

ORIGINAL

OPEN MEETING



MEMORANDUM

RECEIVED

TO: THE COMMISSION

2013 APR 16 A 10:13

FROM: Utilities Division

**AZ CORP COMMISSION
DOCKET CONTROL**

DATE: April 16, 2013

RE: IN THE MATTER OF THE APPLICATION OF SECURUS TECHNOLOGIES, INC. FOR APPROVAL TO ENCUMBER ASSETS IN CONNECTION WITH CERTAIN DEBT FINANCING ARRANGEMENTS. (DOCKET NO. T-03479A-13-0062)

On March 20, 2013, Securus Technologies, Inc. ("STI" or "Applicant") filed an application requesting approval by the Arizona Corporation Commission ("Commission"), pursuant to A.R.S. § 40-285, for STI to enter into certain debt financing arrangements in connection with, and subsequent to, the acquisition of its ultimate parent, Connect Acquisition Corp. ("Connect"), by Securus Investment Holdings, LLC ("SIH"). STI seeks authority to participate in certain financing arrangements, whereby STI and certain of its affiliates will pledge their assets and act as guarantors with respect to certain financing agreements in the amount of up to \$640 million undertaken concurrently with the acquisition of STI's parent.

The following background and transaction information was provided by the Applicant.

Background

Securus Technologies, Inc.

STI is a Delaware corporation with its principal place of business at 14651 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 subsidiary of Securus Holdings, Inc. ("SHI"). STHI, SHI, and Connect do not provide telecommunications services in the State of Arizona or elsewhere. The ultimate controlling interests in Connect are held by Castle Harlan Partners V, L.P. ("Castle Partners"), which is managed by Castle Harlan, Inc. ("Castle"), a New York-based private equity firm.

STI only holds a Customer Owner Pay Telephone ("COPT") Certificate of Convenience ("CC&N") in Arizona (Decision No. 60924). STI is currently providing telecommunications services to a number of confinement and correctional facilities in the State of Arizona.

Arizona Corporation Commission
DOCKETED

APR 16 2013

DOCKETED BY



Securus Investment Holdings, LLC

SIH is a newly-formed corporation established for purposes of acquiring a controlling interest in STI. It is expected that approximately 96.4% of the interests in STI will ultimately be held by Securus Special Investments, LLC (“SSI”), with the remaining interests held by members of STI and its affiliates’ management. SSI (and thus indirectly STI) will be controlled by ABRY Partners VII, L.P. (“ABRY VII”), an affiliate of ABRY Partners (“ABRY”), a Boston-based private equity firm focused solely on media, communications, business, and information services investments. Since its founding in 1989, ABRY has completed over \$36.0 billion in transactions and other private equity, mezzanine or preferred equity placements, presenting investments in over 450 properties. SIH, SSI, ABRY VII, and ABRY do not themselves provide telecommunications services.

The Transaction

STI seeks approval to participate in certain financing arrangements, whereby STI and certain of its affiliates will pledge their assets and act as guarantors with respect to certain financing agreements in the amount of up to \$640 million undertaken concurrently with the acquisition of STI’s parent.

To finance the acquisition of Connect and for other general business purposes, SIH has arranged credit facilities, as noted below, that total \$640 million, with STHI as the borrower:

- a 7-year first lien term credit facility (up to \$355 million),
- a 5-year revolving credit facility (up to \$50 million),
- an 8-year second lien term credit facility (up to \$155 million), and
- an additional \$100 million in incremental funding, subject to meeting certain financial criteria (collectively, "Credit Facilities").

The Credit Facilities also will allow the retirement and replacement of approximately \$400 million of existing debt for which STI was the borrower under credit facilities approved by the Commission.

A syndicate of financial institutions arranged and led by Deutsche Bank Securities Inc. and BNP Paribas Securities Corp., or one or more of their respective affiliates (collectively, “DB” and “BNP”, respectively) will provide the Credit Facilities. STHI will be the borrower. Pursuant to the financing arrangements, STHI, Connect Acquisition Corp., and each of STHI’s direct and indirect wholly-owned U.S. subsidiaries (with certain agreed upon exceptions), including STI (collectively, the “Guarantors”), will guarantee the obligations under the Credit Facilities. The Guarantors will grant to the administrative agent or collateral agent (or equivalent) under the Credit Facilities for the benefit of the lenders thereunder a security interest in substantially all of their tangible and intangible assets, including (i) all of the outstanding equity interest of STI and (i) the assets of STI used to provide inmate telephone services in Arizona. As a result,

Petitioners also seek consent for the pledge of assets by STI, and the pledge of the stock of STI, as contemplated by the Credit Facilities.

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.

COPTs are not subject to the Commission's Public Utility Holding Companies and Affiliated Interests Rules, A.A.C. R14-2-801 *et seq.* ("Affiliated Interests Rules"). The pre-closing structure and post-closing structure arrangements illustrated in Attachment A and B, respectively, of STI's application in this matter will not impact the COPT CC&N granted by the Commission in Decision No. 60924 issued May 22, 1998.

STI states that the proposed transaction will not affect the rates, terms and conditions by which STI offers service in Arizona.¹ 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.² 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.

STI published a legal notice in the Arizona Republic on March 27, 2013. STI filed its affidavit of publication with the Commission on April 2, 2013.

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

¹ *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets In Connection With Certain Debt Financing Arrangements*, Docket No. T-03479A-13-0062, Page 5, lines 19 – 20.

² *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets In Connection With Certain Debt Financing Arrangements*, Docket No. T-03479A-13-0062, Page 5, lines 23 – 24.

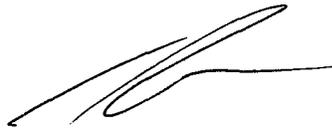
THE COMMISSION

April 11, 2013

Page 4

excluded from encumbrance and equivalent amounts be retained by the Applicant. Staff, therefore, recommends that the Commission authorize the STI request to encumber its Arizona assets in connection with financings up to \$640 million as described in STI's application in this matter.

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 Director and a letter confirming such filing be filed with Docket Control, as a compliance item in this docket, within 90 days following execution of the proposed transaction.



Steven M. Olea
Director
Utilities Division

SMO:AFF:sms/RRM

ORIGINATOR: Armando F. Fimbres

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

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

DOCKET NO. T-03479A-13-0062
DECISION NO. _____
ORDER

Open Meeting
May 1 and May 2, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On March 20, 2013, Securus Technologies, Inc. ("STI" or "Applicant") filed an application requesting approval by the Arizona Corporation Commission ("Commission"), pursuant to A.R.S. § 40-285, for STI to enter into certain debt financing arrangements in connection with, and subsequent to, the acquisition of its ultimate parent, Connect Acquisition Corp. ("Connect"), by Securus Investment Holdings, LLC ("SIH").

2. STI seeks authority to participate in certain financing arrangements, whereby STI and certain of its affiliates will pledge their assets and act as guarantors with respect to certain financing agreements in the amount of up to \$640 million undertaken concurrently with the acquisition of STI's parent.

3. The following background and transaction information was provided by the Applicant.

...

1 Background

2 **Securus Technologies, Inc.**

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

7 5. STHI, SHI, and Connect do not provide telecommunications services in the State of
8 Arizona or elsewhere. The ultimate controlling interests in Connect are held by Castle Harlan
9 Partners V, L.P. ("Castle Partners"), which is managed by Castle Harlan, Inc. ("Castle"), a New
10 York-based private equity firm.

11 6. STI only holds a Customer Owner Pay Telephone ("COPT") Certificate of
12 Convenience ("CC&N") in Arizona (Decision No. 60924). STI is currently providing
13 telecommunications services to a number of confinement and correctional facilities in the State of
14 Arizona.

15 **Securus Investment Holdings, LLC**

16 7. SIH is a newly-formed corporation established for purposes of acquiring a controlling
17 interest in STI. It is expected that approximately 96.4% of the interests in STI will ultimately be
18 held by Securus Special Investments, LLC ("SSI"), with the remaining interests held by members
19 of STI and its affiliates' management.

20 8. SSI (and thus indirectly STI) will be controlled by ABRY Partners VII, L.P. ("ABRY
21 VII"), an affiliate of ABRY Partners ("ABRY"), a Boston-based private equity firm focused solely
22 on media, communications, business, and information services investments. Since its founding in
23 1989, ABRY has completed over \$36.0 billion in transactions and other private equity, mezzanine
24 or preferred equity placements, presenting investments in over 450 properties.

25 9. SIH, SSI, ABRY VII, and ABRY do not themselves provide telecommunications
26 services.

27 ...

28 ...

1 The Transaction

2 10. STI seeks approval to participate in certain financing arrangements, whereby STI and
3 certain of its affiliates will pledge their assets and act as guarantors with respect to certain
4 financing agreements in the amount of up to \$640 million undertaken concurrently with the
5 acquisition of STI's parent.

6 11. To finance the acquisition of Connect and for other general business purposes, SIH has
7 arranged credit facilities, as noted below, that total \$640 million, with STHI as the borrower:

- 8 a. a 7-year first lien term credit facility (up to \$355 million),
9 b. a 5-year revolving credit facility (up to \$50 million),
10 c. an 8-year second lien term credit facility (up to \$155 million), and
11 d. an additional \$100 million in incremental funding, subject to meeting certain
12 financial criteria (collectively, "Credit Facilities").

13 12. The Credit Facilities also will allow the retirement and replacement of approximately
14 \$400 million of existing debt for which STI was the borrower under credit facilities approved by
15 the Commission.

16 13. A syndicate of financial institutions arranged and led by Deutsche Bank Securities Inc.
17 and BNP Paribas Securities Corp., or one or more of their respective affiliates (collectively, "DB"
18 and "BNP", respectively) will provide the Credit Facilities.

19 14. STHI will be the borrower. Pursuant to the financing arrangements, SHI, Connect
20 Acquisition Cop, and each of STHI's direct and indirect wholly-owned U.S. subsidiaries (with
21 certain agreed upon exceptions), including STI (collectively, the "Guarantors"), will guarantee the
22 obligations under the Credit Facilities.

23 15. The Guarantors will grant to the administrative agent or collateral agent (or equivalent)
24 under the Credit Facilities for the benefit of the lenders thereunder a security interest in
25 substantially all of their tangible and intangible assets, including (i) all of the outstanding equity
26 interest of STI and (i) the assets of STI used to provide inmate telephone services in Arizona. As a
27 result, Petitioners also seek consent for the pledge of assets by STI, and the pledge of the stock of
28 STI, as contemplated by the Credit Facilities.

1 Staff's Analysis and Conclusions

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

7 17. COPTs are not subject to the Commission's Public Utility Holding Companies and
8 Affiliated Interests Rules, A.A.C. R14-2-801 *et seq.* ("Affiliated Interests Rules"). The pre-closing
9 structure and post-closing structure arrangements illustrated in Attachment A and B, respectively,
10 of STI's application in this matter will not impact the COPT CC&N granted by the Commission in
11 Decision No. 60924 issued May 22, 1998.

12 18. STI states that the proposed transaction will not affect the rates, terms and conditions
13 by which STI offers service in Arizona.¹ STI also states that the financing arrangements will not
14 result in an interruption or disruption of service, and will be seamless and transparent to
15 customers.²

16 19. Additionally, the Applicant confirmed via email that any deposits, prepayments or
17 advance payments held by STI will not be included in the proposed encumbrance. Staff concludes
18 that the proposed transaction will not impair the availability of service to customers since the
19 Applicant provides competitive services that are available from alternative service providers.

20 20. STI published a legal notice in the Arizona Republic on March 27, 2013. STI filed its
21 affidavit of publication with the Commission on April 2, 2013.

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

25 ...

26 _____
27 ¹ *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets In Connection
With Certain Debt Financing Arrangements*, Docket No. T-03479A-13-0062, Page 5, lines 19 – 20.

28 ² *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets In Connection
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ORDER

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

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

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:AFF:sms/RRM

1 SERVICE LIST FOR: Securus Technologies, Inc.
2 DOCKET NOS. T-03479A-13-0062

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