

OPEN MEETING



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ORIGINAL

MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED 2017 JUN 26 A 11: 25

FROM: Utilities Division

JUN 26 2017

DATE: June 26, 2017

DOCKETED BY
GPB

RE: IN THE MATTER OF THE APPLICATION OF SECURUS TECHNOLOGIES, INC. TO ENCUMBER ASSETS (DOCKET NO. T-03479A-17-0144)

INTRODUCTION

Enclosed are the Commission Staff's Memorandum and Proposed Order for the application of Securus Technologies, Inc. to encumber assets (Docket No. T-03479A-17-0144). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

You may file comments to the recommendation(s) of the proposed order by filing an original and thirteen (13) copies of the comments with the Commission's Docket Control Center at 1200 W. Washington St., Phoenix, AZ 85007 by 4:00 p.m. on or before July 6, 2017.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **July 11, 2017**, at 10:00 a.m. and **July 12, 2017**, at 10:00 a.m.

If you have any questions about this matter, please contact Matt Connolly of our Staff at (602) 542-0856, or Elijah Abinah, Director, at (602) 542-6935.

APPLICATION

On May 16, 2017, Securus Technologies, Inc. ("STI", "Applicant" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval, pursuant to Arizona Revised Statutes ("A.R.S.") § 40-285, to pledge or otherwise encumber its Arizona assets in connection with certain Financing Arrangements (defined as follows) concurrently with or following completion of the proposed transfer of indirect control of STI to SCRS Acquisition Corporation ("SCRS") via the acquisition of all the stock of Connect Acquisition Corp. ("Connect") from Securus Investment Holdings, LLC ("SIH") by SCRS ("Transaction"). Specifically, STI now seeks authority to pledge or otherwise encumber its Arizona assets in connection with new, amended and restated financing arrangements ("Financing Arrangements") up to an aggregate principal amount of \$2.6 billion.

BACKGROUND OF APPLICANT AND ACQUIRING ENTITY

Applicant

STI is a Delaware corporation with its principal place of business at 4000 International Parkway, Carrollton, Texas, 75007. STI is a wholly owned, indirect subsidiary of Connect, a Delaware corporation, which is a wholly owned, direct subsidiary of SIH, a Delaware limited liability company. The ultimate controlling interests in SIH are currently 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. SCRS, SIH, 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 as well as in approximately forty-six (46) other states and the District of Columbia. STI is also authorized by the Federal Communications Commission to provide domestic and international telecommunications services.

Acquiring Entity

SCRS is a newly formed Delaware corporation established for the purposes of the Transaction. SCRS's principal address is c/o Platinum Equity, 360 North Crescent Drive, South Building, Beverly Hills, California, 90210. SCRS is ultimately wholly owned by SCRS Holding Corporation ("SCRS Parent"), a Delaware corporation. SCRS Parent is a holding company in which certain private equity investment vehicles sponsored by Platinum Equity, LLC will contribute their equity investments in connection with the Transaction. Platinum Equity Capital Partners IV, L.P., a Delaware limited partnership, will be the majority owner of SCRS Parent.

THE FINANCING ARRANGEMENTS

STI seeks approval to pledge or otherwise encumber its Arizona assets, concurrently with or following completion of the Transaction in connection with the Financing Arrangements up to an aggregate principal amount of \$2.6 billion. STI states that in order to maintain adequate flexibility to respond to market conditions and requirements, to fund some or all of the purchase price for the Transaction (including the repayment of existing long-term debt of Connect and its subsidiaries and costs and fees) and to respond to future acquisition and other business opportunities, STI is requesting authority for Financing Arrangements generally consistent with the following terms:

- An aggregate amount up to \$2.6 billion.
- Authorization for STI to be the borrower or co-borrower under the Financing Arrangements.
- One or more of the following debt instruments: notes or debentures (including notes convertible into equity and private notes that may be exchanged for public notes);

conventional credit facilities such as revolving and term loan credit facilities; letters of credit; bridge loans; or a combination thereof.

- A maturity of up to ten (10) years after issuance or amendment depending on the type of debt instrument.
- An interest rate(s) at the market rate in effect at the time of signing or closing.
- Secured facilities to include the equity of SCRS and all or certain of its current and future subsidiaries, including STI.

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 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 Business Gazette on June 8, 2017. STI filed its affidavit of publication with the Commission on June 21, 2017.

STAFF'S RECOMMENDATIONS

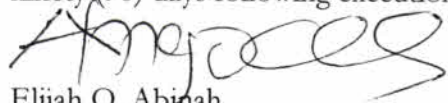
Based on its analysis of the proposed transaction, Staff concludes that the transaction would not impair the financial status of STI, would not impair its ability to attract capital, nor would it impair the ability of STI to provide safe, reasonable, and adequate service. Customers may still have exposure 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 STI's request to encumber its Arizona assets in connection with financings up to \$2.6 billion as described in STI's application in this matter.

THE COMMISSION

June 26, 2017

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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 ninety (90) days following execution of the proposed transaction.



Elijah O. Abinah

Director

Utilities Division

EOA:MAC:red\WVC

ORIGINATOR: Matt Connolly

THE COMMISSION

June 26, 2017

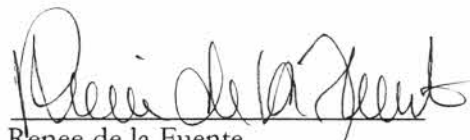
Page 5

On this 26th day of June, 2017, the foregoing document was filed with Docket Control as a **Utilities Division Memorandum & Proposed Order**, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

Mr. Timothy Sabo
Snell & Wilmer, LLP
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Phoenix, Arizona 85004

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By:


Renee de la Fuente
Administrative Support Specialist

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BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE
Chairman
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
ANDY TOBIN
Commissioner
BOYD DUNN
Commissioner

IN THE MATTER OF THE APPLICATION)
OF SECURUS TECHNOLOGIES, INC. TO)
ENCUMBER ASSETS.)

DOCKET NO. T-03479A-17-0144

DECISION NO. _____

ORDER

Open Meeting
July 11 and 12, 2017
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On May 16, 2017, Securus Technologies, Inc. ("STI", "Applicant" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval, pursuant to Arizona Revised Statutes ("A.R.S.") § 40-285, to pledge or otherwise encumber its Arizona assets in connection with certain Financing Arrangements (defined as follows) concurrently with or following completion of the proposed transfer of indirect control of STI to SCRS Acquisition Corporation ("SCRS") via the acquisition of all the stock of Connect Acquisition Corp. ("Connect") from Securus Investment Holdings, LLC ("SIH") by SCRS ("Transaction").

2. Specifically, STI now seeks authority to pledge or otherwise encumber its Arizona assets in connection with new, amended and restated financing arrangements ("Financing Arrangements") up to an aggregate principal amount of \$2.6 billion.

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

...

The Applicant

4. STI is a Delaware corporation with its principal place of business at 4000 International Parkway, Carrollton, Texas, 75007. STI is wholly owned, indirect subsidiary of Connect, a Delaware corporation, which is a wholly owned, direct subsidiary of SIH, a Delaware limited liability company. The ultimate controlling interests in SIH are currently 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. SCRS, SIH, ABRY VII, and ABRY do not themselves provide telecommunications services.

5. 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 as well as in approximately forty-six (46) other states and the District of Columbia. STI is also authorized by the Federal Communications Commission to provide domestic and international telecommunications services.

The Acquiring Entity

6. SCRS is a newly formed Delaware corporation established for the purposes of the Transaction. SCRS's principal address is c/o Platinum Equity, 360 North Crescent Drive, South Building, Beverly Hills, California, 90210. SCRS is ultimately wholly owned by SCRS Holding Corporation ("SCRS Parent"), a Delaware corporation. SCRS Parent is a holding company in which certain private equity investment vehicles sponsored by Platinum Equity, LLC will contribute their equity investments in connection with the Transaction. Platinum Equity Capital Partners IV, L.P., a Delaware limited partnership, will be the majority owner of SCRS Parent.

The Financing Arrangements

7. STI seeks approval to pledge or otherwise encumber its Arizona assets, concurrently with or following completion of the Transaction in connection with the Financing Arrangements up to an aggregate principal amount of \$2.6 billion. STI states that in order to maintain adequate flexibility to respond to market conditions and requirements, to fund some or all of the purchase price for the Transaction (including the repayment of existing long-term debt of Connect and its

1 subsidiaries and costs and fees) and to respond to future acquisition and other business opportunities,
2 STI is requesting authority for Financing Arrangements generally consistent with the following terms:

- 3 • An aggregate amount up to \$2.6 billion.
- 4 • Authorization for STI to be the borrower or co-borrower under the Financing
5 Arrangements.
- 6 • One or more of the following debt instruments: notes or debentures (including
7 notes convertible into equity and private notes that may be exchanged for
8 public notes); conventional credit facilities such as revolving and term loan
9 credit facilities; letters of credit; bridge loans; or a combination thereof.
- 10 • A maturity of up to ten (10) years after issuance or amendment depending on
11 the type of debt instrument.
- 12 • An interest rate(s) at the market rate in effect at the time of signing or closing.
- 13 • Secured facilities to include the equity of SCRS and all or a certain of its
14 current and future subsidiaries, including STI.

15 **Staff's Analysis**

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

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

24 10. Additionally, the Applicant confirmed that any Arizona customer deposits,
25 prepayments or advance payments held by STI will not be included in the proposed encumbrance.

26 11. STI published a legal notice in the Arizona Business Gazette on June 8, 2017. STI
27 filed its affidavit of publication with the Commission on June 21, 2017.

28 ...

Staff's Recommendations

12. Based on its analysis of the proposed transaction, Staff has concluded 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.

13. Customers may still have exposure to losses to the extent they have prepaid for service or made deposits, therefore, Staff has recommended 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.

14. Staff, therefore, has recommended that the Commission authorize STI's request to encumber its Arizona assets in connection with financings up to \$2.6 billion as described in STI's application in this matter.

15. Staff has further recommended authorizing STI to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

16. Additionally, Staff has recommended 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 ninety (90) days following execution of the proposed transaction.

CONCLUSIONS OF LAW

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

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

3. The Commission, having reviewed the filing and Staff's Memorandum dated June 26, 2017, concludes that it is in the public interest to grant approval as proposed and discussed herein.

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

1 herein, subject to the condition that all customer deposits and prepayments be excluded from
2 encumbrance.

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

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

10
11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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13 _____
CHAIRMAN FORESE

COMMISSIONER DUNN

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16 _____
COMMISSIONER TOBIN

COMMISSIONER LITTLE

COMMISSIONER BURNS

17
18 IN WITNESS WHEREOF, I, TED VOGT, Executive
19 Director of the Arizona Corporation Commission, have
20 hereunto, set my hand and caused the official seal of this
21 Commission to be affixed at the Capitol, in the City of
22 Phoenix, this _____ day of _____, 2017.

23 _____
TED VOGT
EXECUTIVE DIRECTOR

24 DISSENT: _____

25 DISSENT: _____

26 EOA:MAC:red/WVC

1 SERVICE LIST FOR: Securus Technologies, Inc.
2 DOCKET NO. T-03479A-17-0144

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15 **Consented to Service by Email**

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