respectfully requests that the contents of the "Confidential" binders not be disclosed to third parties without Applicant's prior written consent.

Very truly yours,

Hawaiian Telcom Services Company, Inc.

Francis K. Mukai

Francis K. Mukai
Vice President and Associate General Counsel

Request:

State the name, the location of its business office, mailing address and telephone number of Applicant.

Response:

Applicant's Name: Hawaiian Telcom Services Company, Inc.

Business Location: 1177 Bishop Street, Honolulu, HI 96813

Mailing Address: P.O. Box 2200, Honolulu, HI 96841

Telephone Number: (808) 546-4511

Request:

Please provide information on where the Applicant was incorporated.

Reponse:

Applicant was incorporated in the State of Delaware.

Request:

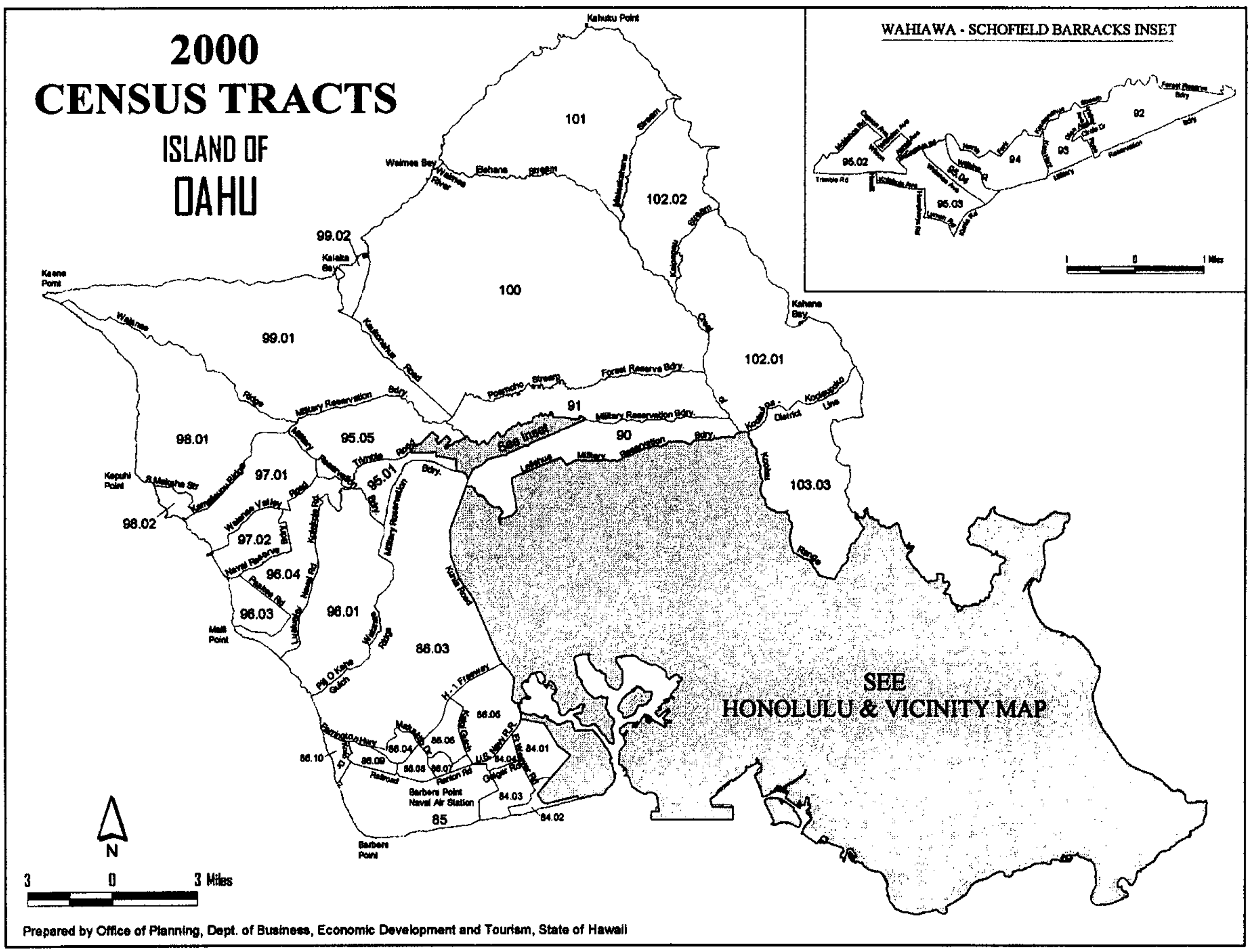
Please confirm that Applicant is seeking a cable franchise for the geographical area encompassing the island of Oahu, City and County of Honolulu.

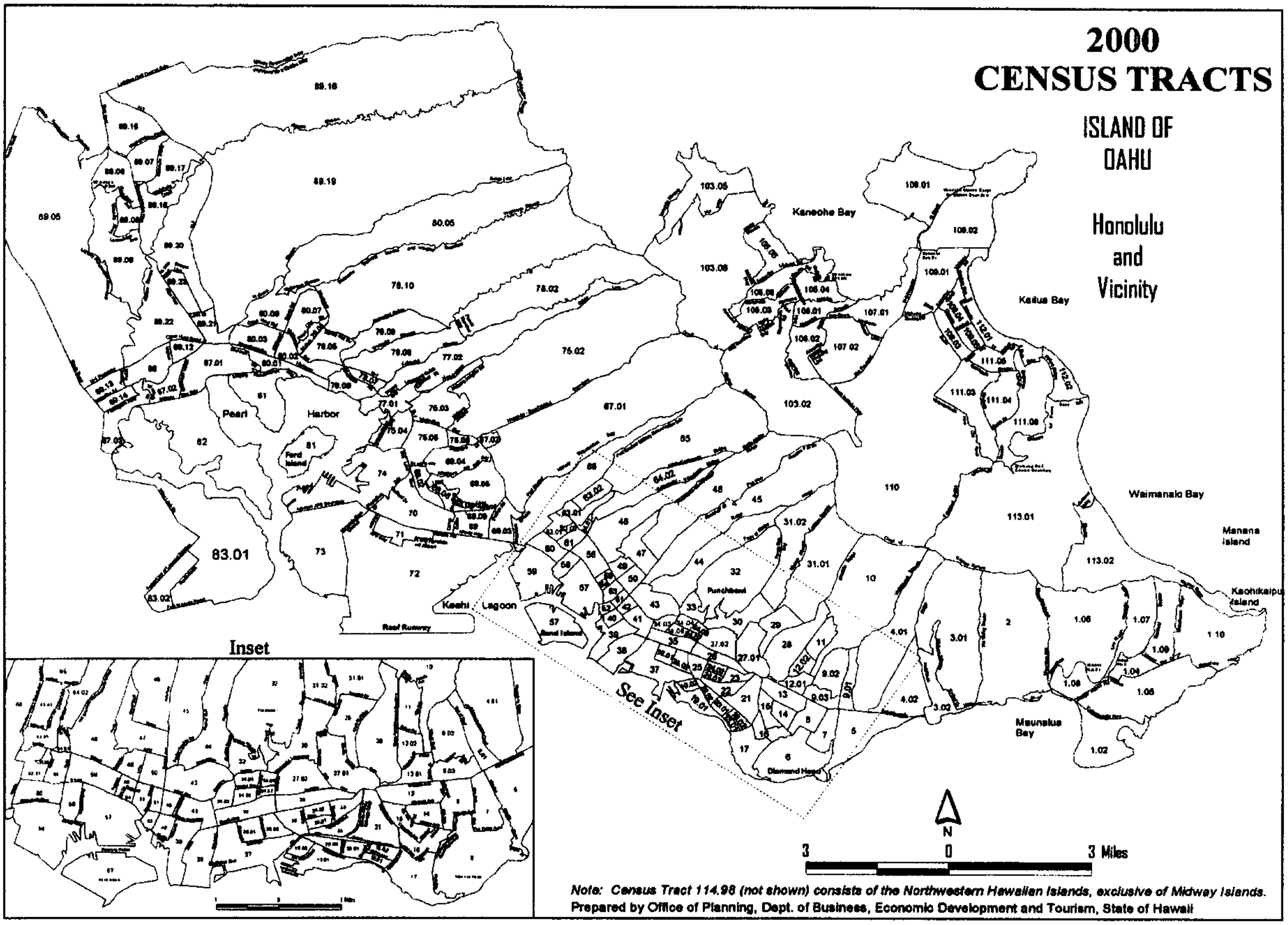
a. Provide the census tract numbers for the proposed franchise area.

Reponse:

Applicant is seeking a cable franchise for the geographical area encompassing the island of Oahu, City and County of Honolulu.

As requested, census tract numbers for the proposed franchise area are listed on the maps shown below:




2000
CENSUS TRACTS
ISLAND OF
OAHU
Honolulu
and
Vicinity
Inset
See Inset
Pearl
Harbor
Kaneohe Bay
Kailua Bay
Waimanalo Bay
Maunalua Bay
Keehi Lagoon
Punchbowl
Diamond Head
Manana Island
Kaohikaipu Island
Reef Runway
3
0
3 Miles
N
Note: Census Tract 114.98 (not shown) consists of the Northwestern Hawaiian Islands, exclusive of Midway Islands.
Prepared by Office of Planning, Dept. of Business, Economic Development and Tourism, State of Hawaii

Request:

Please disclose the names, titles, addresses, telephone numbers and occupations of all persons who are authorized to represent, or to act on behalf of Applicant in matters pertaining to the Application.

a. For each person so authorized, Applicant shall state the limits, if any, of the authority of the individual to make representations, or to act on behalf of Applicant with respect to matters pertaining to the Application.

Response:

Alan M. Oshima
Senior Vice President, General Counsel and Secretary
1177 Bishop Street
Honolulu, HI 96813
(808) 546-3606

Francis K. Mukai
Vice President & Associate General Counsel
1177 Bishop Street
Honolulu, HI 96813
(808) 546-3606

Lester K. Chu
Vice President-Strategy & Business Development
1177 Bishop Street
Honolulu, HI 96813
(808) 546-3606

The above individuals are not limited in their authority to make representations, or to act on behalf of Applicant, with respect to matters pertaining to the Application.

Request:

State the length of the franchise term sought in the Application.

Response:

Fifteen (15) years, consistent with H.R.S. Section 440G-8(d), subject to early termination of the franchise term by Applicant in the event legislation is enacted providing for a national franchise and Applicant obtains a national franchise to provide video service in the service area.

<u>Request:</u>

State the approximate month and year that Applicant intends to commence its proposed video service?

a. Will Applicant implement a pilot program before offering the proposed video service to the public? If yes, please describe the nature of the program and time frames for implementation.

<u>Response:</u>

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

On page 1 of Information Requirements, Applicant states that it and its sister company, Hawaiian Telcom, Inc. ("HTI"), together offer a range of telecommunications services and products. Describe the specific types of services and/or products offered by each of the two companies.

Response:

Between the two entities (HTI and Applicant), a full range of telecommunications and information services are offered to residents of Hawaii. Included among the services provided by the two entities are services that are regulated by either the Hawaii Public Utilities Commission ("PUC") or the Federal Communications Commission ("FCC"). Those regulated services are provided either through tariffs filed with the PUC or FCC, or through "rates, terms and conditions".

The tariffs and "rates, terms and conditions" of both entities can be viewed in total at the www.hawaiiantel.com website, by linking to the "Service Terms and Conditions" found at the bottom of the home page. The tariffs and "rates, terms and conditions" provide a detailed description of each service and rate, term and condition under which it is offered. Because the tariffs and "rates, terms and conditions" are voluminous, for the DCCA's convenience we have attached, as pages 2 through 23, the indexes for the tariffs and "rates, terms and conditions" which indicate the services and products being offered.

In addition to the regulated services, nonregulated services such as the sale of Customer Premise Equipment (e.g., PBXs, key systems) and inside wire maintenance, and the sale of information services such as voice mail and internet services, also are offered by either or both of the entities.

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HAWAIIAN TELCOM, INC.
Alan Oshima, Senior Vice President and General Counsel
1177 Bishop Street; MC: A-17
Honolulu, Hawaii 96813

Issue Date: March 17, 2006 Transmittal No. 7 Effective: April 1, 2006

FACILITIES FOR INTERSTATE ACCESS

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SPECIAL CONSTRUCTION

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(P)

 P)

(P) – Original Duplicate Sheet 4 pending for April 1, 2006 effective date under Transmittal 06-04.
(x) – Reissued to correct page number.

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Section 3 - Description of Service (Continued)

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Request:

Does Applicant agree that it will timely file with the Federal Communications Commission ("FCC") all forms required by the FCC relating to the provision of its video service?

a. Provide copies of all forms, applications, and comments that Applicant has filed, or will file with the FCC as of April 30, 2006. This is an ongoing information request.

Response:

Yes.

As of April 30, 2006, Applicant had not filed any forms, applications, or comments with the FCC relating to the provision of its video service.

Request:

Does Applicant agree that it will timely file with the Department of Commerce and Consumer Affairs ("DCCA") all forms and reports required by the DCCA?

Response:

Yes.

Request:

Does Applicant agree that it will comply with all applicable federal and state statutes and regulations?

Response:

Yes.

Request:

Does Applicant agree that it will comply with all applicable governmental regulations regarding the use and occupation of public rights-of-way in the delivery of cable service or video service, including any police powers of the County in which the service is delivered?

Response:

Yes.

Request:

Information Requirements Section. Page 1. Applicant refers to its sister company, HTI and itself, together as "Hawaiian Telcom." In the different sections of the Application, the use of the abbreviation "Hawaiian Telcom" varies and it is not clear whether the reference is to Applicant or its sister company, Hawaiian Telcom, Inc., or the reference is to the two companies together.

a. Is it Applicant's intention to refer to the two companies whenever it utilizes the term "Hawaiian Telcom" throughout all the different sections of the Application?
b. If this is not Applicant's intention, please state which company(ies) Applicant is referring to whenever "Hawaiian Telcom" is used in the sections of the Application.

Response:

a. With exceptions noted in b. below, the term "Hawaiian Telcom" is used in a generic sense to refer either to both entities or to the Hawaiian Telcom family of companies. For example, to clarify: the "Hawaiian Telcom Executive Team" referred to in the Information Requirements Section is the executive team for Applicant as well as for Hawaiian Telcom, Inc. (HTI); the reference to the Hawaiian Telcom network in Sections F.4, F.5, F.6, G.1, and G.2 refers to the network that is used by both entities although owned by HTI; the reference to Hawaiian Telcom working agreements in Section F.1 refers to agreements that benefit both entities; the reference to the Hawaiian Telcom NOC in G.25 refers to the NOC that is used by both entities although owned by HTI.

b. Except as noted in a. above, the reference to "Hawaiian Telcom" in Sections E.11, F.1-F.8, and G.24 are to HTI.

Request:

Information Requirements Section. Page 5. Description of Proposed System. Applicant states that its design utilizes Internet Protocol Television (IPTV) packet technology to deliver all-digital video services over Hawaiian Telcom's second-generation Digital Subscriber Line (DSL) facilities.

a. Is the reference to Hawaiian Telcom means HTI, Applicant's sister company?
b. If no, then which Hawaiian Telcom company has the second- generation Digital Subscriber Line (DSL) facilities?
c. Are there any agreements between Applicant and HTI, regarding Applicant's use of HTI's second-generation Digital Subscriber Line (DSL) facilities?
    i. Describe in detail the nature of any such agreements and provide copies of these agreements.
d. When Applicant refers to the second-generation DSL service, is Applicant referring to the ADSL2+ / VDSL2 high-speed Internet access service ("ADSL" service) described in its Application on page 3 of Form F?
e. Does Applicant intend that the proposed video service will only be provided to subscribers within the franchise area who subscribe to HTI's second-generation DSL service?
f. Will a subscriber be able to purchase Applicant's video service without being required to purchase the second-generation DSL service?
    i. If no, please explain in detail why not.
g. Does Applicant intend to offer telecommunications, video and information services on a bundled basis as an option to subscribers?
    i. Please describe how services will be offered to potential subscribers. i.e., pricing and packaging.
h. Are there geographical areas within the franchise area that do not have second-generation DSL service?
    i. If yes, what are the plans and time frames to implement such service?
    ii. Are there technical limitations that may prevent an area from receiving second-generation DSL service?
i. Is there a need to upgrade the existing DSL service in order to provide the proposed video service?
    i. If yes, describe in detail any necessary upgrades.
    ii. What are Applicant's plans and time table regarding the build out of the necessary upgrades? Assuming that HTI is providing the DSL network, Applicant should still provide detailed information on the plans and time table regarding any build out.
    iii. Provide detailed construction drawings of the upgrades pursuant to F.6.
j. Are there other means of providing the proposed video service to residents within the franchise area without second-generation DSL service?

Response:

a. The reference to Hawaiian Telcom's second-generation DSL facilities is to the facilities used by both HTI and Applicant, but owned by HTI.

b. HTI owns the second-generation DSL facilities.

c. There already exists an affiliate services agreement governing services between Applicant and HTI, which would be amended to include Applicant's use of HTI's second-generation DSL facilities to provide its video service. This agreement ensures transactions are conducted on an arms' length basis and there is no improper cross-subsidy. A copy of the agreement is attached as pages 4 through 17.

d. Yes. Any reference to DSL to describe the new video service delivery service refers to ADSL2+ / VDSL2 high-speed Internet access service.

e. No. Although the second-generation DSL service is required as a platform to deliver the new video service, a consumer may subscribe to the video service without having to subscribe to the Applicant's high speed internet service over DSL.

f. Yes. A consumer may subscribe to the Applicant's video service without subscribing to the Applicant's high speed internet service over DSL.

g. Yes. Applicant intends to offer service packages that include the new video service in a bundle with other existing services offered by Applicant and its affiliate, Hawaiian Telcom, Inc. Specific bundle offers and the pricing for the Applicant's bundles are under development.

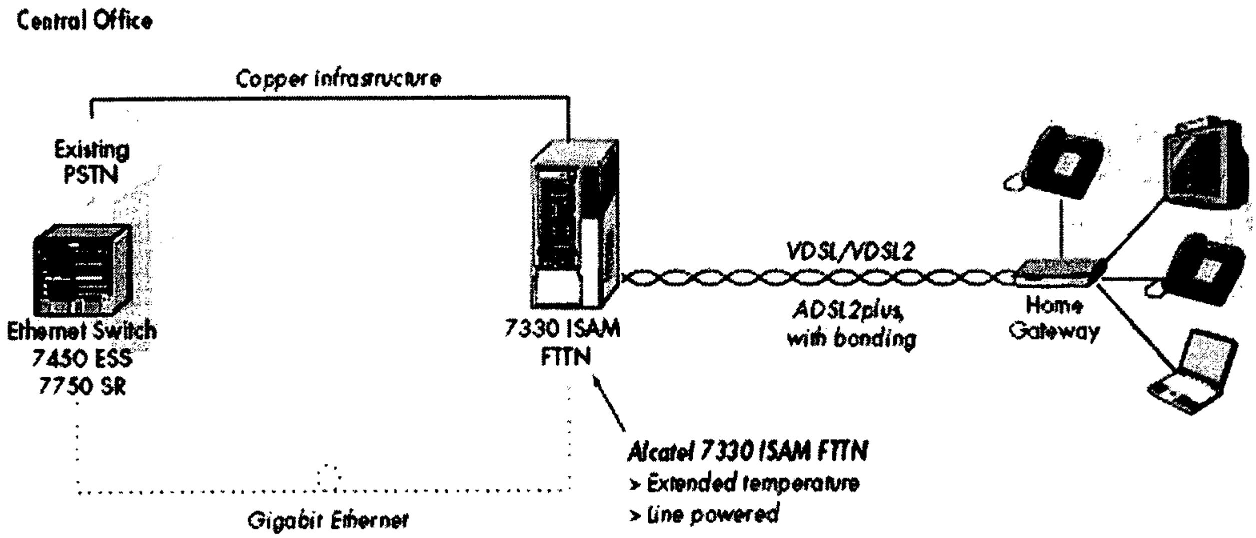
h. At this time, second-generation DSL service is in the process of being deployed. It is not yet available as a service offer in any geographic area.

h.i. Plans and time frames to implement the service across the island of Oahu are specified in confidential Exhibit F.8(A).

h.ii. No. There are no technical reasons that would restrict an area from being provisioned with second-generation DSL service.

i. Yes. Applicant will need to upgrade its existing DSL service to ADSL2+ / VDSL2 in order to provide the proposed video service, as well as to provide expanded bandwidth to accommodate triple play service. This upgrade incorporates the use of Alcatel equipment.

The figure below provides an Alcatel 7330 ISAM FTTN network layout showing a standard area that Applicant will cover. The Central Office has an Alcatel 7330 ISAM FTTN host shelf to serve lines that are within the serving area distance of the Central Office.



j. The other approach that could be used to provide the proposed video service would be to install a fiber optic connection to each and every residence. However, this approach is extremely costly and would significantly slow the deployment and availability of the video service to homes on the island of Oahu.

SERVICES AGREEMENT

BETWEEN

HAWAIIAN TELCOM HOLDCO, INC.,

HAWAIIAN TELCOM COMMUNICATIONS, INC.,

HAWAIIAN TELCOM, INC.

AND

HAWAIIAN TELCOM SERVICES COMPANY, INC.

THIS AGREEMENT ("Agreement") is effective as of May 3, 2005 by and between HAWAIIAN TELCOM HOLDCO, INC. ("HoldCo"), HAWAIIAN TELCOM COMMUNICATIONS, INC., a Delaware corporation ("Parent"), HAWAIIAN TELCOM, INC., ("Hawaiian Telcom") a Hawaii corporation, and HAWAIIAN TELCOM SERVICES COMPANY, INC., a Delaware corporation ("Hawaiian AssetCo").

WHEREAS, on the effective date of this Agreement, Parent will merge (the "Merger") with Verizon HoldCo LLC, a Delaware limited liability company. As a result of the Merger, Parent will own all of the outstanding capital stock of Verizon Hawaii Inc. ("Verizon Hawaii"), the incumbent local exchange carrier providing telecommunications services in the State of Hawaii. Parent will change Verizon Hawaii's corporate name to Hawaiian Telcom, Inc. Hawaiian Telcom will be a regulated public utility in the State of Hawaii under Chapter 269 of the Hawaii Revised Statutes and be the local exchange carrier providing telecommunications services in the State of Hawaii;

WHEREAS, also pursuant to the Merger, Parent will be the owner of all of the outstanding capital stock of Hawaiian AssetCo, which will provide, among other things, long distance, directory and on-line services in the State of Hawaii;

WHEREAS, HoldCo, Parent, Hawaiian Telcom and Hawaiian AssetCo (the "Parties") have determined in the exercise of their sound business judgment that in order to achieve their common goals of successfully operating the above businesses and assets on a cost-effective basis, the Parties will provide to each other certain services to or otherwise for the benefit of each other, either individually or through services to be provided by its members and other affiliates, as described herein; and

WHEREAS, as a means of establishing a more efficient and effective operation, this Agreement shall define the services to be provided to, and the procedures and manner of compensation for such services.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Parties agree as follows:

ARTICLE I. SCOPE OF SERVICE

1.1 During the term of this Agreement, (i) HoldCo will render, arrange for, procure or otherwise provide the services set forth on Exhibit A-1 ("HoldCo Services") to Parent, Hawaiian AssetCo and/ or Hawaiian Telcom from time to time to the extent requested by such party, (ii) Parent will render, arrange for, procure or otherwise provide the services set forth on Exhibit A-2 ("Parent Services") to HoldCo, Hawaiian AssetCo and/ or Hawaiian Telcom from time to time to the extent requested by such party; (iii) Hawaiian Telcom will render, arrange for, procure or otherwise provide the services set forth on Exhibit A-3 ("Hawaiian Telcom Services") to HoldCo, Hawaiian AssetCo and/ or Parent from time to time to the extent requested by such party; and (iv) Hawaiian AssetCo will render, arrange for, procure or otherwise provide the services set forth on Exhibit A-4 ("Hawaiian AssetCo Services" and, together with Parent Services and Hawaiian Telcom Services, "Services") to HoldCo, Hawaiian Telcom and/ or Parent from time to time to the extent requested by such party.

1.2 The Parties reserve the right to add any additional services to the relevant Exhibits upon agreement by the Parties from time to time. The Parties also reserve the right to terminate all or any of the Services provided from time to time under this Agreement; provided however, that unless otherwise agreed to in writing, cancellation of such services must be submitted to the Party providing such Service at least thirty (30) days prior to the effective cancellation date.

1.3 The Parties shall devote such time, effort and resources to the performance of the Services as they deem necessary in the exercise of their reasonable, good-faith discretion and will perform the Services in compliance with all applicable laws (including Hawaii Administrative Rules Sections 6-80-129(12), 6-80-35(B)(1) and 6-80-37).

ARTICLE II. TERM/CANCELLATION

The initial term of this Agreement shall commence as of May 3, 2005 and shall terminate on May 3, 2006, but the term hereof shall automatically renew for successive 12-month periods thereafter until cancelled. Unless otherwise agreed to in writing, such cancellation of this Agreement must be in writing and submitted to the other Parties at least thirty (30) days prior to the effective cancellation date.

ARTICLE III. COMPENSATION AND MANNER AND TIME OF PAYMENT

3.1 All Services will be (i) contracted for on an arm's length basis at fair market value or (ii) in the case of Hawaiian Telcom's tariffed services, purchased under the terms of the tariff, and shall otherwise be in accordance with any applicable laws (including Hawaii Administrative Rules Sections 6-80-129(12), 6-80-35(B)(1) and 6-80-37). In addition, the receiving party shall reimburse the provider of the Services for any charges from third parties that are paid by such party and/or its affiliates in connection with the provision of Services.

3.2 On or before the last day of each quarter, the Parties shall provide an accounting (an "Accounting") of the Services performed in the prior quarter and for any third party charges paid pursuant to Section 3.1 above. Each Accounting shall itemize costs and amounts due by activity and shall contain such detail as may be reasonably acceptable to the Parties with respect to the reimbursement of third party charges.

3.3 The Parties shall endeavor to settle each Accounting within ten (10) days after receipt (whether by payment of funds or otherwise). The Parties shall have the right to request further documentation of all amounts specified in the Accounting due under this Agreement. Any disputes will be resolved internally between the Parties subject to the dispute to the extent possible. If resolution of the dispute cannot be reached to the satisfaction of the Parties subject to the dispute, either Party may seek the help of an outside arbitrator or consultant acceptable to the Parties subject to the dispute for final resolution. The Parties will endeavor to resolve disputes within ninety (90) days from the date of the Accounting.

ARTICLE IV. CONFIDENTIALITY OF INFORMATION

All information pertaining to the employed labor rates of any employee of the Parties and/or its affiliates shall be kept confidential and can be disclosed only with prior written release of the relevant employer.

ARTICLE V. PRIOR NEGOTIATIONS: AMENDMENTS

This Agreement supersedes any and all prior negotiations, representations, or agreements with respect to the matters set forth herein, either written or oral. This Agreement may be amended only by written instrument signed by the Parties.

ARTICLE VI. MISCELLANEOUS

6.1 All questions concerning the validity, operation and interpretation of this Agreement and the performance of the obligations imposed upon the parties hereunder or thereunder shall be governed by the laws of the State of Hawaii.

6.2 If any term or provision of this Agreement shall be found to be illegal or unenforceable then, notwithstanding, this Agreement shall remain in full force and effect, and such term or provision shall be deemed stricken.

6.3 The Parties hereby knowingly, voluntarily and intentionally waive the right to a trial by jury in respect of any litigation based hereon, arising out of, under or in connection with this

Agreement, any other documents contemplated to be executed in connection herewith, the Services, any course of conduct, course of dealings, statements (whether verbal or written) or actions or inactions of any party hereto.

6.4 Each Party shall indemnify and hold harmless each other Party and its receptive officers, directors, employees, agents, advisors and representatives from and against any loss, damage, liability, claims, cost and expense, including reasonable legal fees, which it incurs by reason of or relating to the Services provided hereunder unless resulting from negligence, gross negligence or willful misconduct of such indemnified Party or its respective officers, directors, employees, agents, advisors and/or representatives.

[execution page follows]

IN WITNESS WHEREOF, the Parties have executed this Agreement on the date first above written.

HAWAIIAN TELCOM HOLDCO, INC.

By:____________________

HAWAIIAN TELCOM COMMUNICATIONS, INC.

By:____________________

HAWAIIAN TELCOM, INC.

By:____________________

HAWAIIAN TELCOM SERVICES COMPANY, INC.

By:____________________

Exhibit A-2

Schedule of Services Provided by Hawaiian Telcom Communications, Inc.

**-Services provided at PASS-THROUGH of 3rd Party (VZ) TSA Invoice

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom, Inc.	Hawaiian Telcom Services Company, Inc.	Service Description Reference: TSA Sch	Service Description Reference: TSA Service Ref
5/2/2005	TRANSITION SERVICES ADMINISTRATION	Hawaiian Telcom Communications, Inc.	X	X	A	A-1
5/2/2005	ACCOUNTING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	B-1
5/2/2005	PROPERTY TAX ACCOUNTING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	C-1
5/2/2005	TRANSACTION TAX PREPARATION SERVICES	Hawaiian Telcom Communications, Inc.	X		A	C-2
5/2/2005	PAYROLL AND TIME REPORTING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	D-1
5/2/2005	ACCOUNTS PAYABLE SERVICES	Hawaiian Telcom Communications, Inc.	X		A	D-2
5/2/2005	REMITTANCE PROCESSING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	D-3
5/2/2005	RETURN CHECK PROCESSING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	D-4
5/2/2005	CUSTOMER BILLING OPERATION SERVICES	Hawaiian Telcom Communications, Inc.	X		A	D-5
5/2/2005	SPECIAL PROJECTS BILLING & CLAIMS PROCESSING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	D-6
5/2/2005	BILL PRINT AND DISTRIBUTION CENTER	Hawaiian Telcom Communications, Inc.	X		A	D-7
5/2/2005	CUSTOMER BILLING OPERATIONS	Hawaiian Telcom Communications, Inc.	X		A	E-1
5/2/2005	STP TIER II TECHNICAL SUPPORT SERVICES AND DATABASE FUNCTIONS	Hawaiian Telcom Communications, Inc.	X		A	F-1
5/2/2005	NETWORK SERVICE ASSURANCE SERVICES	Hawaiian Telcom Communications, Inc.	X		A	F-2
5/2/2005	FLEXGROW AND RACAL TECHNICAL SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	F-4
5/2/2005	LNP TIER I TECHNICAL SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	F-5
5/2/2005	SS7 LINK SURVEILLANCE AND PROVISIONING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	F-6
5/2/2005	TCP/IP SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	F-7
5/2/2005	TRANSLATIONS DESIGN SERVICES	Hawaiian Telcom Communications, Inc.	X		A	F-9
5/2/2005	DSL NETWORK SURVEILLANCE	Hawaiian Telcom Communications, Inc.	X		A	F-12
5/2/2005	FAST PACKET NETWORK SURVEILLANCE	Hawaiian Telcom Communications, Inc.	X		A	F-13
5/2/2005	DSL PROVISIONING AND MAINTENANCE	Hawaiian Telcom Communications, Inc.	X		A	F-15
5/2/2005	DATA SERVICES PROVISIONING AND MAINTENANCE SUPPORT	Hawaiian Telcom Communications, Inc.	X		A	F-16
5/2/2005	RECENT CHANGE MEMORY ADMINISTRATION SERVICES	Hawaiian Telcom Communications, Inc.	X		A	G-1

Exhibit A-2

Schedule of Services Provided by Hawaiian Telcom Communications, Inc.

**-Services provided at PASS-THROUGH of 3rd Party (VZ) TSA Invoice

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom, Inc.	Hawaiian Telcom Services Company, Inc.	Service Description Reference: TSA Sch	Service Description Reference: TSA Service Ref
5/2/2005	NETWORK PROVISIONING CENTERS (NPC) TRANSPORT AND MESSAGE TRUNKING SYSTEM SUPPORT	Hawaiian Telcom Communications, Inc.	X		A	G-2
5/2/2005	NETWORK CONTROL CENTER (NCC) MONITORING	Hawaiian Telcom Communications, Inc.	X		A	G-3
5/2/2005	NETWORK DISPATCH CENTER (NDC) SERVICES	Hawaiian Telcom Communications, Inc.	X		A	G-4
5/2/2005	INFRASTRUCTURE - DATA COLLECTION SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-1
5/2/2005	COLLECTION SYSTEMS	Hawaiian Telcom Communications, Inc.	X		A	H-2
5/2/2005	TELEPHONE ADMINISTRATION SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-3
5/2/2005	TRAFFIC DATABASE MAINTENANCE AND DATA VALIDATION	Hawaiian Telcom Communications, Inc.	X		A	H-4
5/2/2005	INSIDE PLANT ENGINEERING SUPPORT SERVICES– COEMOD	Hawaiian Telcom Communications, Inc.	X		A	H-5
5/2/2005	OUTSIDE PLANT ENGINEERING SUPPORT – ICGS	Hawaiian Telcom Communications, Inc.	X		A	H-6
5/2/2005	COMMON LANGUAGE (CLLI) SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-7
5/2/2005	COEP/COEPIP/BARCODE SYSTEMS SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-8
5/2/2005	COEP ENGINEERING AND PLANNING SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-9
5/2/2005	CODE ADMINISTRATION SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-10
5/2/2005	CENTRAL OFFICE ENGINEERING & OUTSIDE PLANT ENGINEERING SUPPORT & RADIO SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-11
5/2/2005	CAPITAL PROGRAM MANAGEMENT SYSTEM ADMINISTRATION AND USER SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	H-12
5/2/2005	LOGISTICS SYSTEM SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	I-1
5/2/2005	FLEET SUPPORT CENTER SERVICES	Hawaiian Telcom Communications, Inc.	X		A	I-2
5/2/2005	ELECTRONIC REPAIR SERVICES (ERS)	Hawaiian Telcom Communications, Inc.	X		A	I-3
5/2/2005	WHOLESALE SERVICES	Hawaiian Telcom Communications, Inc.	X		A	J-1
5/2/2005	MASS AND MULTI MARKET SALES SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	K-1
5/2/2005	OPERATOR SERVICES	Hawaiian Telcom Communications, Inc.	X		A	L-1
5/2/2005	ENTERPRISE SOLUTIONS GROUP (ESG) SUPPORT	Hawaiian Telcom Communications, Inc.	X		A	M-1

Exhibit A-2

Schedule of Services Provided by Hawaiian Telcom Communications, Inc.

**-Services provided at PASS-THROUGH of 3rd Party (VZ) TSA Invoice

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom, Inc.	Hawaiian Telcom Services Company, Inc.	Service Description Reference: TSA Sch	Service Description Reference: TSA Service Ref
5/2/2005	REGULATORY ACCOUNTING SERVICES	Hawaiian Telcom Communications, Inc.	X		A	O-1
5/2/2005	TARIFFS SUPPORT	Hawaiian Telcom Communications, Inc.	X		A	O-2
5/2/2005	REAL ESTATE ADMINISTRATIVE SUPPORT SERVICES	Hawaiian Telcom Communications, Inc.	X		A	P-1
5/2/2005	REAL ESTATE OPERATIONS	Hawaiian Telcom Communications, Inc.	X		A	P-2
5/2/2005	IT TRANSITION SUPPORT SERVICES – HAWAII	Hawaiian Telcom Communications, Inc.	X		A	Q-1
5/2/2005	INFORMATION TECHNOLOGY SYSTEMS ISOLATION	Hawaiian Telcom Communications, Inc.	X		B	A-1
5/2/2005	VOICE AND TANDEM SWITCH NETWORK PLANNING	Hawaiian Telcom Communications, Inc.	X		C	H-13
5/2/2005	DSL PLANNING	Hawaiian Telcom Communications, Inc.	X		C	H-14
5/2/2005	FAST PACKET PLANNING	Hawaiian Telcom Communications, Inc.	X		C	H-15
5/2/2005	BUSINESS RESPONSE PROVISIONING CENTER (BRPC)	Hawaiian Telcom Communications, Inc.	X		C	H-16
5/2/2005	BILLING AND COLLECTION SETTLEMENT PROCESS SERVICES	Hawaiian Telcom Communications, Inc.	X	X	C	D-8
5/2/2005	WHOLESALE CUSTOMER BILLING OPERATIONS	Hawaiian Telcom Communications, Inc.	X		C	E-2
5/2/2005	GTEAMS MASTER CATALOG	Hawaiian Telcom Communications, Inc.	X	X	C	I-4
5/2/2005	SUBSCRIPTION SERVICES	Hawaiian Telcom Communications, Inc.	X		C	J-2
5/2/2005	LIDB, CNAM, LNP, AND TOLL FREE DATABASE SERVICES	Hawaiian Telcom Communications, Inc.	X		C	J-3
5/2/2005	WHOLESALE RECEIVABLES/CLAIMS MANAGEMENT	Hawaiian Telcom Communications, Inc.	X		C	J-4
5/2/2005	FEDERAL TARIFF SERVICES	Hawaiian Telcom Communications, Inc.	X		C	O-3
5/2/2005	VERIZON eWeb INTRANET SERVICES	Hawaiian Telcom Communications, Inc.	X	X	C	Q-2
5/2/2005	HAWAIIAN TELCOM AGENT NETWORK INTERCONNECTION	Hawaiian Telcom Communications, Inc.	X	X	C	Q-3
5/2/2005	VSSI SALES FRONT END SET UP	Hawaiian Telcom Communications, Inc.		X	C	R-1
5/2/2005	VSSI INFOPRO DATA LOAD	Hawaiian Telcom Communications, Inc.		X	C	R-2
5/2/2005	VSSI ACCOUNTING TRANSITION SERVICES	Hawaiian Telcom Communications, Inc.		X	C	R-3
5/2/2005	VSSI CUSTOMER BILLING & COLLECTION SERVICES	Hawaiian Telcom Communications, Inc.		X	C	R-4
5/2/2005	VSSI ACCOUNTS PAYABLE SERVICES	Hawaiian Telcom Communications, Inc.		X	C	R-5
5/2/2005	MANAGED NETWORK SOLUTIONS (MNS)	Hawaiian Telcom Communications, Inc.		X	C	R-6

Exhibit A-2

Schedule of Services Provided by Hawaiian Telcom Communications, Inc.

**-Services provided at PASS-THROUGH of 3rd Party (VZ) TSA Invoice

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom, Inc.	Hawaiian Telcom Services Company, Inc.	Service Description Reference: TSA Sch	Service Description Reference: TSA Service Ref
5/2/2005	DATA/VOICE MAINTENANCE SERVICES	Hawaiian Telcom Communications, Inc.		X	C	R-7
5/2/2005	EMPLOYEE SERVICE CENTER SERVICES	Hawaiian Telcom Communications, Inc.	X	X	C	T-1
5/2/2005	PUBLIC COMMUNICATIONS CHECK PRODUCTION SERVICES	Hawaiian Telcom Communications, Inc.	X		C	V-1
5/2/2005	E-911 DATABASE MANAGEMENT SERVICES	Hawaiian Telcom Communications, Inc.	X		C	W-1
5/2/2005	ELECTRONIC DATA INTERCHANGE (EDI)	Hawaiian Telcom Communications, Inc.	X	X	C	X-1
5/2/2005	OPERATIONS SUPPORT	Hawaiian Telcom Communications, Inc.	X		C	Y-1
5/2/2005	INDIVIDUAL CASE BASIS (ICB) CONTRACT SUPPORT	Hawaiian Telcom Communications, Inc.	X	X	C	Z-1
5/2/2005	ISP SERVICES	Hawaiian Telcom Communications, Inc.		X	D	S-1
5/2/2005	INTERNET SERVICE PROVIDER (ISP): TECHNICAL SUPPORT SERVICE	Hawaiian Telcom Communications, Inc.		X	D	F-14
5/2/2005	INTERNET OPERATIONS - EMAIL PLATFORM AND SUPPORT	Hawaiian Telcom Communications, Inc.		X	D	F-18
5/2/2005	ISP BILLING SUPPORT	Hawaiian Telcom Communications, Inc.		X	D	N-1
5/2/2005	FRAUD PREVENTION SERVICES	Hawaiian Telcom Communications, Inc.	X		D	U-1

Exhibit A-3

Schedule of Services Provided by Hawaiian Telcom, Inc. to Hawaiian Telcom Services Company, Inc.

**-Services provided at HIGHER of FMV or FDC

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom Services Company, Inc.	Service Description Reference
5/2/2005	INTERCONNECTION-LOCAL RESALE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CAPACITY AGREEMENT SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CARE REPAIR PROCESSING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CPE SALES AND SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	DATABASE AND SYSTEM ACCESS AND DATA TRANSMISSION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	GEN'L INQUIRY AND POST SALES SUPPORT SVC	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INSTALLATION AND MAINTENANCE SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INTERFACE SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	MARKETING AND SELLING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	NETWORK MANAGEMENT SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	NON-REGULATED RETAIL SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	OPERATOR ASSISTANCE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	PROGRAMMING AND TESTING SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	SUBSCRIBER LISTING LICENSE AGREEMENTS	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	SUPPORT ASSETS SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	TECHNICAL SUPPORT	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	TRAINING SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	WHOLESALE ORDER INITIATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	COMPUTER EQUIPMENT (Asset)	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	DISPOSAL OF SCRAP MATERIAL (Asset)	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	FURNITURE AND OFFICE EQUIPMENT (Asset)	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	TOOLS (Asset)	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ACCOUNT COLLECTIONS, RECONCILIATIONS AND INVESTIGATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ADPROOF	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ANCILLARY ACCOUNTING SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	BILL INQUIRY	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CALL CENTER MANAGEMENT AND ADMINISTRATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CALL / TROUBLE TICKET MANAGEMENT	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CARE REPAIR PROCESSING	Hawaiian Telcom, Inc.	X	CAM Section V - C1

Exhibit A-3

Schedule of Services Provided by Hawaiian Telcom, Inc. to Hawaiian Telcom Services Company, Inc.

**-Services provided at HIGHER of FMV or FDC

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom Services Company, Inc.	Service Description Reference
5/2/2005	COMPUTER SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CONFERENCE BILLING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CONFERENCE CONNECTION-RESALE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CPE SALES AND SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CUSTOMER REFERRALS	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	DATABASE & SYSTEM ACCESS / DATA TRANSMISSION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	FIBER BROADBAND ACCESS SERVICE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	GENERAL AND ADMINISTRATIVE SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INFO PAGES PROVISIONING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INSTALLATION AND MAINTENANCE SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INTERFACE SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INTERNAL CREDIT INFORMATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	LOANED EMPLOYEES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	MARKETING AND SELLING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	NATIONAL DIRECTORY ASSISTANCE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	NATIONAL SYSTEM SALES SUPPORT	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	NETWORK MANAGEMENT SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	OFFLINE CENTER SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ORDER ENTRY	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ORDER REMOVAL	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	PER CALL COMPENSATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	POST SALE FULLFILLMENT	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	PREMISE SERVICE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	PRODUCT DEPLOYMENT AND TESTING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	PROGRAMMING AND TESTING SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	REAL ESTATE LEASES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	RECEIVABLES MANAGEMENT	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	RETAIL DA CALL COMPLETION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	SLAMMING INVESTIGATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1

Exhibit A-3

Schedule of Services Provided by Hawaiian Telcom, Inc. to Hawaiian Telcom Services Company, Inc.

**-Services provided at HIGHER of FMV or FDC

Effective Date	Asset/Service Provided**	Provided By	Hawaiian Telcom Services Company, Inc.	Service Description Reference
5/2/2005	SS7 OFFNET	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	SUPPORT ASSET SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	TECHNICAL SUPPORT	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	TRAINING SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	WHOLESALE ORDER INITIATION	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ADMINISTRATIVE	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ADVERTISING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CASH MANAGEMENT SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	CORPORATE SOURCING AND LOGISTICS	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	ENGINEERING & OPERATIONS SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	EXECUTIVE & PLANNING	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	EXTERNAL AFFAIRS, CORPORATE COMMUNICATIONS & GOVERNMENTAL RELATIONS	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	FINANCE AND TREASURY SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	HUMAN RESOURCES SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	INFORMATION SYSTEM SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	LEGAL	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	MARKETING & CUSTOMER SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	OPERATOR SERVICES	Hawaiian Telcom, Inc.	X	CAM Section V - C1
5/2/2005	PUBLIC COIN TELEPHONE SUPPORT	Hawaiian Telcom, Inc.	X	CAM Section V - C1

Exhibit A-4

Schedule of Services Provided by Hawaiian Telcom Services Company to Hawaiian Telcom, Inc.

**-Services provided at LOWER of FMV or FDC

Effective Date	Asset/Service Provided**	Provided To	Hawaiian Telcom Services Company, Inc.	Hawaiian Telcom Insurance Company, Inc.	Service Description Reference
5/2/2005	BASIC INSTALLATION AND MAINTENANCE SVCS	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	CELLULAR MOBILE SERVICE	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	DIRECTORY ADVERTISING	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	EQUIPMENT AND SUPPLY SALES	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	NETWORK MANAGEMENT	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	OFFICIAL COMPANY LONG DISTANCE	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	PROV. OF NETWORK INTEGRATION SVCS / EQUIPMENT	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	REPAIR AND INSTALL NETWORKS (CPE)	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	SOFTWARE DEVELOPMENT AND MAINTENANCE	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	BILLING AND COLLECTION SERVICES	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	INFORMATION PROVISIONING SERVICES	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	INSURANCE	Hawaiian Telcom, Inc.		X	CAM Section V - C2
5/2/2005	ORDER MIGRATION	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	REGULATORY REQUIRED INFORMATION	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	RETAIL PIC MAMAGEMENT	Hawaiian Telcom, Inc.	X		CAM Section V - C2
5/2/2005	SALES AGENCY	Hawaiian Telcom, Inc.	X		CAM Section V - C2

Request:

Information Requirements Section. Page 6. Applicant states that it "intends to utilize the existing network infrastructure of Applicant's sister company, Hawaiian Telcom, Inc., to deliver video service, similar to how DSL service is ordered/accessed today."

a. On page 5 of the Information Requirements, there is a diagram of Applicant's overall system design.
   i. Does this diagram also include the existing HTI network infrastructure referred to in Applicant's response?
   ii. If not, describe the existing network infrastructure of Applicant's sister company, HTI.
   iii. Why is this structure preferred?
b. Does this existing network infrastructure extend out to all areas/communities in the franchise area.
   i. If no, provide a detailed deployment schedule?
c. If the existing network infrastructure is not HTI's second-generation DSL lines, then state whether there are any agreements between Applicant and its sister company, HTI, regarding Applicant's use of HTI's existing infrastructure.
d. State in detail the nature of any agreements and provide copies of these agreements.

Response:

a. Yes. HTI's existing network is a typical telco architecture consisting of copper cable loops starting from our Central Offices or Remote Digital Loop carriers to the customer premises. Over these loops that provide Plain Old Telephone Service (POTS), HTI provides broadband pipes utilizing DSL.

   The architecture is preferred for it utilizes existing copper facilities already in place; allows greater bandwidth to our customers for a host of new services; is something we already know how to engineer, provision, and maintain; doesn't require HTI to re-tool its work force; and is a natural evolution to our broadband strategies for DSL.

b. Yes. To clarify, the configuration depicted in the referenced diagram will be located at the Applicant's new video head end facility. The only portion of the diagram that refers to Applicant's "existing network infrastructure" is labeled "IP Backbone".

c. The existing network infrastructure is owned by HTI and is in the process of being upgraded to second-generation DSL. Applicant's video service will be delivered over the second-generation DSL facilities. The affiliate services agreement described in Applicant's response to DCCA-IR-13.c. will be amended to include Applicant's use of HTI's second-generation DSL facilities to provide its video service.

d. Please refer to Applicant's response to DCCA-IR-13.c.

Request:

State the public interest to be served by the issuance of a cable franchise to the Applicant.

Response:

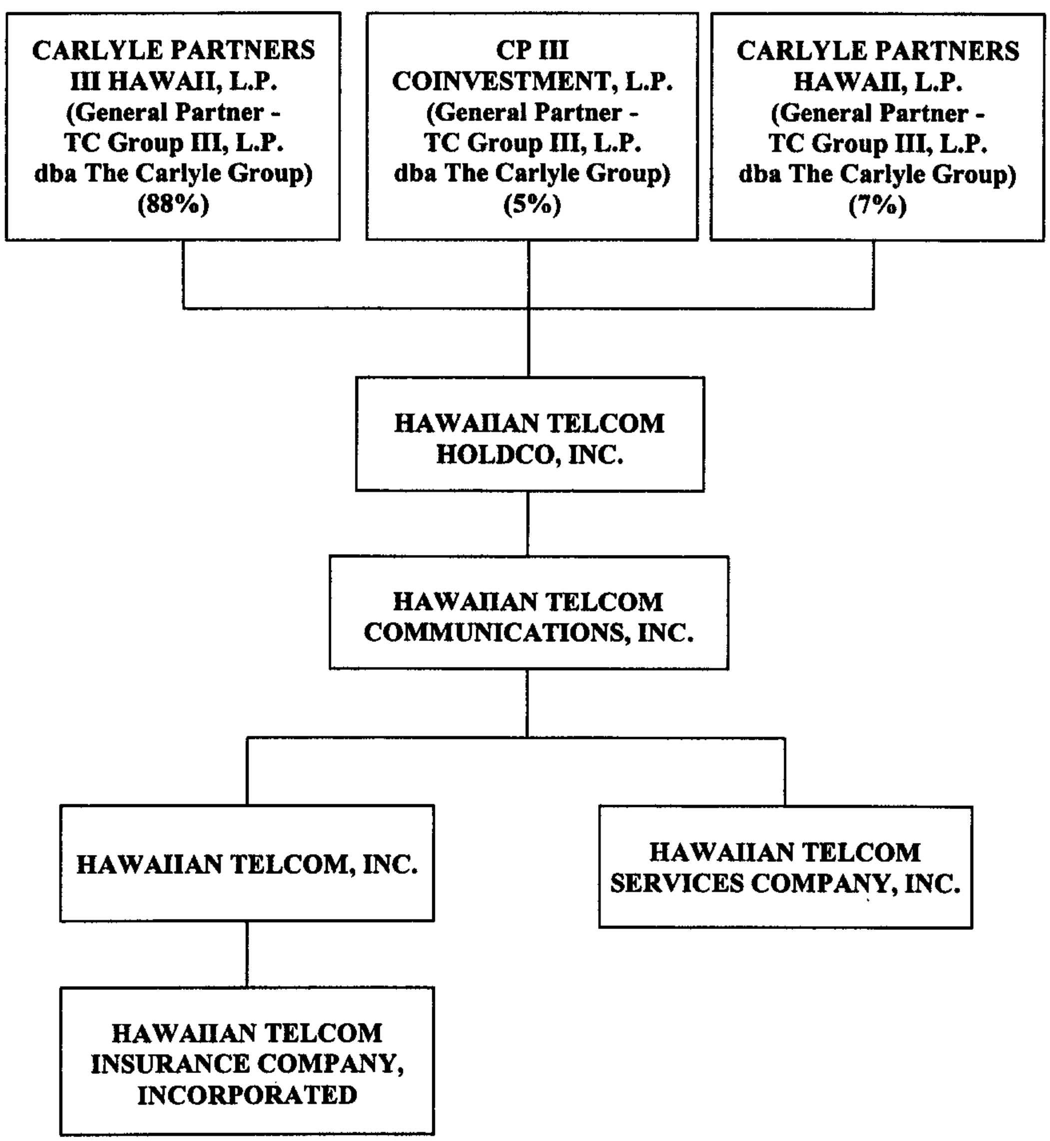
Issuing a cable franchise to Applicant would create competition in a market monopolized by the incumbent cable provider and be in the best interests of Oahu and its residents. There is no question that competition is desperately needed on Oahu. Issuing the cable franchise would increase the choices available to consumers and provide benefits in terms of pricing, programming, value, customer service, more advanced IPTV technology and innovative products and services, and other benefits that competition brings.

Request:

Submit an organizational chart showing the relationship between the Applicant, HTI, and all principals and ultimate beneficial owners of the Applicant including all controlling/ownership entities in the chain of command. The organizational chart should show all vertical and horizontal affiliates by degree or extent of control/ownership interest.

Response:

Hawaiian Telcom Ownership Structure



Request:

Exhibit 1 purports to contain the audited consolidated financial statements of Hawaiian Telcom Communications, Inc. as of December 31, 2005. The attached Independent Auditors' Report appears to be incomplete. Provide a full and complete audited financial statement for Hawaiian Telcom Communications, Inc. of December 31, 2005, including all footnoted disclosures.

a. In addition, provide a complete audited financial statement for Hawaiian Telcom Communications with footnoted disclosures for 2004.

Response:

Please see attached pages 2 through 27.

Index to Financial Statements

Hawaiian Telcom Communications, Inc. Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

Stockholder and Board of Directors
Hawaiian Telcom Communications, Inc.

We have audited the accompanying consolidated balance sheets of Hawaiian Telcom Communications, Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholder's equity (deficiency), and cash flows for the year ended December 31, 2005 and for the period from May 21, 2004 (date of inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Hawaiian Telcom Communications, Inc. and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for the year ended December 31, 2005 and for the period from May 21, 2004 (date of inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Honolulu, Hawaii
March 29, 2006

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Management
Verizon Communications Inc.

We have audited the special-purpose combined statements of selected assets, selected liabilities and parent funding (titled consolidated balance sheets in the accompanying financial statements) of Verizon Communications Inc.'s ("Verizon") Hawaii Business, a combination of Verizon Hawaii Inc. and carved-out components of Verizon Information Services, GTE.Net LLC, Bell Atlantic Communications Inc., and Verizon Select Services Inc., as of December 31, 2004, and the related combined statements of income (consolidated statements of operations), parent funding (combined statements of changes in parent funding – predecessor), and cash flows (consolidated statements of cash flows) for the period from January 1, 2005 to May 1, 2005 and the years ended December 31, 2004 and 2003. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the internal control over financial reporting of Verizon's Hawaii Business. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting of Verizon's Hawaii Business. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Notes 2 and 3, the special-purpose combined financial statements were prepared to present the selected assets, selected liabilities and parent funding and statements of income and cash flows of Verizon's Hawaii Business in contemplation of a potential sale. The combined financial statements include allocations of certain indirectly attributable amounts on bases determined by management of Verizon.

In our opinion, the special-purpose combined financial statements referred to above present fairly, in all material respects, the selected assets, selected liabilities and parent funding of Verizon's Hawaii Business at December 31, 2004, and the combined results of their operations and their cash flows for the period from January 1, 2005 to May 1, 2005 and the years ended December 31, 2004 and 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 20, Verizon's Hawaii Business changed their methods of accounting for directory revenues and expenses and asset retirement obligations effective January 1, 2003.

/S/ ERNST & YOUNG LLP

New York, New York
July 26, 2005

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Hawaiian Telcom Communications, Inc.

Consolidated Statements of Operations
(Dollars in thousands)

	Company		Predecessor		
	Year Ended December 31, 2005	Period from May 21 to December 31, 2004	Period from January 1 to May 1, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Operating revenues	$ 337,417	$ —	$ 200,700	$595,600	$612,300
Operating expenses:					
Cost of services and sales (exclusive of depreciation and amortization)	150,324	—	76,300	204,300	213,300
Selling, general and administrative	172,612	17,373	48,900	185,600	230,400
Depreciation and amortization	107,753	—	39,600	114,800	109,400
Total operating expenses	430,689	17,373	164,800	504,700	553,100
Operating income (loss)	(93,272)	(17,373)	35,900	90,900	59,200
Other income (expense):					
Interest expense	(79,208)	—	(11,700)	(36,800)	(33,700)
Other income and expense, net	875	—	600	3,300	1,600
Total other income (expense)	(78,333)	—	(11,100)	(33,500)	(32,100)
Income (loss) before provision for income taxes and cumulative effect of accounting changes	(171,605)	(17,373)	24,800	57,400	27,100
Provision for income taxes	4,100	—	8,700	20,500	8,800
Income (loss) before cumulative effect of accounting changes	(175,705)	(17,373)	16,100	36,900	18,300
Cumulative effect of accounting changes, net of tax	—	—	—	—	47,200
Net income (loss)	$ (175,705)	$ (17,373)	$ 16,100	$ 36,900	$ 65,500

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Communications, Inc.

Consolidated Balance Sheets
(Dollars in thousands, except per share information)

	Company		Predecessor
	December 31,		
	2005	2004	December 31, 2004
Assets			
Current assets			
Cash and cash equivalents	$ 10,321	$ —	$ 1,200
Short-term investments	—	—	19,900
Receivables	78,940	—	108,900
Material and supplies	5,711	—	8,800
Prepaid expenses	4,364	—	1,500
Deferred income taxes	—	—	10,700
Other current assets	6,346	—	10,100
Total current assets	105,682	—	161,100
Property, plant and equipment, net	817,333	—	734,000
Prepaid pension asset	—	—	536,400
Deferred financing and other assets	52,067	6,734	57,500
Intangible assets, net	647,199	—	—
Goodwill	134,273	—	—
Total assets	$1,756,554	$ 6,734	$ 1,489,000
Liabilities, Stockholder's Equity (Deficiency) and Parent Funding			
Current liabilities			
Accounts payable	$ 50,387	$ 8,427	$ 27,900
Accrued expenses	32,572	—	41,200
Advance billings and customer deposits	16,006	—	21,500
Current maturities of long-term debt	3,000	—	283,800
Other current liabilities	9,306	15,680	14,600
Total current liabilities	111,271	24,107	389,000
Long-term debt	1,343,500	—	301,700
Deferred income taxes	4,100	—	325,200
Employee benefit obligations	44,141	—	41,700
Other liabilities	7,345	—	21,400
Total liabilities	1,510,357	24,107	1,079,000
Commitments and contingencies (Note 16)			
Stockholder's equity (deficiency) and parent funding			
Common stock, par value of $0.01 per share, 1,000 shares authorized and issued	—	—	—
Additional paid-in capital	428,000	—	—
Accumulated other comprehensive income	11,275	—	—
Accumulated deficit	(193,078)	(17,373)	—
Parent funding	—	—	410,000
Total stockholder's equity (deficiency) and parent funding	246,197	(17,373)	410,000
Total liabilities, stockholder's equity (deficiency) and parent funding	$1,756,554	$ 6,734	$ 1,489,000

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Communications, Inc.

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Company		Predecessor		
	Year Ended December 31, 2005	Period from May 21 to December 31, 2004	Period from January 1 to May 1, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Cash flows from operating activities:					
Income (loss) before cumulative effect of accounting changes	$ (175,705)	$ (17,373)	$ 16,100	$ 36,900	$ 18,300
Adjustments to reconcile income (loss) before cumulative effect of accounting changes to net cash provided by (used in) operating activities					
Depreciation and amortization	107,753	—	39,600	114,800	109,400
Deferred income taxes, net	4,100	—	(11,700)	9,000	9,000
Employee retirement benefits	10,072	—	(300)	(3,500)	1,100
Changes in operating assets and liabilities:					
Receivables	23,297	—	11,400	4,900	22,500
Material and supplies	276	—	(3,300)	2,600	4,200
Other current assets	(8,854)	—	(400)	12,900	(4,200)
Accounts payable and accrued expenses	43,103	8,427	(8,800)	(53,500)	(18,900)
Other current liabilities	(13,132)	8,946	1,400	(3,000)	(1,500)
Other, net	3,709	—	(7,800)	(13,400)	(14,600)
Net cash provided by (used in) operating activities	(5,381)	—	36,200	107,700	125,300
Cash flows from investing activities:					
Capital expenditures	(112,680)	—	(22,800)	(63,700)	(86,200)
Purchase of investments	—	—	—	—	(31,200)
Proceeds on sale of investments	15,000	—	—	31,500	20,000
Net change in note receivable	—	—	11,300	35,500	(46,800)
Purchase of Verizon's Hawaii Business, net of cash acquired	(1,323,355)	—	—	—	—
Other	—	—	(200)	—	100
Net cash provided by (used in) investing activities	(1,421,035)	—	(11,700)	3,300	(144,100)
Cash flows from financing activities:					
Issuance of common stock	428,000	—	—	—	—
Proceeds from issuance of debt	1,068,300	—	—	—	45,900
Repayment of debt	(21,800)	—	(283,800)	(63,800)	—
Net change in parent funding	—		259,700	(46,100)	(27,000)
Payment of debt issue costs	(37,763)	—	—	—	—
Other	—	—	100	(300)	—
Net cash provided by (used in) financing activities	1,436,737	—	(24,000)	(110,200)	18,900
Net change in cash and cash equivalents	10,321	—	500	800	100
Cash and cash equivalents, beginning of period	—	—	1,200	400	300
Cash and cash equivalents, end of period	$ 10,321	$ —	$ 1,700	$ 1,200	$ 400

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Communications, Inc.

Consolidated Statements of Changes in Stockholder's Equity (Deficiency) - Company
(Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholder's Equity (Deficiency)
	Shares	Amount				
Balance, May 21, 2004 (date of inception)	—	$ —	$ —	$ —	$ —	$ —
Loss for the period ended December 31, 2004	—	—	—	—	(17,373)	(17,373)
Balance, December 31, 2004	—	—	—	—	(17,373)	(17,373)
Issuance of common stock	1,000	—	428,000	—	—	428,000
For the year ended ended December 31, 2005:						
Net loss	—	—	—	—	(175,705)	(175,705)
Other comprehensive income - Gains on cash flow hedging derivatives:						
Gain during the period	—	—	—	11,892	—	11,892
Reclassification adjustment	—	—	—	(505)	—	(505)
						11,387
Unrealized loss on investments	—	—	—	(112)	—	(112)
Total other comprehensive income						11,275
Comprehensive loss						(164,430)
Balance, December 31, 2005	1,000	$ —	$428,000	$ 11,275	$ (193,078)	$ 246,197

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Communications, Inc.

Combined Statements of Changes in Parent Funding - Predecessor
(Dollars in thousands)

Balance, January 1, 2003	$380,700
Net income	65,500
Net change due to parent funding, allocations and intercompany reimbursements	(27,000)
Balance, December 31, 2003	419,200
Net income	36,900
Net change due to parent funding, allocations and intercompany reimbursements	(46,100)
Balance, December 31, 2004	410,000
Net income	16,100
Net change due to parent funding, allocations and intercompany reimbursements	259,700
Balance, May 1, 2005	$685,800

See accompanying notes to consolidated financial statements.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements
(Dollars in thousands, except share information)

1. Description of Business

Business Description

Hawaiian Telcom Communications, Inc. and subsidiaries (the "Company") is the incumbent local exchange carrier for the State of Hawaii and is estimated to be one of the ten largest incumbent local exchange carriers in the United States with an integrated telecommunications network servicing approximately 646,000 switched access lines as of December 31, 2005. The Company also served approximately 287,000 long distance lines and had 79,000 digital subscriber line (DSL) connections as of that date.

The Company provides a range of voice and data communication services to residential and commercial customers. Local telephone service is provided on each island in Hawaii and intraLATA (Local Access Transport Area) toll service is provided among the islands. InterLATA toll services between Hawaii and domestic points within the United States are provided by long-distance carriers, which connect to the Company's local facilities for call origination and termination. Business and residential customers also pay access charges to the Company to connect to the local network to obtain long-distance service. The Company also provides wholesale wireline services to other carriers and corporate customers. In addition, the Company provides publishing services associated with printed telephone directories published in areas served by the Company; Internet access services for customers located in Hawaii, including both DSL and remote dial-up for residential and business customers; long-distance telecommunications services for interLATA and international toll traffic originating in Hawaii; billing and collection and operator services to long-distance carriers; and customer premise equipment sales and services. The Company offers *Hawaiian Telcom®* branded wireless services to residential and commercial customers through a leased network.

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

Acquisition

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

Organization

With the Acquisition, 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.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

2. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The Company

The accompanying consolidated balance sheets as of December 31, 2005 and 2004 and the related consolidated statements of operations, cash flows and changes in stockholder's equity (deficiency) for the periods ended December 31, 2005 and 2004 include the consolidated financial position, results of operations and cash flows from inception of the Company on May 21, 2004 and also include the results of Verizon's Hawaii Business (defined below) from the May 2, 2005 acquisition date. The historical financial statements of the Predecessor are included in the accompanying consolidated financial statements including the combined statements of selected assets, selected liabilities and parent funding as of December 31, 2004, and combined statements of operations, parent funding and cash flows for the period from January 1, 2005 to May 1, 2005, and years ended December 31, 2004 and 2003. The Predecessor financial statements have not been adjusted to give effect to the Acquisition. Accordingly, the accompanying consolidated financial statements of the Company are not comparable to the Predecessor financial statements.

The Predecessor

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

The Subsidiary and Parent Guarantors

Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. guarantee the senior notes and the notes payable to banks (see Note 10). Financial statements of the subsidiary guarantors have not been presented as Hawaiian Telcom Communications, Inc. has no independent assets or operations, the guarantees are full and unconditional and joint and several, and the assets of Hawaiian Telcom Insurance Company, Incorporated, which are excluded from the guarantee, are not significant.

HoldCo, the Company's parent, also is a guarantor for the 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.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

3. Summary of Significant Accounting Policies

Use of Estimates

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

Principles of Consolidation

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

Revenue Recognition

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

Basic local service, enhanced calling features such as caller ID, special access circuits, long distance flat-rate calling plans and most data services are billed one month in advance. Revenue for these services is recognized in the month services are rendered. The portion of advance-billed services associated with services that will be delivered in a subsequent period is deferred and recorded as a liability in advance billings and customer deposits.

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

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

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

The Company recognizes publishing revenue and related expenses on a straight-line method over the twelve month period in which the corresponding directory is distributed. The Company recognizes the revenue from the sale and maintenance of customer premises equipment in the period the sale or service is rendered.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and temporary investments with maturities at acquisition of three months or less.

Receivables

The Company makes estimates of the uncollectibility of its accounts receivables by specifically analyzing accounts receivables and historic bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Material and Supplies

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

Property and Depreciation

Property, plant and equipment are carried at cost. Depreciation has been calculated using the composite remaining life methodology and straight-line depreciation rates. The method depreciates the remaining net investment in telephone plant over remaining economic asset lives by asset category. This method requires periodic review and revision of depreciation rates. The average economic lives utilized for assets acquired from Verizon are as follows: buildings – 40 years; cable and wire – 5 to 18 years; switching and circuit equipment – 2 to 12 years; and other property – 1 to 20 years. The average economic lives for all other assets (i.e., primarily new additions) are as follows: building – 34 years; cable and wire – 11 to 37 years; switching and circuit equipment – 6 to 14 years; and other property – 5 to 17 years.

Software

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

Goodwill and Other Intangible Assets

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

Impairment of Long-Lived Assets

The Company assesses the recoverability of long-lived assets, including property, plant and equipment and definite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, if the sum of the expected cash flows, undiscounted and without interest, resulting from use of the asset are less than the carrying amount, an impairment loss is recognized based on the difference between the carrying amount and the fair value of the assets. No impairment loss has been recognized to date.

Debt Issuance

Deferred financing costs are amortized over the term of the related debt issuance.

Derivative Financial Instruments

The Company accounts for all derivative financial instruments, such as interest rate swap agreements, by recognizing the derivative on the balance sheet at fair value, regardless of the purpose or intent of holding them.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

In addition, for derivative instruments that qualify for hedge accounting, changes in the fair value will either be offset against the change in the fair value of the hedged assets, liabilities, or firm commitment through earnings or recognized in stockholder's equity as a component of accumulated other comprehensive income until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. The Company measures hedge effectiveness by formally assessing, at least quarterly, the historical and probable future high correlation of changes in the fair value of expected future cash flows of the hedged item. The ineffective portion of a derivative's change in fair value will be immediately recognized in other income or expense.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities at each balance sheet date using enacted tax rates expected to be in effect in the year the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that it is unlikely they will be realized.

Employee Benefit Plans

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

aintenance and Repairs

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

Advertising

Advertising costs are expensed as incurred. Advertising expense for the Company amounted to $14,311 and $278 for the year ended December 31, 2005 and the period from May 21, 2004 to December 31, 2004, respectively. For the Predecessor, advertising expense amounted to $400 for the period from January 1, 2005 to May 1, 2005, and $1,900 and $2,100 for the years ended December 31, 2004 and 2003, respectively. Limited advertising expense was incurred by the Predecessor given the nationwide nature of the Verizon franchise.

Stock Based Compensation

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock Based Compensation," the Company accounts for stock-based compensation using the intrinsic value method as prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and applies the disclosure-only provisions of SFAS No. 123.

If the Company had determined compensation expense for its stock-based compensation expense for its stock-based compensation plans based on the minimum value at the grant dates consistent with the method of SFAS No. 123, the Company's pro forma net loss for the year ended December 31, 2005 would be as follows (see also Note 14):

Net loss, as reported	$(175,705)
Less stock-based compensation expense under the minimum value based method	1,658
Pro forma net loss	$(177,363)

Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Accumulated Other Comprehensive Income

The other comprehensive income and accumulated other comprehensive income are comprised of the changes in assets and liabilities related to the Company's interest rate swap derivatives (gain of $11,387) and unrealized losses of the insurance subsidiary investments (loss of $112). The investments of the insurance subsidiary are included in other long term assets and are not significant at December 31, 2005.

Earnings per Share

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

Predecessor Financial Statements

Historically, financial statements had not been prepared for the Hawaii Business as it had no separate legal existence. The combined Predecessor financial statements include the accounts of Verizon Hawaii Inc. and its subsidiary, as well as printed directory, digital subscriber line, Internet access, long distance and customer premise equipment services provided to customers in the State of Hawaii. The preparation of financial information related to the operations of VIS, VOL, VLD and VSSI in Hawaii was based on the following:

VIS: Receivables were determined based upon applicable billing system data. Accounts payable were allocated based on the applicable operating expenses. Accrued payroll costs and employee benefit obligations were allocated based on employee headcount. Other current assets and liabilities were allocated based upon the percentage of VIS Hawaii Business revenues as a percentage of total VIS revenues. Revenues were identified using applicable billing system data. Cost of services and sales were identified based upon a combination of direct cost for Hawaii sales and information from the job order costing system. Selling, general, and administrative expenses were allocated based upon the percentage of total VIS selling, general, and administrative expenses to total VIS revenues applied to the VIS revenue component of the Hawaii Business.

VOL: Receivables were allocated based on applicable operating revenues. Accounts payable were allocated based on the applicable operating expenses. Other current assets and liabilities were determined using applicable billing system data. Revenues were determined using applicable billing system data and average access lines in service. Cost of services and sales were allocated based on the ratio of average Hawaii VOL access lines to total VOL access lines applied to VOL operating expenses. Selling, general and administrative expenses were allocated based on the ratio of Hawaii Business revenues related to the VOL component to total VOL revenues applied to total VOL selling, general and administrative expenses.

VLD: Receivables were allocated based on the applicable operating revenues. Accounts payable were allocated based on applicable operating expenses. Revenues were determined using applicable billing system data. Cost of sales and services and selling, general and administrative expenses were allocated based on the ratio of Hawaii Business revenue related to the VLD component to total VLD revenues applied to operating expenses for total VLD.

VSSI: Receivables were allocated based on the applicable operating revenues. Accounts payable were allocated based on applicable operating expenses. Revenues were identified using applicable billing system data. Cost of sales and services and selling, general and administrative expenses were allocated based on the ratio of Hawaii Business revenue related to the VSSI component to total VSSI revenues applied to operating expenses for total VSSI.

Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Management of Verizon believes the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related assets, liabilities, revenues and expenses of the Hawaii Business.

Recently Issued Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." This standard has no impact on the Company's financial statements. SFAS 154 requires retrospective application to financial statements of prior periods for changes in accounting principles. This statement is effective January 1, 2006.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." The statement had no impact on the Company's financial statements when adopted. This statement requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. This statement became effective on December 31, 2005.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." The Company will adopt the provisions of this standard for options to be granted after December 31, 2005. This standard requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. This statement is effective January 1, 2006.

Acquisition of Verizon's Hawaii Business

The acquisition of Verizon's Hawaii Business (see Note 1) was accounted for as a purchase. The operations of Verizon's Hawaii Business have been included in the accompanying consolidated financial statements from the May 2, 2005 acquisition date. The determination of the purchase price was based upon arm's-length negotiations between the buyer and seller, including analyses of expected future cash flows, the ability of the Company to service various levels of debt at then current market interest rates and comparisons to comparable transactions regarding multiples of various operating measures. The purchase price was allocated first to tangible and identifiable intangible assets acquired and liabilities assumed based upon estimates of their fair values, with the resulting excess, based upon the negotiated purchase price, allocated to goodwill as follows:

Purchase price	$1,305,647
Fees and expenses	26,222
Total purchase price	1,331,869
Estimated fair values of:	
Assets acquired:	
Tangible	766,543
Identifiable intangible assets	692,100
Current assets	131,244
Liabilities assumed	(392,291)
	1,197,596
Goodwill	$ 134,273

In conjunction with the Acquisition, Verizon agreed to reimburse the Company $12,000 to fund a customer appreciation credit. The Company recognized the reimbursement as a reduction of the purchase price of the

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Acquisition. The actual credits granted to customers amounted to approximately $11,300 (this amount was recognized as a reduction of revenue during the five month period from May to September 2005). Local telephone service customers as of the date of the Acquisition received a one time credit during the fifth month after the Acquisition (as agreed to with the HPUC). To the extent that the actual credits granted to customers were less than $12,000, the Company made contributions to Hawaii charities for the difference in December 2005. These contributions were recognized as an expense as made.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. These fair values were based, in part, on a report from an independent valuation specialist. These fair values are based on currently available information and assumptions and estimates that we believe are reasonable at this time.

Current assets	$ 131,244
Property, plant and equipment	766,543
Intangible assets	692,100
Goodwill	134,273
Total assets	1,724,160
Current liabilities	54,192
Existing debentures	300,000
Other liabilities	38,099
Total liabilities	392,291
Total purchase price	$ 1,331,869

The sources of funds for the purchase price were as follows:

Revolving credit facility	$ 35,000
Tranche B term loan facility	450,000
Senior floating rate notes	150,000
Senior fixed rate notes	200,000
Senior subordinated notes	150,000
Capital contribution from stockholder	428,000
Total source of funds	1,413,000
Less working capital funds	81,131
Purchase price	$ 1,331,869

Substantially all of the goodwill was allocated to the publishing segment and approximately $100,000 is expected to be deductible for income tax purposes.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

5. Pro Forma Financial Information (Unaudited)

The following pro forma financial information for the years ended December 31, 2005 and 2004 presents the operating results of the Company as if the Acquisition and original financing had occurred as of the beginning of each period presented. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Acquisition occurred as described above and does not purport to represent what the Company's results of operations might be for any future period.

	Year Ended December 31,	
	2005	2004
Revenue	$ 531,861	$ 536,738
Operating expenses	609,502	561,583
Operating loss	(77,641)	(24,845)
Interest expense	(116,274)	(116,450)
Other income and expense, net	1,475	3,300
Loss before provision for income taxes	(192,440)	(137,995)
Provision for income taxes	6,100	6,000
Net loss	$(198,540)	$(143,995)

The nature of the adjustments applied in preparing the pro forma financial information is as follows:

Certain Revenues from Verizon

Revenues from wireless activation fees and rent on shared facilities from Verizon have been eliminated.

Deferred Revenue

Deferred directories and activation fee revenue (and related costs) were not recognized in the allocation of the purchase price of Verizon's Hawaii Business. Accordingly, the related amortization of revenue and expense by the Predecessor was eliminated.

Customer Appreciation Credit

The customer appreciation credit granted to customers (see Note 4) has been recognized as a reduction of revenue for both periods based on the assumption that the Acquisition had occurred as of the beginning of each period presented.

Pension and Post Retirement Benefits

An adjustment was applied to pension and post retirement expense resulting from (i) elimination of amortization of unrecognized actuarial gain/losses, prior service costs and the transition obligation, (ii) changes in the funded status of the plan, and (iii) the assumption of the post retirement benefit liability.

Management Fee

Additional expense has been included to reflect a $1,000 annual fee paid to the Sponsor under a management agreement.

Depreciation and Amortization

Additional depreciation of tangible assets and amortization of intangible assets acquired is included in depreciation and amortization.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Interest Expense

The adjustment to interest expense recognizes interest as if the Acquisition had occurred and the related debt had been obtained at the beginning of the period presented and eliminates Predecessor historical interest expense. The pro forma adjustment to interest expense reflects: (i) interest on $80,000 estimated average revolving credit facility using an interest rate of 5.44% assuming a LIBOR interest of 3.19% plus an applicable margin; (ii) interest on $450,000 Tranche B term loan facility using an interest rate of 5.44% assuming a current LIBOR interest rate of 3.19% plus an applicable margin; (iii) 0.5% commitment fees on the unused portion of the revolving credit facility and the undrawn Tranche A term loan facility; (iv) interest on $150,000 senior floating rate notes using an interest rate of 8.69% assuming a LIBOR interest rate of 3.19% plus an applicable margin; (v) interest on $200,000 of senior fixed rate notes using an interest rate of 9.75%; (vi) interest on $150,000 of senior subordinated notes using an interest rate of 12.50%; (vii) interest on $300,000 existing debentures using an average rate of 7.19%; (viii) amortization of deferred financing costs over the related term of the debt; (ix) bridge loan commitment fee and (x) elimination of historical Predecessor interest expense.

Income Tax Provision

The Company recognized a full valuation allowance for its deferred income tax assets because of the uncertainty of future realization of such assets (see Note 13). Accordingly, the income tax provision relates only to recognition of certain deferred income tax liabilities.

6. Receivables

Receivables consist of the following:

	Company	Predecessor
	December 31, 2005	December 31, 2004
Customers and other	$ 87,098	$ 97,900
Notes receivable from Verizon	—	11,300
Other receivables from Verizon	1,559	6,700
Allowance for doubtful accounts	(9,717)	(7,000)
Total	$ 78,940	$ 108,900

The Company grants credit to customers in the normal course of business. At December 31, 2005 and 2004, the Company and the Predecessor did not have any customer balances representing more than 10% of total receivables. During the periods ended December 31, 2005, 2004 and 2003, the Company and the Predecessor had no customers that represented more than 10% of total revenues.

The following is a summary of activity for the allowance for doubtful accounts:

	Beginning Balance	Acquisition	Additional Charges to Costs and Expenses	Deductions from Allowance	Ending Balance
Predecessor:					
Year ended December 31, 2003	$ 17,100	$ —	$ 4,700	$ (7,800)	$ 14,000
Year ended December 31, 2004	14,000	—	3,300	(10,300)	7,000
Period from January 1 to May 1, 2005	7,000	—	1,000	(2,800)	5,200
Company:					
Year ended December 31, 2005	—	7,854	5,827	(3,964)	9,717

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

7. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Company December 31, 2005	Predecessor December 31, 2004
Land	$ 58,000	$ 9,400
Buildings	104,000	212,100
Central office equipment	257,128	758,100
Outside communications plant	359,455	879,500
Furniture, vehicles and other work equipment	14,614	81,800
Construction in progress	15,714	3,500
Software, including under development	67,669	11,800
Other	3,605	9,600
	880,185	1,965,800
Less accumulated depreciation and amortization	62,852	1,231,800
Total property, plant and equipment, net	$ 817,333	$ 734,000

The basis of assets of the Company was modified with the Acquisition (see Note 4).

8. Goodwill and Intangible Assets

The excess purchase price paid by the Company over its estimates of the fair values of tangible assets and liabilities of Verizon's Hawaii Business amounted to $692,100 of identifiable intangible assets and $134,273 of goodwill.

The gross carrying amount and accumulated amortization of identifiable intangible assets and their estimated useful lives are as follows at December 31, 2005:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Life	Weighted Average Life
Subject to amortization:					
Customer relationships	$ 561,100	$ 43,568	$ 517,532	8 - 15 years	13 years
Covenant not to compete	4,000	1,333	2,667	2 years	2 years
	565,100	44,901	520,199		13 years
Not subject to amortization:					
Franchise for street right of way	88,400	—	88,400	Indefinite	Indefinite
Brand name	38,600	—	38,600	Indefinite	Indefinite
	127,000	—	127,000		
	$ 692,100	$ 44,901	$ 647,199		

The determination of useful lives for customer relationships was made based on historical and expected customer attrition rates.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Amortization expense amounted to $44,901 for the year ended December 31, 2005. Estimated amortization expense for the next five years and thereafter is:

2006	$ 63,979
2007	57,911
2008	52,961
2009	49,074
2010	45,539
Thereafter	250,735
	$ 520,199

9. Current Liabilities

Accrued expenses consist of the following:

	Company	Predecessor
	December 31, 2005	December 31, 2004
Salaries and benefits	$ 13,273	$ 18,600
Other taxes	1,738	6,400
Interest	17,561	16,200
	$ 32,572	$ 41,200

At December 31, 2004, the Sponsor (see Note 18) had advanced $15,680 of funds to the Company. These advances are reflected in other current liabilities in the December 31, 2004 balance sheet and have since been repaid.

10. Long-Term Debt

Long-term debt consists of the following:

	Interest Rate at December 31, 2005	Final Maturity	Company December 31, 2005	Predecessor December 31, 2004
Notes payable to banks, revolving credit facility	6.6018%	April 30, 2012	$ 96,500	$ —
Notes payable to banks, Tranche B term loan	6.7800%	October 31, 2012	450,000	—
Existing debentures, Series A	7.0000%	February 1, 2006	150,000	150,000
Existing debentures, Series B	7.3750%	September 1, 2006	150,000	150,000
Senior floating rate notes	9.9475%	May 1, 2013	150,000	—
Senior fixed rate notes	9.7500%	May 1, 2013	200,000	—
Senior subordinated notes	12.5000%	May 1, 2015	150,000	—
Other, prior to the Acquisition			—	285,500
			1,346,500	585,500
Current portion			3,000	283,800
			$ 1,343,500	$ 301,700

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Notes Payable to Banks

The revolving credit facility has a principal balance of $200,000 which will mature on April 30, 2012. As of December 31, 2005, the available balance on the facility amounted to $103,400 (subject to covenants described below and a $100 outstanding letter of credit).

The term loan facilities are comprised of a delayed draw Tranche A term loan facility in a total principal amount of $300,000 and a Tranche B term loan facility in the total principal amount of $450,000. Borrowings under the Tranche A term loan facility are available only through September 1, 2006 to fund the repayment of the Existing Debentures. The Tranche A term loan facility will mature on April 30, 2012 and will amortize with quarterly principal payments beginning June 30, 2007 ranging from $7,500 to $22,500. The Tranche B term loan facility will mature on October 31, 2012 and will amortize with quarterly installments amounting to $1,000 beginning on June 30, 2006. The Company is required to prepay outstanding loans with the net proceeds of certain asset dispositions and incurrences of certain debt and 50% of the excess cash flow unless a certain senior secured leverage ratio is met.

The obligations under the bank credit facilities are guaranteed by HoldCo and each subsidiary with certain exceptions. In addition, the bank credit facilities are collateralized by substantially all of the Company's assets.

Borrowings under the bank credit facilities bear interest at a rate equal to the applicable margin plus, at the Company's option, either: (i) a bank base rate determined by reference to the higher of a selected bank prime rate or the federal funds rate plus 1/2 of 1%; or (ii) a Eurocurrency rate on deposits of one-, two-, three- or six-month periods. The applicable margin on loans under the revolving credit facility and the delayed draw Tranche A term loan facility will be subject to change depending on leverage ratios.

A commitment fee is payable to the lenders under the revolving credit facility and the delayed draw Tranche A credit facility. The commitment fee is subject to change depending on the leverage ratio.

The bank credit facilities contain various negative and affirmative covenants that restrict, among other things, incurrence of additional indebtedness, payment of dividends, redemptions of stock, other distributions to shareholders and sales of assets. In addition, there are financial covenants and ratios that include a leverage ratio, a senior secured leverage ratio, and an interest coverage ratio.

Existing Debentures

The Existing Debentures Series A matured on February 1, 2006 and were repaid using the Tranche A term loan facility. The Existing Debentures' interest was at the rate of 7% payable semi-annually. The Existing Debentures Series B mature on September 1, 2006 and bear interest at the rate of 7.375% payable semi-annually. With the guarantee by Hawaiian Telcom, Inc. under the bank credit facilities, the Existing Debentures became equally and ratably secured by the collateral held by Hawaiian Telcom, Inc. securing such facilities. The Existing Debentures Series A and Series B are classified as noncurrent in the accompanying consolidated balance sheet at December 31, 2005 because the Company has refinanced or has the intent and ability to refinance such Debentures on a long term basis.

Senior Notes

The senior floating rate notes in the aggregate principal amount of $150,000 mature on May 1, 2013 and bear interest at a rate reset and payable semi-annually at LIBOR, as defined, plus 5.50%. The senior fixed rate notes in the aggregate principal amount of $200,000 mature on May 1, 2013 and bear interest at a rate of 9.75% per year. The senior subordinated notes in the aggregate principal amount of $150,000 will mature on

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

May 1, 2015 and bear interest at a rate of 12.50% per year. The senior notes are general unsecured obligations. A portion or all of the senior notes may be redeemed at various dates beginning May 1, 2007 at certain premiums based on specified terms. The 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. The senior notes are guaranteed by each of the Company's subsidiaries with certain exceptions.

In conjunction with issuance of the senior notes, the Company agreed to register the notes with substantially identical terms with the United States Securities and Exchange Commission as part of an offer to exchange freely tradeable exchange notes. The Company will use all commercially reasonable efforts to cause that registration statement to be declared effective and complete the offer to exchange the notes by May 2, 2006. If the Company fails to consummate the exchange offer by May 2, 2006, the annual interest rate on the notes will increase by 0.25% for each subsequent 90-day period during which the registration default continues up to a maximum increase of 1.00% over the interest rate that would otherwise apply to the applicable notes.

In conjunction with the issuance of the senior notes, certain underwriters provided a commitment to the Company for a bridge loan which was available if the senior notes could not be placed. The commitment expired with the issuance of the notes. At that time, the related fee of $5,250 was recognized as a component of interest expense.

Other

The other notes payable balance of the Predecessor was primarily debt payable to Verizon affiliates.

urities

The annual requirements for principal payments on such long-term debt are as follows:

Year ended December 31,

2006	3,000
2007	26,500
2008	49,000
2009	49,000
2010	79,000
Thereafter	1,140,000
	$ 1,346,500

Capitalized Interest

Interest capitalized by the Company amounted to $2,006 during the year ended December 31, 2005. Interest capitalized by the Predecessor amounted to $100, $100 and $200 during the period from January 1 to May 1, 2005, and for years ended December 31, 2004 and 2003, respectively.

11. 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

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

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. The interest rate swaps effectively change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swaps, the Company receives fluctuating interest rate payments and makes fixed rate payments, thereby creating the equivalent of fixed-rate interest payments. The Company does not enter into derivative instruments for any purpose other than cash-flow-hedging purposes and, accordingly, does not speculate using derivative financial instruments.

The interest rate swap agreements have a cumulative notional amount that ranges from $451,400 at June 30, 2005, to a high of $704,300 at September 30, 2006, to a balance of $218,200 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.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with the Company's variable-rate debt obligations are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment of the hedged interest payment in the same period in which the related interest payments affect earnings. During the year ended December 31, 2005, the Company had $11,387 of unrealized gains included in other comprehensive income. The fair value of the interest rate swap of $11,387 is included in other assets on the consolidated balance sheet at December 31, 2005. The estimated amount of pre tax gains included in accumulated other comprehensive income as of December 31, 2005 that is expected to be reclassified into earnings during the year ended December 31, 2006 amounted to $4,371.

Employee Benefit Plans

Pension and Other Postretirement Benefits

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

The plans were all adopted effective May 2, 2005 with features similar to those maintained by Verizon. All individuals who became employees of the Company in connection with the Acquisition and who previously participated in the Verizon plans now participate in the Company's plans. Employees of Verizon's Hawaii Business who retired prior to the date of the acquisition became retirees of Verizon and, as such, receive benefits under the Verizon plans. The actuarially determined liabilities of the Verizon union pension plan amounting to approximately $200,000 attributable to individuals that became employees of the Company as of the date of the Acquisition were assumed by the Company's union pension plan. Pension trust assets from the Verizon union pension plan in a like amount were transferred to the Company's union pension trust.

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

The change in projected benefit obligation, change in plan assets and funded status of the plans, and weighted average actuarial assumptions for the Company for the year ended December 31, 2005 were as follows:

	Pension Benefits	Other Postretirement Benefits
Change in projected benefit obligation:		
Obligation acquired on May 2, 2005	$ 200,650	$ 33,033
Service cost	8,062	1,251
Interest cost	7,158	1,206
Actuarial (gain) loss	—	(175)
Benefits paid	(5,143)	—
Projected benefit obligation at end of year	210,727	35,315
Change in plan assets:		
Fair value of assets transferred effective May 2, 2005	198,850	—
Actual return on plan assets	10,434	—
Employer contributions	14	—
Benefits paid	(5,143)	—
Fair value of plan assets at end of year	204,155	—
Funded status:		
Plan assets less than projected benefit obligation	(6,572)	(35,315)
Unrecognized actuarial gain	(2,057)	(175)
Net amount recognized (as employee benefit obligation)	$ (8,629)	$ (35,490)
Actuarial assumptions:		
Discount rate	5.50%	5.50%
Rate of compensation increase	3.50% to 5.00%	NA

Components of Company's benefit costs and weighted average actuarial assumptions for the period ended December 31, 2005 were as follows:

	Pension Benefits	Other Postretirement Benefits
Service cost	$ 8,062	$ 1,251
Interest cost	7,158	1,206
Expected asset return	(8,378)	—
	$ 6,842	$ 2,457
Actuarial assumptions:		
Discount rate	5.50%	5.50%
Expected return on plan assets	8.00%	NA
Long-term rate of compensation increase	3.50% to 5.00%	NA
Assumed health care cost trend rate, current	NA	10.00%
Assumed health care cost trend rate, ultimate	NA	5.00%
Assumed health care cost trend rate, ultimate year	NA	2010

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

The measurement date for all plans was December 31, 2005. As of December 31, 2005, the attributes of the Company's pension plans were as follows:

	Plan Assets in Excess of Accumulated Benefit Obligation	Accumulated Benefit Obligation in Excess of Plan Assets	Total
Accumulated benefit obligation	$ 155,772	$ 1,453	$157,225
Projected benefit obligation	207,084	3,643	210,727
Fair value of plan assets	204,151	4	204,155

The expected rate of return on plan assets was based on various factors including historical experience and long-term inflation assumptions. The Company's expected long-term rate of return on plan assets is determined using the target allocation of assets which is based on the goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from a security class will not have a significant adverse impact on the entire portfolio.

The weighted average actual asset allocations and weighted average target allocation by asset category for the Company's pension plans were as follows:

	Target Allocation	Allocation at December 31, 2005
Equities	61%	59%
Fixed income	34%	37%
Other	5%	4%
	100%	100%

The Company expects to contribute $2,700 to its defined benefit pension plans in 2006.

The Company projects that it will make the following benefit payments for the years ended December 31:

	Pension Plans' Benefits Paid	Other Postretirement Benefits Paid
2006	$ 8,093	$ 586
2007	9,960	953
2008	12,123	1,320
2009	14,156	1,734
2010	16,320	2,188
2011 through 2015	108,390	16,663
	$ 169,042	$ 23,444

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

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest costs components	$ 173	$ (142)
Effect on postretirement benefit obligation	2,414	(2,049)

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Hawaiian Telcom Communications, Inc.

Notes to Consolidated Financial Statements—(Continued)
(Dollars in thousands, except share information)

Predecessor Pension and Other Postretirement Benefits

The structure of Verizon's benefit plans does not provide for separate determination of certain disclosures for the Predecessor.

The components of the Predecessor's pension benefit costs and weighted average actuarial assumptions are summarized in the following table:

	Period From January 1 to May 1, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Net periodic benefit (income) cost	$ (6,089)	$ (38,900)	$ (39,100)
Termination benefits	—	—	11,800
Settlement loss	—	19,200	19,500
Curtailment gain	—	—	(1,800)
	—	19,200	29,500
Total (income) cost	$ (6,089)	$ (19,700)	$ (9,600)
Actuarial assumptions:			
Discount rate	5.75%	6.25%	6.75%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	5.00%	5.00%	5.00%

The components of the Predecessor's other postretirement benefit costs and weighted average actuarial assumptions are summarized in the following table:

	Period From January 1 to May 1, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Net periodic benefit cost	$ 5,839	$ 16,300	$ 7,900
Termination benefits	—	—	2,800
Total cost	$ 5,839	$ 16,300	$ 10,700
Actuarial assumptions:			
Discount rate	5.75%	6.25%	6.75%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%	4.00%
Assumed health care cost trend rate, current	10.00%	10.00%	10.00%
Assumed health care cost trend rate, ultimate	5.00%	5.00%	5.00%
Assumed health care cost trend rate, ultimate year	2009	2009	2008

The assets and liabilities recognized by the Predecessor and weighted average actuarial assumptions at December 31, 2004 were as follows:

	Pension Benefits	Other Postretirement Benefits
Prepaid pension asset	$536,400	$ —
Employee benefit obligations	1,600	31,400
Discount rate	5.75%	5.75%
Rate of compensation increase	5.00%	4.00%

Request:

Provide complete audited financial statements for each of the following companies: Applicant, Hawaiian Telcom, Inc., and Hawaiian Telcom Holdings, Inc. with footnoted disclosures for 2005 and 2004.

Response:

There are no audited financial statements for 2005 or 2004 for either Applicant, Hawaiian Telcom, Inc., or Hawaiian Telcom Holdings, Inc. Financial statements are prepared only for Hawaiian Telcom Communications, Inc. on a consolidated basis. In 2004, Verizon similarly prepared financial statements on a consolidated basis, so there were no separate financial statements for Verizon Hawaii Inc. (nka Hawaiian Telcom, Inc.).

Request:

Provide the most recent unaudited financial statements for each of the four companies identified above (Applicant, Hawaiian Telcom, Inc., Hawaiian Telcom Communications, Inc., and Hawaiian Telcom Holdings, Inc.). This is an ongoing information request.

Response:

Attached as pages 2 through 13 are the first quarter 2006 unaudited financial statements for Hawaiian Telcom Communications, Inc. There are no such unaudited financial statements for Applicant, Hawaiian Telcom, Inc., or Hawaiian Telcom Holdings, Inc. Please refer to Applicant's response to DCCA-IR-18.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Company		Predecessor
	Three Months Ended March 31,		Three Months Ended March 31, 2005
	2006	2005	
Operating revenues	$141,519	$ —	$ 148,900
Operating expenses:			
Cost of services and sales (exclusive of depreciation and amortization)	60,497	—	56,700
Selling, general and administrative	50,618	15,657	36,800
Depreciation and amortization	40,467	—	29,300
Total operating expenses	151,582	15,657	122,800
Operating income (loss)	(10,063)	(15,657)	26,100
Other income (expense):			
Interest expense	(27,049)	—	(8,800)
Other income net	64	—	500
Total other income (expense)	(26,985)	—	(8,300)
Income (loss) before provision for income taxes	(37,048)	(15,657)	17,800
Provision for income taxes	1,543	—	6,200
Net income (loss)	$(38,591)	$(15,657)	$ 11,600

See accompanying notes to consolidated financial statements.

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

	Company	
	March 31, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 6,355	$ 10,321
Receivables, net	62,369	78,940
Material and supplies	5,376	5,711
Prepaid expenses	2,845	4,364
Other current assets	5,663	6,346
Total current assets	82,608	105,682
Property, plant and equipment, net	832,826	817,333
Deferred financing and other assets	60,577	52,067
Intangible assets, net	631,204	647,199
Goodwill	137,939	134,273
Total assets	$1,745,154	$1,756,554
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	$ 44,215	$ 50,387
Accrued expenses	37,296	32,572
Advance billings and customer deposits	14,459	16,006
Current maturities of long-term debt	4,000	3,000
Other current liabilities	9,061	9,306
Total current liabilities	109,031	111,271
Long-term debt	1,359,500	1,343,500
Deferred income taxes	5,600	4,100
Employee benefit obligations	46,831	44,141
Other liabilities	8,493	7,345
Total liabilities	1,529,455	1,510,357
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	428,006	428,000
Accumulated other comprehensive income	19,362	11,275
Accumulated deficit	(231,669)	(193,078)
Total stockholder's equity	215,699	246,197
Total liabilities and stockholder's equity	$1,745,154	$1,756,554

See accompanying notes to consolidated financial statements.

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

	Company		Predecessor
	Three Months Ended March 31,		
	2006	2005	Three Months Ended March 31, 2005
Cash flows from operating activities:			
Net income (loss)	$ (38,591)	$(15,657)	$ 11,600
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	40,467	—	29,300
Deferred income taxes, net	1,500	—	(8,000)
Employee retirement benefits	2,689	—	(300)
Changes in operating assets and liabilities:			
Receivables	12,905	—	(3,500)
Material and supplies	335	—	(3,300)
Other current assets	2,201	—	(800)
Accounts payable and accrued expenses	(2,994)	10,215	6,500
Other current liabilities	(245)	5,442	1,400
Other, net	733	—	(5,200)
Net cash provided by operating activities	19,000	—	27,700
Cash flows from investing activities:			
Capital expenditures	(39,966)	—	(14,300)
Purchase of investments	—	—	(300)
Net change in note receivable	—	—	(9,600)
Net cash used in investing activities	(39,966)	—	(24,200)
Cash flows from financing activities:			
Proceeds from issuance of debt	184,000	—	126,000
Repayment of debt	(167,000)	—	(125,000)
Net change in parent funding	—	—	(4,400)
Other	—	—	(100)
Net cash provided by (used in) financing activities	17,000	—	(3,500)
Net change in cash and cash equivalents	(3,966)	—	—
Cash and cash equivalents, beginning of period	10,321	—	1,200
Cash and cash equivalents, end of period	$ 6,355	$ —	$ 1,200
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	$ 20,556	$ —	$ 17,020
Income taxes paid (refunded)	—	—	(1,800)

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholder's Equity
Balance, January 1, 2006	1,000	$ —	$428,000	$ 11,275	$ (193,078)	$ 246,197
Stock based compensation	—	—	6	—	—	6
For the three months ended ended March 31 ,2006:						
Net loss	—	—	—	—	(38,591)	(38,591)
Other comprehensive income -						
Gains on cash flow hedging derivatives	—	—	—	8,027	—	8,027
Unrealized gain on investments	—	—	—	60	—	60
Total other comprehensive income						8,087
Comprehensive loss						(30,504)
Balance, March 31, 2006	1,000	$ —	$428,006	$ 19,362	$ (231,669)	$ 215,699

See accompanying notes to consolidated financial statements.

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

1. Description of Business

Business Description

Hawaiian Telcom Communications, Inc. and subsidiaries (the "Company") is the incumbent local exchange carrier for the State of Hawaii and is estimated to be one of the ten largest incumbent local exchange carriers in the United States with an integrated telecommunications network servicing approximately 639,000 switched access lines as of March 31, 2006. The Company also served approximately 291,000 long distance lines and had 84,000 digital subscriber line (DSL) connections as of that date.

Acquisition

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

Organization

The Company has two direct subsidiaries – Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. Hawaiian Telcom, Inc. operates the regulated local exchange carrier and Hawaiian Telcom Services Company, Inc. operates all other businesses. Hawaiian Telcom Insurance Company, Incorporated is a captive insurance subsidiary of Hawaiian Telcom, Inc. and, until December 31, 2003, provided auto liability, general liability and worker's compensation insurance to its parent. The captive subsidiary continues to settle claims related to incidents which occurred prior to January 1, 2004. The Company insures current incidents with external carriers.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted and condensed pursuant to such rules and regulations. In the opinion of the Company's management, all adjustments (consisting of only normal and recurring accruals) have been made to present fairly the financial position, the results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Although the Company believes that the disclosures are adequate to make the information presented not misleading, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2005, that are included in the Company's most recently filed Registration Statement on Form S-4. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The Company

The Company has included the results of Verizon's Hawaii Business from the May 2, 2005 acquisition date. Hence, the Company's statements of operations and cash flows for the three months ended March 31, 2005 do not include the results of Verizon's Hawaii Business. The historical combined statements of operations and cash flows for the three months ended March 31, 2005 of the Predecessor are included in the accompanying consolidated financial statements. The Predecessor financial statements have not been adjusted to give effect to the Acquisition. Accordingly, the accompanying consolidated financial statements of the Company are not comparable to the Predecessor financial statements.

The Predecessor

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

The Subsidiary and Parent Guarantors

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

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

Earnings per Share

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

3. Accounting Change

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" using the prospective method to all new awards granted, modified or settled after January 1, 2006. The following table illustrates the effect on the net loss for the three months ended March 31, 2006 if the fair value method had been applied to all outstanding and unvested options.

Net loss, as reported	$(38,591)
Add: Stock option related employee compensation expense included in net loss	6
Deduct: Total stock option related employee compensation expense determined under fair value based method for all awards	(454)
Pro forma net loss	$(39,039)

4. Recently Issued Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." This standard has no impact on the Company's financial statements. SFAS 154 requires retrospective application to financial statements of prior periods for changes in accounting principles. This statement was effective January 1, 2006.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." The statement currently has no impact on the Company's financial statements. This statement requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. This statement was effective on December 31, 2005.

5. Acquisition of Verizon's Hawaii Business

The acquisition of Verizon's Hawaii Business (see Note 1) was accounted for as a purchase. The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. These fair values were based, in part, on a report from an independent valuation specialist. These fair values are based on currently available information and assumptions and estimates that we believe are reasonable at this time.

Current assets	$ 127,578
Property, plant and equipment	766,543
Intangible assets	692,100
Goodwill	137,939
Total assets	1,724,160
Current liabilities	54,192
Existing debentures	300,000
Other liabilities	38,099
Total liabilities	392,291
Total purchase price	$1,331,869

6. Receivables

Receivables for the Company consist of the following:

	March 31, 2006	December 31, 2005
Customers and other	$ 73,222	$ 87,098
Receivable from Verizon	421	1,559
Allowance for doubtful accounts	(11,274)	(9,717)
	$ 62,369	$ 78,940

7. Accrued Expenses

Accrued expenses for the Company consisted of the following:

	March 31, 2006	December 31, 2005
Salaries and benefits	$12,008	$ 13,273
Other taxes	1,234	1,738
Interest	24,054	17,561
	$37,296	$ 32,572

8. Long-Term Debt

Long-term debt is comprised of the following:

	Interest Rate at March 31, 2006	Final Maturity	March 31, 2006	December 31, 2005
Notes payable to banks, revolving credit facility	6.9429%	April 30, 2012	$ 113,500	$ 96,500
Notes payable to banks, Tranche A term loan	6.8800%	April 30, 2012	150,000	—
Notes payable to banks, Tranche B term loan	6.7800%	October 31, 2012	450,000	450,000
Existing debentures, Series A	NA	February 1, 2006	—	150,000
Existing debentures, Series B	7.3750%	September 1, 2006	150,000	150,000
Senior floating rate notes	9.9480%	May 1, 2013	150,000	150,000
Senior fixed rate notes	9.7500%	May 1, 2013	200,000	200,000
Senior subordinated notes	12.5000%	May 1, 2015	150,000	150,000
			1,363,500	1,346,500
Current portion			4,000	3,000
			$1,359,500	$1,343,500

Notes Payable to Banks

The revolving credit facility has a principal balance of $200,000 which will mature on April 30, 2012. As of March 31, 2006, the available balance on the facility amounted to $86,400 (subject to covenants described below and a $100 outstanding letter of credit).

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

Existing Debentures

The Debentures Series A matured on February 1, 2006 and were repaid using the Tranche A term loan facility. The Debenture Series B mature on September 1, 2006 and bear interest at the rate of 7.375% payable semi-annually. The Debentures Series B are classified as noncurrent in the accompanying consolidated balance sheet at March 31, 2006 because the Company has the intent and ability to refinance such Debentures on a long term basis.

9. Derivative Instruments and Hedging Activities

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

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with the Company's variable-rate debt obligations are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into interest expense as a yield adjustment of the hedged interest payment in the same period in which the related interest payments affect earnings. During the three months ended March 31, 2006, the Company had $8,027 of unrealized gains included in other comprehensive income. The fair value of the interest rate swap of $19,413 is included in other assets on the consolidated balance sheet at March 31, 2006.

10. Employee Benefit Plans

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

The Company accrues the costs, as determined by an actuary, of the pension and the postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits. The following provides the components of net periodic benefit costs for the three months ended March 31, 2006.

	Pension Benefits	Other Postretirement Benefits
Service cost	$ 3,125	$ 500
Interest cost	2,842	482
Expected asset return	(4,029)	—
	$ 1,938	$ 982

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

11. Income Taxes

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

	Company Three Months Ended March 31, 2006	Company Three Months Ended March 31, 2005	Predecessor Three Months Ended March 31, 2005
Expense (benefit) at federal rate	$(12,967)	$(5,480)	$ 6,200
Increase (decrease) resulting from:			
State income taxes, net of federal benefit	(1,111)	(470)	500
Other, net	—	—	(500)
Valuation allowance	15,621	5,950	—
Total income tax expense	$ 1,543	$ —	$ 6,200

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

12. 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 or those of its wholly owned subsidiaries. The total number of shares of HoldCo that were reserved for issuance under the Plan was 37,217 or 8.7% of the HoldCo shares currently outstanding. The purpose of the Plan is primarily to align compensation for key executives with the performance of the Company. All options are to be granted at an exercise price that is equal to the fair value of the common stock of HoldCo on the date the stock option is granted.

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

In March 2006, options for an additional 1,174 shares were granted at an exercise price of $1,000 per share. The Company recognized $6 of compensation expense during the three months ended March 31, 2006 related to this option grant.

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

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

13. Commitment and Contingencies

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

14. Transactions with Verizon

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

Transition Services Agreement

In conjunction with the Acquisition, the Company entered into a Transition Services Agreement with Verizon to provide information technology services, customer support, customer billing, accounting, network operations, call center, plant engineering and Internet support. The agreement was for an initial term of nine months and could be extended under certain circumstances. In December 2005, the Company arranged with Verizon to extend the agreement for a two month period to March 31, 2006. For the three months ended March 31, 2006, expenses incurred under the Transition Services Agreement amounted to $29,129.

Predecessor

Transactions with Verizon for the three months ended March 31, 2005 are as follows:

Operating revenues	$ 3,600
Operating expenses	23,900
Other income and (expense), net	100
Interest expense	2,600

15. Segment Information

The Company has two reportable segments consisting of telecommunications services and publishing based on how the Company's chief operating decision maker makes decisions about allocating resources and assessing performance. The telecommunications services segment provides local telephone service including voice and data transport, enhanced custom calling features, network access, directory assistance and private lines. In addition, the telecommunications services segment provides long distance services, customer premise equipment distribution, data solutions and systems integration, billing and collection, logistics, pay telephone services, Internet access services and wireless services. The publishing business includes printing directories in Hawaii. The Company did not have any separate segments prior to the Acquisition.

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

		Telecommunications	Publishing	Total
Company — For the three months ended and as of 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**
Assets		1,555,273	189,881	1,745,154
Company - Assets as of December 31, 2005	**$**	**1,561,157**	**$195,397**	**$1,756,554**
Predecessor — For the three months ended March 31, 2005				
Operating revenues	**$**	**132,400**	**$ 16,500**	**$ 148,900**
Depreciation and amortization		29,200	100	29,300
Net income (loss)		**5,300**	**6,300**	**11,600**
Capital expenditures		14,300	—	14,300

Request:

Form A. Ownership Disclosure. In its response to A.3. Applicant states that "Applicant, all shareholders and parties with any financial interest in Applicant, does not have any agreements or understandings regarding the ownership or control of the franchise or video system." Applicant's response does not fully address Question A.3. Please provide the following:

a. Applicant, including all shareholders and parties with any financial interest in the Applicant, must fully disclose all agreements and understandings with any person, firm, group, association or corporation with respect to the franchise. This includes agreements between local investors and national companies. This request is not just limited to any agreement or understanding regarding the ownership or control of the franchise or video system.

Response:

To Applicant's knowledge there are no such agreements.

Request:

Please provide a detailed report by entity of Applicant's transactions with any affiliated entity, including HTI, for services provided to Applicant and the price for such services and the basis of the pricing.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

Form B. Character Qualifications. For the ten-year period immediately preceding the filing of the Application, please provide the following information:

a. Has there been any formal investigations or examinations other than routine or customary audits, inspections and investigations, that terminated in any agreements, undertakings, consents or orders, resolutions, ordinances, or revocation, suspension or alteration of a cable franchise involving Application, its affiliates or its sister company, HTI?
b. Has Applicant or its sister company, HTI ever been unable to obtain a bond in connection with the construction or operation of its cable system or with the DSL network infrastructure to be utilized by Applicant to deliver the proposed video service?

Response:

a. No.

b. No.

Request:

Are there any guarantees by other affiliates of Applicant as to its financial obligations and/or liability? If so, please provide a detailed explanation of each guarantee.

Response:

No.

Request:

This request is filed up separate cover. It refers to Exhibits D.1 and D.2, which have been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

In a recent Star Bulletin newspaper article on May 16, 2006, Hawaiian Telcom Communications, Inc., Applicant's parent, was reported to have a net loss of $38.6 million for the first quarter of 2006. Please describe the losses of Hawaiian Telcom Communications, lnc,

a. This request is filed up separate cover. It refers to Exhibit D.1, which has been labeled as confidential t refers to Exhibits D.1 and D.2, which have been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

Applicant incurred $27.291 million of transitional costs associated with becoming a stand alone provider of telecommunication services. In addition, Applicant recorded $40.467 million of non-cash depreciation and amortization as a component of the net loss for accounting purposes.

a. (This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

In Exhibit 1, Applicant provides the Supplemental Consolidating Statement of Cash Flows as of December 31, 2005, of Hawaiian Telcom Communications, Inc. ("HTC"). At the end of December 31, 2005, it appears that Applicant shows a negative cash and cash equivalents. Can Applicant demonstrate that it has adequate cash flow to meet debt service and operating expenses to meet the franchise requirements? Please provide a detailed explanation.

Response:

Yes. Please refer to Confidential Exhibit E.6 in the Application, as supplemented by Applicant's confidential response to DCCA-IR-31.

Request:

This request is filed up separate cover. It refers to Exhibit D.4, which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

Form E. Financial Pro Forma. Form E.1 has two (2) parts. Applicant provided information for only one part (page 3), and the other part (page 2) is missing. Please complete the attached Form E.1, page 2.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

This request is filed up separate cover. It refers to Exhibit E.4, which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

This request is filed up separate cover. It refers to Exhibits E.1 and E.4, which have been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

Form E. Form E.6 Sources and Uses of Funds. Form E.6 has two (2) parts. Applicant provided information for only one part (page 7) and the other part (page 6) is missing. Please complete the attached Form E.6, page 6.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

This request is filed up separate cover. It refers to Exhibits E.3, which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

Form E. Computation of Income Taxes. E.5. Confirm that Applicant will not be consolidating its federal income taxes with a parent company or other entity.

Response:

Applicant will be consolidating its federal income taxes with its parent company, Hawaiian Telcom Communications, Inc.

Request:

Form E. Employee Training and Certification. E.11. In this response, Applicant refers to Hawaiian Telcom several times. Does the term "Hawaiian Telcom" refer to Applicant, HTI or both companies?

a. Assuming that Hawaiian Telcom refers to HTI, specify whether there is an agreement between Applicant and HTI for construction of copper facilities for use in the provision of Applicant's video service and provide a copy of any agreements.

b. Applicant's response in E.11 goes on to state that

> Also relevant is Applicant's demonstrated expertise in building and maintaining complex IP data networks. Currently, Hawaiian Telcom has twelve personnel designated as either Cisco Certified Network Associates, Cisco Certified Network Professionals, or Cisco Certified Internetwork Experts. Applicant will leverage this expertise in its IP-based video business.

   i. Assuming that this response is describing HTI's personnel, how will Applicant leverage HTI's expertise in building and maintaining complex IP data networks?
   ii. Specify whether there is an agreement between Applicant and HTI on this matter and provide a copy of any agreements.
   iii. Please provide the number of personnel in the State specifically qualified in IPTV technology and system deployment who will be dedicated to operating and maintaining the proposed video system.

c. Applicant's response in E.11 further states that Hawaiian Telcom will leverage its current organizational structure to support the video initiative. Does the term "Hawaiian Telcom" refer to Applicant, HTI or both companies?

   i. Specify whether there is an agreement between Applicant and HTI on this matter and provide a copy of any agreements.

Response:

a. The term "Hawaiian Telcom" here refers to HTI. Please refer to Applicant's response to DCCA-IR-13.c. regarding the affiliate services agreement between HTI and Applicant.

b.i. Applicant's video offering is not based on traditional cable TV RF/coaxial plant facilities. Applicant's video service will utilize IP data packet technology to transport and deliver its switched digital video service over the current network facilities that already deliver voice and packet data services (e.g. DSL service, Private Ethernet service, IP Telephony Watch etc.). The existing IP backbone is maintained by trained data network professionals and technicians who are supporting Applicant's current suite of IP and packet data services over HTI's core and access network. This includes trained personnel in HTI's Network Operations Center, Customer Care centers, and installation and repair technicians (200+ employees). In addition, HTI has twelve personnel designated as either Cisco Certified Network Associates, Cisco Certified Network Professionals, or Cisco Certified

Internetwork Experts. These certified network professionals are the core support resources that currently monitor, manage and maintain HTI's IP-backbone and access network. As the only Cisco Gold-certified partner in Hawaii (only Cisco-certified partner in which all certified personnel reside and work in the State of Hawaii), HTI has years of experience in building and maintaining complex IP networks. HTI's field technicians, network operations technicians, and 24x7 Network Operations Center technicians are trained and certified to support Applicant's video service and the underlying ADSL2+ / VDSL2 access network, specific to TV service delivery and management over IP networks.

b.ii. Please refer to Applicant's response to DCCA-IR-13.c. regarding the affiliate services agreement between HTI and Applicant.

b.iii. Please see response to b.i. above.

c. The term "Hawaiian Telcom" here refers to HTI and Applicant collectively. The personnel involved in providing the video service will include employees of HTI.

c.i. The services of the HTI employees referred to in the response to c. above will be appropriately accounted for in the affiliate services agreement between HTI and Applicant that will be amended to include Applicant's use of HTI's second-generation DSL facilities to provide its video service. Please refer to Applicant's response to DCCA-IR-13.c.

Request:

Form F. Anticipated Construction Practices

a. F.3. Construction and Safety Standards. Applicant states that "[a]ll safety and security measures currently in place, will apply to the video business." Is Applicant referring to the safety and security practices and procedures of HTI?
   i. Specify in detail the safety and security practices as they relate to Applicant's cable service.
   ii. Provide a copy of any safety and security practices of HTI.

b. Detailed Construction Drawings. F.6. Applicant states that the questions here are not applicable because it will be utilizing Hawaiian Telcom's existing network. Does Applicant mean that it will be utilizing HTI's existing network?
   i. Although Applicant claims that it will be utilizing Hawaiian Telcom's existing network, Applicant should be aware of upgrades, line extensions and other major improvements within the next five years. Please provide response and requested information to Question F.6.
   ii. To accommodate Applicant's use of HTI's network for its video programming, will HTI be required to construct new facilities and lines?
   iii. Will HTI be required to install outside plant utility boxes to accommodate the additional equipment, electronics, wire, and/or fiber to accommodate Applicant's use of its network?
   iv. Attach a map indicating the boundaries of the service areas to be constructed in each year of construction.

c. F.7. Underground Policy. Applicant refers to Hawaiian Telcom having sharing agreements with electric companies and county and state governments regarding costs sharing for commonly used infrastructure. Does Applicant mean that HTI has these agreements or does it mean that Applicant itself has such agreements?
   i. State Applicant's own policy regarding the undergrounding of cable, including cost sharing with other utilities and its sister company, HTI and any proposed arrangements with residential developers.
   ii. Describe any agreements between Applicant and HTI or any other utilities for the use of the underground infrastructure, including Applicant's potential liability, and provide copies of such agreements.

d. This request is filed up separate cover. It refers to Exhibit F.8(A), which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

a. Yes. Applicant is referring to the safety and security practices and procedures of HTI.

(A copy of the safety and security practices of HTI is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

b. Yes. Applicant will be utilizing HTI's existing network.

b.i. HTI's Annual 5-year Construction Budget report was filed with the PUC on May 1, 2006. However, the main component of HTI's network delivering video service is its DSL network. To achieve the necessary bandwidth on the DSL network, HTI will be upgrading its DSL network to ADSL2+ and VDSL2 technology. This will allow HTI to provide higher High Speed Internet (HSI) service, and applications such as video service over the larger bandwidth to the customer's home.

b.ii. Yes. HTI will utilize existing lines but will be increasing it bandwidth to its customers which will require new facilities. One of the applications on the larger bandwidth will be video programming.

b.iii. Yes. While HTI will be using the customer's copper loop, it will also be extending fiber deeper into the networks as part of our broadband evolution strategy.

b.iv. Please refer to Confidential Exhibit F.8(A) in the Application.

c. HTI has pole sharing agreements with electric companies and county and state governments regarding costs sharing for commonly used infrastructure.

c.i. Applicant does not have a policy regarding undergrounding of cable because it does not own the cable. HTI also does not have a specific policy regarding the undergrounding of cable, and does not cost share with other utilities or residential developers with respect to undergrounding of cable. Residential developers are required to install the underground support structures for new developments. Those underground support structures are then transferred to the utilities in connection with the conveyance of the roadway parcels from the developer to the County or State for purposes of turning those parcels into dedicated public roadways.

c.ii. Please refer to Applicant's response to DCCA-IR-13.c.

d. (This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

This request is filed up separate cover. It refers to Exhibit F.8(A), which has been labeled as confidential, proprietary and/or competitively- sensitive by Applicant.

Response:

This request was not provided by the DCCA.

Request:

This request is filed up separate cover. It refers to Exhibit F.8(A), which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

(This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

This request is filed up separate cover. It refers to Exhibit F.8(A), which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

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Request:

Does Applicant plan to provide video service to all areas of the franchise, including rural and homestead areas?

Response:

The service rollout plan includes rural and homestead areas where Hawaiian Telcom, Inc. is the telephone service provider.

Request:

State Applicant's line extension policy. For example, the existing cable operator has a line extension policy of 25 homes per mile.

a. If Applicant presently does not have a line extension policy, what is Applicant's anticipated line extension policy, i.e., 25 homes per mile?
b. When does Applicant anticipate implementing a line extension policy?
c. If Applicant does not have a time frame to implement a line extension policy, state why not.

Response:

Hawaiian Telcom, Inc. has a line extension policy which is currently effective that is included in its tariffs on file with the Hawaii Public Utilities Commission. An electronic version of the tariff can be accessed through Hawaiian Telcom's web site, www.hawaiiantel.com, under "Service Terms and Conditions", PUC Tariff 20, Section 1, Original Sheet 26. A copy of the tariff is attached as pages 2 through 12 for the DCCA's convenience.

The attached tariff provides the terms and conditions applicable for line extensions. In general, the line extension tariff provides for an extension of facilities beyond where existing facilities exist with an allowance of a quarter-mile for each customer. The allowances are allowed to be aggregated based on the number of customers that would be served by the line extension.

For example, if a single customer requested a line extension of one mile, that customer would be assessed the cost of the facility, less the cost for a quarter mile (i.e., the customer would be assessed in this case, three-fourths of the cost). If there were 4 customers to be served by the same one mile line extension, then there would be no cost assessed for the line extension since in total there would be four quarter-mile allowances which would equal the one mile.

It should be noted that while a tariff is in place to allow for the extension of facilities beyond current boundaries (i.e., line extension), the availability of the video service will also be subject to the loop limits inherent in the underlying DSL technology being utilized to provide the service.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS

1.10.1 Definition

A line extension is an extension of existing aerial (overhead) or underground exchange distribution facilities to new service connection facilities for the purpose of serving one or more applicants. Distribution facilities used herein are the Company's cables, wires and associated supporting structures and appurtenances, located in public thoroughfares or Company easements, designed to serve more than one property and extending from the serving central office to the points of connection with service connection facilities.

1.10.2 General

A. The Company will construct, own and maintain line extensions along public streets, roads and highways and on private property across which acceptable easements can be obtained without cost.

B. Except as otherwise provided in these Regulations, the specific route and type construction required to provide the quantity and class of service involved will be determined by the Company. The applicant ill be required to pay the additional costs involved where a different route or type of construction than that proposed by the Company is desired.

C. Line extensions for service required temporarily by an applicant will be made provided the applicant pays the Company the total cost of constructing and removing the line necessary to render service less the salvage value of the materials used.

D. The Company reserves the right to refuse to construct line extensions that are unreasonable in character or not subject to immediate use.

E. The Company reserves the right, at any time, to occupy and use the line extension for other circuits or facilities in addition to those for which the line was constructed.

F. Prior to installation of service the Company may require the applicant to execute a contract for telephone service for a period not to exceed three years.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.2 General, (Cont'd.)

G. The construction charges hereinafter provided are in addition to the established rates for the classes of service furnished and all service connection charges, mileage charges or other charges that may apply as provided in the local and general exchange tariffs.

1.10.3 Line Extensions For Applicants

A. Line Extension Charges

1. Where extension of aerial distribution facilities is required to render service, the Company will provide a footage allowance of up to 1320 feet of aerial construction per applicant for permanent service. For distances beyond the footage allowance, each applicant shall advance a construction charge based on the costs and number of applicants involved in the line extension. The footage allowance per applicant for primary service applies once for any one premises regardless of the number of primary services ordered for that location.

2. In areas where the Company is required by law to construct its distribution facilities underground, each applicant shall pay in advance the full cost of the underground construction beyond the footage allowance described in 1.10.3.A.1 preceding. If not required by law and if one or more applicants specifically request underground construction, each applicant shall pay in advance a prorate of the total estimated underground construction cost based on that portion of the line extension required to serve him less the estimated equivalent aerial extension cost of the footage allowance.

3. Any difference between the amount advanced and the actual for a line extension will be assessed or refunded to the applicant upon completion of the Company's construction.

4. in determining footage allowances and construction charges, a line extension is measured by direct accessible route from the end of existing distribution facilities and includes all new construction with the exception of service connection facilities.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.3 Line Extensions For Applicants, (Cont'd.)

A. Line Extension Charges, (Cont'd.)

5. When the proposed route over private property will be part of the route to serve two or more parcels of property, an irrevocable easement is required in the name of the Company and such route will be treated as being on a public road.

6. In lieu of charges for distances beyond the footage allowance, the applicant may, for that excess portion, furnish and set the required poles and anchors where aerial construction is employed, or furnish and place the underground supporting structure, all in accordance with construction practices and specifications of the Company. The Company in that case will furnish and install the distribution facilities and require the applicant to advance only the estimated cost of the construction performed by the Company. Ownership of supporting structures so furnished and installed by the applicant shall be vested in the Company.

7. The line extension charge is not refundable except for transfers of or adjustments to line extension charges when deemed necessary or equitable because of service being provided for additional applicants to an existing line extension.

B. Grouping of Applicants and Apportionment of Charges

1. Whenever a line extension is required to serve a new applicant, a canvass will be made of all prospects who might be served from the new construction or an extension thereof and who might benefit by being included in the project. All prospective Customers making bona fide applications for service will be grouped in a single line extension project and the full footage allowance will be made for each applicant even though the actual line extension required to serve some applicants may be less than the footage allowance.

2. The total footage allowance for any line extension project will be a route distance equal to the sum of the footage allowance for each applicant to be served by the line extension. A construction charge applies where the length of a line extension exceeds the total footage allowance.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.3 Line Extensions For Applicants, (Cont'd.)

B. Grouping of Applicants and Apportionment of Charges, (Cont'd.)

3. The apportionment of construction charges for a particular line extension project is based on the distance between each applicant's location and the start of the line extension. All applicants whose line extension distance is within the footage allowance shall not be allocated any construction charges. The remaining applicants (those located beyond the footage allowance) shall be billed for the construction charges in proportion to each individual's relative distance beyond the footage allowance. When underground construction is furnished at the applicants' request, the excess cost (cost of such construction less the equivalent aerial extension cost of the footage allowance) is apportioned among all applicants based on the portion of the line required to serve each applicant.

4. In the event the line extension charge to any applicant is greater than he would be required to pay if he were the sole applicant for a line extension, a separate project will be established for that applicant. The remaining applicants will comprise a separate project for their line extension construction.

C. Subsequent Applicants and Adjustments in Line Extension Charges

1. A line extension project has a life of five years, unless terminated earlier by the elimination of the construction charges as a result of connection of additional applicants. One or more successive projects may be combined with an existing line extension project during its five-year term whenever this results in lower construction charges or no increase in construction charges for the applicants in the existing line extension project. After five years from the date when a particular line extension project is cut into service, all facilities included in the project will be considered as existing construction and any additional line extensions or facilities connected thereto will then be considered as a new project.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.3 Line Extensions For Applicants, (Cont'd.)

C. Subsequent Applicants and Adjustments in Line Extension Charges, (Cont'd.)

2. When a new applicant can be served from a completed line extension project within five years from the date service was initially established for such project, the charges for the entire project are recomputed to include the new applicant. The new applicant pays a prorate of the line extension charge based upon the number of months (a fraction of a month is considered as a full month) remaining in the original five-year term. Existing Customers who paid a share of the construction charges and are still being served by the line extension project will be refunded a prorate of the difference between the original charges and the recomputed charges, based on the remainder of the five-year period. Recomputation of charges for this purpose is made on the assumption that there have been no disconnects. No Customer will be refunded an amount in excess of that originally advanced. Refunds do not include any excess charges paid for underground construction.

3. When additional construction is required for a new applicant to be served from a line extension project less than five years old, the cost of the project is recomputed as in 1.10.3.C.2 preceding. If recomputation of charges indicate an increase in the construction charges to the original Customers, a new line extension project shall be established for the new applicant.

D. Moves and Disconnects

1. When a Customer who has paid a construction charge for a line extension project moves to another location within the project where no charge or a lower charge applies, no refunds and no changes will be made in previously billed construction charges.

2. If a Customer whose service within a line extension project was covered by footage allowance moves to another location served from the same project where construction charges apply, then the construction charges for the entire project are recomputed as in 1.10.3.C.2.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.3 Line Extensions For Applicants, (Cont'd.)

D. Moves and Disconnects, (Cont'd.)

3. When a Customer moves off an extension project and terminates his service within the five-year term, no refund of the charge is made to the disconnected Customer. Likewise, charges to remaining Customers are not affected by the disconnected service. However, when a Customer who has paid a construction charge moves off the project, he may assign his rights to possible future construction charge refunds to a successor of his service, provided all charges billed to that service have been paid in full.

4. When a Customer who is holding refund rights uses his service occasionally or when the service has been disconnected for a month or more during the five-year term, that Customer's right to construction charge refunds are forfeited.

1.10.4 Line Extensions To and Within Subdivisions or Developments in Advance of Applications for Service by the Ultimate Users.

A. General

1. The standard construction to a subdivision or real estate development is aerial distribution facilities and/or underground conduit system. Within subdivisions where all requirements will be for single-dwelling residential service, the standard underground construction is underground conduit system. Within all other types of real estate development such as resorts, hotels, industrial complexes, high-rise condominiums and the like, the standard underground construction is underground conduit system.

2. Permanent easements are required by the Company on all streets that are privately owned. Ownership of underground conduit systems placed by a developer shall be vested in the Company.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.4 Line Extensions To and Within Subdivisions or Developments in Advance of Applications for Service by the Ultimate Users, (Cont'd.)

A. General, (Cont'd.)

3. The length of a line extension into new areas of subdivision or real estate development prior to applications for service by the ultimate Customers is the total route distance of all the proposed facilities, except service connection facilities, required to serve the entire subdivision or real estate development. It includes all of the new distribution facilities to and within the development required along an existing distribution route from the serving central office.

B. Subdivision or Developments Satisfying the Density Requirement

1. Aerial line extensions to and within subdivisions or real estate developments will be constructed, owned and maintained by the Company at its expense prior to applications for service by the ultimate Customers only when the improved or unimproved land is under a definite plan of development wherein it can be shown that there are reasonable prospects for primary services within the first year to satisfy a density requirement of one main station or PBX trunk line termination per footage allowance of line extension to be constructed.

2. When an underground conduit system is specified by the developer of a subdivision or development which meets the density requirement as described in 1.10.4.B.1 preceding, the line extension will be made in accordance with the following:

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.4 Line Extensions To and Within Subdivisions or Developments in Advance of Applications for Service by the Ultimate Users, (Cont'd.)

B. Subdivision or Developments Satisfying the Density Requirement, (Cont'd.)

2. (Cont'd.)

a. The developer may at his expense furnish and install, to the Company's specifications, the complete conduit system (ducts, handholes, manholes and other required fixtures) within the development itself, and the Company will place the distribution cable.

b. If the developer requests the portion of the line extension in public thoroughfares or Company easements outside the boundary of the subdivision or real estate development be underground, the Company will install the necessary underground facilities in lieu of aerial facilities provided the developer bears the difference between the cost of the underground conduit system and the estimated cost of aerial construction.

c. Underground conduit system construction charges based on estimated costs are payable prior to construction start and are not refundable until construction is completed. Any difference between amounts advanced and actual costs for underground construction will be refunded or assessed within 60 days after completion of the Company's construction.

C. Subdivisions or Development Not Satisfying the Density Requirement

1. The Company will construct line extensions to and within subdivisions or real estate developments which do not satisfy the density requirement as described in 1.10.4.B.1 preceding, provided the developer enters into a contractual agreement with the Company requiring the developer to advance in full the entire construction cost and providing for refund of all or a portion of the construction charges as follows:

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.4 Line Extensions To and Within Subdivisions or Developments in Advance of Applications for Service by the Ultimate Users, (Cont'd.)

C. Subdivisions or Development Not Satisfying the Density, (Cont'd.)

1. (Cont'd.)

Advances

a. Prior to any preliminary engineering work by the Company, the developer will pay a refundable advance of the estimated engineering cost for development of preliminary plans and associated cost estimates for the necessary line extension facilities to serve the entire development.

b. Before detailed construction plans are started and construction materials purchased, the developer will advance a refundable amount equal to the total estimated construction cost of the entire line extension including any augmenting cable required from the serving central office. The total estimated construction cost will include but will not be limited to engineering, materials, labor and overheads for all the proposed facilities.

c. After preliminary plans and cost estimates and detailed construction plans are developed, and changes are initiated by the developer requiring additional work on the part of the Company, the developer will be required to advance a nonrefundable payment of the estimated engineering costs involved for the revisions.

d. Any difference between the amounts advanced and the actual costs of construction and engineering work will be assessed or refunded within 60 days after completion of the Company's construction.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.4 Line Extensions To and Within Subdivisions or Developments in Advance of Applications for Service by the Ultimate Users, (Cont'd.)

C. Subdivisions or Development Not Satisfying the Density, (Cont'd.)

1. (Cont'd.)

Refunds

a. Within the first five years after completion of the Company's construction, refund of the advances for preliminary engineering work and construction will be made on a semi-annual basis to the developer in an amount proportional to the ratio of permanent main station or PBX trunk line terminations added to the line extension within each six-month period to the total line terminations anticipated within the development for the first five years. The total amount to be refunded is limited to the amounts advanced and no refund will be made after the five-year period.

b. If the developer cancels his development plans or delays construction beyond five years from the date of the advance for preliminary engineering work, said advance will not be refunded.

c. Payment of excess costs for underground construction is not refundable if the developer down sizes his development plans after five years from the date of the advance payment for total estimated construction costs.

d. No interest will be paid on the amounts advanced.

2. In the event the developer refuses to pay any of the required advances, the Company will not design or install any facilities to and within the development at its expense until bona fide applications for service are received from the ultimate users, in which case the provisions for line extensions to serve individual applicants or group of applicants will apply.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.10 LINE EXTENSIONS, (Cont'd.)

1.10.5. Maintenance, Relocation and Replacement

The Company will perform the work necessary to maintain service on the line but when the Company is requested to replace or relocate existing line facilities, the applicant or Customer who initiates the request will be required to bear the costs incurred.

1.11 OBLIGATION TO FURNISH SERVICE

The Telephone Company's obligation to furnish service is dependent upon its ability to secure and retain, without unreasonable expense, suitable facilities and rights for the construction and maintenance of the necessary pole lines, circuits and network access equipment. All rates and charges set forth in the tariffs of the Telephone Company contemplate that the line extension construction, service connection, installation and provision of facilities and service does not involve unreasonable expense. If unreasonable expense is involved because of the nature of the Customer's requirements, the Customer will be required to bear such expense.

The furnishing of individual line service is governed by the availability of facilities for such service in any exchange area. The Telephone Company reserves the right to refuse individual line service to an applicant or Customer during the period when such facilities are not available.

1.12 TEMPORARY SERVICE OR SPECULATIVE PROJECTS

The Telephone Company will furnish temporary service or service to speculative projects under the following conditions:

1.12.1 The applicant for such service may be required to pay in advance to the Telephone Company the net cost of installing and removing any facilities necessary in connection with such service.

1.12.2 The requirements of General Regulation 1.8 with respect to Deposits will be applicable to all applicants for such service.

1.12.3 This Regulation shall not be construed as limiting or in any way affecting the right of the Telephone Company to collect from the Customer any other or additional sum of money which may become due and payable to the Telephone Company from the Customer by reason of the service furnished or to be furnished hereunder.

Request:

Form G. Is Applicant proposing a video system utilizing a relatively new technical design and not in common use by numerous other cable systems? If so, provide copies of any studies regarding provisions of the service in other communities, or any calculations relating to the reliability of service availability and similar factors.

Response:

No. Systems that combine the use of a video head end, MPEG encoding, and IP transport have been in operation for years in the United States, Europe, and Asia. There are components of Applicant's proposed service that are evolutionary upgrades to pre-existing technology, but none of them are radical departures from past implementations.

<u>Request:</u>

Form G. Applicant states in its response to G.1(B), that the last mile access provided to subscribers will be by copper-based local loop facilities.

a. Will this copper loop impact the number of video and audio channels provided? If yes, describe impact.
b. The request is filed up separate cover. It refers to Exhibit H.1, which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

<u>Response:</u>

a. Applicant's last mile access will not limit subscriber's access to the full channel lineup of video and audio channels. Applicant's switched video delivery architecture allows this capability as opposed to RF base cable content distribution.

b. (This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

State Applicant's aid-to-construction policy. For example, the existing cable operator does not charge a subscriber for construction of a line if the premises is within 200 feet of the interconnection point.

Response:

Hawaiian Telcom, Inc. has a service connection policy which is currently effective that is included in tariffs on file with the Hawaii Public Utilities Commission. An electronic version of the tariff can be accessed through Hawaiian Telcom's web site, www.hawaiiantel.com, under "Service Terms and Conditions", PUC Tariff 20, Section 1, Original Sheet 15. A copy of the tariff is attached as pages 2 through 12 for the DCCA's convenience.

The attached tariff provides the terms and conditions applicable to service connections. In general, a service connection is allowed for subscribers of up to 320 feet for aerial and 500 feet for underground at no charge.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.8 DEPOSITS, (Cont'd.)

1.8.3 Customers who require service facilities requiring large capital expenditures for cable, conduit, or other types of construction material which cannot be used to service others, may be required to execute a termination agreement and make a deposit in the amount specified in such agreement between the Company and the Customer to assume continued use of such facilities or reimbursement in case they are abandoned. Simple interest at 12% per annum shall accrue to such deposits and refund or crediting of the deposit, plus accrued interest, shall be made as specified in the termination agreement.

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES

1.9.1 Service Connections

A. Definition

A service connection means the facilities required to connect an applicant's primary service to the Company's existing exchange distribution facilities located in a public thoroughfare or easement immediately adjacent to the property to be served. It includes the wire or cable and any associated supporting structure from the point of connection with the distribution facilities to the point of connection with interior cabling at the demarcation point in the applicant's building. A service connection serves only continuous property on which it is located; an incidental segment may be located in the adjacent public thoroughfare or the Company's easement.

B. General

1. Except as otherwise provided in these Regulations, the Company will (at its expense) furnish, install and maintain all wiring necessary to serve applicants or Customers in accordance with its lawful rates, regulations, and current construction standards.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.1 Service Connections, (Cont'd.)

B. General, (Cont'd.)

2. Where an applicant requests a route or type of construction which is feasible but differs from that determined by the Company or where the individual requirements of a particular situation increases the construction costs, the applicant will be required to pay the estimated additional costs involved.

3. In lieu-of payment of excess construction costs, an applicant may furnish and install all or any part of the required supporting structures and wire or cable subject to specifications furnished by the Company. The Company in this case will complete the connection to its existing distribution facilities and require the applicant to pay only the cost of the work performed by the Company. Title to all construction provided wholly or partly at an applicant's expense shall be vested in the Company except for that portion of underground supporting structures located on private property.

4. Where special construction is furnished to a Customer, any unusual expense, including but not limited to the cost of trenching, backfill, removal of obstacles and replacement of conduit, shall be borne by the Customer.

5. When a single continuous property to be served does not abut the public thoroughfare or the Company's easement where distribution facilities are located, it is the applicant's responsibility to obtain an easement for Company facilities that must cross the intervening parcel or parcels of property to provide service. The easement must be in the name of the Company.

SECTION 1 - GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.1 Service Connections, (Cont'd.)

B. General, (Cont'd.)

6. When two or more buildings located on private property (such as shopping centers, apartment complexes and condominium or town house developments) are to be served by a single service connection facility, the portion extending from the property line and excluding the "separate" branches to individual buildings is denoted as the "common portion" for which an easement acceptable to the Company must be obtained without charge to or condemnation by the Company.

7. Service connection facilities for service required temporarily by an applicant will be installed by the Company provided the applicant advances the total cost of constructing and removing the line necessary to render service less salvage value of the materials used. Such cost is not refundable.

C. Aerial Connections

1. Normally a single span of aerial drop wire will suffice to connect an applicant's primary service to existing distribution facilities located in an adjacent public thoroughfare or Company easement; but when needed, the Company will, at its expense, provide up to 320 feet of service connection facility in addition to the drop wire or cable between the last service pole on private property and the building served. The applicant will be required to bear the installed cost of any service connection facility in excess of 320 feet. Each applicant for primary service at any one premises is granted the 320 feet free allowance once regardless of the number of primary service lines subscribed to at that location.

2. An applicant or Customer must provide and maintain a suitable point of attachment on the building housing the premised to be served to give proper clearance between the service connection wire or cable service connection wire or cable and ground and other objects as required by applicable laws, ordinances, rules or regulations of public authorities.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.1 Service Connections, (Cont'd.)

C. Aerial Connections, (Cont'd.)

3. Aerial service connections from underground distribution facilities are not provided unless an applicant specifically requests such an arrangement. Such an arrangement must be feasible and permissible in which case the applicant will be required to pay in advance a non-refundable amount equal to the estimated total cost of arranging the distribution facilities to accommodate the aerial service connection.

D. Underground Connections

1. In areas where the Company maintains an underground distribution system for its own operational purposes, or in redevelopment or urban renewal areas where it furnishes underground facilities, or where the Company is required by law to construct its facilities underground, the Company will, at its expense, extend the individual service connection (service lateral) underground to the property line of each lot occupied by an applicant or Customer in accordance with its established construction standards. The Company will determine the point on the property line to which it will extend its underground construction. The applicant or Customer at his expense shall perform all trenching and backfill and furnish, install and maintain on his property the required underground conduit system (conduit, pull boxes, etc.) satisfactory to the Company. The Company will then furnish, install and maintain in accordance with its construction standards and at its expense up to 500 feet of underground wiring on the applicant's or Customer's property. The applicant or Customer will be required to bear the installed cost of any wiring required in excess of 500 feet.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.1 Service Connections, (Cont'd.)

D. Underground Connections, (Cont'd.)

2. In areas where the Company maintains an aerial distribution system or where aerial facilities would ordinarily be furnished, the Company will furnish and install an underground service connection from the nearest Company service pole to the applicant's or Customer's property line provided the applicant or Customer pays in advance the estimated cost of the underground construction less the estimated cost of an aerial service connection. The Company will determine the location of underground road crossings, if required, and the point on the property line where the underground connection will be placed. The underground conduit system on the property of the applicant or Customer shall be installed, maintained and replaced at the expense of the applicant or Customer. Necessary wiring will be owned, installed and maintained by the Company as set forth in 1.5.1 preceding.

3. In tracts, subdivisions, estates, etc., where, under agreement with the owners or promoters, the Company has furnished underground construction to the property line of the individual lots of the original subdivision, each applicant shall be furnished a service connection as set forth in 1.5.1 preceding.

   Where underground construction has been placed within a tract or subdivision but, due to a further subdivision or for other reasons, additional service outlets are required which would necessitate additional underground construction, the Company, at its expense, and only if required by law to do so, will furnish and ins tall such additional underground service connections to the property of additional applicants or Customers. If not required by law to provide additional underground construction and if additional applicants or Customers request underground construction to or on their property, then the regulations as stated in 1.5.2 preceding shall apply for such additional construction.

4. After an underground connection has been established, if the Customer requests a relocation of the connection for any reason not necessary for the maintenance of good service, the Customer shall bear the entire cost of the relocation, including labor and wiring to and on his property.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.1 Service Connections, (Cont'd.)

D. Underground Connections, (Cont'd.)

5. If the conduit on the Customer's property for an existing service connection is damaged or requires relocation due to change on the Customer's property, the Customer shall at his expense repair the conduit or provide new conduit in a location approved by the Company and shall bear the cost of relocating the necessary underground wiring.

6. when temporary wiring is provided by the Company to restore Customer service that has been interrupted as the result of damage to Customer-provided conduit on his private property, such temporary wiring will be removed 60 days after its installation if the conduit has not yet been replaced by the Customer. Suspended service will not be restored until replacement of the Customer-provided conduit has been completed.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.1 Service Connections, (Cont'd.)

E. Direct Buried Connections

1. A buried service connection (no conduit) will not ordinarily be furnished since it is subject to damage and is difficult to repair or replace. However, if because of terracing on the applicant's or Customer's property, or some similar reason, it appears that it will be much more economical to the applicant or Customer to pay for a buried connection, the Company may, at its option, agree to such a connection on the condition that the applicant or Customer pay in advance the estimated difference in cost of direct buried construction and aerial construction to the property line and perform all trenching and backfill on his property. The Company will then furnish and install the necessary buried wiring but the applicant or Customer will be required to pay the installed cost of any wiring in excess of 500 feet and sign an agreement wherein all costs incurred for repair or replacement of the wiring to and on the applicant's or Customer's property including the necessary excavations will be borne by the applicant or Customer.

2. Temporary wiring to restore Customer service that has been interrupted due to damage to a buried service connection will be provided by the Company at the Customer's expense and will be removed 60 days after its installation if the Customer fails to do the necessary work to facilitate permanent restoration of service. The service, thus suspended, will not be restored until the Customer completes the required work.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.2 Interior Cabling

A. General

1. Interior cabling is the wire or cable within a building, from the point of entering the building served (where it connects with the service connection facility) extending to a demarcation point. It includes associated protective apparatus, terminal cabinets, connecting blocks and frames.

2. The interior cabling in buildings necessary to provide telephone service to the occupants thereof will be owned, installed and maintained by the Company except as provided for in Section 5.1. The Company shall not be required to connect its facilities with interior cabling furnished and installed by others. If the owner of a building under construction elects to furnish and install interior cabling, such wiring and installation must conform with the standards and specifications of the Company, and/or with Part 68 of the FCC Rules and Regulations.

3. The Company may determine the type and route of interior cabling and the location of protective apparatus, terminal chambers and other associated equipment on and within a building and the method of installation of interior cabling.

4. In buildings that are, or may be, occupied by more than one applicant or Customer, the Company upon request, will install, maintain or rearrange interior cabling in a manner which requires entering an area occupied or to be occupied by a party other than the applicant or Customer, provided that the applicant or Customer requesting service makes suitable arrangements with the party controlling the area for the Company's employees to enter and work in that area.

5. The applicant or Customer shall provide or arrange for the following items without cost to and as deemed necessary by the Company for the installation, maintenance and removal of interior cabling, in accordance with its standards and the applicable laws, ordinances and rules or regulations of public authorities:

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.2 Interior Cabling, (Cont'd.)

A. General, (Cont'd.)

5. (Cont'd.)

- suitable and adequate space for interior cabling, associated equipment and instrumentalities;

- suitable means for interior cabling to enter the building and to reach any location within the building;

- penetration of fire walls, drilling holes in concrete, masonry or metal walls or floors and any structural work necessary for housing and supporting interior cabling° associated equipment and instrumentalities;

- moving furniture, equipment, floor coverings or goods as may be required to facilitate the Company's work operations; and

- safe working conditions for the Company's employees.

6. Where service is to be extended between buildings on continuous property of an applicant or Customer and underground construction is either requested or required, the necessary conduit shall be installed, owned, maintained and replaced by the applicant or Customer in accordance with the Company's specifications. Where aerial construction is requested and such construction is feasible and permissible, the necessary supporting structures (eye bolts, weather head, cabinets, etc.) other than poles and guys shall be provided by the applicant or Customer. Poles and cable or wiring will be furnished and installed by the Company at no expense to the applicant or Customer except in cases where excessive costs are Involved, then the applicant or Customer may be required to pay all or a portion of such costs, the amount depending on whether the revenue to be derived from the service is sufficient to warrant the Company assuming such costs.

7. Relocation of interior cabling at the Customer's request shall be at Customer expense.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.2 Interior Cabling, (Cont'd.)

B. Exposed Wiring

The Company will normally install and maintain its interior cabling and associated equipment on interior surfaces of buildings without concealment, however, the applicant or Customer will be required to provide or arrange for suitable mechanical protection for such wiring and equipment where the Company determines that such protection is necessary to avoid unreasonable risk or damage to its facilities.

C. Concealed Wiring

1. When an applicant or Customer requests concealed interior cabling, the Company will make such installations provided the applicant or Customer arranges or provides for the means of concealment in accordance With the provisions of 1.9.2.A.3 through 5 preceding and the following:

a. The means of concealment may be conduit, moulding, under floor duct, cabinets or other means acceptable to the Company.

b. A concealed space, such as an attic, false ceiling space, crawl space or pipeway, will be an acceptable means of concealment if it affords a suitable and safe working environment for the Company's personnel and its structure will support the workmen and facilities.

c. An in-floor or baseboard raceway, or other space covered by removable floor, wall or ceiling panels, will be an acceptable means of concealment, if the applicant or Customer:

- makes suitable arrangements with the party controlling the area from which the removable panels are accessible for the Company's employees to enter and work in the area, and,

- removes and replaces the panels as required by the workman to gain access to the covered space.

SECTION 1 – GENERAL DEFINITIONS AND REGULATIONS, (Cont'd.)

1.9 SERVICE CONNECTIONS AND FACILITIES ON CUSTOMER PREMISES, (Cont'd.)

1.9.2 Interior Cabling, (Cont'd.)

C. Concealed Wiring, (Cont'd.)

2. When conduit or other concealment has-been installed for the use of the Company, it shall not be used for any other purpose without the Company's approval. In no case will approval be granted unless requirements of the National Electrical Code are met. Where a conduit or other concealment is being used by the Customer for some other wiring, whether with or without approval, any damage to the Company's wires or facilities will be repaired or replaced at the expense of the Customer.

3. If additional telephone facilities are required for a large building and space in existing conduit or other means of concealment is not available, the Customer or building owner must provide the required additional conduit or other means of concealment at his expense or exposed wiring will be used.

D. Additions and Changes

Existing interior cabling will be reinforced, rearranged or replaced as required to accommodate service requests in accordance with the provisions of this regulation.

Request:

Form G. Emergency Alert System. G.9. Applicant states in G.9 that when the middleware EAS server receives an emergency alert from the SAGE EAS decoder, it will notify the middleware clients and causes a force-tune of the clients to the appropriate alert channel.

a. Will Applicant's emergency alert system capability permit emergency authorities, including the State and City and County of Honolulu emergency authorities, to provide for activation of emergency messages on all channels?
   i. Please describe in detail this process,
b. Is Applicant willing to work with State and County civil defense should there be a need to notify Oahu residents of a countywide emergency?
   i. If no, please explain why not.

Response:

a. The Applicant's EAS SAGE EAS decoder will monitor and receive from at least two sources in the following priorities, subject to reception capabilities.

   a. State Civil Defense dedicated land-line circuit
   b. Local Primary Source
   c. NOAA Weather Radio (NWS)
   d. State and/or County Remote Program Unit (RPU)

   In the event of an EAS Alert, Applicant's EAS SAGE decoder will receive a digitally-coded signal which will automatically trigger the middleware platform to force tune all video channels to a designated EAS Video channel provided by State Civil Defense via University of Hawaii HITS ITFS network. A video "crawler" will provide alert message hearing-impaired viewers and carry embedded audio messages contained in any EAS Alert activation. Upon termination of an EAS Alert forced tuned channels will return to originally watched channel.

b. Applicant is willing to work with State and County civil defense should there be a need to notify Oahu residents of a countywide emergency.

Request:

Form G. Interactive Capability. G.15. Applicant's response does not address all questions raised in G.15. Please state the following:

a. When will the interactive capabilities listed in Applicant's response be available and to whom will they be available?
b. What use levels are projected in terms of the numbers of subscribers?

Response:

a. All of the interactive capabilities listed will be available at service launch, and will be available to all subscribers to Applicant's video service.

b. The features listed in section G.15 "Interactive Capability" are divided into two groups. Digital TV (DTV), Interactive Guides, and Parental Controls/Settings will be included as part of the standard offer and available to all video subscribers.

   Pay-Per-View, Video-On-Demand, Digital Video Recorders, and Digital Music will require an additional fee. The projected number of subscribers for the interactive capabilities is listed in the table below:

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<u>Request:</u>

Exhibit G.17. Please describe other alternative INET contributions not identified in Exhibit G.17, which Applicant is willing to provide.

<u>Response:</u>

Numerous ideas were discussed, but none of the other approaches was fully developed to the point where it could be viewed as a viable alternative to what is currently being proposed.

Request:

Form G. Performance Tests. G.22. Exhibit G.22 refers to the final design and build of Applicant's super headend (SHE). When is it anticipated that SHE will be completed?

Response:

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Request:

Form G. Statewide Interconnection. G.23. Applicant appears to impose on PEG access cable networks an obligation to transport PEG programming signals to HTSC's regional central office for interconnection with and carriage on HTSC's video network.

a. Provide a construction plan and schedule for the required interconnections.
b. In G.23.A.b), Applicant states that its NTSC video feed service is 45Mb. Does Applicant mean that 45 megabytes per second ("Mb/s") and that this is the per channel limit, rather than the limit for all incoming PEG channels?
c. In G.23.A.c), Applicant proposes to allow interconnection to Olelo, Na Leo 'O Hawaii, Akaku, Hoike and DOE Channels.
    i. Is Applicant also willing to allow interconnection to University of Hawaii Educational Access head end facility?
        1. If no, please explain.
    ii. Applicant states that it intends to allow interconnection with the PEG access entity on Oahu. Applicant also mentions its interconnection with PEG access entities other islands (Hoike, Na Leo and Akaku). Please explain.
    iii. Please confirm Applicant's commitment to provide a direct connection to the PEG access entity on Oahu for transmission of PEG programming to be carried on Applicant's video system.
        1. If no, please explain.
        2. Would Applicant cover the costs for the direct connection so that there would be no on-going reoccurring costs to the PEG access provider? If no, please explain.
d. In G.23.A.d), Applicant states that its proposed activation schedule to interconnect cable systems will be determined by service activation schedule for regional areas. Please explain further detail what Applicant intends.
    i. Assuming that Applicant's system is required to interconnect with the PEG access entity on Oahu and the HITS, what is the proposed activation dates.

Response:

a. Applicant does not have a formal construction plan and schedule for the required interconnections, but it intends to work with Olelo, DOE and the University of Hawaii to complete the interconnections by the time of commercial launch.

b. Hawaiian Telcom, Inc.'s tariffed video transport service will be utilized to transport PEG channels from the PEG provider's location to Applicant's video head end. The 45MB bandwidth refers to the bandwidth that is used by the tariffed video transport service to provide a quality signal for each channel. Applicant will utilize the tariffed video transport service to support all of the PEG channels on Oahu at no ongoing recurring cost to the PEG providers.

c. Applicant will support PEG access on Oahu including Olelo, DOE and University of Hawaii Educational head end facilities. Applicant will cover the costs for direct connection so that there are no ongoing recurring costs to the PEG access provider.

   In the event that Applicant also applies for and receives approval for a franchise to provide video on the neighbor islands, Applicant will also be committed to providing PEG access to Hoike, Na Leo, and Akaku on the neighbor islands.

d. Please see response to a. above.

Request:

Form H. Proposed Signal Carriage and Channel Allocations. Will channel lineup be the same for all areas within the franchise?

a. The request is filed up separate cover. It refers to Exhibit H.1, which has been labeled as confidential by Applicant.
b. H.8. Provide a copy of Applicant's agreement with United Telesystems, Inc. for video content programming.
c. The PEG access entity on Oahu, Olelo, has 6 analog channels currently in use. Is Applicant willing to provide 6 analog access channels to the Director, or the Director's designee on Oahu?
    i. If not, please explain.
d. In its response to Question H.4, Applicant does not provide a short narrative description of each video service proposed. Please provide.

Response:

Yes. The channel lineup be the same for all areas within the franchise.

a. (This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

b. (This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

c. Yes.

d. (This response is being filed under confidential seal under and subject to letter dated June 15, 2006. The information in this response contains confidential, proprietary and/or competitively sensitive information that shall not be disclosed, provided or otherwise disseminated to third parties outside the Cable Television Division, Department of Commerce and Consumer Affairs, without the prior written consent of Hawaiian Telcom Services Company, Inc.)

Request:

Form I. Customer Service and Rates. In Applicant's response to question I.1, there is reference to Hawaiian Telcom. Identify which company is being referred to.

a. Applicant refers to established customer service groups and standards of Hawaiian Telcom and states that Applicant will leverage Hawaiian Telcom's current customer support organizational structure to support its video initiative in all areas of customer service. Question I.1 asks for a detailed description of Applicant's customer service standards. Again, please provide a description and specifically address standards and procedures for installation, billing (including the names and telephone numbers of persons responsible for billing questions), handling of complaints (including the names and telephone numbers of persons responsible for complaint resolution), repairs, discontinuing or changing service, telephone and other service.
b. Does Applicant have a customer service manual for employees? Or is Applicant utilizing Hawaiian Telcom, Inc.'s customer service manual?
   i. Please provide a copy of the customer service manual.
c. When Hawaiian Telcom, Inc. took over all customer service responsibilities on April 1, 2005 from the previous owner, Verizon Communications, some customers had problems reaching Hawaiian Telcom, Inc.'s customer service agents. If Applicant plans to utilize Hawaiian Telcom, Inc.'s customer support structure to support its video initiative, describe how Hawaiian Telcom, Inc.'s customer service department will handle the additional demand? Describe in detail Applicant's contingent plans, if any.
d. Please confirm whether Applicant's customer service standards meet federal cable television customer service standards as set forth in 47 CFR Sec. 76.309, 47 CFR Sec. 76.1602, and 47 CFR Sec. 76.1603.

Response:

The use of "Hawaiian Telcom" refers to Applicant.

a. Similar to other data services that Applicant offers such as DSL, Applicant's video service is based on Internet Protocol standards and will utilize Applicant's existing infrastructure and order systems (e.g. core IP backbone, local loop facilities, customer relationship management backoffice order/provisioning/billing software systems etc.) for the ordering, provisioning, delivering and billing of its video service.

   Applicant will meet federal cable television customer service standards as set forth in 47 CFR Sec. 76.309 and described below:

   - Office hours and telephone availability as follows:
     Monday – Friday, 8:00am – 4:30pm
   - Applicant currently maintains a local, toll-free access line which will be available to

its subscribers 24 hours a day, seven days a week. Sales: 643-3456, Billing: 643-3343

- Trained company representatives will be available to respond to customer telephone inquiries during normal business hours.
- After normal business hours, access lines are answered by an automated response system, including an answering machine. Inquiries received after normal business hours will be responded to by a trained company representative on the next business day.
- Under normal operating conditions, the customer will receive a busy signal less than three (3) percent of the time.
- Customer service center and bill payment locations will be open at least during normal business hours and will be conveniently located.
- Installations, outages and service calls. Under normal operating conditions, each of the following four standards will be met no less than ninety five (95) percent of the time measured on a quarterly basis:
    - Standard installations will be performed within seven (7) business days after an order has been placed. "Standard" installations are those that are located up to 125 feet from the existing distribution system.
    - Excluding conditions beyond the control of the Applicant, Applicant will begin working on "service interruptions" promptly and in no event later than 24 hours after the interruption becomes known. Applicant will begin actions to correct other service problems the next business day after notification of the service problem.
    - The "appointment window" alternatives for installations, service calls, and other installation activities will be either a specific time or, at maximum, a four-hour time block during normal business hours. (Applicant may schedule service calls and other installation activities outside of normal business hours for the express convenience of the customer.)
    - Applicant may not cancel an appointment with a customer after the close of business on the business day prior to the scheduled appointment.
    - If Applicant's representative is running late for an appointment with a customer and will not be able to keep the appointment as scheduled, the customer will be contacted. The appointment will be rescheduled, as necessary, at a time which is convenient for the customer.

b. Please see attached pages 4 and 5 for Applicant's customer service training syllabus.

c. Applicant intends to use its existing customer support infrastructure. Additional customer service reps will be hired to meet increased inquiries and orders related to its video service offerings to provide the equivalent level of service standards that is offered with Applicants other service offerings (e.g. DSL).

d. Applicant's customer service standards will meet federal cable television customer service standards as set forth in 47 CFR Sec. 76.309, 47 CFR Sec. 76.1602, and 47 CFR Sec. 76.1603.

Consultant Customer Contact Standards

Greeting the customer...

Deliver a positive, memorable greeting

i.e., ***"Thank you for calling Hawaiian Telcom, this is Ms. Smith. May I verify that the number you are calling about is ..."***

Goal: A friendly, proper and full introduction of who the customer is speaking to is required on every customer contact.

Displays proper Tone and Courtesy (Establish Rapport)

i.e., Use *"Thank you"* and *"Please"* when appropriate, having a pleasant and friendly tone of voice.

Goal: Establishing rapport with your customer is necessary to ensure that the customer has a positive experience with you. Be courteous throughout the entire contact.

Respond appropriately throughout the entire call

i.e., *"Yes, Ms. Smith, I would be glad to help you with that..." or "I understand your concern, let me see what I can do for you." "I'm sorry you were having trouble with your service, let's get this taken care of right now."*

Goal: Respond to a customers opening words in a way that ensures them that you understand their issue and that you are here to help them. This can be done by providing an assurance of help, providing an apology when appropriate or by expressing empathy or sympathy. Providing an appropriate response indicates that you are going to help the customer.

Display ownership - Accept responsibility on Hawaiian Telcom's behalf

i.e., *"I'm sure I can do something to make this right for you..." "I know exactly what I need to do for you", or "Let me check a little further on this", etc.*

Goal: The customer must be able to rely on you. Demonstrate empowerment to handle the issue at hand. Customers perceive they are speaking with an authority in the company, regardless of the complexity of the issue. Convey personal responsibility; fix the problem, not the blame. If the customer perceives a previous mishandling, acknowledge the mistake, correct it, and take ownership.

Utilize Hold and/or Transfer appropriately

i.e., *"Is it alright with you if I place you on hold for a moment? I just need a moment to check into..."*

Goal: When we absolutely must put a customer on hold, it is done in a friendly manner and we use the time as efficiently as possible. Avoid using the hold key unnecessarily and ask permission from the customer to place them on hold.

Provide complete and accurate explanations

It's simple...If you're selling it; explain it!

Examples include, but are not limited to the following:

DSL:

- Speed/Service Disclaimer
- Verify System Requirements for DSL
- Advise DSL availability is based on preliminary check
- Provide accurate Modem Deliver Info
- Advise no one will come to the house to install the DSL

Goal: You must provide complete information and clear explanations about our products, services and procedures. Customers are put at ease when they know you are knowledgeable and have the expertise to help them understand. Customers who rate us high in CCI on the quality of our explanations are more likely to have a positive perception of their experience with us and therefore remain a loyal Hawaiian Telcom customer.

Consultant Customer Contact Standards

Clearly explains all charges

Explain prorated charges and advance billing clearly. Be certain that the customer understands what their bill will be, what monthly or NRC will appear; including bill cycle explanation, when appropriate.

Goal: Failure to explain prorated charges is a major cause of Repeat calls and customer dissatisfaction. It's critical that customer have a complete understanding of what charges to expect on their bills. This includes advising the customer of installation charges, installment billing, line charges, and taxes and surcharges.

Follow process and procedure:

This includes, but not limited to the following:

- **Using proper procedures whenever you sell a product or service**
- **Place a move/new service order.**

Goal: You must follow all process and procedures during the contact. This includes, but not limited to the following:

- Provide correct due date
- Negotiate access arrangements
- Provide correct technical or service assistance telephone numbers

Explains products sold

Goal: The customer must have a clear understanding about **how** to use the products you sell to them. The customer will be more likely to retain and enjoy the product. "Poor Service" complaints are the key negative driver of customer loyalty and often a result of poor or no explanation of products sold.

RECAP

To recap is to repeat again, "the what", "the when", & "how much". It gives your contact with the customer that extra special touch.

Explain to your customer: What will happen? When it will happen? How much will the cost be?

Here are some examples:

- *"Okay, so, let's go over what we talked about today..."*
- **"Let me make sure I captured your request correctly..."**
- *"Let's review what's going to happen..."*
- *"I'd like to recap with you what I have done for you today..."*
- *"Do you have a pen and paper handy? I'd like to review what we've talked about today..."*

Goal: A proper RECAP is important to ensure understanding of the contact between both you and the customer. Your RECAP should be complete and at the conclusion of the contact for all orders, adjustments and billing inquiries. The customer should know exactly what you did for them, when their request will be effective, and how much of a change in cost will appear on the bill.

Verify the resolution of the contact

Taking care of your customer's concern or request is what you are here for. Have you succeeded in doing this? You need to ask:

Examples:

- *"Ms. Smith, Have I resolved your <reason for the call> today?*
- *"Ms. Smith, Are you pleased with the outcome of the call today?"*
- ***"Ms. Smith, Are you in agreement that I have resolved your <reason for the call>?"***

Goal: At the end of the call the customer should feel good about their contact with you and that the reason for their call was resolved. This should be confirmed at the close of the call.

Request:

The request is filed up separate cover. It refers to Exhibit I.3, which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

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Request:

The request is filed up separate cover. It refers to Exhibit I.4, which has been labeled as confidential, proprietary and/or competitively-sensitive by Applicant.

Response:

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Request:

Please provide detailed anticipated start-up costs for the proposed video service along with a time frame for recovery of those costs.

Response:

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Request:

State Applicant's proposed plans and schedule of expenditures for or in support of the use of public, educational, and governmental (PEG) access channels and facilities including the following:

a. The amount Applicant proposes for the annual access operating fee payments to the Director or the Director's designee for PEG access purposes;
   i. If this proposed payment is based on a percentage of revenue, explain how the percentage will be calculated
b. The amount Applicant proposes for the annual capital fund payments to the Director or the Director's designee for PEG access purposes.
   i. Please explain how Applicant will calculate this annual amount.

Response:

Applicant is committed to supporting community access to the PEG channels and will adhere to the operating fee payment structure as defined by the State of Hawaii Department of Commerce and Consumer Affairs.

As such, Applicant is committed to providing annual access operating fee payments calculated as 3% of the gross revenues for video services. "Gross Revenues" shall have the meaning in Cable Television Division D&O No. 261 dated August 11, 2000, i.e., revenue from charges relating to the provision of video services billed for and collected by Applicant from its subscribers. Such charges shall include customer billings and collections for entertainment and nonentertainment services, installation, connection, reconnection and reinstatement of equipment necessary for the utilization of the video services. "Gross Revenues" shall exclude revenue from charges and collections for nonsubscription or nonsubscriber related sources such as advertising sales, home shopping commissions, franchise fees passed through to subscribers, and uncollected debt except that once such debt is subsequently collected it shall be included as part of Gross Revenue.

It is Applicant's understanding that the requirements for capital funding are currently negotiated on an annual basis directly between the video provider and the Director for PEG access. Applicant is committed to supporting the same process and contributing to the annual capital fund, as appropriate.

Request:

Please confirm that Applicant shall provide a cable drop and basic cable service at no cost to any school or institution of higher education within its service area, provided that service is actually being delivered within a reasonable distance from the school or institution of higher education which may request service.

Response:

Applicant uses a different technology and delivery mechanism to provide its all-digital video services when compared to traditional cable. Applicant's new video service is all-digital and requires second generation DSL service connections and a set top box for every receiving television. In the home, this approach will provide the consumers of Hawaii with a very cost-effective and competitive alternative to cable. But this new technology is not as well suited for the mass delivery of analog video to a campus-like environment such as a school or university.

In fact, if Applicant is required to provide its all-digital video service at no cost throughout a school or institution of higher education, it would mean the addition of second generation DSL line connections and a set top box for every TV at an overall cost that would be prohibitively higher than the cost to provide cable.

It is important to note that the incumbent cable provider has penetrated 94% of the homes on the island of Oahu that have a TV, and as such, is already providing basic cable service to schools or institutions of higher education. Having a redundant requirement on Applicant would not provide any additional benefit to the schools that already have cable.

Instead, Applicant plan is to provide additional features and service offers that will benefit the schools and make the best use of the features of its all-digital video platform.

As a starting point, HRS Section 440G-8.2(e) stipulates that the "cable operator shall provide a cable drop and basic cable service at no cost to any school or institution of higher education within its service area; provided that service is actually being delivered within a reasonable distance from the school or institution of higher education which may request service." In accordance with the stated requirement, Applicant will provide one video signal drop and basic cable service at no cost to every school or institution of higher education within its service area.

In addition, Applicant will also provide a separate security and surveillance video channel to every school or institution of higher education within its service area. The issue of violence and vandalism in Hawaii schools has received increased attention in 2006. While providing schools with a video surveillance channel is not by itself a solution, it could be a valuable part of an overall program to improve the situation.

In summary, while Applicant's proposal complies with the literal interpretation of HRS Section 440G-8.2(e), it doesn't stop there. Instead, Applicant will leverage the unique capabilities of its all-digital service to provide incremental benefits to the schools and institution of higher education, rather than simply duplicating the infrastructure already in place. At the same time, this enables Applicant to provide a competitive next generation video service to the consumers on the island of Oahu.

Request:

State the legal basis (including reference to decisions of other similar franchises awarded in other jurisdictions) for applying different standards (such as the extent of service area coverage requirements and INET contribution) than were and are currently being applied to the existing cable operator?

Response:

A. Introduction

Neither Hawaii law nor federal law prohibits the Hawaii Department of Commerce and Consumer Affairs (the "Department") from applying different standards (such as with regard to coverage requirements, INET contributions, and PEG capital funds) than were and are currently being applied to the incumbent cable operator. As explained more fully below, there is adequate legal basis for applying different standards.

B. Neither federal law nor state law requires identical requirements to be imposed on a new Entrant

Section 2.1(b) of the Department's Decision and Order No. 154 expresses an "intent", but not a obligation, that the "same standards and criteria as have been applied to TWE will be applied to any new cable operators." However, identical requirements are not required to be imposed on new entrants by either the Hawaii cable franchise law or federal law. The Hawaii cable franchise laws do not contain a "level playing field" provision, for example. Moreover, it would be illogical, for example, for the Department to require Applicant (and each subsequent entrant) to provide funding to create additional PEGs (with separate facilities) and to construct duplicate INET networks.

The FCC and State of Hawaii frequently have treated a new entrant differently from the incumbent. For example, the incumbent cable operator, as well as other cable companies and CLECs, have not been subjected to the same universal service, carrier-of-last-resort, and tariffing obligations that have been imposed on Applicant and other ILECs. As a result, cable companies have been able to roll out voice and VoIP services without tariff requirements and without universal service obligations. DBS operators furthermore are exempt from the local franchising process and the payment of franchise fees.

C. Hawaii law allows the Department to apply different standards if doing so is consistent with the public interest

Simply applying identical standards on the Applicant would be contrary to the Hawaii statutory mandate. The Hawaii cable franchise statutes require the Director to use his discretion to grant franchise terms that are "in the public interest" and that reflect the circumstances of the particular entrant. For example, H.R.S. Section 440G-8(b) states that a cable franchise will be issued when "it is in the public interest to do so" and that the Director "shall take into consideration", among other things, "the public need for the proposed service . . . and any other matters as the director deems appropriate in the circumstances." Also, H.R.S. Section 440G-8(d) gives the Director discretion to "attach to the exercise of the right granted by the cable franchise terms, limitations, and conditions which the director deems the public interest may require." Consistent with this, H.R.S. Section 440G-(b) requires the cable franchise application to set forth, among other things, facts as to "[t]he public interest to be served by the requested issuance of a cable franchise" and "[a]ny other matters deemed appropriate and necessary by the director." Finally, H.R.S. §440G-12(a) provides that "the director has the power and jurisdiction to supervise and regulate every cable operator within the State so far as may be necessary to carry out the purposes of this chapter" (emphasis added).

Among the circumstances that should be taken into account is that Applicant will not be creating any additional burdens or impositions on public rights of way, which is the justification for the privilege of a franchise. As recognized by the Department in its Decision and Order No. 291:

> "The grant of a cable franchise gives the recipient a right to use and occupy public places, highways and easements that are of a limited and scarce nature. Substantial economic benefits may flow to the recipient as a consequence of this privilege."

See also Oklahoma Attorney General Opinion (May 3, 2006) ("A telephone company that already possesses statewide authority to place its telephone lines in the public rights-of-way need not obtain a separate municipal franchise to provide additional services, including video programming, over its telephone lines").

It also should be taken into account that the Hawaii cable franchise statutes were intended to apply to traditional cable, not IP-based video, and that these legacy franchise requirements should not be applied to IPTV in a manner that leads to illogical and/or inequitable results or that imposes a prohibitive barrier to entry. It is established law in Hawaii that a statute should not be construed in a manner that leads to unjust, absurd, or unreasonable consequences. *See, e.g.*, Southern Foods Group, L.P. v. State, Department of Education, 974 P.2d 1033, 89 Haw. 443 (1999) (Legislature is presumed not to intend an absurd result, and legislation will be construed to avoid, if possible, inconsistency, contradiction, and illogicality). As one example, H.R.S. 440G-8.2(e) requires the "cable operator" to provide "a cable drop and basic cable service" at no cost to any school or institution of higher education within its service area. For an IPTV service provider like Applicant, meeting this requirement requires providing a DSL line to the school and providing digital basic service, which requires a set top box. However, a traditional cable operator like the incumbent cable provider is not required to provide its digital service to the school, but instead only needs to provide its analog basic service and one connection to the school, with no set top box. That this is not an "apples to apples" situation is further shown by the fact that if the school with IPTV service wanted to extend the service to all classrooms, it would have to purchase a set top box for each classroom and install additional DSL lines to the school, in addition to running lines between the classrooms, whereas the school with traditional cable would only have to run lines between the classrooms.

Recognizing the inherent differences between traditional cable and IPTV, Connecticut's Department of Public Utility Control (DPUC) held recently that the IPTV service offered by the incumbent local exchange carrier (ILEC) is merely another form of data stream, no different than Internet service, and therefore is not a cable service subject to the state's cable franchising requirements. Decision, DPUC Investigation of the Terms and Conditions Under Which Video Products May Be Offered By Connecticut's Incumbent Local Exchange Carriers, State of Connecticut, Department of Public Utility Control, Docket No. 05-06-12 at 47 (June 7, 2006). In particular, the DPUC concluded the ILEC was not engaging in economic "redlining", finding "the Telco's decision to invest and deploy network facilities in those areas where it expects the greatest initial return on its investment understandable and akin to the network deployment of the incumbent cable operators over the years", and concluded that "sound business practices require the Telco to invest and deploy its facilities in this manner." The DPUC similarly found that mandatory build out requirements were unnecessary, especially given that the Connecticut ILEC's video service was an enhancement to its existing DSL footprint and that the ILEC was undertaking a "brisk and comprehensive DSL deployment rate to date." For the same reasons build out requirements are unnecessary in Applicant's situation.

Notwithstanding the foregoing, Applicant is willing to pay the same percentages of gross revenues that the incumbent cable provider is paying with regard to PEG access operating fees and the annual fees described in H.R.S. Section 440G-15. Applicant also is willing to provide the same number of PEG channels being provided by the incumbent cable provider.

D. <u>Imposing identical standards on a new entrant would be contrary to the public interest</u>

Applying identical standards to a new entrant, in disregard to the differing circumstances faced by the new entrant, would constitute an unreasonable barrier to entry and be contrary to the public interest. In addition, fundamental fairness dictates that a new entrant be treated differently than the entrenched incumbent. The Department provided the incumbent cable provider access to an open and lucrative Oahu market with no effective competition in which there was inherent demand for cable service resulting from the low quality reception of television signals using regular antennas. As a result, the incumbent cable provider could gain subscribers at a rate sufficient to enable it to absorb the cost and burden of build-out, INET and PEG requirements. The requirements imposed by the Department on the incumbent cable company in effect were the quid pro quo for the privilege of being the first entrant in an uncontested, wide-open market. With regard to INET requirements in particular, it is relevant to note that the ability of a local franchising authority to require INETs was not adopted until 1984, after the incumbent cable provider and other cable companies already had achieved growth and become established in their markets. *See* Cable Communications Act of 1984, 98 Stat 2780, Public Law 98-549 (Oct. 30, 1984).

Applicant faces completely different circumstances, seeking to enter an Oahu market where the incumbent cable provider is in an entrenched position, has decades of presence on Oahu and currently provides service to approximately 94% of households on Oahu with a television (and 91% of all Oahu households). In order to satisfy franchise requirements imposed by the Department, Applicant must take market share away from the entrenched incumbent, a far different scenario than what the incumbent faced. Applying identical requirements to Applicant would make entry into the current mature market prohibitively risky and constitute an unreasonable barrier to entry. The different economic positions of the new entrant, vis a vis the incumbent cable provider, must be taken into account.

In addition, rather than focus just on the requirements to be imposed on the cable franchise, the totality of the circumstances should be considered. The incumbent cable provider has been allowed to compete against Applicant in the area of voice services without being subject to the same build-out, carrier-of-last resort, universal service, and other obligations and requirements imposed on Applicant. This includes the provision of telephone service as well as Voice over Internet Protocol (VoIP) service.

E. Other jurisdictions have imposed less stringent requirements on new entrants

Legislation in other states has imposed less burdensome requirements on new entrants. For example, mandatory build-out requirements are expressly prohibited in recent legislation in Kansas (Kansas Senate Bill No. 449 adopted March 28, 2006) and Texas (Texas Public Utility Regulatory Act, Title II, Texas Utilities Code, Section 66.007).

Local franchising authorities in other jurisdictions have granted franchises to new entrants with less burdensome requirements, even in states like California that have a "level playing field" statute. Beaumont, CA granted a cable franchise to Verizon California, Inc. on terms that were not identical to those in the agreement with incumbent cable provider Adelphia. The City Council found that the terms were "reasonably comparable," and that this was sufficient to satisfy California's "level playing field" statute. *See* City Council Agenda Item 2.a – Franchise Agreement – Verizon, at 13 (Nov. 2, 2004) (available at http://www.ci.beaumont.ca.us/agendas/110204/2a.PDF). Also, the Tampa, FL franchise agreement with Verizon Florida, Inc. has terms that are more lenient than those in Tampa's franchise agreement with Time Warner Entertainment, the incumbent cable provider in the area. *See* Franchise Agreement to Provide Cable Services between City of Tampa, Florida and Verizon Florida, Inc. (May 12, 2006); *cf.* Franchise Agreement to Provide Cable Services between City of Tampa, Florida and Time Warner Entertainment (March 23, 2000).

A number of state cases have upheld new entrants' franchise agreements that had terms different from those of the incumbent. In *New England Cable Television Assn. v. Dept. of Pub. Util.*

Control, 717 A.2d 1276 (Conn. Sup. Ct. 1998), which involved a challenge by the incumbent cable provider of a franchise grant to a new cable provider, which intended to use the existing network of its affiliate telephone company to deploy cable to the entire state; the court held that the authorizing agency need not conduct a term-by-term comparison of the two franchise agreements to ensure the new franchise is not more favorable; rather, a consideration of the "totality of the terms" is sufficient. In *Insight Communications Co., L.P. v. City of Louisville*, 2003 WL 21473455 (Ky. App. June 27, 2003), the incumbent cable provider challenged the grant of a franchise to a competitor, alleging the terms in the competitor's franchise agreement were more favorable than its own. Among other things, whereas the incumbent cable provider was required to build equally throughout the city, the competitor was permitted to concentrate its construction in one area in any year. The court nonetheless found that these terms were "substantially similar" and rejected an "apple-to-apple" comparison, explaining that a new cable provider will never be on the same footing as the longtime incumbent). *See also United Cable Television Service Corp. v. Dept. of Pub. Util. Control*, 663 A.2d 1011, 1025 (Conn. Sup. Ct. 1995) (level playing field inquiry requires consideration of the entire package of terms and conditions required of both cable providers in order adequately to determine whether one has been favored over the other).

F. Conclusion

Applicant already has access to public rights of way and will not be imposing additional burdens on the public to provide the IPTV service. As a result there is no reasonable nexus for the State to regulate the proposed IPTV service. Also, due to technological differences, Applicant believes that IPTV is not a cable service subject to the State cable franchise statutes, a view recently supported in Connecticut. For expediency, however, Applicant is willing to work with the Department in consideration of a cable franchise and is willing to pay the same franchise fees on a percentage of gross revenue basis. Nevertheless, less burdensome requirements should be imposed on Applicant, which faces a monopoly-type situation where 94% of households on Oahu with a television already subscribe to the incumbent cable provider, where the inability to receive quality television signals using antennas due to mountainous topography compel consumers to adopt cable as the only other viable alternative, and where the risk to consumers posed by a new entrant is substantially less because the consumers can always fall back on the incumbent cable provider's service. Under the ideal economic conditions faced by the incumbent cable provider as the initial entrant, it was feasible for it to absorb the cost of the franchise requirements. To a new entrant faced with trying to take market share away from an entrenched incumbent, those same requirements constitute a prohibitive barrier to entry.

In any event, the Department should not impose mandatory build-out requirements or other burdensome requirements on new entrants that have the effect of a barrier to entry. Build-out requirements may have been appropriate for the incumbent cable provider, but they have no place in a competitive market. The public interest is served by a competitive video market where decisions and success of service providers are driven by market forces and are based on market-based competition rather than on burdensome requirements imposed by the Department.

Consistent with this, build-out requirements should not be imposed on new entrants, especially in Applicant's case where the incumbent provider already has built out across Oahu and has garnered 94% of households with a television.