

ORIGINAL

OPEN MEETING



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MEMORANDUM

REC'D
AZ CORPORATION COM
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

2015 JUN 23 AM 8 47

DATE: June 23, 2015

RE: IN THE MATTER OF THE APPLICATION OF SECURUS TECHNOLOGIES, INC. FOR APPROVAL TO ENCUMBER ASSETS IN CONNECTION WITH LONG TERM DEBT ISSUANCE AND FINANCING ARRANGEMENTS. (DOCKET NO. T-03479A-15-0125)

On April 13, 2015, Securus Technologies, Inc. ("STI", "Applicant" or "Company") filed an application requesting, pursuant to A.R.S. § 40-285, approval of the Arizona Corporation Commission ("Commission") to pledge or otherwise encumber its Arizona assets in connection with certain amendments to debt financing arrangements, for which the assets were already pledged.¹ Specifically, STI now seeks authority to pledge or otherwise encumber its Arizona assets in connection with an amendment to the previous financing arrangements, which would increase the aggregate authorization from up to \$640.0 million to up to \$845.0 million.²

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

The Applicant

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 indirect subsidiary of Securus Holdings, Inc. ("SHI"). The ultimate controlling interests in SHI are held by ABRY Partners VII, L.P. ("ABRY VII"), which is an affiliate of ABRY Partners ("ABRY"), a Boston based- investment firm focusing solely on media, communications, and business and information services investments. STHI, SHI, ABRY VII, and ABRY do not themselves provide telecommunications services.

STI holds a Customer Owner Pay Telephone ("COPT") Certificate of Convenience ("CC&N") in Arizona (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.

¹ The Commission approved the previous pledge of assets in Decision No. 73870 (May 8, 2013).

² STI will continue to be a guarantor and pledgor of its assets and stock.

Arizona Corporation Commission

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The Transaction

STI seeks approval to pledge its Arizona assets in connection with an amendment to the existing financing arrangements for \$640.0 million in order to increase the aggregate principal amount of permitted borrowing to up to \$845.0 million. The additional borrowing authority of \$205.0 million will be used to fund, in part, the acquisition of all of the stock of JPay Inc. ("JPay"), a Delaware corporation and a national payment processing firm.

The additional borrowing will be funded in the form of a senior secured term loan ("Term Loan") to be arranged by Deutsche Bank Trust Company Americas and its affiliates and BNP Paribas and its affiliates. The Term Loan will be incurred as a new class of loans pursuant to the First Lien Credit Agreement that was a component of the previously-approved financial arrangements. The Term Loan is expected to mature on the same date as the First Lien Credit Agreement and will be repaid through future cash flows of STI and JPay.

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.³ 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.⁴ Additionally, the Applicant confirmed via email that any Arizona customer deposits, prepayments or advance payments held by STI will not be included in the proposed encumbrance.

STI published a legal notice in the Arizona Republic on June 18, 2015. STI filed its affidavit of publication with the Commission on June 18, 2015.

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,

³ *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets Or In The Alternative, Application of Securus Technologies, Inc. To Encumber Assets in Connection with Long Term Debt Issuance And Financing Arrangements*, Docket No. T-03479A-15-0125, Page 5, lines 15 – 17.

⁴ *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets Or In The Alternative, Application of Securus Technologies, Inc. To Encumber Assets in Connection with Long Term Debt Issuance And Financing Arrangements*, Docket No. T-03479A-15-0125, Page 5, lines 13 – 17.

THE COMMISSION

June 23, 2015

Page 3

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 Applicant. Staff, therefore, recommends that the Commission authorize the STI request to encumber its Arizona assets in connection with financings up to \$845.0 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:LLM:nr/ML

ORIGINATOR: Lori L. Morrison

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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

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

DOCKET NO. T-03479A-15-0125
DECISION NO. _____
ORDER

Open Meeting
July 7 and July 8, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On April 13, 2015, Securus Technologies, Inc. (“STI” or “Applicant”) filed an application requesting, pursuant to A.R.S. § 40-285, approval of the Arizona Corporation Commission (“Commission”) to pledge or otherwise encumber its Arizona assets in connection with certain amendments to debt financing arrangements, for which the assets were already pledged.¹

2. Specifically, STI now seeks authority to pledge or otherwise encumber its Arizona assets in connection with an amendment to the previous financing arrangements, which would increase the aggregate authorization from \$640.0 million to up to \$845.0 million.²

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

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...

¹ The Commission approved the previous pledge of assets in Decision No. 73870 (May 8, 2013).
² STI will continue to be a guarantor and pledgor of its assets and stock.

The Applicant

4. 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 indirect subsidiary of Securus Holdings, Inc. ("SHI").

5. The ultimate controlling interests in SHI are held by ABRY Partners VII, L.P. ("ABRY VII"), which is an affiliate of ABRY Partners ("ABRY"), a Boston based- investment firm focusing solely on media, communications, and business and information services investments.

6. STHI, SHI, ABRY VII, and ABRY do not themselves provide telecommunications services.

7. STI holds a Customer Owner Pay Telephone ("COPT") Certificate of Convenience ("CC&N") in Arizona (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.

The Transaction

8. STI seeks approval to pledge its Arizona assets in connection with an amendment to the existing financing arrangements for \$640.0 million in order to increase the aggregate principal amount of permitted borrowing to up to \$845.0 million. The additional borrowing authority of \$205.0 million will be used to fund, in part, the acquisition of all of the stock of JPay Inc. ("JPay"), a Delaware corporation and a national payment processing firm.

9. The additional borrowing will be funded in the form of a senior secured term loan ("Term Loan") to be arranged by Deutsche Bank Trust Company Americas and its affiliates and BNP Paribas and its affiliates. The Term Loan will be incurred as a new class of loans pursuant to the First Lien Credit Agreement that was a component of the previously-approved financial arrangements. The Term Loan is expected to mature on the same date as the First Lien Credit Agreement and will be repaid through future cash flows of STI and JPay.

10. There will be no other material changes to the previously-approved Credit Facilities. STHI will remain as a borrower, but not a guarantor thereunder. STI's assets used to provide inmate

1 telephone services in Arizona and stock will continue to be subject to the previously-approved security
2 interest and stock pledge.

3 **Staff's Analysis and Conclusions**

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

9 12. STI states that the proposed transaction will not affect the rates, terms and conditions
10 by which STI offers service in Arizona.³ STI also states that the financing arrangements will not result
11 in an interruption or disruption of service, and will be seamless and transparent to customers⁴

12 13. Additionally, the Applicant confirmed via email that any Arizona customer deposits,
13 prepayments or advance payments held by STI will not be included in the proposed encumbrance.

14 14. STI published a legal notice in the Arizona Republic on June 18, 2015. STI filed its
15 affidavit of publication with the Commission on June 19, 2015.

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

19 16. Customers may still have exposure to losses to the extent they have prepaid for service
20 or made deposits, therefore, Staff recommends approval of the application subject to the condition
21 that all customer deposits and prepayments be excluded from encumbrance and equivalent amounts
22 be retained by the Applicant.

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26 ³ *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets Or In The Alternative, Application of
Securus Technologies, Inc. To Encumber Assets in Connection with Long Term Debt Issuance And Financing Arrangements*, Docket No.
T-03479A-15-0125, Page 5, lines 15 – 17.

27 ⁴ *In The Matter of the Application of Securus Technologies, Inc. For Approval To Encumber Assets Or In The Alternative, Application of
Securus Technologies, Inc. To Encumber Assets in Connection with Long Term Debt Issuance And Financing Arrangements*, Docket No.
28 T-03479A-15-0125, Page 5, lines 13 – 17.

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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 as discussed herein, 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 _____, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

Decision No. _____

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1 SERVICE LIST FOR: Securus Technologies, Inc.
2 DOCKET NOS. T-03479A-15-0125

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