

ORIGINAL

OPEN MEETING



0000137208

MEMORANDUM

RECEIVED

TO: THE COMMISSION

Arizona Corporation Commission
DOCKETED

2012 JUN -6 A 9: 14

FROM: Utilities Division

JUN 06 2012

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: June 6, 2012

DOCKETED BY
TJM

RE: IN THE MATTER OF THE APPLICATION OF SECURUS TECHNOLOGIES, INC. TO ENCUMBER ASSETS IN CONNECTION WITH LONG TERM DEBT ISSUANCE AND FINANCING ARRANGEMENTS. (DOCKET NO. T-03479A-12-0179)

On May 16, 2012, Securus Technologies, Inc. ("STI") filed an application requesting approval of the Arizona Corporation Commission ("Commission") pursuant to A.R.S. § 40-285 for STI to pledge or otherwise encumber its Arizona assets in connection with certain amendments to debt financing arrangements. STI seeks authority to pledge or otherwise encumber its Arizona assets in connection with an amendment to previous financing arrangements, which would increase the aggregate principal amount thereof from up to \$375.0 million to up to \$455.0 million.

Background

STI is a Delaware corporation with its principal place of business at 1465 1 Dallas Parkway, 6th Floor, Dallas, Texas 75254. STI is a privately-held and wholly-owned subsidiary of Securus Technologies Holdings, Inc. ("STHI"), a Delaware corporation and wholly-owned indirect subsidiary of Securus Holdings, Inc. ("SHI"). The ultimate controlling interests in SHI are held by Castle Harlan, Inc. a New York-based private equity firm.

On June 27, 2011, in Decision No. 72438, the Commission, in connection with the indirect transfer of control of SHI, the ultimate parent of STI, to Castle parents, approved STI's pledge of assets in connection with certain financing arrangements to be used for that acquisition and the subsequent operations of STI. Specifically, the financing arrangements included 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 in the aggregate principal amount up to \$375.0 million from a syndicate of financial institutions arranged by BNP Paribas Securities Corp ("BNP"). The arrangement replaced all then – existing financing arrangements related to SHI and STI. Pursuant to the financing arrangements, SHI and one or more of its affiliates guaranteed the obligations of STI under such financing arrangements and pledged their assets and equity as collateral, provided that STI was a borrower, but not a guarantor under the arrangements. BNP, for the benefit of the financial institution syndicate, was granted a security interest in substantially all the tangible and intangible assets of STI and

the guarantors, including the outstanding equity interests of STI and STI's assets used to provide inmate telephone services in the State of Arizona.

The Transaction

STI seeks approval to pledge its Arizona assets in connection with an amendment to the existing financing arrangements that would increase the aggregate principal amount of permitted borrowing to up to \$455.0 million. There will be no other material changes to the previously approved credit facilities. STI will remain as a borrower, but not a guarantor there under. STI's assets used to provide inmate telephone services in Arizona will continue to be subject to the previously deemed approved interest.

Staff's Analysis

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 via email 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

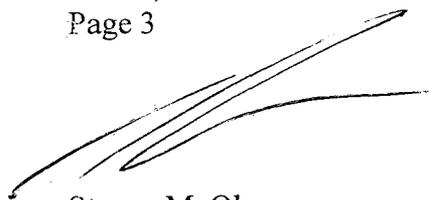
Based on its analysis of the proposed transaction, Staff concludes that the transaction would not impair the financial status of STI, would not impair its ability to attract capital, nor would it impair the ability of the STI to provide safe, reasonable, and adequate service. Customers may still have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

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 the Utilities Division and a letter confirming such filing be docketed as a compliance item in this docket, within 90 days following execution of the proposed transaction.

THE COMMISSION

June 6, 2012

Page 3

A handwritten signature in black ink, consisting of several overlapping, sweeping strokes that form the name 'Steven M. Olea'.

Steven M. Olea
Director
Utilities Division

SMO:KMS:sms/SH

ORIGINATOR: Kiana M. Sears

BEFORE THE ARIZONA CORPORATION COMMISSION

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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. TO
ENCUMBER ASSETS IN CONNECTION
WITH LONG TERM DEBT ISSUANCE
AND FINANCING ARRANGEMENTS.

DOCKET NOS. T-03479A-12-0179

DECISION NO. _____

ORDER

Open Meeting
June 19 and June 20, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On May 16, 2012, Securus Technologies, Inc. ("STI") filed an application requesting approval of the Arizona Corporation Commission ("Commission") pursuant to A.R.S. § 40-285 for STI to pledge or otherwise encumber its Arizona assets in connection with certain amendments to debt financing arrangements.

2. STI seeks authority to pledge or otherwise encumber its Arizona assets in connection with an amendment to previous financing arrangements, which would increase the aggregate principal amount thereof from up to \$375.0 million to up to \$455.0 million.

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1 Background

2 3. STI is a Delaware corporation with its principal place of business at 1465 1 Dallas
3 Parkway, 6th Floor, Dallas, Texas 75254. STI is a privately-held and wholly-owned subsidiary of
4 Securus Technologies Holdings, Inc. ("STHI"), a Delaware corporation and wholly-owned indirect
5 subsidiary of Securus Holdings, Inc. ("SHI"). The ultimate controlling interests in SHI are held by
6 Castle Harlan, Inc. a New York-based private equity firm.

7 4. On June 27, 2011, in Decision No. 72438, the Commission, in connection with the
8 indirect transfer of control of SHI, the ultimate parent of STI, to Castle parents, approved STI's
9 pledge of assets in connection with certain financing arrangements to be used for that acquisition
10 and the subsequent operations of STI. Specifically, the financing arrangements included a six-year
11 first lien term credit facility, a seven-year second lien term credit facility, a five-year revolving
12 credit facility and a related incremental facility in the aggregate principal amount up to \$375.0
13 million from a syndicate of financial institutions arranged by BNP Paribas Securities Corp
14 ("BNP"). The arrangement replaced all then-existing financing arrangements related to SHI and
15 STI.

16 5. Pursuant to the financing arrangements, SHI and one or more of its affiliates
17 guaranteed the obligations of STI under such financing arrangements and pledged their assets and
18 equity as collateral, provided that STI was a borrower, but not a guarantor under the arrangements.
19 BNP, for the benefit of the financial institution syndicate, was granted a security interest in
20 substantially all the tangible and intangible assets of STI and the guarantors, including the
21 outstanding equity interests of STI and STI's assets used to provide inmate telephone services in
22 the State of Arizona.

23

24 The Transaction

25 6. STI seeks approval to pledge its Arizona assets in connection with an amendment to
26 the existing financing arrangements that would increase the aggregate principal amount of
27 permitted borrowing to up to \$455.0 million. There will be no other material changes to the
28 previously deemed- approved credit facilities. STI will remain as a borrower, but not a guarantor

1 there under. STI's assets used to provide inmate telephone services in Arizona will continue to be
2 subject to the previously deemed approved interest.

3

4 Staff's Analysis

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

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

18

19 Staff's Recommendations

20 9. Based on its analysis of the proposed transaction, Staff has concluded that the
21 transaction would not impair the financial status of STI, would not impair its ability to attract
22 capital, nor would it impair the ability of the STI to provide safe, reasonable, and adequate service.
23 Customers may still have exposure to losses to the extent they have prepaid for service or made
24 deposits. Therefore, Staff recommends approval of the application subject to the condition that all
25 customer deposits and prepayments be excluded from encumbrance.

26 10. Staff further recommends authorizing STI to engage in any transactions and to
27 execute any documents necessary to effectuate the authorizations granted. Additionally, Staff

28

1 recommends that one copy of executed security documents be filed with the Utilities Division and
 2 a letter confirming such filing be docketed as a compliance item in this docket, within 90 days
 3 following execution of the proposed transaction.

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CONCLUSIONS OF LAW

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

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

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3. The Commission, having reviewed the filing and Staff's Memorandum dated June
 11 6, 2012, concludes that it is in the public interest to grant approval as proposed and discussed
 12 herein.

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ORDER

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IT IS THEREFORE ORDERED that the Securus Technologies, Inc. application requesting
 15 approval to pledge or otherwise encumber its Arizona assets be and hereby is approved, subject to
 16 the condition that all customer deposits and prepayments be excluded from encumbrance.

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1 IT IS FURTHER ORDERED that Securus Technologies, Inc. be and hereby is authorized
2 to engage in any transactions and to execute any documents necessary to effectuate the
3 authorizations granted.

4 IT IS FURTHER ORDERED that one copy of executed security documents shall be filed
5 with the Utilities Division and a letter confirming such filing shall be docketed as a compliance
6 item in this docket within 90 days following execution of the proposed transaction.

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

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
11 CHAIRMAN

COMMISSIONER

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14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
16 Executive Director of the Arizona Corporation Commission,
17 have hereunto, set my hand and caused the official seal of
18 this Commission to be affixed at the Capitol, in the City of
19 Phoenix, this _____ day of _____, 2012.

20 _____
21 ERNEST G. JOHNSON
22 EXECUTIVE DIRECTOR

23 DISSENT: _____

24 DISSENT: _____

25 SMO:KAS:sms/SH
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1 SERVICE LIST FOR: Securus Technologies, Inc.
2 DOCKET NOS. T-03479A-12-0179

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