

Hawaiian Telcom Holdco, Inc.
Form 10-K
March 12, 2015

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**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, 2014

OR

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

Commission File No. 001-34686

HAWAIIAN TELCOM HOLDCO, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

16-1710376

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

**1177 Bishop Street
Honolulu, Hawaii 96813**

(Address of principal executive offices) (Zip Code)

808-546-4511

(Registrant's telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act: **None**

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share
(Title of class)

The NASDAQ Stock Market, LLC
(Name of each exchange on which registered)

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

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

(Do not check if a
smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2014 was \$183,223,332.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of March 11, 2015, 10,685,592 shares of the registrant's common stock, \$0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's Proxy Statement (Part III of Form 10-K)

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Defined below are certain terms used in this report:

Term	Definition
AAIS	Assignment, activation and inventory system
ADM	Add-drop multiplexer
AIN	Advanced intelligent network
ATM	Asynchronous transfer mode
AWAS	Automated workforce administration system
BAiO	Business All-in-One
CAF	Connect America Fund
CLEC	Competitive local exchange carrier
Communications Act	Communications Act of 1934, as amended
CPE	Customer premises equipment
CSRIC	Reliability and Interoperability Council
DEU/DEUCE	Data exchange utility and connection engine systems
FCC	Federal Communications Commission
FTTN	Fiber-to-the-node
FTTP	Fiber-to-the-premise
GPON	Gigabit Passive Optical Network
HPUC	Hawaii Public Utilities Commission
HSI	High-speed Internet
IBEW	International Brotherhood of Electrical Workers Local 1357
ILEC	Incumbent local exchange carriers
IP-VPN	Internet protocol Virtual Private Network
IP	Internet protocol
ISDN	Integrated service digital network
ISP	Internet Service Providers

LATA	Local Access Transport Area
LQP	Loop qualification system
MDU	Multi-dwelling units
MPLS	Multiprotocol Label Switching
MVNO	Mobile virtual network operator
NIST	National Institute of Standards and Technology
NOC	Network Operations Center

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Term	Definition
Oceanic	Oceanic Time Warner
PBRSU	Performance-based restricted stock units
PBX	Private-branch exchange
QoS	Quality of service
RBOC	Regional Bell operating companies
RSN	Regional Sports Network
ROADM	Reconfigurable optical add-drop multiplexer
OAM	Operations, administration and maintenance
SDH	Synchronous digital hierarchy
SLC	Subscriber line charges
SONET	Synchronous Optical Network
STP	Signal transfer points
SystemMetrics	SystemMetrics Corporation
TDM	Time Division Multiplexing
UNE	Unbundled network element
UNE-P	Unbundled network element platform
VoIP	Voice over Internet Protocol
VDSL2	Very High Bit Rate Digital Subscriber Line Generation 2
Wavecom	Wavecom Solutions Corporation
WATS	Wide Area Telephone Service

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Forward-Looking Statements

This Annual Report on Form 10-K contains certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, any statement, projection or estimate that includes or references the words "believes", "anticipates", "intends", "expects", or any similar expression falls within the safe harbor of forward-looking statements contained in the Reform Act. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Forward-looking statements by us are based on estimates, projections, beliefs, and assumptions of management and are not guarantees of future performance. Such forward-looking statements may be contained in this Form 10-K under "Item 1A Risk Factors" and "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere. In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. Additional risks that we may currently deem immaterial or that are not currently known to us could also cause the forward-looking events discussed in this Form 10-K not to occur as described. Except as otherwise required by applicable securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Form 10-K.

Risks, uncertainties and other important factors that could cause actual results to differ materially from those described in forward-looking statements and from historical results include, but are not limited to, the following:

failures in our critical back office systems and IT infrastructure;

breach of our data security systems;

increases in the amount of capital expenditures required to execute our business plan;

the loss of certain outsourcing agreements, or the failure of any third party to perform under these agreements;

adverse changes to applicable laws and regulations;

the failure to adequately adapt to technological changes in the telecommunications industry, including changes in consumer technology preferences;

adverse economic conditions in Hawaii;

the availability of lump sum distributions under our union pension plan;

limitations on the ability to utilize net operating losses due to an ownership change under Internal Revenue Code Section 382;

the inability to service our indebtedness;

limitations imposed on our business from restrictive covenants in our credit agreements; and

severe weather conditions and natural disasters.

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PART I

Item 1. Business

Business Overview

Hawaiian Telcom Holdco, Inc. (the Company) is the largest full-service provider of communications services and products in Hawaii. We operate two primary business segments:

Telecommunications. This 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 segment provides high-speed Internet, long distance services, next-generation television service, next-generation Internet protocol (IP)-based network services, customer premises equipment, data solutions, managed services, billing and collection, wireless services, and pay telephone services. Our services are offered on all of Hawaii's major islands, except for our next-generation television service, which currently is available only on the island of Oahu. As of December 31, 2014, our telecommunications operations served approximately 343,500 local access lines, of which 49% served residential customers and 50% served business customers, with the remaining 1% serving other customers; approximately 181,200 long distance lines, of which 59% served residential customers and 41% served business customers; and approximately 113,300 high-speed Internet lines, which served approximately 92,900 retail residential lines, approximately 18,300 retail business lines, and approximately 800 wholesale business and resale lines.

Data Center Colocation. This segment consists of data center services including colocation and virtual private cloud.

See "Segments and Sources of Revenue" below and "Segment Information" in the notes to the financial statements for information regarding revenues and total assets for each business segment.

History and Organizational Structure

General

The Company was incorporated in Delaware in 2004. Originally incorporated in Hawaii in 1883 as Mutual Telephone Company, our Hawaiian Telcom, Inc. subsidiary has a strong heritage of over 130 years as Hawaii's communications carrier. From 1967 to May 1, 2005, we operated as a division of Verizon Communications Inc. (Verizon) or its predecessors. On May 2, 2005, the Verizon businesses conducted in Hawaii (comprised of Verizon Hawaii Inc. and carved-out components of Verizon Information Services, GTE.NET LLC (dba Verizon Online), Bell Atlantic Communications Inc. (dba Verizon Long Distance) and Verizon Select Services, Inc. (collectively, the Verizon Hawaii Business)) were transferred to Verizon Holdco LLC, which then was merged (2005 Acquisition) with and into Hawaiian Telcom Communications, Inc., a Delaware corporation and wholly-owned subsidiary of the Company. As a result of the 2005 Acquisition, we became a stand-alone provider of communications services, operating as Hawaiian Telcom, Inc. (fka Verizon Hawaii Inc.) and Hawaiian Telcom Services Company, Inc., both wholly-owned subsidiaries of Hawaiian Telcom Communications, Inc.

Hawaiian Telcom, Inc., a Hawaii corporation, operates our regulated local exchange carrier business. Hawaiian Telcom Services Company, Inc., a Delaware corporation, operates other businesses including long distance, Internet, television, advanced communications and network services, managed services, data center services including colocation and virtual private cloud, cloud-based services, and wireless businesses. SystemMetrics Corporation, a wholly-owned subsidiary of Hawaiian Telcom, Inc. and a Hawaii corporation, provides data center services including colocation and virtual private cloud. Wavecom Solutions Corporation, a wholly-owned subsidiary of Hawaiian Telcom, Inc. and a Hawaii corporation, provides voice, data and converged services.

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The following is a chart of our organizational structure.

Bankruptcy Proceedings

On December 1, 2008, the Company, Hawaiian Telcom Communications, Inc., Hawaiian Telcom, Inc., Hawaiian Telcom Services Company, Inc. and certain other affiliates (collectively, the Debtors) filed voluntary petitions for relief under chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (later transferred to the United States Bankruptcy Court for the District of Hawaii (Bankruptcy Court)) in order to facilitate a balance sheet restructuring. In November 2009, the Bankruptcy Court confirmed the Debtors' chapter 11 plan of reorganization (Plan of Reorganization) and entered a written confirmation order (Confirmation Order) on December 30, 2009. The Plan of Reorganization became effective, and the Company and other Debtors emerged from chapter 11, on October 28, 2010.

Industry Overview

The telecommunications industry is comprised of companies involved in the transmission of voice, data and video communications over various media and through various technologies. There are two predominant types of local telephone service providers, or carriers, in the telecommunications industry: incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs). An ILEC refers to the regional Bell operating companies (RBOCs), which were the local telephone companies created from the breakup of AT&T in 1984, as well as small and midsize independent telephone companies, such as Hawaiian Telcom, Inc., Cincinnati Bell Inc. and Consolidated Communications, Inc., which sell local telephone service. These ILECs were the traditional monopoly providers of local telephone service prior to the passage of the Telecommunications Act of 1996. In contrast, a CLEC is a

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competitor to local telephone companies that has been granted permission by a state regulatory commission to offer local telephone service in an area already served by an ILEC.

In recent years, the U.S. telecommunications industry has undergone significant structural changes. Many of the largest service providers have achieved growth through acquisitions and mergers, while an increasing number of competitive providers have restructured or entered bankruptcy to obtain protection from creditors. Since 2001, capital in the form of public financing has been generally difficult to obtain for new entrants and competitive providers. Capital constraints have caused a number of competitive providers to change their business plans, resulting in consolidation. Despite these changes, the demand for telecommunications services, particularly data services, has not diminished, and telecommunications companies increasingly bundle services and provide integrated offerings for end-user customers.

Hawaii's telecommunications industry remains active, and demand for telecommunications services is strong, due in part to the State's geographic isolation. Hawaii is connected to the mainland United States and Asia via cable and several satellite networks.

Our Business Strategy

Our primary objective is to become the number one service provider of innovative "Always OnSM" communications, information and entertainment solutions to the people and businesses of Hawaii. The key elements of our business strategy are to grow our business with a focus on delivering superior service to our customers, which includes the following:

Leverage our broadband network. Our broadband network is the foundation for our services to our customers, and we continue to expand its footprint and invest in advanced technology platforms that support advanced communications and network services. We completed the build-out of our Multiprotocol Label Switching (MPLS) core network statewide and continue to deploy both fiber-to-the-node (FTTN) and fiber-to-the-premise (FTTP) access technologies to enhance and expand the speed and reach of our broadband network. We are deploying high-speed technologies such as Very High Bit Rate Digital Subscriber Line Generation 2 (VDSL2), Gigabit Passive Optical Network (GPON), and Metro Ethernet to deliver new broadband services such as our next-generation television to consumers, and Voice over Internet Protocol (VoIP), Internet protocol Virtual Private Network (IP-VPN), managed services, data center services, including colocation and virtual private cloud, and cloud-based services to businesses. In both customer segments, we continue to enhance our services by adding new service options, features and functionality.

Drive a customer- and sales-focused organization. Our customer operations team allows us to more effectively focus on customer satisfaction and successful delivery of our services, with the ultimate goal of delivering a consistent and comprehensive customer experience.

Deliver new and innovative products and services to attract and retain customers. We have successfully added, and expect to continue to add, new products and services to our customer offerings. We offer a full range of services, including voice, Internet, television, data, customer premises equipment (CPE), wireless, advanced communications and network services, managed services, data center services including colocation and virtual private cloud, and cloud-based services supported by the reach and reliability of our network and Hawaii's only 24x7 state-of-the-art network operations center. We believe our suite of IP-based services, such as our business VoIP and IP-VPN services, better positions us to compete for new customers and drive winback opportunities while also allowing us to improve retention of existing customers by migrating them from legacy services. Our next-generation television service, *Hawaiian Telcom TV*, is an important growth component for our consumer products portfolio and critical to our

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strategy to win the home and capture a share of the significant television and entertainment market opportunity.

Improve operating profitability and capital efficiencies. We strive to maintain a disciplined approach to managing operating expenses and capital spending. Our focus on driving operational improvements in our business has resulted in cost savings, and we continue to identify initiatives that we believe will further improve our cost structure. In addition, we continue to review and renegotiate contracts with key IT and outsource suppliers, which has led to additional cost savings. We manage our capital expenditures to optimize returns through disciplined planning and targeted investment of capital. Our strategy will be to continue to make strategic investments in our business in order to position us for long-term growth.

In furtherance of the Company's growth strategy, we continue to make important investments that further our business objectives:

On September 30, 2013, we completed the acquisition of SystemMetrics Corporation (SystemMetrics), a leading provider of data center services in the State of Hawaii. The acquisition increased the scale and scope of our existing data center operations by adding a state-of-the art facility in Honolulu with 6,500 square feet of data center capacity and room for expansion. SystemMetrics complements our existing portfolio of business service offerings and enables us to further diversify our revenue base, and followed our acquisition of Wavecom Solutions Corporation (Wavecom) on December 31, 2012. Wavecom is an information and communications technology company and facilities-based competitive local exchange carrier headquartered in Honolulu that provides voice, data and converged services to small and medium-sized business and carrier customers through a six-island subsea and terrestrial fiber network. By adding Wavecom's fiber capacity and business capabilities to our network and operations, we enhanced our ability to serve growing customer demand for high-speed Internet bandwidth and next-generation, end-to-end solutions, and improved redundancy and diversity statewide. In addition, we assumed ownership of a new, largely under-utilized 8,000 square foot data center which enhanced our opportunities in managed hosting, colocation, and cloud services.

In August 2014, the Company signed agreements with other national and international companies to build and operate the Southeast Asia to United States (SEA-US) trans-Pacific submarine cable system connecting Indonesia, the Philippines, Guam, Hawaii and the mainland United States. The cost to construct the system is expected to be approximately \$250 million. The Company will invest \$25 million over the multi-year construction period for a fractional ownership in the system. As part of this project, the Company has agreed to construct a cable landing station in Makaha, Hawaii, and to provide cable landing services to SEA-US and another trans-Pacific system. The system is expected to be completed in December 2016, and will provide an initial 20 Tbps of capacity using state-of-the-art 100Gbps technology to accommodate the statewide increase in data consumption.

Our Competitive Strengths

We believe the following are among our core competitive strengths and enable us to differentiate ourselves in the marketplace and help us successfully execute our business strategy:

Strong Local Presence. We have been serving Hawaii's communities for over 131 years and employ approximately 1,400 employees statewide. Each year, we donate to various local charities and our employees volunteer thousands of hours of community service. Moreover, we believe we are able to understand our customers' needs because we share many of those same needs. We also share Hawaii's history, heritage, and strive to be an example of Hawaii's unique values.

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Because we are locally managed, we believe we are more responsive to Hawaii's consumers and businesses.

Growth-Oriented Product Portfolio. We are the only communications service provider in our market that can provide the same broad array of services to both consumers and business customers that includes voice, Internet, data, CPE, wireless, advanced communications and IP-based network services, managed services, data center services including colocation and virtual private cloud, and cloud-based services. Our expanding service suite, including high-quality enhanced data networking services such as our business VoIP and IP-VPN services, and our managed services, are targeted at the key growth areas in our marketplace. Our next-generation television service, employing Ericsson Mediaroom , is targeted at capturing a share of the significant video and entertainment market opportunity that we did not capture previously.

Advanced Network Infrastructure. We own one of the State's most extensive and reliable communications networks, including one of the broadest fiber optic cable networks consisting of approximately 179,063 strand miles of fiber optic cable and more than 11,596 route miles of copper wire distribution lines. Our statewide MPLS backbone is one of the largest IP networks in Hawaii and allows us to deliver advanced IP-based services to over 99% of the State's population. Our network is supported by Hawaii's only 24x7 state-of-the-art network operations center. We continue to expand our fiber network and to enhance and expand the speed and reach of our broadband network, which we believe will enable us to offer new products and services that will generate growth in our business and allow us to compete more effectively in the marketplace.

Strong Management Team. We have assembled an experienced management team that we believe is well-qualified to lead our Company and execute our strategy. Our management team has significant operational experience in the telecommunications industry combined with extensive knowledge of our local market, which we believe will be a critical driver of our success going forward.

Our Products and Services

Telecommunications

Local Exchange Services

Our local exchange carrier business generates revenue from local network services, network access services and certain other services, each of which is described below.

Local Network Services

Our traditional local network service enables customers to originate and receive telephone calls within a defined "exchange" area. We provide basic local services on a retail basis to residential and business customers, generally for a fixed monthly recurring charge. Basic local service also includes non-recurring charges to customers for the installation of new products and services. Basic local exchange services are enhanced with a variety of value-added services such as call waiting, caller ID, voice messaging, three-way calling, call forwarding and speed dialing. Value-added services may be purchased individually or as part of a package offering for a monthly recurring charge. We also offer other local exchange services, such as local private line and inside wire maintenance. The rates that can be charged to customers for basic local and certain other services are regulated by the HPUC. We charge business customers higher rates to recover a portion of the costs of providing local service to residential customers, as is customary in the industry. See " Regulation" for further discussion of regulatory matters.

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Network Access Services

We offer special access voice and data services, which we believe are a key growth area driven by demand for increasing bandwidth from business and wholesale customers. Special access services include switched and non-switched (or dedicated) services such as point-to-point single channel circuits, Synchronous Optical Network (SONET) and Time Division Multiplexing (TDM) transport services, as well as IP-based private networks. See "Regulation" for further discussion of access charges.

Our network access services are offered in connection with the origination and termination of long distance, or toll, calls that typically involve more than one company in the provision of end-to-end long distance service. Since toll calls are generally billed to the customer originating the call, a mechanism is required to compensate each company providing services relating to the call. This mechanism is the access charge, which we bill to each interexchange carrier for the use of our facilities to access our customers. In addition, we bill a component of access charges directly to our customers. Our network access services generate intrastate access revenue when an intrastate long distance call that involves us and an interexchange carrier is originated and terminated within Hawaii. This access charge is regulated by the HPUC. Similarly, our network access services generate interstate access revenue when an interstate long distance call is originated from a Hawaii local calling area served by us and is terminated in a local calling area in another state and vice versa. Interstate access charges are regulated by the FCC.

Long Distance Services

We provide long distance services to transmit international calls, interLATA (Local Access Transport Area) domestic calls, and regional toll calls made to points outside a customer's local calling area but within our local service area (intraLATA toll). In Hawaii, each of the islands is a local calling area, and calls between the islands are intraLATA toll calls. Other long distance services include 800-number services and wide area telecommunication services, or WATS, private line services, and operator services associated with long distance calls. As of December 31, 2014, we served approximately 185,241 long distance lines, of which 58% served residential customers and 42% served business customers.

Internet Services

We provide high-speed Internet (HSI) access to our residential and business customers. Our data network enables us to provide extensive high-speed network access. We have HSI available in 79 of our 86 central offices. As of December 31, 2014, we served approximately 92,900 retail residential HSI lines, 19,600 retail business HSI lines, and 800 wholesale business and resale HSI lines.

Managed and Cloud-Based Services

We provide managed services as an end-to-end solution that manages, monitors, and supports a business's network, CPE, and corporate data security. As business networks become more complex, the amount of time and capital businesses must spend to support their networks increases accordingly. Our managed services enable customers to focus on their core business by leaving the day-to-day management of their networks to us. Our managed services product portfolio consists of managed network and security services, colocation services, IT professional services, and security consulting.

Advanced Communications and Network Services

The role of business communication providers is evolving. Consistent with this, we have expanded into application-centric, advanced communications and network services. Our advanced communications and network services include Routed Network Service, a high-performance IP virtual private networking service for business customers; Enhanced Internet Protocol Data Service, a multipoint

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switched Ethernet service; and Hosted PBX, a business VoIP service that provides businesses with a complete, converged communication solution in a hosted package.

Next-Generation Television Service

We introduced our next-generation television service on the island of Oahu in July 2011. During 2014, we continued to invest in our network to provide integrated digital video, high-speed broadband and voice services to new and existing customers. Our *Hawaiian Telcom TV* service is expected to be a critical growth component for our consumer products portfolio and an anticipated anchor of our service bundling strategy. With television, we are now able to bundle digital video, high-speed broadband and voice services in certain areas of the island of Oahu. We had strong *Hawaiian Telcom TV* growth, with more than 9,700 subscribers added in 2014, and ended the year with approximately 28,100 subscribers. We also enabled approximately 40,000 households in 2014, increasing our cumulative total to approximately 160,000 households on Oahu as of the end of 2014. Enabling households means these homes can subscribe to our next generation network services, including our *Hawaiian Telcom TV* service.

Wireless Services

We offer wireless services pursuant to a mobile virtual network operator (MVNO) services agreement with Sprint Spectrum, L.P. (Sprint). That agreement allows us to resell Sprint wireless services, including access to Sprint's nationwide personal communication service (PCS) wireless network to residential and business customers in Hawaii under the *Hawaiian Telcom®* brand name. The services agreement with Sprint was effective as of May 2009 and recently was renewed by us for a one-year term expiring in May 2015. The agreement will extend for an additional year if we do not elect to terminate, which we do not currently intend to do.

Other Telecommunications Services

We seek to capitalize on our local presence and network infrastructure by offering other services to customers and interexchange carriers. Sales and maintenance of customer premises equipment to the business markets are an important source of local exchange revenues. For the wholesale or carrier market, we offer services including operator services, billing and collection services and space and power rents for colocation services. We also offer public pay telephone services at approximately 3,800 locations throughout the State of Hawaii.

Data Center Colocation

We provide colocation and virtual private cloud data center services. Colocation enables our customers to install and remotely operate their IT equipment. Virtual private cloud services include the use of shared virtualized computing resources and a variety of customer control features and services, including back-up data storage. We also provide related professional services, including planning, design, implementation and support services, to enable our customers to better manage and transition between their IT solutions.

Markets and Customers

Telecommunications

We have been a telecommunications provider in Hawaii for more than 131 years. Our market consists of 86 central offices serving an area of approximately 6,263 square miles on the islands of Oahu, Maui, Hawaii, Kauai, Molokai and Lanai. We are the incumbent provider of local exchange services within this area and own the State's most extensive local telecommunications network, with

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approximately 343,500 local access lines served as of December 31, 2014, of which 49% served residential customers, 50% served business customers, and the remaining 1% served other customers.

Our market is characterized by high population density, with approximately 70% of the state's population concentrated on Oahu over an area of approximately 598 square miles, or approximately 1,600 persons per square mile. In addition, approximately 38% of the households in Hawaii reside in multi-dwelling units (MDUs) approximately 44% on Oahu compared with approximately 26% in the U.S. overall. This concentration of customers and commerce provides opportunities to leverage our network infrastructure to deliver products and services efficiently and in a cost-effective manner and to market and sell our services more effectively. Given Hawaii's geographic isolation and the diversity of its population, Hawaii residents and businesses may have telecommunications needs that are different from those on the mainland United States. Furthermore, in 2014, the median household income in Hawaii is estimated to exceed the national average household income by approximately \$14,000. For the foregoing reasons, our strategy is to leverage the distinctive qualities of the Hawaii market to develop customized, local marketing strategies.

Our business marketplace is dominated by several key industries. The federal government accounts for approximately 24% of gross state product. With the U.S. Pacific Command, one of the largest U.S. unified service commands, based in Hawaii, the federal government is one of our largest customers. The hospitality industry and financial institutions also account for a significant portion of our business. The operations of these leading sectors are communications intensive, and we believe that they are dependent on our modern, reliable services. Hawaii's small business market (in the aggregate) is also a key driver of Hawaii's economy approximately 95% of the companies in Hawaii employ fewer than 50 employees, and these businesses make up a market of approximately 36,000 businesses. We believe that these business customers represent an underserved segment that we are targeting aggressively with new product and service offerings.

Data Center Colocation

We believe there is a significant growth opportunity to provide data center services, including colocation and virtual private cloud, to businesses across the State of Hawaii. There are two important trends driving the growth in the adoption of data center services the increasing use of cloud-based technologies by business customers to run their most important business functions, and the increasing demand for outsourced solutions. Based on market research from 2013, we estimated the Hawaii data center services opportunity to be over \$100 million annually. At present, the percentage of businesses in Hawaii that use colocation and virtual private cloud services is small compared to utilization in similarly-sized mainland U.S. markets.

Competition

The telecommunications industry is highly competitive. We experience competition from many communications service providers, including the local cable operator Oceanic Time Warner (Oceanic), wireless carriers, long distance providers, competitive local exchange carriers, Internet service providers, Internet information providers, over-the-top hybrid voice providers, and other companies that offer network services and managed enterprise solutions. Many of these companies have a strong market presence, brand recognition, and existing customer relationships, all of which contribute to competition that may affect our future revenue growth. We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products and services.

Oceanic, a subsidiary of Time Warner Cable Inc., the second largest cable operator in the United States, is one of our most significant competitors. Approximately 73% of the occupied households on Oahu that subscribe to television service subscribe to Oceanic's cable television service. Oceanic also has the majority share of the high-speed Internet market in Hawaii, which it uses as a platform to offer voice services utilizing VoIP technology, and markets its cable, high-speed Internet, and voice services through competitive bundled offerings. In addition, Oceanic has targeted communications service offerings to small and medium-sized businesses.

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Wireless communications services continue to constitute a significant source of competition, especially as wireless carriers expand and improve their network coverage and continue to lower their prices. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless services. We anticipate the wireless substitution trend will continue, and could pose additional threat to our high-speed Internet product, particularly if wireless service rates continue to decline and the wireless service providers are able to deliver faster data speeds. Over-the-top hybrid providers, such as Skype and Magic Jack, also offer the capability to provide local voice and long distance calls using an Internet-equipped personal computer.

The advanced communications and network services business, as well as the managed services, data center services including colocation and virtual private cloud, and cloud-based services businesses, are highly competitive due to the absence of significant barriers to entry. The emergence of non-traditional, application-centric players in the market is redefining the role of service providers in these fields.

We are uniquely positioned in the State to bundle data center services with network, managed services, data communications equipment and support services for an end-to-end, statewide solution. Due to the high cost of commercial real estate in the State of Hawaii, there is a limited inventory of colocation data center space available for Hawaii businesses. There are numerous other providers of cloud-based software, including system integrators in Hawaii and web-based service providers, that offer software subscriptions and virtual machines on cloud-based servers housed in data centers on the mainland U.S. and internationally. However, such out-of-state solutions raise concerns regarding response latency, the higher cost of private network connectivity from Hawaii and data security.

We employ a number of strategies to combat the competitive pressures we face. Our strategies are focused on preserving and generating new revenues through customer retention, upgrading and upselling services to existing customers, new customer growth, winbacks of former customers, new product and feature deployment, and by managing our profitability and cash flow through targeted reductions in operating expenses and efficient deployment of capital. We believe the key to success in these strategies is the continued enhancement and expansion in the speed and reach of our broadband network, which we believe will enable us to offer new products and services that will generate growth in our business and allow us to compete more effectively in the marketplace. Another key to success is a focus on enhancing the customer experience, as we believe exceptional customer service will differentiate us from our competition. Customers expect industry leading service from their service providers. As technologies and services evolve, the requirement of the carrier to excel in this area is crucial for customer retention.

Network Architecture and Technology

Our strategy is to enhance and expand the most technologically advanced broadband communications network in the state of Hawaii and to position ourselves as a key hub for critical trans-Pacific traffic. Pursuing such a strategy has enabled us, among other things, to continue being the market leader in Hawaii for advanced communications and network services and managed and cloud-based services. In 2014, we invested approximately \$78 million in our network including significant expenditures to expand the reach, capacity, and resiliency of our IP-based packet and broadband network. Significant strides were made in 2014 to add hundreds of miles to our fiber network and continuing our transformation toward an optical, IP-based broadband network. The acquisition of Wavecom Solutions Corporation in December 2012 alone added over 500 route miles of additional fiber infrastructure into our network. The acquisition of Wavecom fiber facilities and our continued IP expansion permitted us to shut down several remote microwave radio sites in 2014. Additionally, we believe that our commitment to the SEA-US trans-pacific submarine cable system will enable us to expand data connectivity beyond Hawaii to both the Asia/Pacific and Continental U.S. location.

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Packet Optical Network

We believe that our statewide MPLS network is unmatched in Hawaii in reach, capacity, security, resiliency, and reliability. Consisting of 8 core routers and 40 service edge routers meshed throughout the island chain, we offer a wide range of Layer 2 and Layer 3 MPLS services with many advanced features, including advanced traffic engineering support of intelligent QoS, Service OAM capabilities, multiple access technologies, standards based routing protocols, Internet access across a single physical connection, support for IPv6, carrier grade Ethernet, and up to 40Gb/100Gb Ethernet access. Driven by continued high-bandwidth demands from our high-speed Internet service, next-generation television service, wireless backhaul, and other retail and wholesale business requirements, in 2014 we continued to expand our next-generation packet-optical transport network. This next-generation platform combines wave division multiplexing (WDM) transport, reconfigurable optical add-drop multiplexers (ROADM), and centralized carrier Ethernet switching in a single converged device helping us to meet the growing bandwidth needs at a more affordable price. Our current backbone infrastructure consists of two border routers with diverse trans-Pacific links to mainland carriers, along with expanded peering and content caching arrangements with global providers to reduce latency and buffering to our customers. In 2015, we plan to continue to expand bandwidth capacity in the core and edge of our MPLS network to accommodate increased demand.

Our telecommunication infrastructure includes more than 15,500 sheath miles of fiber optic cable and copper wire distribution lines. Submarine and deep-sea fiber optic cables connect the islands of Kauai, Oahu, Maui, Molokai, Lanai and Hawaii, while digital microwave radios provide additional inter-island connections. In addition to our owned or leased interisland cables between Oahu, Kauai, Maui, Hawaii, Molokai, and Lanai, we are connected by trans-Pacific fiber optic cables to the U.S. Mainland which provide ring diversity to protect our communications between the islands and high-speed broadband links in and out of the State.

Voice Network

We continue to add services and features via our VoIP application servers to provide Hawaii businesses the communication tools they need to compete locally and globally. In 2014, we expanded our Business All-in-One (BAiO) offering to our FTTP footprint which allows for both high-speed internet data up to 500 Mbps and a hosted voice solution on the same data pipe.

As of December 31, 2014, we owned 103 local base and remote switches and five tandem switches serving approximately 361,900 total lines on the islands of Hawaii, Kauai, Lanai, Maui, Molokai and Oahu. All of our access lines are served by digital switches provided predominantly by Alcatel-Lucent and Genband.

Network Optimization Initiatives

To lower on-going operational costs and to adjust our capacity to account for traditional voice attrition, we optimized portions of our network. We decommissioned 4 of our voice switches and 10% of our ATM and Frame Relay nodes through the course of 2014. Additionally, integration of our Wavecom fiber assets resulted in the shutdown of 4 of our existing digital microwave radio sites. We expect to continue with cost optimization of our TDM-based network in 2015 in the voice-switching, Frame Relay, and SONET disciplines.

Access Infrastructure

In 2014, we continued our aggressive investment to transform our access network to a high-speed, fiber-based broadband network and added 40,000 households to our next-generation broadband network in 2014, and continued deployment of FTTP solutions to serve new (greenfield) MDU and single-family subdivision developments. By laying fiber and utilizing various passive optical network

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components from these developments to our central offices, we can further leverage the capabilities of our MPLS backbone, provide higher bandwidth services to our customers, including our television service, and reduce maintenance costs. We also continued to expand our fiber network deeper into neighborhoods, shortening over 7,000 customer loops in 2014 to 3,000 feet or less using FTTN technology, expanded our fiber networks to approximately 410 cell sites across the state of Hawaii to provide backhaul services to our wireless carrier customers, and fine-tuned our FTTP access infrastructure to accommodate 500 Mbps internet bandwidth on all major islands. These network enhancements allowed the increased penetration and expansion of higher broadband services including our television service. Our 2015 plans include the use of federal funds from the Connect America Fund to provide high-speed data services to underserved and unserved areas on the island of Hawaii.

Next-Generation Television Service

The implementation of IP-based television service is driving one of the largest network transformations in the telecommunications industry. We introduced our next-generation television service on the island of Oahu in July 2011, deploying the service to both copper-fed and fiber-fed customers and converting entire MDU complexes to our new service. Utilizing Ericsson Mediaroom middleware, we provide a wide range of content and multimedia services over our IP-based network and provide our customers with new viewing experiences and applications. We continue to see strong demand for our television service as we expand our footprint to additional areas on the island of Oahu.

Network Surveillance and Operations

Our statewide network infrastructure is monitored and managed by our Network Operations Center (NOC) located in Honolulu. The NOC provides surveillance 24x7, 365 days-a-year, for our statewide network consisting of 86 central offices, associated interoffice facilities, and microwave radio towers. Our network infrastructure for voice, data, and video is monitored proactively with state-of-the-art performance and fault management systems. Customer networks are also monitored proactively in the NOC upon request. We have a customer service center which also operates on a 24x7, 365 days a year basis to handle customer inquiries and repairs, and provide call completion services. All customer installations and repairs requiring a field technician are offered during extended hours and coordinated by our Dispatch Center. All construction activity, for both outside and inside plant, is coordinated by our engineering operations team located at our main office on Oahu.

In addition to our network infrastructure, we operate a wide range of equipment from large boom trucks to small passenger vehicles, mobile generators, and other miscellaneous trailers, tools and test equipment. We own or lease most of our administrative and maintenance facilities, central offices, remote switching platforms, and transport and distribution network facilities. Our assets are located primarily in the state of Hawaii.

Information Technology and Support Systems

A number of IT-related initiatives, beginning in 2010 and continuing to the present, are aimed at delivering advanced technologies to our customers as well as delivering a superior customer service experience. Our systems have evolved and we continue to focus our strategy towards customer-centric architectures. This approach focuses on delivering end-to-end system solutions based on customer improvement initiatives integrated into product development. The service delivery mechanisms are comprised of a mixture of commercial off-the-shelf systems, internally-designed and developed systems that are purpose-built for functions such as inventory and network activation, and select niche applications that offer optimal capabilities and flexibility at the network layer.

As part of our ongoing commitment to customer service, we implemented improvements in 2014 to our customer contact center systems with implementation of a 360° customer view. In addition, in 2014

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we provided our sales force with new system capabilities in support of our next-generation network for quicker quoting.

We continue to focus efforts on flow-through automation from order entry through billing, and in 2014 we continued to implement improvements which reduced manual processing of complex orders, increased productivity, and enhanced overall data quality. We made further improvements in 2014 through consolidation of order entry process and systems. We improved our field dispatch and fiber provisioning systems to increase installation efficiency of our next-generation network. In 2015, we plan to continue to make improvements through version upgrades of our existing interoperability middleware, IVR/ACD, and our field dispatch systems.

To improve the cost and efficiency of our internal IT services, we completed consolidation of our two data centers and implemented a state-of-the-art virtualization platform to support our growing computing needs. This effort has lowered the operating costs and energy consumption and improved the efficiency, scalability, and reliability of our operations. In 2015, we plan to continue to virtualize systems through continued upgrades of our legacy platforms.

As is the case with other telecommunications companies, we are an on-going target for cyber criminals. In response, we have aggressively pursued initiatives to reduce our cyber security-related risks. In 2014, we expanded the scope of our most advanced security controls and deployed additional controls into key areas of our network. We also implemented honeypot programs to detect and deflect unauthorized use of IT systems and expanded our employee security awareness program through an educational phishing project. We also are an active member of US Telecom Association's cyber security working group and participate in the activities of the FCC's Communications Security, Reliability and Interoperability Council (CSRIC). The mission of CSRIC is to provide recommendations to the FCC to ensure, among other things, optimal security and reliability of communications systems, including telecommunications, media, and public safety. In 2015, we plan to continue integration of our security process management program and a unified security intelligence system that correlates events across security controls. We continue to make technology and resource investments to improve further our security posture in critical areas, and in 2015 will continue to expand these controls, and our information security team continues to work closely with law enforcement at the federal, state and local levels, and we update our protection schemes on an ongoing basis. These and other changes reflect our on-going commitment to securing our information assets and protecting sensitive data in our information systems.

Employees

As of March 1, 2015, we employed approximately 1,400 full-time employees in Hawaii. Of the total employees, 55% were represented by the International Brotherhood of Electrical Workers (IBEW) Local 1357 pursuant to a five-year collective bargaining agreement that expires in 2018. We believe that management currently has a constructive relationship with the represented and non-represented employee group.

Insurance

We have insurance to cover risks incurred in the ordinary course of business, including errors and omissions, cyber liability, general liability, property coverage (which includes business interruption), director and officers and employment practices liability, auto, crime, fiduciary and worker's compensation insurance in amounts typical of similar operators in our industry and with reputable insurance providers. Central office equipment, buildings, furniture and fixtures and certain operating and other equipment are insured under a blanket property insurance program. This program provides substantial coverage against "all risks" of loss including fire, windstorm, flood, earthquake, and other perils not specifically excluded by the terms of the policies. As is typical in the telecommunications

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industry, we are self-insured for damage or loss to certain of our transmission facilities, including our buried, undersea and above-ground transmission lines. We believe that our insurance coverage is adequate; however, if we become subject to substantial uninsured liabilities due to damage or loss to such facilities, our financial results may be adversely affected.

Regulation

Federal and State Regulation of Telecommunications Services

Our telephone operations generally are subject to the jurisdiction of the FCC with respect to interstate services and the HPUC with respect to intrastate services. The following summary does not purport to describe all current and proposed applicable federal and state regulation.

Competition

We face increasing competition in all areas of our business. Regulatory changes brought on by the 1996 amendments to the Communications Act, regulatory and judicial actions, and the development of new technologies, products and services have created opportunities for alternative telecommunication service providers, many of which are subject to fewer regulatory constraints than our ILEC. We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, the timing, extent and success of our pursuit of new opportunities resulting from the amendments to the Communications Act and technological advances, and any changes in the state or federal laws or regulations governing communications.

Universal Service

As a provider of interstate telecommunications, we are required to contribute to federal universal service programs. The FCC adjusts the contribution amount quarterly and may increase or decrease this amount depending on demand for support and the total base of contributors. Pending proposals to change the contribution methodology could increase or reduce our total obligation to this funding. We also draw Interstate Access Support from this funding, which is frozen and subject to phase out, as further described below.

On December 31, 2007, we filed a petition with the FCC requesting a waiver to determine our eligibility to receive federal high-cost loop support according to our average line costs per wire center instead of our statewide average line costs. In Order and Further Notice of Proposed Rulemaking WC Docket No. 10-90, FCC 11-161, which was released on November 18, 2011, the FCC denied our petition on the grounds that the reforms adopted in the Order could provide the relief we had sought in our waiver petition, and to the extent they did not, we could seek additional targeted support through a request for waiver of the new rules.

In November 2011, the FCC released its "Connect America Fund" Order which adopted a number of proposals relating to reforming existing universal service support mechanisms. Among other things, the Order transforms the FCC's universal service and intercarrier compensation systems into a new Connect America Fund (CAF), which will fund broadband deployment in areas unserved by an unsubsidized wireline competitor and eventually will replace all existing high-cost support for voice services. For price cap carriers such as our subsidiary Hawaiian Telcom, Inc., CAF support first will be distributed pursuant to a forward-looking cost model to carriers that make a state-wide commitment to meet minimum broadband deployment obligations established by the FCC. If the price cap carrier declines to make that commitment, CAF support will be distributed in accordance with competitive bidding open to all eligible carriers. In the interim, until the CAF is fully operational, a price cap

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carrier's Interstate Access Support is frozen at current levels, but continued receipt of such funds is conditioned on the carrier meeting FCC broadband deployment obligations including speed and other technical parameters of service. In addition, the FCC will make an additional \$300 million in CAF funding available to price cap carriers willing to commit to meeting these broadband public interest requirements. In addition, a number of petitions for reconsideration of the FCC's Order, as well as multiple appeals, have been filed. The FCC awarded Hawaiian Telcom, Inc. approximately \$402,000 in CAF Phase I Round 1 support and approximately \$1 million in CAF Phase I Round 2 support.

On December 18, 2014 the FCC released an order establishing the service requirements for price cap carriers accepting model-based support for CAF Phase II. These include the requirement to provide broadband service with at least 10 mbps downstream and 1 mbps upstream to 95% of supported locations within their study areas within six years (*i.e.*, by December 31, 2020, based on a starting date of January 1, 2015). Price cap carriers that do not receive CAF support in 2021 will be able to extend their Phase II support for one additional year. Carriers receiving support will also be required to meet latency and comparable price standards. Model based support is expected to be available in 2015, but we do not know how accurate the final CAF Phase II cost model will be or when and the amount of model support that Hawaiian Telcom Inc. will be offered. Therefore, we do not know how this proceeding ultimately will impact our universal service support level or the outcome or timing of the petitions or appeals.

Government Regulation of Retail Rates

The FCC and the HPUC are the two agencies that regulate our telecommunications services. In general, the FCC regulates interstate service, and the HPUC regulates intrastate service. The HPUC has, slowly over time, reduced its rate regulation of some of our services. The HPUC classifies all regulated telecommunications services as fully competitive, partially competitive, or non-competitive.

In 2009, the Hawaii State Legislature passed Act 180, which it clarified with an amendment in 2010 (Act 8). As amended, Act 180 requires that the HPUC treat all intrastate retail telecommunications services, including intrastate toll (*i.e.*, inter-island), central exchange (Centrex), most residential and business local exchange services, integrated service digital network (ISDN) private lines and special assemblies, and directory assistance, as "fully competitive" under the HPUC's rules with certain qualifications. In addition, HPUC approval and cost support filings are no longer required to establish or reduce rates or to bundle service offerings; however, all service offerings must be priced above the service's long-run incremental cost, and the HPUC can require us to provide such cost support demonstrating compliance with its costing rules at any time. If the HPUC is not satisfied, it retains the ability to investigate the offering and to suspend the offering pending the outcome of its investigation. In addition, HPUC approval is required in order to increase the rate for a service to a level that is greater than the rate for the retail service in the tariff at the time of implementation of either Act 180 or Act 8, whichever is applicable. In 2012, the Hawaii State Legislature passed Act 74, which further leveled the regulatory playing field in intrastate retail telecommunications services by providing us with pricing flexibility to increase rates higher than the above-mentioned appropriate tariffed rate for any retail telecommunications service except basic exchange service without approval from the HPUC. HPUC approval still is required to increase rates for basic exchange service (*i.e.*, single-line residential and single-line business services). Competitive forces, however, may cause us to be unable to raise our local rates in the future.

The classification of retail local exchange intrastate services as fully competitive and the ability to bundle the services with other fully or partially competitive services or other services that are not within the HPUC's jurisdiction enable us to charge a discounted rate for bundled service offerings and have helped us to be more competitive. Pricing flexibility has allowed us to increase the monthly charge for non-published numbers.

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State and Federal Regulation of Long Distance Services

We are subject to certain conditions imposed by the HPUC and the FCC on the manner in which we conduct our long distance operations. For example, we are prohibited from joint ownership of local and long-distance telephone transmission or switching facilities. The HPUC is responsible for ensuring that our ILEC does not discriminate against other long distance providers.

Federal Requirements

As an ILEC, we are subject to a number of access and interconnection requirements under federal law. Among other things, an ILEC must negotiate in good faith with other carriers requesting interconnection and access to unbundled network elements (UNEs) and must offer its competitors access to UNEs, such as local loops and inter-office transport, at regulated rates. However, we are no longer required to provide our competitors with access to switching UNEs, or the combination of loop, transport and switching UNEs known as the UNE Platform (UNE-P). The FCC also has limited our obligation to unbundle fiber facilities to multiple dwelling units, such as apartment buildings, and to homes and offices deployed in fiber- to-the-curb and fiber-to-the-premises arrangements. In addition, federal law regulates competitors' requests to colocate facilities within our central offices and to have access to our subscriber list information in order to produce competing directories, and other matters, including the manner in which we must protect our customers' information. The FCC currently is examining its pricing standard for UNEs and may modify other aspects of its UNE rules as market conditions change. The FCC also has imposed specific rules regarding the manner and time within which a customer's telephone number must be ported to a competing carrier's service.

Interstate and Intrastate Access Charges

The rates that we can charge for interstate access are regulated by the FCC. The FCC has made various reforms to the existing rate structure for access charges, which, combined with the development of competition, have generally caused the aggregate amount of access charges paid by long-distance carriers to decrease over time. For example, the FCC has instituted caps on the per-minute rate we can charge for our switched access services as well as on our monthly subscriber line charges (SLCs). The FCC has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. We currently have pricing flexibility for certain special access services offered throughout our territory. On May 18, 2008, the FCC granted our request for pricing flexibility for certain special access services offered on the neighbor islands. We also have pricing flexibility for certain special access services offered on Oahu. On December 18, 2012, the FCC released an order establishing mandatory data collection for providers of dedicated special access services such as Hawaiian Telcom. The data collection, which Hawaiian Telcom was required to submit to the FCC in February 2015, seeks detailed information concerning carrier services provided to enterprise and wholesale customers, including special access services. The FCC plans to use the data collected to evaluate competition in the market for special access services. This review is being conducted to help the FCC decide whether to modify the special access pricing rules for price cap carriers, including whether the pricing flexibility rules should be modified or eliminated. We do not know when this proceeding will be concluded or what impact it will have on providers of dedicated special access services.

Our interstate and intrastate access charge levels will be fundamentally affected by the FCC's reform of intercarrier compensation, described below.

Federal Framework for Intercarrier Compensation

In its "Connect America Fund" Order (see " *Universal Service*" above) that reformed universal service, the FCC also fundamentally restructured the regulatory regime for intercarrier compensation.

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Inter-carrier compensation consists of state and interstate access charges and local reciprocal compensation. Among other things, this comprehensive reform unifies state and interstate inter-carrier charges in certain circumstances, provides a mechanism to replace inter-carrier revenues lost through rate unification, and resolves prospectively a number of outstanding disputes among carriers regarding interconnection and compensation obligations. In particular, the FCC required that most inter-carrier compensation be eliminated, and that a system of "bill & keep" replace it whereby the carrier would have to seek recovery of its costs entirely from its own end users. In the interim, the FCC capped most existing inter-carrier compensation rates and established a phase-down of those rates over a six-year period for price cap companies such as Hawaiian Telcom, Inc. To partially offset the resulting decrease in revenues, the Commission authorized carriers (1) to assess its end user customers a limited recovery charge that would increase over time as inter-carrier compensation rates decline, and (2) to receive CAF support in limited amounts subject to specific requirements, to be phased out over a three-year period beginning in 2017. Hawaiian Telcom, Inc. does not receive any such inter-carrier compensation CAF support. Finally, the FCC decided that interstate access charges should apply to VoIP or other Internet protocol-based service providers on a prospective basis, subject to the same interim phase-down requirements described above. The FCC found that carriers should have the opportunity to make up for any loss of revenues either through the established recovery mechanisms or through the sale of additional services, such as broadband and television services. A number of petitions for reconsideration of the FCC's order, as well as multiple court appeals, have been filed. In July 2012, Hawaiian Telcom, Inc. implemented the first phase of the inter-carrier compensation reform, including reducing by fifty percent the amount by which intrastate terminating switched access rates exceed interstate rates, and offsetting most of the resulting revenue loss by implementing a monthly recurring access recovery charge for certain classes of customers. In July 2013, Hawaiian Telcom, Inc. implemented the second phase of the inter-carrier compensation reform, including reducing intrastate terminating switched access rates to interstate rates, and offsetting a portion of the resulting revenue loss by implementing a monthly recurring access recovery charge for certain classes of customers. In July 2014, Hawaiian Telcom, Inc. implemented the third phase of the inter-carrier compensation reform, including reducing interstate and intrastate switched access rates by one third of the of the differential between existing rates and \$0.0007, and offsetting a portion of the resulting revenue loss through a monthly recurring access recovery charge for certain classes of customers. The FCC's order requires that price-cap carriers reduce interstate and intrastate terminating switched access rates to \$.0007 over the six year phase-down period. The inter-carrier compensation portion of the FCC's order is also subject to a number of petitions for reconsideration and court appeals. We do not know the timing or outcome of such petitions or appeals.

The FCC has found that Internet-bound traffic is not subject to reciprocal compensation under Section 251(b)(5) of the Communications Act. Instead, the FCC established a federal rate cap for this traffic, which is and will remain \$0.0007 per minute until the FCC decides otherwise.

Federal Regulatory Classification of Broadband and Internet Services

The FCC has been considering whether, and under what circumstances, services that employ Internet protocol are "telecommunications services" subject to regulations that apply to other telecommunications services, but until recently it had not definitively ruled on the issue and instead has made a series of decisions addressing specific services and regulations. For example, some VoIP providers must comply with the federal wiretap law and with FCC requirements to provide enhanced 911 emergency calling capabilities, ensure disability access and provide local number portability. Certain VoIP providers are exempt from state telecommunications market entry regulation. As a result, our VoIP competitors are less regulated than we are.

In September 2005, the FCC ruled that ILECs like ours may offer dedicated broadband Internet access service as an information service. As a result, we are no longer required to offer the underlying

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broadband transmission capacity used to provide our HSI service on a tariffed, common carrier basis to competing Internet Service Providers (ISPs). This decision gives us greater flexibility in how we offer and price such transmission capacity. It also puts us on more even footing with our cable competitors in the broadband market since the FCC had previously held that high-speed Internet access service delivered using cable television facilities constitutes an information service not subject to common carrier regulations, a determination that was upheld by the United States Supreme Court.

In March 2006, a request of Verizon that sought forbearance from Title II regulation for certain specified advanced broadband special access services was deemed granted by operation of law. This forbearance grant was applicable to us since Hawaiian Telcom, Inc. was part of Verizon when the original Verizon petition for forbearance was filed. This action permits us to deregulate covered advanced broadband special access services, giving us greater flexibility in our pricing and terms and conditions of offering. In October 2011, tw telecom of hawaii l.p. and others filed a petition requesting the FCC to reverse in part the forbearance deemed granted to Verizon by operation of law. We filed comments in opposition to the petition. In November 2012, the Ad Hoc Telecommunications Users Committee and others filed a petition requesting the FCC to reverse in part the forbearance for Verizon and other grants of forbearance by the FCC related to advanced broadband special access services. There is no definite timeframe for an FCC decision on these petitions.

In February 2009, Congress enacted a law that required the FCC to establish a national broadband plan to promote broadband service availability to all Americans. This plan was released by the FCC in March 2010 and contained recommendations on how to promote the provision of broadband in unserved and underserved areas of the country, including an increase in the speed at which current customers can obtain broadband services. It also addressed how to increase the adoption of broadband services by those consumers who currently do not have access to those services. The FCC announced that there will be additional rulemakings to implement the recommendations of the plan. The comprehensive reforms to universal service and intercarrier compensation detailed earlier in this section were a partial response to that plan. It is not known how the broadband plan will impact our business operations given that not all of the proposed actions have been taken.

In December 2010, the FCC adopted "net neutrality" rules, termed "open Internet" rules that would bar Internet service providers from blocking or slowing Web content sent to homes and businesses. The rules continue to treat broadband Internet access services under the FCC's Title I authority, but adopted as rules the existing guidelines applicable to Internet service providers. The FCC also adopted three additional rules concerning blocking, non-discrimination, and transparency. The no-blocking rule prohibits a fixed broadband Internet access service provider from blocking lawful content, applications, services, or devices, subject to reasonable network management. The anti-discrimination rule prohibits a fixed broadband Internet access service provider from unreasonably discriminating in the transmission of lawful network traffic over a consumer's broadband Internet access services, subject to reasonable network management. Wireless broadband providers are not subject to these two rules, but only to a scaled-back version of the no-blocking rule applicable to fixed providers. The transparency rule requires all Internet access service providers to disclose publicly accurate information regarding their network management practices, performance, and commercial terms of service so that consumers are able to make informed choices and device providers are able to develop, market, and maintain Internet offerings. The anti-discrimination and no-blocking rules were vacated by a federal court of appeals, but the public disclosure requirement remains in place.

In February 2015, the FCC reclassified broadband service, both fixed and mobile, from its longstanding status as a Title I information service to a Title II common carrier telecommunications service. While reasonable network management is permitted, the open Internet order bans blocking legal content/applications, throttling lawful traffic and paid prioritization or "fast lanes", expands transparency rules and creates a general conduct rule to bar broadband Internet service providers from unreasonably interfering with or disadvantaging the ability of consumers and edge providers to reach

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and communicate with each other. Further, the FCC granted new authority to address Internet interconnection issues arising in the exchange of traffic between mass-market broadband providers and other networks and services such as edge providers. While the order grants forbearance from many Title II provisions such as rate regulation or tariffs, last-mile unbundling, burdensome filing requirements/accounting standards, USF contributions, and any new taxes or fees, uncertainty looms concerning continued forbearance in future years. A detailed analysis of the provisions cannot be completed until after the written order is released. Congress is considering adopting open Internet legislation to prevent Title II regulation of broadband services. The FCC's order and its reclassification of broadband service is expected to be challenged in court and may take several years to resolve. We do not know what the final outcome of these actions will be, or how our broadband services may be affected.

Video Services Regulation

Through our Hawaiian Telcom Services Company, Inc. subsidiary, we began to provide television service on the island of Oahu in July 2011. We are regulated as a cable TV operator under federal and state law. As the non-dominant video service provider in the state of Hawaii, we face the risk that we will be unable to obtain access to programming that we need in order to compete with Oceanic Time Warner (Oceanic), the dominant cable TV provider on the island. Some of this programming is owned by the parent company of Oceanic, which may or may not be required to provide access to us under the FCC's program access rules.

In December 2011, Oceanic filed a petition with the FCC seeking to be declared free from rate regulation for its basic cable TV services on Oahu. In March 2014, the FCC granted the petition, providing Oceanic with more flexibility to raise or lower prices for its basic cable service, allowing it to become more competitively nimble.

In October 2012, the FCC issued an order lifting the program access rule ban on exclusive contracts between any cable operator and any cable-affiliated programming vendor. It also issued a separate notice seeking comment on whether (1) to establish a rebuttable presumption that an exclusive contract for a cable-affiliated Regional Sports Network (RSN) is an unfair act; (2) it should establish a standstill provision during an RSN-related complaint; and (3) the presumptions for RSNs should be extended to a cable-affiliated national sports network. The FCC found a preemptive prohibition on exclusive contracts is no longer necessary and that a case-by-case process will remain in place to assess the impact of individual exclusive contracts. The FCC order provides a 45-day answer period for all complaints and a six-month deadline for it to act on a complaint alleging a denial of programming. The order also incorporates safeguards regarding RSNs, by establishing a rebuttable presumption that an exclusive contract involving a cable-affiliated RSN has the "purpose or effect" of "significantly hindering or preventing" the complainant from providing television services, placing the burden of proof on the distributor.

In December 2012, the FCC granted a complaint filed by the Mauna Kea Broadcasting Company with the FCC seeking to place its over-the-air broadcasting station KLEI-TV on both Oceanic's and our television systems. The order required us to place KLEI-TV on channel 6, which is already occupied by another programming station. Both Oceanic and Hawaiian Telcom Services Company, Inc. have filed a petition for reconsideration of this decision, which effectively stays the mandate of the order until all appeals are resolved. We cannot predict when or how the FCC will resolve this petition.

In February 2014, Comcast and Time Warner Cable, the two largest cable TV providers in the United States, announced an agreement whereby Comcast would acquire Time Warner Cable. Applications for approval of the acquisition were filed with the FCC and the State of Hawaii Department of Commerce and Consumer Affairs Cable TV Division (CATV Division) in April 2014. While the CATV Division approved the transaction in October 2014, the FCC has not yet ruled on the

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application. If approved, Comcast will be the largest cable TV operator in the United States. We expect Comcast to continue Oceanic's aggressive competition in the Hawaii market for both video services and broadband internet access services. Comcast has stated its intent to bring its "Internet Essentials" broadband service for low income families to Hawaii, and has already begun program outreach. In addition, Comcast committed to investing at least \$50 million to upgrade cable systems in the state, bringing its robust video service offerings, its extensive programming choices, and its next generation entertainment operating system into the Hawaii market. Hawaiian Telcom filed comments with the FCC that conditions must be imposed if the merger is approved to ensure it will not stifle competition in paid video services and high-speed Internet markets, especially in Hawaii given our unique geographic location, and Time Warner Cable's dominant market position. We do not know when this proceeding will be concluded, whether it will be approved and if approved, what conditions will be approved or what impact it will have on the competitive marketplace.

Other Federal and State Regulatory Proceedings

The FCC has been exploring whether to modify its rules requiring utilities to provide telecommunications carriers and cable television companies with access to their poles, ducts, and rights of way. In April 2011, the FCC adopted new pole attachment rules that, among other things, require access to poles and conduit within a shorter period of time, and further limit make ready costs. In addition, these new rules change the rates for pole attachments by mandating that broadband attachers pay pole attachment rates that are closer to existing cable TV rates, than higher rates applicable to telecommunications carriers. These rules also for the first time allow telephone companies to demand reasonable rates from utility pole owners. These rules tend to increase the burdens and costs of pole and conduit owners such as us. The rules were upheld on appeal in February 2013.

In May 2011, the HPUC closed a proceeding it had opened in October 2006 to examine our service quality and performance levels and standards in relation to our wholesale and retail customers. In closing the proceeding, the HPUC adopted stipulations entered into by the parties to the proceeding in which (i) the parties agreed there were no outstanding issues that needed to be addressed by the HPUC and that the proceeding could be closed without further HPUC action, and (ii) we and tw telecom of hawaii l.p. agreed to work collaboratively to address or resolve informally certain identified service-related and reporting issues between the two companies. In addition, pursuant to the HPUC order closing the proceeding, all periodic service quality reports required in connection with the proceeding were discontinued by July 2012.

In October 2012, the FCC approved a deal between Verizon Wireless and the cable company owners of SpectrumCo, which allows joint marketing agreements between Verizon Wireless and these cable companies to cross-sell each other's services. In Hawaii, Verizon Wireless and Oceanic Time Warner began their joint marketing efforts in October 2012.

In December 2012, the FCC and the HPUC approved the transfer of licenses and facilities from Wavecom Solutions Corporation (Wavecom) to Hawaiian Telcom, Inc. in connection with Hawaiian Telcom, Inc.'s acquisition of Wavecom. In connection with these approvals, Hawaiian Telcom, Inc. agreed to freeze for seven years certain enterprise customer prices in twelve specific buildings in Hawaii where both Hawaiian Telcom, Inc. and Wavecom owned telecommunications facilities, but subject to exemptions including an exemption for a building if two other fiber-based facilities carriers provided facilities to that building. In addition, Hawaiian Telcom, Inc. agreed that, until Wavecom's transport facilities are transferred to other subsidiaries of the Company, if Hawaiian Telcom, Inc. uses the Wavecom transport facilities to provide its own retail services, it will make available such facilities to competitors if capacity is not available in existing facilities or in other specified circumstances. These conditions potentially could impact our revenues, but the impact is not expected to affect financial performance materially.

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In November 2013, the FCC adopted rules to improve the reliability and resiliency of 911 communications networks nationwide by requiring that 911 service providers take reasonable measures to provide reliable 911 service, as evidenced by an annual certification. Providers can comply with this requirement by either implementing certain industry-backed "best practices", or by implementing alternative measures that are reasonably sufficient to ensure reliable 911 service. As a 911 service provider, Hawaiian Telcom Inc., must be 50% compliant by October 2015 and 100% compliant by 2016 with the new 911 communications networks reliability and resiliency standards. We are assessing the impact of this order on Hawaiian Telcom, Inc., and are developing compliance plans.

In November 2014, the FCC released a policy statement and issued a notice of rulemaking concerning the transition from the copper based Time Division Multiplexing (TDM) network to a fiber based Internet Protocol (IP) network. The FCC's intent is to address backup power requirements for consumers of IP-based voice and data services that replace the traditional telephony used to dial 911, to ensure consumers are informed about their choices when carriers retire legacy facilities (e.g., copper networks) and seek to discontinue legacy services (e.g., basic voice service), and to ensure continuance of competition by maintaining wholesale access to IP networks and services. We do not know when this proceeding will be concluded or what impact it will have on Hawaiian Telcom, Inc.'s transition to an IP network, and on the competitive market place.

Environmental, Health and Safety Regulations

We are subject to various environmental, health and safety laws and regulations that govern our operations and may adversely affect our costs. Some of our properties use, or may have used in the past, on-site facilities or underground storage tanks for the storage of hazardous materials that could create the potential for the release of hazardous substances or contamination of the environment. We cannot predict with any certainty our future capital expenditure requirements for environmental regulatory compliance, although we have not currently identified any of our facilities as requiring material expenditures for environmental remediation or to achieve compliance with environmental regulations.

Business Transactions

Agreement Relating to IT Support Services

We executed an Amended and Restated Master Application Services Agreement with Accenture effective as of March 2009 for long-term IT support services. Pursuant to this agreement, Accenture provides us with certain application maintenance services that provide 24x7 support for critical applications such as for order capture, workflow, network inventory and billing. The agreement also provides queue and data management services that deal with resolution of order fallout issues, telephone number management issues, and manual billing needs, as well as major enhancement services allow us to request major enhancements to our applications through specific statements of work. The services provided by Accenture pursuant to the agreement assist us in our continuing efforts to enhance our back-office systems and IT infrastructure with the objective of continuing to improve and expand our customer services and streamline our operations. The term of the agreement has been extended to April 2017.

Available Information

We make available, through the Investor Relations link on our website at www.hawaiiantel.com, under "SEC Filings," our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, free of charge as soon as reasonably practicable after we electronically file or furnish them to the U.S. Securities and Exchange Commission. The charters for the committees of our Board of Directors (Audit, Compensation, Executive, and

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Nominating and Governance Committees), as well as our Code of Business Conduct and any amendments and waivers thereto, also can be found on the Investor Relations site, under "Corporate Governance." The contents of our website are not incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors

You should carefully consider the risks described below as well as the other information contained in this Form 10-K. The risks described below are not the only risks facing us. Any of the following risks could materially adversely affect our business, financial condition or results of operations.

Risks Relating to our Business

Our business faces a variety of financial, operating and market risks, including the following:

Failures in our critical back-office systems and IT infrastructure or a breach of our data security systems could have a material adverse effect on our business and financial results.

We operate our own back-office and IT infrastructure, including business processes, software applications (such as billing systems, corporate finance systems, human resources and payroll systems and customer relationship management systems), and hardware that are vital to our operations. Failures in our back-office systems and IT infrastructure could have a material adverse effect on our business and financial results.

In addition, we are subject to cyber and other data security risks primarily related to breaches of security pertaining to sensitive customer, employee, and vendor information maintained by us in the normal course of business, as well as breaches in the technology that supports our communications network and other business processes. This risk may be heightened as we expand our managed services, data center services, and cloud-based services. We seek to detect and to prevent all security breaches, but, in some cases, we might be unaware of an incident or its magnitude and effect. Significant security failures could result in the theft, loss, damage, unauthorized use or publication of our intellectual property and/or confidential business information; the theft, loss, damage, unauthorized use or publication of our customers' personally identifiable information, intellectual property and/or confidential business information; or the unauthorized use or disabling of our network elements. While we have technology and information security processes and disaster recovery data breach plans in place to mitigate these risks and respond to any incidents, there is no assurance these measures will be adequate. A loss of confidential or proprietary data or other data security breaches could materially and adversely affect our customers, employees and vendors, damage our reputation among customers and the public, disrupt operations, and subject us to possible financial losses, any of which could have a material adverse effect on the Company's financial condition and results of operations and our ability to expand our services.

A network disruption could cause delays or interruptions of service, which could cause us to lose customers.

To be successful, we will need to continue to provide our customers with reliable and uninterrupted service over our expanded network. Disruptions in our service could occur as a result of events that are beyond our control. Some of the risks to our network and infrastructure include, without limitation:

physical damage to our transmission network including poles, cable and access lines;

widespread power surges or outages;

software defects in critical systems; and

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damage intentionally or unintentionally inflicted by third parties upon the network or our other infrastructure.

From time to time, in the ordinary course of business, we have experienced and in the future may experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. In addition, certain portions of our network may lack adequate redundancy to allow for expedient recovery of service to affected customers. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

We have made and expect to continue to make material capital expenditures in connection with improvements to our network and other facilities. Unforeseen increases in the amount of capital expenditures required to execute our current business plan could have a material adverse effect on our business and financial results.

We have made and expect to continue to make a significant amount of capital expenditures to, among other things, enhance the capabilities of our network, enhance the functionality of our existing IT systems, and support the deployment of new products and services. We intend to fund these capital expenditures and expenses with operating cash flows and funds available to us under our credit facilities. Increases in the amount of capital expenditures and expenses required to upgrade our network and other facilities above those contemplated by our current business plan, could cause our cash flows and available financing to be insufficient to fund such capital expenditures and operating expenses and have a material adverse effect on our business and financial results.

We rely on several material outsourcing agreements to operate our business. The loss of certain of these agreements, or the failure of any third party to perform under certain of these agreements, could have a material adverse effect on our business and financial results.

Several critical services necessary to operate our business are provided by third-party service providers. For example, we have entered into agreements with Accenture and other third parties for the provision of, among other things, critical printing, billing, and IT services.

Upon expiration or termination of these agreements, we may not be able to replace the services provided to us in a timely manner or on terms and conditions, including service levels and cost, favorable to us, or at all. The failure of these third-party service providers to satisfy their obligations under their agreements with us, without a suitable replacement, could have a material adverse effect on our business and financial results. Additionally, if these third-party service providers were to seek U.S. bankruptcy law protection, our agreements with such service providers, and such service providers' ability to provide the services under those agreements, could be adversely impacted, and although we may have a claim for damages against the bankruptcy estate, the claim may or may not be paid in the bankruptcy proceeding.

Our business is subject to extensive governmental regulation. Applicable legislation and regulations and changes to them could adversely affect our business and financial results.

We operate in a heavily regulated industry, and most of our revenues come from the provision of services regulated by the FCC and the HPUC. Laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts and could be changed by federal or state legislative initiative, judicial review or regulatory agencies at any time. We cannot predict the impact of future developments or changes to the regulatory environment or the impact such developments or changes would have on us.

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The "Connect America Fund" Order adopted by the FCC in November 2011 comprehensively reformed both the universal service program and intercarrier compensation and has had a significant impact on us. See " *Universal Service*" above for a discussion of the impact of the Order on the universal service program, and " *Federal Framework for Intercarrier Compensation*" above for a discussion on the impact of the Order on intercarrier compensation. Changes in other FCC policies under review also could have a significant impact on us by increasing our obligations and/or reducing our revenue.

In February 2015, the FCC reclassified broadband service, both fixed and mobile, from its longstanding status as a Title I information service to a Title II common carrier telecommunications service. Although it is too early to determine with any certainty how the order will affect our broadband services, the order could result in additional costs and reduced margins in our broadband business. See "Federal Regulatory Classification of Broadband and Internet Services".

State government regulation also is a source of business uncertainty. We cannot predict whether state proceedings will be initiated or the possible outcome of such proceedings at this time.

A reduction by the HPUC or the FCC of the rates we charge our customers would reduce our revenues and could reduce our earnings.

The rates we charge our local telephone customers are based, in part, on a rate-of-return authorized by the HPUC on capital invested in our network. These authorized rates, as well as allowable investment and expenses, are subject to review and change by the HPUC at any time. If the HPUC orders us to reduce our rates, our revenues would be reduced and our earnings also could be reduced absent corresponding reductions in costs or offsetting revenue increases in other segments. We cannot assure you that our rates will remain at their current levels. The HPUC order received in connection with the 2007 sale of our directories publishing business imposed a condition requiring the imputation of revenues. Specifically, a directory publishing revenue credit in the annual amount of \$42.6 million per year must be added as regulated revenues into the calculation of Hawaiian Telcom, Inc.'s earnings from 2008 to 2022 in all future rate cases, alternative form of regulation proceedings, or other proceedings before the HPUC investigating Hawaiian Telcom, Inc.'s earnings or financial performance. This condition may adversely affect our ability to obtain rate increases in the future.

Also, our local exchange service competitors may gain a competitive advantage based on rules which favor competitors. For example, competitors have the ability to purchase our services at discounted rates set by the HPUC and to resell them at rates that are not subject to the level of regulatory scrutiny generally faced by us. Additionally, as a result of the state regulators permitting our competitors to intervene in rate-setting proceedings, there is a potential that such competitors could obtain business sensitive information about us during such proceedings.

The FCC approves tariffs for interstate access and subscriber line charges, both of which are components of our network access revenue. The FCC currently is considering whether to restrain special access pricing by carriers like us subject to price caps on interstate rates. The "Connect America Fund" Order that the FCC adopted in November 2011 reduces switched interstate access charges for carriers like us over a period of six years but allows us to recover some of the foregone revenue from our end users. It is possible we may be required to recover more revenue through subscriber line charges or forego this revenue altogether. This could reduce our revenue or impair our competitive position.

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The telecommunications industry is increasingly competitive, and we may have difficulty competing effectively.

All sectors of the telecommunications industry are competitive. Competition in the markets in which we operate could, among other things:

reduce our customer base;

require us to lower prices charged customers in order to compete; or

require us to increase marketing expenditures and the use of discounting and promotional campaigns.

Any of these events could have a material adverse effect on our business and financial results.

Additionally, the pending merger of Comcast and Time Warner Cable, the two largest cable TV providers in the United States, could result in an increase in Oceanic's already aggressive competition in the Hawaii market for both video services and broadband internet access services.

Wireline Services. As the ILEC, we face competition from resellers, local providers who lease UNEs from us, from facilities-based providers of local telephone services, and from providers of VoIP services.

We have historically faced access line losses as a result of competition and substitution of traditional wireline services with wireless services. Access line losses have been faced by the industry as a whole, and we cannot assure you that access line losses will not continue in the future. In particular, the increasing penetration of high-speed Internet and VoIP could lead to further primary and secondary access line losses.

Interconnection duties are governed, in part, by telecommunications rules and regulations related to the UNEs that must be provided. These rules and regulations remain subject to ongoing modifications. Our business is subject to extensive governmental regulation, and applicable legislation and regulations and changes to them could adversely affect our business. However, we received some regulatory relief in 2009 when the Hawaii State Legislature passed Act 180, which classified retail local exchange intrastate services as fully competitive. While HPUC approval and cost support filings are no longer required to establish or modify rates or to bundle service offerings, HPUC approval is required to raise the rate that existed for the retail service in the tariff at the time of implementation of Act 180. In addition, while cellular wireless services initially complemented traditional local exchange and long distance services, existing and emerging wireless and IP technologies are increasingly competitive with local exchange and, particularly, long distance services in some or all of our service areas.

Internet Services. We expect that the Internet access services business will continue to be highly competitive due to the absence of significant barriers to entry. We currently compete with a number of established online services companies, inter-exchange carriers and cable companies. Competition is particularly intense for broadband services.

Managed Services. We face numerous competitors that vary based on the type of managed services being offered. Other network service providers provide some form of managed network service monitoring capability. Numerous voice and data equipment vendors provide management of the installed equipment either at an individual location or across multiple networked locations. Competitive managed IP and network security services are offered by various firms that specialize in this area.

Data Center and Cloud-Based Services. There currently is a limited inventory of colocation data center space available in Hawaii. However, there are numerous other providers of cloud-based software, including system integrators in Hawaii and web-based service providers, that offer software subscriptions and virtual machines on cloud-based servers housed in data centers on the U.S. mainland and internationally.

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Advanced Communications and Network Services. These advanced services businesses are highly competitive. Many non-traditional players have emerged in the business communications market, attracted by the absence of significant barriers to entry. Many of these non-traditional players are capable of focusing on highly specialized areas of the market.

Next-Generation Television Service. We launched our television service on the island of Oahu in July 2011. The market for television services in Hawaii is dominated by Oceanic. On the island of Oahu, approximately 73% of occupied households that subscribe to television service subscribe to Oceanic's cable service. There is no assurance we will be able to compete successfully against Oceanic. In particular, the costs to acquire programming is a significant and increasing cost, and there is no assurance our content acquisition costs will be in line with Oceanic's such that we can remain competitive. Direct broadcast satellite companies currently are not significant competitors, but this could change in the future.

Wireless Services. We provide wireless telecommunications services by use of a MVNO model in which we resell another carrier's facilities-based wireless services under the *Hawaiian Telcom®* brand name. The market in Hawaii for wireless telecommunications services is subject to intense competition. In addition, our wireless business may be less profitable than the wireless businesses of other telecommunications companies due to our use of a MVNO model.

If we do not adapt to technological changes in the telecommunications industry, we could lose customers or market share.

The telecommunications industry is subject to rapid and significant changes in technology, frequent new product and service introductions and evolving industry standards which could reduce the competitiveness of our services. Adapting to technological developments could require unbudgeted upgrades or the procurement of additional products that could be expensive and time consuming to implement. If we fail to adapt successfully to technological changes or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and sell new services to our existing customers.

Our business may be adversely affected if we cannot continue to license or enforce the intellectual property rights on which our business depends.

We rely on patent, copyright, trademark and trade secret laws and licenses and other agreements with our employees, customers, suppliers and other parties to establish and maintain our intellectual property rights in technology and the products and services used in our operations. Also, because of the rapid pace of technological change, we develop our own technologies, products and services and rely on technologies developed or licensed by third parties. However, any of our intellectual property rights could be challenged or invalidated, or such intellectual property rights may not be sufficient to permit us to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of certain product or service offerings or other competitive harm. We may not be able to obtain or continue to obtain licenses from these third parties on reasonable terms, if at all. In addition, claims of intellectual property infringement could require us to enter into royalty or licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question, which could require us to change our business practices or offerings and limit our ability to compete effectively. Even unsuccessful claims can be time-consuming and costly to defend and may divert management's attention and resources away from our businesses. In recent years, the number of intellectual property infringement claims has been increasing in the communications industry and this could negatively impact us as a company.

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The geographic concentration of our operations in Hawaii make our business susceptible to local economic and regulatory conditions and consumer trends, and an economic downturn, recession or unfavorable legislative or regulatory action could materially adversely affect our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Substantially all of our customers and operations are located in Hawaii. Because of Hawaii's geographic isolation, the successful operation and growth of our businesses is dependent on favorable economic and regulatory conditions in the state. The Hawaii economy, in turn, is dependent upon many factors, including:

the level of government and military spending;

the development of the local financial services industry;

the legal, regulatory and political environment;

the strength of the Hawaii tourism industry, which is in turn dependent on economic conditions principally in the U.S. mainland, Asia and Canada;

the availability of skilled labor;

the continued growth in services industries; and

the absence of hurricanes or other natural disasters and terrorism incidents.

The customer base for telecommunications services in Hawaii is small and geographically concentrated. The population of Hawaii is approximately 1.4 million, approximately 70% of whom live on the island of Oahu. Any adverse economic conditions affecting Oahu, or Hawaii generally, could materially impair our ability to operate our business. Labor shortages or increased labor costs in Hawaii could also have a material adverse effect on our business. We cannot assure you that we will be able to continue to hire and retain a sufficient labor force of qualified persons, or that future collective bargaining agreement negotiations will not result in significant increases in the cost of labor.

If the limitation on lump sum distributions under our union pension plan remains lifted, retirements of our experienced union employees could increase, which could have an adverse impact on our operations if we cannot timely hire and train replacements.

Our union pension plan allows for lump sum distributions to employees who retire under certain circumstances. Since 2008, lump sum distributions have been limited to no more than 50% of the accrued amount, because of the funded status of the pension plan. If the funded status exceeds 80%, then the restrictions on lump sum distributions are lifted. In 2014, the funded status exceeded 80%, and a significant number of experienced union employees were eligible to retire and receive larger lump sum distributions. Although we have not experienced a significant number of employees retiring, if the restrictions on lump sum distributions remain lifted and a significant number of employees were to retire before we could hire and train their replacements, our operations could be materially and adversely impacted.

Limitations on our ability to use NOL carryforwards, and other factors requiring us to pay cash to satisfy our tax liabilities in future periods, may affect our ability to fund our operations, make capital expenditures and repay our indebtedness.

We currently have a material amount of net operating loss (NOL) carryforwards and so-called "built-in losses," all of which we intend to use in the future to reduce our federal and state taxable income. In the event that an "ownership change" were to occur with respect to our stock, it is possible that our ability to use our NOLs and built-in losses would become subject to an annual limitation. An ownership change could occur with respect to our stock merely as a result of one or more "5-percent

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shareholders" buying or selling our shares, even if no one person were to acquire a controlling percentage of our stock. Although we will monitor transfers of our stock, there can be no assurance that we will not suffer an ownership change with substantial adverse tax consequences.

Our indebtedness could adversely affect our financial condition.

We have a significant amount of indebtedness in relation to our equity. We maintain a Term Loan in the amount of \$296 million and a revolving credit facility in the amount of \$30 million (Revolving Credit Facility), each with a first priority lien on all assets.

The debt service requirements of our indebtedness could:

make it more difficult for us to satisfy the service requirements of our other obligations, including pension funding obligations, investments required to maintain and upgrade our network and service fleet, investments required to introduce and deploy new products and services, as well as the operating costs of our businesses;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a higher than desired portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

make it difficult to secure credit terms with our vendors;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds.

In addition, the terms of our Term Loan and Revolving Credit Facility contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts.

The Term Loan matures in 2019. We generally do not expect to generate the necessary cash flow to repay our Term Loan in its entirety by the maturity date and such repayment in full is dependent upon the ability to refinance the Term Loan on reasonable terms. The ability to refinance the indebtedness on reasonable terms before the maturity date cannot be assured.

To service our indebtedness and fund capital expenditures, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our current indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We will likely need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

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Restrictive covenants in the agreements governing our indebtedness restrict our ability to operate our business and pursue our business strategies, and a breach of such covenants may result in the acceleration of our long-term debt maturities.

The restrictive covenants in the Term Loan and Revolving Credit Facility limit our ability, among other things, to:

incur additional indebtedness;

pay dividends or make distributions in respect of our capital stock or to make certain other restricted payments or investments;

sell assets, including capital stock of subsidiaries;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

enter into transactions with our affiliates;

invest in new products and services or make capital expenditures; and

incur liens.

In addition, the restrictive covenants may prohibit us from prepaying our other indebtedness and require us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control.

Severe weather conditions and natural disasters which occur in Hawaii could have a material adverse effect on our operations and financial results.

From time to time, Hawaii experiences severe weather conditions such as high winds and heavy rainfall, and natural disasters such as earthquakes, volcanic eruptions and tsunamis, which can disrupt our services and damage our property. Such disruptions in service and damage to property could materially decrease our revenues and materially increase our expenses. In 2014 alone, Hawaii experienced two hurricanes and a volcanic eruption which adversely affected our financial results. While these events did not have a material adverse effect on our operating results or financial condition, we cannot assure you that these types of events will not have such an impact in the future or that the insurance coverage we maintain for these risks will adequately compensate us for all damage and economic losses resulting from these types of events.

Concentration of ownership among stockholders may prevent new investors from influencing significant corporate decisions.

Based on Schedules 13D and 13G filed by the respective holders, as of February 20, 2015, there are holders who own 5% or more of our outstanding common stock. Two of our stockholders collectively own approximately 40% of our outstanding common stock. These stockholders, acting together, may be able to determine the outcome of matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could

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impair our ability to raise capital through future sales of equity securities. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. These sales, or the possibility that these sales may occur, may also make it more difficult for us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

Our success will depend on our ability to attract and retain qualified management and other personnel.

Our success depends upon the talents and efforts of our senior management team. The loss of any member of our senior management team, due to retirement or otherwise, and the inability to attract and retain highly qualified technical and management personnel in the future, could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Approximately half of our workforce is represented by a labor union and therefore subject to a collective bargaining agreement, which expires in 2018. The inability to enter into a new collective bargaining agreement on favorable terms could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

As of December 31, 2014, approximately half of our employees were covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 1357 ("IBEW") that expires in 2018. The inability to negotiate and enter into a new collective bargaining agreement on favorable terms could result in an increase in the Company's operating expenses or covered employees could strike or engage in other collective behaviors. If unionized workers were to engage in a strike, we could experience a significant disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities. Future renegotiation of these and other labor agreements or the provisions of such labor agreements could adversely impact our service reliability and significantly increase our costs for healthcare, pension plans, wages and other benefits, which could have a material adverse impact on our business, financial condition, results of operations, liquidity and/or the market price of our outstanding securities.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

We own our corporate headquarters, which is located in 1177 Bishop Street, Honolulu, Hawaii 96813 and consists of over 465,000 square feet of office space. We also have other properties consisting primarily of approximately 124 owned (including part-owned) and approximately 50 leased real estate properties, including our administrative facilities and facilities for call centers, customer service sites for the television business, switching equipment, fiber optic networks, microwave radio and cable and wire facilities, cable head- end equipment, coaxial distribution networks, routers and servers used in our telecommunications business, as well as a state-of-the-art data center facility with up to 6,500 square feet of data center capacity and room for expansion. See Item 1, "Business Network Architecture and Technology." For purposes of Hawaii state law, we are classified as a public utility and, accordingly, do not pay any property taxes. Substantially all of our assets (including those of our subsidiaries) are pledged for the Term Loan.

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Item 3. Legal Proceedings

We are involved in various claims, legal actions and regulatory proceedings arising from time to time in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our combined financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information**

Our Common Stock trades on The NASDAQ Stock Market under the symbol "HCOM". The holders of our Common Stock are entitled to one vote per share on any matter to be voted upon by stockholders. The following table sets forth the high and low sales prices of our New Common Stock for the period from January 1, 2013 through December 31, 2014:

	Market Price	
	High	Low
2014		
First Quarter	\$ 29.43	\$ 26.78
Second Quarter	\$ 29.40	\$ 25.08
Third Quarter	\$ 29.00	\$ 25.69
Fourth Quarter	\$ 27.74	\$ 25.93

2013		
First Quarter	\$ 23.24	\$ 19.18
Second Quarter	\$ 26.51	\$ 22.85
Third Quarter	\$ 27.89	\$ 24.81
Fourth Quarter	\$ 30.33	\$ 26.46

Holders

As of March 1, 2015, there were 22 holders of record of our Common Stock and approximately 1,600 beneficial owners.

Dividends

We have not declared or paid any dividends on our Common Stock. Our Term Loan and Revolving Credit Facility limit our ability to declare or pay dividends.

Securities Authorized for Issuance Under Equity Compensation Plans.

Securities authorized for issuance under equity compensation plans as of December 31, 2014 included:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(2)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders			
Equity Compensation Plans not Approved by Security Holders(1)	343,248		722,775
Total	343,248		722,775

(1)

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The 2010 Equity Incentive Plan was authorized by the Plan of Reorganization. Under the 2010 Equity Incentive Plan, the securities remaining available for future issuance may be issued either as

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restricted stock, restricted stock units, stock appreciation rights, stock options, or other stock or stock-based awards.

(2)

For performance-based restricted stock units granted in 2014, amounts reflected in this table assume payout in shares at 156.25% of target. The actual number of shares issued can range from 0% to 156.25% of target depending upon achievement of applicable performance goals.

Sale of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Stockholder Return Performance Graph

The graph below compares the cumulative total stockholder return on our Common Stock with the cumulative total return on the Standards & Poor's (S&P) 500 Stock Index, and the NASDAQ Telecommunications Index for the period beginning December 21, 2010 (the date our Common Stock began trading) and ending December 31, 2014, assuming an initial investment of \$100 with reinvestment of dividends.

COMPARISON OF CUMULATIVE TOTAL RETURN
Among Hawaiian Telecom Holdco, Inc., S&P 500 and NASDAQ Telecommunications

	12/21/10	12/31/10	06/30/11	12/31/11	06/30/12	12/31/12	06/30/13	12/30/13	6/30/14	12/31/14
Hawaiian Telcom Holdco, Inc.	100.00	153.42	141.10	84.38	106.90	106.85	137.86	160.93	156.77	151.07
S&P 500	100.00	100.29	106.33	102.40	112.12	118.79	135.22	157.27	168.49	178.80
NASDAQ Telecommunications	100.00	100.70	95.56	89.45	84.88	94.35	109.02	120.09	127.30	133.91

The foregoing performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing.

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Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto included elsewhere in this annual report.

Selected Financial Data (dollars in thousands, except per share amounts)

	Successor(1)(2)				Predecessor(1)	
	Year Ended December 31,				Period from November 1 to December 31, 2010	Period from January 1 to October 31, 2010
	2014	2013	2012	2011		
Statements of income data:						
Operating revenues	\$ 390,739	\$ 391,150	\$ 385,498	\$ 395,156	\$ 66,759	\$ 334,686
Depreciation and amortization	78,014	77,301	70,908	63,806	9,723	136,661
Operating income (loss)	30,471	41,771	45,856	51,138	7,981	(42,902)
Interest expense	16,496	18,875	22,183	25,339	4,329	23,398
Income tax provision (benefit)(4)	5,910	8,782	(91,382)	(1,341)		(346)
Net income(3)	8,099	10,488	109,982	26,155	3,129	185,794
Earnings per common share						
Basic	\$ 0.76	\$ 1.01	\$ 10.74	\$ 2.58	\$ 0.31	\$ 434.10
Diluted	\$ 0.72	\$ 0.95	\$ 10.32	\$ 2.41	\$ 0.30	\$ 434.10

Statements of cash flow data net cash provided by (used in):						
Operating activities	\$ 90,403	\$ 76,961	\$ 86,460	\$ 79,219	\$ 12,921	\$ 48,909
Investing activities	(96,706)	(85,030)	(85,310)	(77,992)	(21,235)	(57,659)
Financing activities	(3,363)	(9,373)	(16,220)	(811)		2,161
Balance Sheets data (as of end of period):						
Cash and cash equivalents	\$ 39,885	\$ 49,551	\$ 66,993	\$ 82,063	\$ 81,647	\$ 94,138
Property, plant and equipment, net	565,956	524,375	507,197	482,371	459,781	670,714
Total assets	801,968	778,015	785,092	661,772	646,036	1,103,969
Long-term debt(5)	292,423	294,679	295,410	300,000	300,000	1,097,369
Stockholders' equity (deficiency)	304,534	313,012	276,860	136,196	178,792	(262,796)

(1) Although the Company emerged from bankruptcy on October 28, 2010, the Predecessor adopted "fresh-start" accounting as of October 31, 2010. Under the provisions of fresh-start accounting, a new entity is deemed created for financial reporting purposes. References to "Successor" refer to the Company after October 31, 2010 after giving effect to provisions of the Plan of Reorganization and application of fresh-start accounting. References to "Predecessor" refer to the Company on and prior to October 31, 2010.

(2) The Company acquired SystemMetrics Corporation on September 30, 2013 and Wavecom Solutions Corporation on December 31, 2012. The results of operations are included in the above financial information from the acquisition date. A further description of the acquisitions along with pro forma financial information is included in Note 3 to the consolidated financial statements.

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- (3) The net income for the period from January 1 to October 31, 2010, for the period November 1 to December 31, 2010 and for the year ended December 31, 2011 includes gain (charges) for reorganization items amounting to \$251.7 million, (\$0.5) million and (\$1.1) million, respectively.
- (4) As of December 31, 2012, the Company released its valuation allowance resulting in an income tax benefit of \$91.4 million for the year ended December 31, 2012. Refer to Note 10 to the consolidated financial statements for further information.
- (5) Long-term debt includes the current portion.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Background

In the following discussion and analysis of financial condition and results of operations, unless the context otherwise requires, "we," "us" or the "Company" refers, collectively, to Hawaiian Telcom Holdco, Inc. and its subsidiaries.

The statements in the discussion and analysis regarding industry outlook, our expectations regarding the future performance of our business and the other non-historical statements in the discussion and analysis are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Item 1A, "Risk Factors." Our actual results may differ materially from those contained in any forward-looking statements. You should read the following discussion together with Item 6, "Selected Financial Data" and our consolidated financial statements and related notes thereto included elsewhere in this annual report. We undertake no obligation to update publicly any forward looking statements for any reason even if new information becomes available or other events occur in the future.

Segments and Sources of Revenue

We operate in two reportable segments (telecommunication and data center colocation) based on how resources are allocated and performance is assessed by our chief operating decision maker. Our chief operating decision maker is our Chief Executive Officer.

Prior to the acquisition of SystemMetrics on September 30, 2013, we did not have data center colocation operations. Hence, we were in a single segment prior to September 30, 2013 under our current reportable segment structure.

Telecommunications

The telecommunication segment derives revenue from the following sources:

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

Network Access Services We receive revenue for access to our network for wholesale carrier data, business customer data including Dedicated Internet Access, switched carrier access and subscriber line charges imposed on end users. Switched carrier access revenue compensates us for origination, transport and termination of calls for long distance and other interexchange carriers.

Long Distance Services We receive revenue from providing long distance services to our customers.

High-Speed Internet ("HSI") Services We provide HSI to our residential and business customers.

Video Services Our video services marketed as Hawaiian Telcom TV is an advanced entertainment service.

Equipment and Managed Services We provide installation and maintenance of customer premise equipment as well as managed service for customer telephone and IT networks.

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

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Data Center Colocation

The data center colocation segment provides physical colocation, virtual colocation and various related telephony services.

Results of Operations for the Years Ended December 31, 2014, 2013 and 2012

Operating Revenues

The following tables summarize our volume information (lines or subscribers) as of December 31, 2014, 2013 and 2012, and our operating revenues for the years ended December 31, 2014, 2013 and 2012.

Prior to 2014, revenues from business VoIP customers for equipment usage and other ancillary services were classified as other revenue. Because all of these revenues relate to providing local telephone service to the customer, they are now presented as local voice services. Comparative information for 2013 has been modified to conform to the 2014 presentation. Information for 2012 has not been changed as the amount of VoIP revenue was not significant at that time.

Volume Information

	December 31,			2014 vs. 2013 Change		2013 vs. 2012 Change	
	2014	2013	2012	Number	Percentage	Number	Percentage
Voice access lines							
Residential	169,488	186,415	203,330	(16,927)	(9.1)%	(16,915)	(8.3)%
Business(1)	188,534	193,027	185,142	(4,493)	(2.3)%	7,885	4.3%
Public	3,830	4,155	4,405	(325)	(7.8)%	(250)	(5.7)%
	361,852	383,597	392,877	(21,745)	(5.7)%	(9,280)	(2.4)%
High-Speed Internet lines							
Residential	92,875	91,437	88,016	1,438	1.6%	3,421	3.9%
Business	19,589	19,320	18,575	269	1.4%	745	4.0%
Wholesale	814	963	1,020	(149)	(15.5)%	(57)	(5.6)%