

SECURUS
Technologies

October 30, 2015

Subject: FCC Order on Inmate Calling Rates and Impact on Industry and Correctional Facilities

Dear Valued Customer:

On October 22, 2015, the Federal Communications Commission (FCC) in a 3-2 vote approved an Order that will drastically impact inmate telephone end-user rates, site commissions, carrier reporting requirements, future technology development, and ancillary services and fees. The purpose of this letter is to alert you to this issue and provide you with information on how it impacts you, your facility, your community, and your inmate telephone service.

While the Order still must be written and details determined, the information provided by the FCC shows that they have ignored evidence and made a huge error in judgment, law, and public safety and policy. If implemented, the Order will cause some jails to lose the ability for inmates to communicate with friends and family; lives of witnesses, judges, victims, and others will be lost due to the inability to provide the technology that prisons and jails need to keep us safe; and the financial stability of the Inmate Telephone Systems (ITS) sector will be clearly threatened.

Given the very serious impacts and ramifications of this Order, Securus Technologies will seek judiciary action to stay and overturn the Order. We believe it is unlawful, and our position is supported by years of case law, and in fact, by two members of the FCC itself.

What This Means To You

The attached Fact Sheet and Frequently Asked Questions documents provide you with information on the Order itself; however, the key issues impacting you are as follows:

1. Site Commissions are Eliminated. The FCC set the rate caps below costs without including the costs of site commissions or other like services making it impossible for commissions to be paid. The Order requires us to report and certify annually on our rates and site commission activity. The FCC has warned that payment of site commissions will result in further reduction in rates. Inmate advocacy groups are closely watching this issue and also reporting on same.
2. The Ability to Customize Rates by Location is Eliminated. The FCC rate caps only allow differentiation of rates by size of facility and the Order trumps State and Local laws and regulations. Gone is our ability to subsidize lower rates in some areas with higher rates in other areas or on other products. Examples include:
 - Low rates for local service have been traditionally subsidized by higher rates for long distance service;

- Low rates in some states have traditionally been subsidized by higher rates in other states;
- Lower rates and commissions in general have been subsidized by other products and services such as funding fees.

By its actions, the FCC is forcing rates and terms across states to be the same and eliminating our ability to create "localized" calling programs. With the exception of the size of a facility, all sites will need to be treated the same.

3. Access to Technology will be Reduced. With the setting of rate caps below industry costs, our ability to pay for technology grants will be eliminated and our ability to continue to reinvest and acquire technology will be significantly curtailed. This will result in our no longer being able to bundle technology solutions into end-user rates and will require us to acquire, develop and offer future solutions subject to your ability to fund the same. Given historically tight budgets for correctional facilities, we anticipate your access to future technology will become much more difficult.

Our Focus Remains Unchanged

The work you do is extremely important and is the cornerstone of our nation's public safety policy. Securus Technologies will continue to be an advocate for you. We will legally challenge this Order and continue to press the FCC to allow you to be compensated for your costs. We believe we will prevail in an appeal of this Order. Most important, our dedication to you will not change. We do not plan to eliminate service from any location nor significantly reduce any service level due to the implementation of this Order. You have our promise on this.

While we will need to reduce future spending and capital investment, Securus is in a good position relative to the rest of our industry. Given our diversification across other lines of business, only about 60% of our revenue is associated with inmate telephone service, and profits and future growth from our subsidiaries will help us manage through these changes. Further, our future costs will be reduced given we own our platform and technologies and don't need to pay third parties for the same, and our scale and past investment in our platform will make us more efficient. Our commitment to you is that we will still be here and will still be supporting the necessary and important work that you do.

Questions?

We'll keep you updated with information regarding the implementation of this Order. Along the way, if you have questions or concerns, please contact your Securus Account Manager, or feel free to call me at 972-277-0386 or email me at bpickens@securustechnologies.com.

Sincerely,



Robert Pickens
President, Securus Technologies

Fact Sheet of Inmate Rate Order

The Order has yet to be fully written and won't be effective for several months

- Once finalized, the Order must be published in the Federal Register—expect this in the next 45-90 days
- Order is effective 90 days after publication in the Federal Register for Prisons
- Order is effective six months after publication in the Federal Register for Jails

FCC is attempting to make sure that rates are just, reasonable and fair by establishing caps on all intrastate and interstate inmate calling rates. The rate caps are as follows:

- 11 cents/minute for debit and prepaid calls in state or federal prisons
- 14 cents/minute for debit and prepaid calls in jails with 1,000 or more inmates
- 16 cents/minute for debit and prepaid calls in jails with 350-999 inmates
- 22 cents/minute for debit and prepaid calls in jails up to 349 inmates
- Rates for collect calls are slightly higher in the first year and will be phased down to these rate caps over a two year transition period
- Eliminates the ability to subsidize lower rates with higher rates elsewhere

Ancillary service fees are capped in some cases and banned in many others

- Automated payment by phone or website: \$3
- Payment through a live agent: \$5.95
- Paper bill fee: \$2
- Third-party financial transaction fees, such as fees charged by MoneyGram or Western Union, may be passed through with no mark-up
- Prohibits all other ancillary service charges

The FCC strongly discourages "site commission" payments and makes them impossible to be paid since rate caps were purposely set below provider's cost to provide service, and accordingly, there is zero revenue or profits from which site commissions can be paid.

- The FCC will monitor compliance annually and make further downward adjustment in rates, if providers are paying commissions
- Defines the term "site commission" broadly and includes payments for anything unrelated to actual costs to provide service
- Excluded the cost of site commissions in establishing the rate caps

The Order facilitates access for people with disabilities

- Requires providers to offer free access to telephone relay service (TRS) calls for inmates with communications disabilities and applies a steeply discounted rate for TTY-to TTY calls
- Reminds correctional institutions of their obligation to make TRS available to people with communications disabilities
- Encourages jails and prisons to allow commonly used forms of TRS and requires them to report service quality issues

The FCC will provide extensive oversight and monitoring

- To monitor compliance, inmate telephone providers are required to file data annually with information on rates, fees, site commission payments, etc.
- To ensure transparency for consumers, providers must disclose rates and fees
- The FCC is committed to closely monitoring the implementation of reforms, including a review in two years to determine if additional adjustments are required

Frequently Asked Questions

Q. How did the FCC determine rates?

A. The FCC required inmate telephone providers to submit detailed cost studies that were compiled by third party experts to determine provider's costs to provide ICS. The FCC gave specific instructions stating that submitted studies could not include the cost of site commissions or anything unrelated to the provision of calling services. Using this information, the FCC then set a rate below industry's costs of providing service.

Q. Why did the FCC set rates below costs?

A. To drive out commissions and force rates lower.

Q. If my rates are below the rate cap, I won't need to change, right?

A. Unfortunately, since higher rates in other states or on other services subsidize lower rates, and since the FCC is eliminating the higher rates, we can no longer profitably provide lower than rate cap rates. Remember, the FCC is drastically cutting, or eliminating rates for ancillary services which have historically provided higher profit margins and made it possible for site commissions to be paid.

Q. What does Securus plan to do about this Order?

A. We plan to file a lawsuit with the United States Court of Appeals, and seek a Stay of the entire Order before it goes into effect, and request the Court to overturn this Order. We believe we have strong legal grounds for our lawsuit. In fact, two members of the FCC, have already agreed that this Order is unlawful and far exceeds the FCC's narrow legal authority. We are confident that we will prevail.

Q. How will Securus survive with these low rates?

A. Securus has diversified into several distinct lines of business and only has about 60% of its revenue associated with inmate telephone services. Profits from these other business lines will help absorb the damage from this Order. In addition, through future cost cutting and leveraging our scale and ability to automate, we will lower our cost of service. Even with this cost cutting, our investors will bear a severe burden.

Q. Is this just a Securus problem, or will others be impacted?

A. This Order impacts everyone. With rate caps being set below costs, all our competitors have the same problem that we have. Correctional facilities clearly suffer from a loss of commissions and from a more difficult access to technology in the future. Communities will also suffer as correctional facilities become less secure because of the loss of technology.

Q. Have you heard of anyone planning to continue to pay commissions?

A. We have heard of a small (mostly) payphone operator that specializes in selling services to small jails that has indicated that they may still offer a small commission going forward. They provide very limited service and have virtually no technology—so, they have very low costs. If they do move forward and provide commissions, they will have to report this and be subject to further rate reductions. Other than that, we have not heard of anyone believing they can survive and pay commissions.

Q. The FCC said you can pay commissions out of profits. Why can't you do this?

A. The rates set are actually below our costs, so there would be no way to pay these out of profits. Further, to the extent we reduce our costs enough to have a profit on calls, paying commissions out of profits would mean we could not pay our interest on our bank debt or receive support from our investors. This would be like deciding to not pay your car loan or house mortgage—you just can't do this for very long before your creditors call in their loans. It would be a recipe for bankruptcy. The FCC knows this and that is why they put rate caps below costs.