Human Rights Defense Center

DEDICATED TO PROTECTING HUMAN RIGHTS

June 24, 2015

The Honorable Tom Wheeler, Chairman
Federal Communications Commission
445 12th St. S.W.
Washington DC 20554

Re: Comment for WC Docket 12-375

Dear Chairman Wheeler:

The Human Rights Defense Center (HRDC) respectfully submits this comment for WC Docket No. 12-375 in reference to the following news article concerning prison phone-related issues, which was filed on this docket June 12, 2015 by the Prison Policy Initiative (copy attached for reference):

- "Prisoners Pay Millions To Call Loved Ones Every Year. Now This Company Wants Even More," by Benjamin Walsh, *The Huffington Post* (June 10, 2015)

As reported in the article, according to a Securus investor presentation the company made $114.6 million in profit in 2014 off gross revenue of $404.6 million, representing a profit margin of 51%. The vast majority of Securus' revenue came from prisoners and their families and friends, via the phone rates and ancillary fees charged by the company. The article also details the massive increase in profits generated by Securus since 2008.

Securus and GTL previously have submitted data and reports to the FCC purporting to show the Commission that they have high costs and low profits. This directly contradicts both common sense (that a hedge fund-owned business would need to commission a special study purporting to determine their costs and profits) and more importantly what Securus and/or its parent company, Abry Partners, are telling potential investors.

With respect to Securus' filing on this docket posted June 18, 2015, attempting to refute some of the data reported in the article, we note that not only did Securus fail to file a copy of the investor presentation referenced as a source in the article, but that they did not provide any documentation to support their arguments, thus requiring the Commission to perform its own evaluation of the data included in the article.

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Additionally, Securus did not explain why, if the data was inaccurate, it was included in the company's investor presentation – and to the extent Securus claims the data needs to be read "in context," then it should submit a copy of the presentation to the Commission for review.

Thank you for your time and attention in this regard.

Sincerely,

Paul Wright
Executive Director, HRDC

http://www.huffingtonpost.com/2015/06/10/prison-phone-profits_n_7552464.html?utm_hp_ref=politics&ir=Politics

Ben Walsh
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Prisoners Pay Millions To Call Loved Ones Every Year. Now This Company Wants Even More.

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A captive market, no competition and government contracts that make monopoly-enabled price gouging the industry standard -- it's never been in doubt that the prison phone business is a very profitable model.

A presentation that the privately-held prison telecom company Securus made to investors that The Huffington Post obtained shows just how much money there is to be made as the state-sanctioned middleman between prisoners and the outside world: $404.6 million last year alone.

Securus, which provides phone services to 2,600 prisons and jails in 47 states, made $114.6 million in profit on that revenue in 2014. Securus' gross profit margin -- a measure of the difference between the cost to provide its services, and what it charges for them -- was a whopping 51 percent. And Securus, with a 20 percent market share, isn't even the biggest prison phone company. That would be Global Tel-Link, or GTL, which has a 50 percent market share, the New York Times reported. GTL drew national attention for its prominent role in the 2014 viral podcast Serial.

While Securus is already making massive profits off of prisoners and their families, they are also looking for other, faster-growing revenue streams. In an April 15 presentation to investors, the company sought $205 million in debt to fund its purchase of JPay, a telecommunications company that provides banking, electronic communication and entertainment to over a million prisoners in 29 states.

Buying JPay will allow Securus to move beyond the analog world of voice phone calls, and into faster-growing businesses like money transfers, email and video chat, and selling prison-approved tablets that allow inmates and families to purchase music and games. (Securus announced on April 14 that they had successfully reached an agreement to purchase JPay.)

Securus has already seen major earnings growth in recent years. When the current management team took over in 2008, earnings were at $41.7 million. Since then, they've grown roughly $10 million each year between 2008 and 2013. Profits soared between 2013 and 2014, jumping from $87 million to $114.6 million in a single year.

Acquiring JPay allows Securus to increase its valuation substantially. Securus was sold to Boston private equity firm ABRY Partners in 2013 for $640 million. The company's

2014 earnings suggest the company alone is now worth around $950 million. Add in the successful acquisition of JPay, plus the 20 percent annual profit growth they've seen in recent years and a good banker to talk the whole thing up, and a valuation of $1.5 billion to $2 billion isn't outlandish.

Securus and ABRY did not immediately respond to requests for comment. JPay declined to comment.

Like most acquisitions, it is also a boon for jargon: Securus notes that it is excited about the "cross-sell / up-sell opportunities (alongside combination cost-savings)" which will increase Securus' "growth and broaden its revenue base." More than most mergers, however, the jargon quickly becomes nauseatingly detached from the human reality of the business both companies are in -- forcing prisoners to pay high rates to talk to family and friends, listen to music or play video games.

The acquisition is attractive, Securus says in the presentation, because the approximately $75 billion the U.S. spends annually on the entire corrections industry represents "a large, recession-resistant and stable market." In the U.S., "inmate population and corrections expenditures," the company notes, "have grown steadily for 3 decades." By acquiring JPay, the company will be able to more fully exploit the business opportunity of mass incarceration, Securus leaders pitched: "The acquisition of JPay results in a comprehensive communication and tech-enabled solution provider" that is "well positioned for organic growth."

As uncomfortable as that sort of business-school jargon may sound in the context of the for-profit prison telecom industry, illustrating what Securus does using stock photos only reinforces the unease. Here's a cheerful Securus representative and a bank of computers between a smiling mother and children, and a faceless inmate.

Debt investors aren't the only intended audience for this sort of management rhetoric. In an April 14 petition to The New York State Public Service Commission requesting permission to take on the additional debt, Securus said its acquisition of JPay "will serve the public interest" by generating market efficiencies. That petition was approved by default on May 29.

In another slide, Securus cringingly declares that it "provides a best in class set of business attributes for facilities, inmates, friends/family members, and investors." Inmates, family and friends would have a less positive view of the hundreds of millions of dollars a year they are paying to Securus.

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