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News Report Describing Hawaiian Telecom
Bankruptcy in Hawaii (December 2, 2008)

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Carlyle Takes Another Hit As Telecom Firm Goes Under

By Thomas Heath
Washington Post Staff Writer
Tuesday, December 2, 2008

Carlyle Group, the District-based private-equity firm, suffered a new setback yesterday when one of its investments, a Hawaiian provider of local and long-distance telephone service, filed for bankruptcy protection.

Carlyle had put \$425 million in Hawaiian Telcom Communications and borrowed almost \$1.2 billion to buy the company from Verizon in 2005. But the telecommunications company struggled almost from the start.

Its collapse followed other reversals for Carlyle this year. In March, Carlyle wrote off a \$700 million investment in Carlyle Capital, an offshore public company that invested in mortgage-related securities. Then Carlyle announced in July that it would liquidate Carlyle-Blue Wave Partners Management, which made similar bets in mortgages.

In October, Carlyle said it was suing a Russian steel company, Novolipetsk Steel, that was seeking to back out of a \$3.5 billion deal. Finally last month, Carlyle announced it was shutting down its 12-person Warsaw office and laying off another seven people throughout Asia as it pulls back from two specialized ventures in emerging markets.

Carlyle spokesman Chris Ullman said yesterday that the various events are unrelated and that the firm is still producing healthy returns for investors. In all, Carlyle has \$92 billion of investors' money under management, including \$40 billion that it is looking to invest.

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Carlyle Partners III, the \$4 billion buyout fund that bought Hawaiian Telcom, is up 230 percent despite the telecom's bankruptcy filing, Ullman said.

Carlyle bought Hawaiian Telcom with an eye toward upgrading and expanding its network to deliver new products and services in bundled packages. The bundles would include broadband Internet, video and wireless telephone service.

But the deal took a year to get approved by regulators, and the company began losing land-line telephone customers

faster than anticipated. Meanwhile, the company faced stiff competition from Time Warner Cable for its packages of services.

At the same time, Hawaiian Telcom had to create its own back-office operations to handle administrative tasks such as accounting, billing, public relations and human services. A person familiar with the process, who spoke on condition of anonymity because the company is in bankruptcy proceedings, said the process proved more difficult than Carlyle expected.

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Washingtonian Article
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Carlyle, which reinvested \$100 million in cash in the company, brought in management turnaround experts to help salvage Hawaiian Telcom, but it didn't work.

The company and seven affiliates filed for Chapter 11 protection yesterday in U.S. Bankruptcy Court in Wilmington, Del., listing \$1.4 billion in assets and \$1.3 billion in debts.

The telecom company said it will continue to operate its business without interruption to customers and employees.

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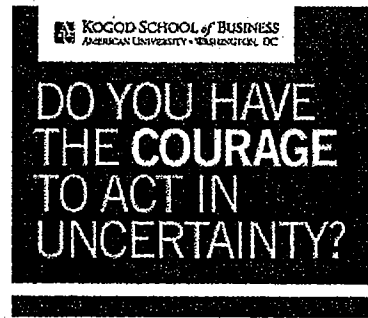
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