Hawaiian Telcom

Public Utilities
Commission Public Hearing
Opening Statement of
Matthew P. Boyer, Principal, The Carlyle Group

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Introduction

Chair Caliboso and Commissioner Kawelo, thank you for the opportunity to come before the Commission here on the island of Hawaii to discuss The Carlyle Group's proposed purchase of Verizon Hawaii.

As introduced by the Chair, I am Matthew Boyer, a Principal in The Carlyle Group. At Carlyle, I have focused on U.S. buyout transactions in the telecommunications sector with a particular focus on the wireline and wireless industries. I was recently involved in Carlyle's investment in Dex Media and have been actively participating in the acquisition of Verizon Hawaii. I will be a member of the Board of Directors for Hawaiian Telcom

I commend the Commission for conducting these hearings, which are an excellent forum for Carlyle, the public and other interested parties to share information and provide comments. So far we have participated at the hearings held on Oahu, Kauai, Maui, Molokai and Lanai and this evening, I'm looking forward to hearing from those here on the island of Hawaii.

In May, when we announced our agreement to purchase Verizon Hawaii, we referred to the company as "Newco" because we had not yet selected a name for the new company. Two weeks ago we announced that the new company will be called Hawaiian Telcom. As I will explain this evening, the name reflects our plans to return Hawaii's incumbent telephone company to its local roots, while ensuring that it provides state-of-the-art telecommunications services for the consumers of this state.

In light of the size and complexity of this transaction, we are still in the process of completing all of the components of the transition of the company to independent ownership, so we may not be able to cover all of the issues this evening.

But we are working hard and have made a lot of progress in the past four and a half months toward ensuring a smooth transition for customers and employees. In the coming months, we will continue to take the right steps to build a superb local telecommunications company for the state of Hawaii.

This evening I will discuss why we are so enthusiastic about our plans for Hawaiian Telcom and why we're committed to the success of this important institution. I'll describe who The Carlyle Group is and tell you about our telecommunications experience. Then I'll share some of the plans we have for Hawaiian Telcom.

Hawaiian Telcom Has Great Potential as an Independent Local Telecommunications Company

As one of the oldest phone companies in the world, Verizon Hawaii carries with it a rich heritage of quality service, product innovation and a talented workforce. This is the type of company Carlyle is drawn to as we consider where to invest our resources. It's a healthy company with great potential.

The chance to make Verizon Hawaii a local company again -- locally branded, managed and operated -- is very appealing to us and, we believe, to this community. We will return all management functions to Hawaii. All of the management of the new company will reside here in Hawaii. The local management team will have a representative on the board of directors.

In addition to bringing all management functions back to Hawaii, we plan to work closely with members of the local community. We announced two weeks ago that Walter Dods, Chairman and Chief Executive Officer of First Hawaiian Bank, has agreed to serve as an independent member of the board of directors of the new company. As you probably know, Walter is a pillar of the community in Hawaii, who will bring business savvy, commitment to community service, and tremendous local insight to our new company. Walter also plans to invest in the new company alongside Carlyle and other members of a group of local investors who live in Hawaii. Like Walter Dods, they believe in Carlyle and our plans for the new company. They will help us immensely in ensuring that the company meets the needs of the local community. Walter has provided a letter of support for the transaction, which was submitted to the PUC for the public record .

Because we are returning many of the company's management functions to Hawaii, we will need to recruit some new members of the senior management team to augment the fine local team that already exists at the company. We are in the process now of ramping up and recruiting new members of the team.

In that regard, we recently announced the addition of two key members of our management team. Mike Ruley will become the Chief Executive Officer of Hawaiian Telcom. Mike is a proven telecommunications CEO with experience in every aspect of the phone business. Mike joins Hawaiian Telcom from NextiraOne, a North American voice and data solutions business, where he served as President and Chief Executive Officer. At NextiraOne, Mike oversaw operations, sales, marketing, finance, legal and human resources of the company, which has

3500 employees. Prior to NextiraOne, he served in several senior positions at XO Communications, a competitive local exchange carrier with operations throughout the U.S. I am confident that Mike will help us lead the company to the next level of success and deliver on our goal of providing outstanding service to the customers of Hawaiian Telcom.

In addition to Mike's appointment, we recently named Dave Torline Senior Vice President and Chief Information Officer of the Hawaiian Tel. Dave spent 33 years in various management roles at Cincinnati Bell, retiring in 2003 as Chief Information Officer. At Cincinnati Bell, an independent telephone company with approximately one million access lines, Dave oversaw the development and management of complex billing as well as OSS and customer care systems. He has been working with us as a consultant on this acquisition since January 2004 Both Mike and Dave will move to Hawaii to assume their roles on the senior management team.

Carlyle's Resources and Experience

I would also like to tell you more about The Carlyle Group. The Carlyle Group is a global investment firm based in Washington, DC. Carlyle generates returns for its investors by employing a disciplined and prudent approach. Carlyle invests in buyouts, venture, real estate, and leveraged finance in North America, Europe, and Asia, focusing on telecommunications & media, aerospace & defense, automotive & transportation, consumer & retail, energy & power, healthcare, industrial, and technology & business services. Since 1987, the firm has invested $11.2 billion of equity in 332 transactions. The Carlyle Group employs more than 500 people in 14 countries. In the aggregate, Carlyle portfolio companies have more than $31 billion in revenue and employ more than 151,000 people around the world

Carlyle's primary business is buying healthy companies, like Verizon Hawaii, and making them even better by combining our know-how with the insights of local management. Our investors are mostly public and private pension funds, including the California Public Employees Retirement System (CalPERS), our largest single investor, which is the largest pension fund in the world.

Carlyle has great expertise in all facets of the telecommunications business. Our founder William Conway is the former Chief Financial Officer of MCI; Managing Director James Attwood is a former Executive Vice President of Verizon and GTE; Managing Director Daniel F. Akerson is the former President of MCI and served as Chairman and Chief Executive Officer of Nextel Communications, General Instruments and XO Communications; and Managing Director William E. Kennard served as Chairman of the Federal Communications Commission under President Bill Clinton. As telecommunications professionals, collectively Carlyle has more than 100 years of industry experience. All of these Carlyle professionals will serve on the board of directors of the company.

Carlyle's Commitment to Customers and Employees

Experience is important, but perhaps the most crucial ingredient is Carlyle's commitment to the success of this company. In the short term, success means that the concerns and interests of all parties – customers, employees, regulators and government officials – are aired and addressed, which these hearings will help achieve. In the long term, success means that customers receive innovative products and quality service at a fair price and employees throughout Hawaii have good working conditions and wages and are treated with respect.

We have taken several steps to ensure we're aware of what customers and employees are thinking and to provide employees with updates on the transition process. In May, simultaneous with the announcement of the transaction, we met with virtually all of the employees of the company to introduce ourselves and to explain what the transaction means for them. In June, we again met with virtually all of the employees to answer their more detailed questions about the transaction, particularly how their medical and other benefits might be affected by the transaction. We established a website that provides information on the acquisition process and solicits feedback from employees. And two weeks ago, we began conducting yet another round of meetings with employees to discuss their benefits under Hawaiian Tel in more detail.

We've also been answering hundreds of questions posed by the Consumer Advocate, who, as you know, is addressing potential concerns of consumers and other stakeholders. And to get a better idea of customer needs and concerns we have conducted several focus groups on the Islands. As a global private equity firm, Carlyle has purchased companies all around the world. But every community is unique, so we are working hard to be sure that we fully understand Hawaii's history and needs. We also are fully aware that each island is unique and we will not lose focus of this as we move forward.

One of the first items on our agenda was to find out what customers expect from this new company. Hearing from the people we will one day serve is critical. We learned that there is overwhelming support for returning the company to its local roots.

We will develop innovative products and services to provide consumers with state of the art services. We will invest millions of dollars to modernize the network and facilities in the near term. This will support new services and ensure that the Island of Hawaii and the rest of Hawaii have a telephone system that is state of the art.

We are prudent, value-driven investors. Our business plan provides that we will be able to operate the business and meet the obligations to our creditors without diminishing service or increasing rates.

The experience and expertise of Verizon Hawaii employees will be critical as we transform Verizon Hawaii into a stand-alone local company. New jobs will also be added as we develop and install the back-office systems in Hawaii that are now located on the mainland, such as accounting, human resources, information technology, legal and other key areas.

Importantly, benefits for all employees will be comparable in the aggregate. Some individual provisions may change but the overall value of the benefits package will remain comparable to the current plan.

We will honor the union contract and all its obligations. Through our ownership of Dex Media, the largest independent yellow pages business in the United States, Carlyle has established a track record of working constructively and successfully with the union that represents many Verizon Hawaii employees. I am confident that we will have a similar positive relationship with the IBEW in Hawaii.

Since the day we announced the transaction on May 21, 2004, we have worked closely with Scot Long, who leads the IBEW at Verizon Hawaii. Scot has been invaluable to us in sharing the concerns of his membership. We have worked hard with Scot to address those concerns and I would like publicly to thank Scot for his candor and his leadership, and for working so hard and so constructively to build a positive relationship with Carlyle.

Conclusion

I hope I have been able to assist you and members of the public to understand our experience and our commitment to this new company, its customers and employees. There is still much work to be done as we transition the company to independent ownership. But through continued good communication, hard work and innovative thinking we believe we can demonstrate to the PUC and to the people of the Island of Hawaii and the other islands that Carlyle is the right firm to take Verizon Hawaii to the next level of performance and excellence.

Thank you again for the opportunity to appear before you. I look forward to your comments and to hearing the views to be shared this evening.

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