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

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

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

Commission File No. 333-131152

HAWAIIAN TELCOM COMMUNICATIONS, INC.
(Exact name of registrant as specified in our charter)

Delaware	**16-1710376**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

808-546-4511
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12 (b) of the Act: None
Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

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

The registrant is a wholly-owned subsidiary of Hawaiian Telcom Holdco, Inc. As of March 31, 2007, there were no shares of voting or non-voting common equity held by non-affiliates of the registrant. As of March 31, 2007, 1,000 shares of the registrant's common stock, $0.10 par value, were outstanding.

- network surveillance, maintenance and technical support of switches, relays, HSI and other Internet operations;
- call center support, systems and related services;
- infrastructure maintenance work for inside and outside plant engineering; and
- Internet operations and related support.

Pursuant to the Master Services Agreement, VSSI or its affiliates provided us during the Transition Period with certain telecommunications services on a wholesale basis for resale to our customers. These services enabled us to offer services to our customers beyond the geographic scope of our network, and included:

- domestic and international long distance;
- private line, frame relay and other data network services spanning beyond Hawaii;
- calling card and voice conferencing services; and
- toll free services.

Upon the expiration of the Transition Period on April 1, 2006, we completed our transition from Verizon, which involved (a) terminating the services from Verizon under the Transition Services Agreement and Master Services Agreement and transitioning those services to us, and (b) migrating the data used in Verizon's Hawaii Business from Verizon's systems to our systems. As a result, the services previously provided to us by Verizon and its affiliates are now being provided by our internal operations or third-party service providers.

Pursuant to a Master Services Agreement entered into with BearingPoint, Inc. ("BearingPoint") in 2004, BearingPoint began building a back-office and IT infrastructure to allow us to migrate off software systems that we used prior to the 2005 Acquisition and during the Transition Period, thereby enabling us to operate as a stand-alone provider of telecommunication services. These "build services" generally consisted of integration and installation of software, databases, hardware, operating systems, and internal network systems; providing the services of the primary and back-up data centers; providing certain training; and business process definition. The new back-office and IT infrastructure was integrated with certain core operations support systems purchased from Verizon as part of the 2005 Acquisition, and provides network operations support functions and operates our billing systems, customer relationship management systems, corporate finance systems, human resource and payroll systems. Under the Master Services Agreement, BearingPoint also provided certain infrastructure management services (including management of databases, storage, application and utility servers and managed network services) and application development and maintenance services (including application planning, design, testing, implementation, and maintenance and support). BearingPoint had committed to complete the "build services" by the end of the Transition Period expiring April 1, 2006.

On the April 1, 2006 cutover date, while the major network operational systems were built and functioned without significant problems, critical systems related to back-office functions, such as customer care, order management, billing, supply chain, and other systems interfacing with our financial systems, lacked significant functionality. This led to deficiencies in billings and collections, revenue assurance, and order entry flow-through. Despite

BearingPoint's efforts to improve the functionality of the related systems, we continued to experience many of these same issues, requiring us to incur significant incremental expenses in 2006 to retain third-party service providers to provide call center and manual processing services in order to operate our business. To help remediate deficiencies, we also engaged the services of Accenture LLP ("Accenture"), which has expertise in telecommunications back-office software systems and processes. In addition to the third-party costs, we incurred additional internal labor costs in the form of overtime pay. As a result, we engaged in discussions with BearingPoint seeking reimbursement of the aforementioned costs and compensation for damages arising from failures to deliver promised services in a timely manner.

Effective as of February 6, 2007, we reached a mutual agreement with BearingPoint that was memorialized in a Settlement Agreement and Transition Agreement. Under the Settlement Agreement, BearingPoint paid to us on March 27, 2007 the aggregate amount of $52 million (the "Settlement Payment") and agreed to discharge previously-submitted invoices in an aggregate amount of approximately $29.6 million and other amounts otherwise payable to BearingPoint. The total benefit to us under the settlement includes the cash Settlement Payment and a reduction in accounts payable ($38.6 million at December 31, 2006) associated with reversing amounts accrued under the Master Services Agreement. For the year ended December 31, 2006, the Company recorded a recovery contractually due under the Master Services Agreement amounting to $24.1 million. The remaining settlement consideration will be recognized in the first quarter of 2007. The Transition Agreement provides for, among other things, the transition of certain of the remaining "build services" and application management and support services to a successor provider, and contemplates a transition period ending May 2, 2007 during which BearingPoint will provide transition services at no cost to us. If necessary, we have the option to extend the period during which BearingPoint provides transition services to us for up to 60 additional days, during which time BearingPoint would be compensated at agreed-upon rates, subject to certain exceptions.

Contemporaneously with the Settlement Agreement and Transition Agreement, we entered into an Application Services Agreement with Accenture, effective as of February 5, 2007, pursuant to which Accenture agreed to perform certain of the application development and management services previously covered by the Bearing Point Master Services Agreement. Under the Application Services Agreement, Accenture will complete the development of key customer service and business support systems in 2007 and early 2008 and provide ongoing applications management for 17 months from the effective date of the agreement. The agreement started with a transition period, scheduled to end May 2, 2007, during which Accenture will assume responsibility from BearingPoint in stages for the completion and ongoing development of applications. Accenture also will be responsible for leading and executing a systems recovery program designed to deliver increased functionality and allow contingency cost reductions. See "—Agreements Relating to our Back-Office and Information Technology."

The lack of full system functionality following the Transition Period substantially impacted both customer satisfaction (as evidenced by large increases in the customer call volumes at our work centers) and collection efforts in 2006. However, our remediation and systems recovery efforts begun in 2006 are beginning to show some improvements. Functionality is improving for our critical systems related to back-office functions such as customer care, order management, and billing systems. As a result, while systems issues still exist, we are experiencing fewer collection treatment delays, physical bill delivery problems and order flow-through issues, and customer call volumes at our work centers have decreased. We continue to work to improve our system functionality.

It also has been necessary for us to incur significant incremental expenses to retain third-party service providers to provide call center services and other manual processing services in order to operate our business. In addition to the costs of third-party service providers, we also incurred additional internal labor costs, in the form of diversion from other efforts as well as overtime pay. We expect to continue to incur significant incremental costs in the future, although the amounts of such costs should decline over time if and as our systems functionality improves.

In addition to the significant expenses we have incurred, because we do not have fully functional back-office and IT systems, we have been unable to fully implement our business strategy and effectively compete in the marketplace, which has had an adverse effect on our business and results of operations. In addition, our senior management has been required to spend substantial time on developing interim solutions to these systems and infrastructure problems and on transitioning from BearingPoint to Accenture.

While we are continuing to work to achieve full functionality of our systems and we have seen improvement, there is no certainty that these activities will be successful or when we will achieve full functionality. Until we are able to achieve this level of functionality, our lack of critical back-office and IT infrastructure will negatively impact our ability to operate as a stand-alone provider of telecommunication services, and will have an adverse effect on our business and operations.

We have had a material weakness in internal control over financial reporting and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements and cause investors to lose confidence in our reported financial information.

Our senior management has determined that on December 31, 2006 a material weakness in the Company's internal control over financial reporting existed as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2 that may have affected our financial statements through December 31, 2006. The material weakness related to significant weaknesses in several information technology system and change management controls, as well as operating processes and controls needed to fully record, process, summarize and report financial data after our March 31, 2006 transition to a stand-alone provider of telecommunication services.

We cannot provide assurance that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. The existence of a material weakness could result in errors in our financial statements that could give rise to a restatement of financial statements, cause us to fail to meet our reporting obligations, which may result in defaults under our senior credit facilities, and cause investors to lose confidence in our reported financial information.