

**ORIGINAL
OPEN MEETING**



0000125135

MEMORANDUM

RECEIVED

TO: THE COMMISSION ^{Arizona Corporation Commission}
FROM: Utilities Division
DATE: May 10, 2011
RE: SECURUS TECHNOLOGIES, INC. FOR APPROVAL TO ENCUMBER ASSETS
IN CONNECTION WITH CERTAIN DEBT FINANCING ARRANGEMENTS
(DOCKET NO. T-03479A-11-0162)

DOCKETED

2011 MAY 10 A 8:55

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DOCKET CONTROL

DOCKETED BY

On April 12, 2011, Securus Technologies, Inc. ("STI") filed an application requesting approval of the Arizona Corporation Commission ("Commission") pursuant to Arizona Revised Statutes ("A.R.S.") § 40-285 for STI to enter into certain debt financing arrangements in connection with the acquisition of its ultimate parent Securus Holdings, Inc. ("SHI"), by Connect Acquisition Corp. ("Connect"). STI seeks authority to participate in financing arrangements, whereby STI and certain of its affiliates will pledge their assets and act as guarantors in certain financing agreements in the amount of up to \$375.0 million undertaken concurrently with the acquisition of STI's parent.

Background

STI is a privately held and wholly-owned subsidiary of Securus Technologies Holdings, Inc. ("STHI") with its principal place of business at 14651 Dallas Parkway, 6th Floor, Dallas, Texas 75254. Both are Delaware corporations. STHI is a wholly-owned subsidiary of SHI, also a Delaware corporation. SHI is in turn a subsidiary of STI Technology Holdings, LLC ("STITH"). The ultimate controlling interests in SHI are held by H.I.G.-T-NETIX, Inc. ("HIG"), which is an affiliate of H.I.G. Capital, LLC ("HIGC"), a Miami-based private equity firm.

Connect is a newly-formed corporation established for purposes of acquiring SHI from HIG. Connect is a controlled affiliate of Castle Harlan Capital Partners V, L.P. ("Castle Partners"), which is managed by Castle Harlan, Inc. ("Castle Harlan"), a New York-based investment firm founded in 1987.

The Transaction

SHI entered into an Agreement and Plan of Merger, dated April 8, 2011 with Connect. STI states in its application that upon completion of the proposed merger, its current existing, intercompany relationships with SHI and STHI will remain unchanged.

To finance the acquisition of SHI, Connect has arranged a six-year first lien term credit facility, a seven-year second lien term credit facility, a five-year revolving credit facility, and a related incremental facility which will permit the borrowing of up to \$375.0 million. All of the outstanding equity interest of STI will be used to secure the proposed financing. STI, therefore,

THE COMMISSION

May 10, 2011

Page 2

seeks authority under A.R.S. 40-285.A for the pledge and encumbrance of assets by STI contemplated by the financing arrangements.

Staff's Analysis

STI was granted a Customer Owned Pay Telephone ("COPT") Certificate of Convenience & Necessity ("CC&N") in Decision No. 60924, dated May 22, 1998. STI is currently providing telecommunications services to a number of confinement and correctional facilities in the State of Arizona. As a result of its COPT certification, STI is not subject to the Commission's Public Utility Holding Companies and Affiliated Interests Rules, Arizona Administrative Code ("A.A.C.") R14-2-801 et seq.

A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to assign or dispose of a utility's assets as proposed by the merger in this transaction. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service.

STI states that the proposed transaction will not affect the rates, terms and conditions by which STI offers service in Arizona. STI also states that the financing arrangements will not result in an interruption or disruption of service and will be seamless and transparent to customers. Additionally, the applicant confirmed that any deposits, prepayments or advance payments held by STI will not be included in the proposed encumbrance. Staff concludes that the proposed transaction will not impair the availability of service to customers since the Applicant provides competitive services that are available from alternative service providers.

Staff's Recommendations

Based on its analysis of the proposed transaction, Staff concludes that the transaction would not impair the financial status of STI, would not impair its ability to attract capital, nor would it impair the ability of the STI to provide safe, reasonable, and adequate service. Customers may still have exposure to losses to the extent they have prepaid for service or made deposits, therefore, Staff recommends approval of the application subject to the condition that all customer deposits and prepayments be excluded from encumbrance and equivalent amounts be retained by the Applicants. Staff, therefore, recommends that the Commission authorize STI to encumber their Arizona assets in connection with financings of up to \$375 million.

THE COMMISSION

May 10, 2011

Page 3

Staff further recommends authorizing STI to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted. Additionally, Staff recommends that one copy of executed security documents be filed with Docket Control, as a compliance item in this docket, within 90 days following execution of the proposed transaction.



for Steven M. Olea
Director
Utilities Division

SMO:AFF:lhmvAV

ORIGINATOR: Armando F. Fimbres

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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION)
OF SECURUS TECHNOLOGIES, INC. FOR)
APPROVAL TO ENCUMBER ASSETS IN)
CONNECTION CERTAIN DEB)
FINANCING ARRANGEMENTS)

DOCKET NO. T-03479A-11-0162
DECISION NO. _____
ORDER

Open Meeting
May 24 and 25, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On April 12, 2011, Securus Technologies, Inc. ("STI") filed an application requesting approval of the Arizona Corporation Commission ("Commission") pursuant to Arizona Revised Statutes ("A.R.S.") § 40-285 for STI to enter into certain debt financing arrangements in connection with the acquisition of its ultimate parent Securus Holdings, Inc. ("SHI"), by Connect Acquisition Corp. ("Connect").

2. STI seeks authority to participate in financing arrangements, whereby STI and certain of its affiliates will pledge their assets and act as guarantors in certain financing agreements in the amount of up to \$375.0 million undertaken concurrently with the acquisition of STI's parent.

Background

3. STI is a privately held and wholly-owned subsidiary of Securus Technologies Holdings, Inc. ("STHI") with its principal place of business at 14651 Dallas Parkway, 6th Floor, Dallas, Texas 75254. Both are Delaware corporations. STHI is a wholly-owned subsidiary of

1 SHI, also a Delaware corporation. SHI is in turn a subsidiary of STI Technology Holdings, LLC
2 (“STITH”). The ultimate controlling interests in SHI are held by H.I.G.-T-NETIX, Inc. (“HIG”),
3 which is an affiliate of H.I.G. Capital, LLC (“HIGC”), a Miami-based private equity firm.

4 4. Connect is a newly-formed corporation established for purposes of acquiring SHI
5 from HIG. Connect is a controlled affiliate of Castle Harlan Capital Partners V, L.P. (“Castle
6 Partners”), which is managed by Castle Harlan, Inc. (“Castle Harlan”), a New York-based
7 investment firm founded in 1987.

8 The Transaction

9 5. SHI entered into an Agreement and Plan of Merger, dated April 8, 2011 with
10 Connect. STI states in its application that upon completion of the proposed merger, its current
11 existing, intercompany relationships with SHI and STHI will remain unchanged.

12 6. To finance the acquisition of SHI, Connect has arranged a six-year first lien term
13 credit facility, a seven-year second lien term credit facility, a five-year revolving credit facility,
14 and a related incremental facility which will permit the borrowing of up to \$375.0 million. All of
15 the outstanding equity interest of STI will be used to secure the proposed financing. STI,
16 therefore, seeks authority under A.R.S. 40-285.A for the pledge and encumbrance of assets by STI
17 contemplated by the financing arrangements.

18 Staff's Analysis

19 7. STI was granted a Customer Owned Pay Telephone (“COPT”) Certificate of
20 Convenience & Necessity (“CC&N”) in Decision No. 60924, dated May 22, 1998. STI is
21 currently providing telecommunications services to a number of confinement and correctional
22 facilities in the State of Arizona. As a result of its COPT certification, STI is not subject to the
23 Commission’s Public Utility Holding Companies and Affiliated Interests Rules, A.A.C. R14-2-801
24 et seq.

25 8. A.R.S. § 40-285 requires public service corporations to obtain Commission
26 authorization to assign or dispose of a utility’s assets as proposed by the merger in this transaction.
27 The statute serves to protect captive customers from a utility’s act to dispose of any of its assets

28 ...

1 that are necessary for the provision of service; thus, it serves to preempt any service impairment
2 due to disposal of assets essential for providing service.

3 9. STI states that the proposed transaction will not affect the rates, terms and
4 conditions by which STI offers service in Arizona. STI also states that the financing arrangements
5 will not result in an interruption or disruption of service, and will be seamless and transparent to
6 customers.

7 10. Additionally, the applicant confirmed that any deposits, prepayments or advance
8 payments held by STI will not be included in the proposed encumbrance. Staff concludes that the
9 proposed transaction will not impair the availability of service to customers since the Applicant
10 provides competitive services that are available from alternative service providers.

11 11. Based on its analysis of the proposed transaction, Staff concludes that the
12 transaction would not impair the financial status of STI, would not impair its ability to attract
13 capital, nor would it impair the ability of the STI to provide safe, reasonable, and adequate service.

14 12. Customers may still have exposure to losses to the extent they have prepaid for
15 service or made deposits, therefore, Staff recommends approval of the application subject to the
16 condition that all customer deposits and prepayments be excluded from encumbrance and
17 equivalent amounts be retained by the Applicants. Staff, therefore, recommends that the
18 Commission authorize the STI's request to encumber their Arizona assets in connection with
19 financings up to \$375 million.

20 13. Staff further recommends authorizing STI to engage in any transactions and to
21 execute any documents necessary to effectuate the authorizations granted. Additionally, Staff
22 recommends that one copy of executed security documents be filed with Docket Control, as a
23 compliance item in this docket, within 90 days following execution of the proposed transaction

24 CONCLUSIONS OF LAW

25 1. Securus Technologies, Inc. is a public service corporation within the meaning of
26 Article XV of the Arizona Constitution and A.R.S. § 40-285.

27 2. The Commission has jurisdiction over Securus Technologies, Inc. and the subject
28 matter in this filing.

1 3. The Commission, having reviewed the filing and Staff's Memorandum dated
2 May 10, 2011 concludes that it is in the public interest to grant approval as proposed and discussed
3 herein.

4 ORDER

5 IT IS THEREFORE ORDERED that Securus Technologies, Inc. is authorized to engage in
6 any transactions and to execute any documents necessary to effectuate the authorizations granted.

7 IT IS FURTHER ORDERED that the application of Securus Technologies, Inc. is subject
8 to the condition that all customer deposits and prepayments be excluded from this transaction.

9 IT IS FURTHER ORDERED that copies of executed security documents shall be filed
10 with the Compliance Section within 90 days of the decision in this matter.

11 IT IS FURTHER ORDERED that this Decision become effective immediately.

12 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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14 _____
CHAIRMAN

COMMISSIONER

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16 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

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18 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
19 Executive Director of the Arizona Corporation Commission,
20 have hereunto, set my hand and caused the official seal of
21 this Commission to be affixed at the Capitol, in the City of
22 Phoenix, this _____ day of _____, 2011.

23 _____
ERNEST G. JOHNSON
24 EXECUTIVE DIRECTOR

25 DISSENT: _____

26
27 DISSENT: _____

28 SMO:AFF:lhm\AV

1 SERVICE LIST FOR: Securus Technologies, Inc.
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