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Troubled companies made him billions. A prison phone investment made him enemies

By LAURENCE DARMIENTO
TIMES STAFF WRITER

Tom Gores has made himself one of the richest men in Los Angeles buying castaway, often obscure businesses that he overhauls and unloads for big profits.

That formula worked to perfection, for example, when his private equity firm acquired steel distributor PNA Group for an \$18-million investment, cleaned house, made related acquisitions and sold the bulked-up company for more than \$300 million, not including debt.

But with his latest purchase of a troubled asset, the 55-year-old billionaire has found himself in a harsh spotlight.

The \$1.6-billion acquisition of Securus Technologies has put Gores in control of a leading provider of telephone services to inmates — and a poster child for an industry widely condemned as a racket, given rates that can top a dollar a minute.

The Beverly Hills private equity titan has waded into a campaign against mass incarceration and what activists call the “prison industrial complex” — companies that operate or service correctional facilities, profiting off disproportionately poor and minority prisoners and their family members.



Detroit Pistons owner Tom Gores throws T-shirts into the stands during a 2016 home game. (Gregory Shamus/Getty Images)

The decision to acquire the company in 2017 has raised eyebrows since the Detroit Pistons owner seemed an unlikely buyer. The prior year he drew glowing headlines for leading a campaign to raise at least \$10 million amid the water crisis in Flint, Mich. — a majority black community where he grew up that has been devastated by auto-industry consolidation. And he’s been praised for his commitment to Detroit, where he’s funded charities and relocated the Pistons, a shrewd

business move after a lengthy exodus to the suburbs led by prior ownership.

Gores is being targeted by activists who are demanding reforms at Securus and have even pressed pension funds to stop investing in his Platinum Equity buyout firm. And although the activists haven’t been able to starve Gores of capital, they are not letting up, threatening to make their campaign more personal by taking it to criminal justice advocates in Detroit and athletes in the NFL and NBA,



Detroit Pistons owner Tom Gores, center, watches a game against the Toronto Raptors in Detroit in 2018. (Gregory Shamus/Getty Images)

whose players are known for being outspoken.

Gores, in an interview with *The Times*, said he knew his firm was courting “headline risk” when it decided to acquire Securus, but he saw the company as a solid busi-

ness where Platinum could act as a “change agent.” He admits being taken aback by the activists’ campaign. Gores said that his investment was not predicated on expensive calls, since rates were already coming down given the “public discussion” about them. Rather, he pointed to Securus’ computer tablets that allow inmates to make phone calls, take degree classes, enjoy entertainment and look for a job.

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“I will tell you I didn’t realize that there would be this much headline risk, but these sometimes are opportunities to make change,” he said. “I can’t tell you we expected it to be this much work, but sometimes these things land with you and you got to make a difference.”

Platinum says it has begun reforms at the suburban Dallas telecom, replacing top management and reducing already declining phone rates by 14% in the last year to an average of 15 cents per minute, inclusive of all fees. Gores

“We saw a lot more things than the rates,” he said. “The technology in this space is behind.”

But impatient critics charge Platinum has not moved fast enough during its nearly two years of ownership, and Securus is still charging outrageously high rates — with a 15-minute call costing more than \$10 at hundreds of jails — while profiting off additional fees.

It’s not a new controversy. Inmates, families and advocacy groups have for decades protested the high price of calls, typically paid by family members who open online accounts with Securus and other telecoms.

Facing pressure, the Federal Communications Commission in 2013 capped charges at 21 cents per minute for interstate calls from all types of facilities, though fees for simply adding money to an account can add to the cost. Charges have come down sharply in some state prisons. Securus signed a contract with Illinois that

charges inmates less than a penny a minute for U.S. calls.

But there has been less headway at county and city jails where officials often rely on a share of call revenue to help fund their department. This common practice can account for 90% of the cost and is called a commission — but critics dub it a kickback and regressive tax that prison telecoms promote because it provides an incentive to inflate rates.

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LLOYD GREIF, L.A. INVESTMENT BANKER

With annual revenue of nearly \$700 million, Securus is the second-largest prison telecom by market share, serving 3,400 correctional facilities and handling some 240 million calls last year. It also charges some of the highest rates, according to a report by the Prison Policy Initiative, which surveyed more than 2,000 local jails in 2018. The data show that 226 of the 250 most expensive jails had contracts with Securus, with three in Arkansas charging \$24.82 for a 15-minute call.

“They are selling the equivalent of a luxury product,” said Wanda Bertram of the Prison Policy Initiative, adding that the company is willing to “jack up phone rates” to appease sheriffs who want higher commissions.

The group’s report recommended abolishing commissions at jails and state prisons, eliminating excessive fees and making low rates the highest contract priority — or better yet making phone calls free so prisoners can maintain closer contact with families, considered one of the best ways to reduce recidivism .

University of Baltimore law school professor Daniel Hatcher said that prison telecoms are just another example of private companies that partner with public agencies to extract revenue from the poorest citizens for services that should be funded by taxation.

“The company is making profits, the investment company — Platinum — is making profits and then you have the states and counties that are turning this into a revenue source,” said Hatcher, whose



Genetha Campbell carries free water being distributed at the Lincoln Park United Methodist Church in Flint, Mich. Tom Gores led a campaign to raise funds amid the water crisis. (Paul Sancya/Associated Press)

book “The Poverty Industry” highlighted such arrangements.

The companies that operate private prisons have long been controversial and have been thrust into the spotlight for running facilities holding undocumented immigrants caught up in President Trump’s border crackdown. They are the subject of divestment campaigns, but activists say that even vendors providing phone and other services should have no role in the system because they have a financial incentive to promote incarceration.

“There is a difference between businesses that have a few ethical, questionable deviations and a business that at the root, at the core, is unethical, where there is not a redeemable piece of the business left when you fix it,” said Bianca Tylek, a Harvard Law School graduate and founder of Worth Rises, a

New York nonprofit campaigning against Platinum and other private equity firms.

The stated mission of Worth Rises is to “dismantle the prison industrial complex,” but Tylek has lobbied for practical reform including legislation that would either lower the cost of calls or make them free.

Her group found a receptive ear with presidential candidate and New York Mayor Bill de Blasio, who signed legislation that this year made New York the first major city to make jail phone calls free. The city got its costs with Securus down to 3 cents a minute. Worth Rises also is pushing reform bills in the state, Massachusetts, Connecticut and elsewhere.

Diane Lewis, 53, a Connecticut mother whose son served 11 years in state prison, said she struggled to afford calls that cost about \$4



Platinum Equity headquarters in Beverly Hills.

for 15 minutes. Sometimes family members ran up \$200 monthly bills from Securus.

“Talking to my son took priority over every bill in my house. Were there times the lights were off? Yeah. Were there times the gas was off? Yeah, but when he came out he was connected to his family. He knew when there was a new baby, when somebody died. That makes a huge difference,” said Lewis, who makes \$49,000 a year working for a program that helps place former inmates in jobs.

If the Connecticut bill is signed into law, the state would be the first to make phone calls free for state prisoners, but past efforts have run into bureaucratic opposition because the state receives commission revenue now totaling about \$7.5 million a year, said state Rep. Josh Elliott, who is carrying the bill. “That goes toward paying probation and parole officers and services. We are not taxing people for that,” he said.

In California, it costs \$1.23 to make a 15-minute phone call from a prison, which puts the state in the middle of the pack. San Francisco this summer moved to become the nation’s second major city to provide free jail calls. There is also a bill in the Legislature that would require county jails to end commissions and lower their rates.

Gores carved out a niche in private equity by buying struggling industrial or information technology businesses at a discount, such as orphaned divisions of Fortune 500 companies not seen as core assets. Sometimes that involved headline risk, such as Platinum’s foray into the newspaper industry a decade ago, when it bought the San Diego Union-Tribune, upgraded the paper’s technology and announced 192 layoffs just days after the sale closed. But Gores had a lower profile back then, before his 2011 acquisition of the Detroit Pistons.

Indeed, the broad legal and political attack on the private prison industry and Securus has left Platinum with a public relations mess — and some scratching their heads about how the savvy Gores got into this position.

“For a guy who owns the Detroit Pistons and is very philanthropic and supports education, what have you, it’s not a good place to be,” said L.A. investment banker Lloyd Greif, who recently advised a company sold to a Platinum holding. “It’s like Platinum touched the third rail and they’ve been taking electric currents for doing so ever since.”

An Israeli immigrant, Gores was born in Nazareth to Maronite Christian parents who moved to the Flint area when he was 4. He worked in his dad’s grocery growing up and put in a stint as a janitor to pay his way through Michigan State University. Worth an estimated \$4.1 billion, according to Forbes, Gores has had a remarkable rise since moving to Los Angeles in 1988 to run a lumber-logistics software company founded with his brother Alec, with whom he learned the mergers-and-acquisitions business.

Gores split from his brother and founded Platinum in 1995. Alec Gores has his own L.A. private equity firm and is worth an estimated \$2.2 billion. The larger Platinum, with \$13 billion under management and a portfolio of 40 firms, is housed in opulent Beverly Hills offices once the headquarters of talent agency MCA. Gores’ home is a \$38-million showpiece in the ultra-exclusive Bever-

ly Park neighborhood in Beverly Hills. A third brother, Sam, founded and runs talent agency Paradigm.

Greif said that Platinum's acquisition of Securus was a "high-visibility, high-risk" decision given the transformation of prison businesses into the category of a sin industry like tobacco and guns. The circumstances surrounding the deal didn't help.

The acquisition closed less than a year after President Trump's appointee to lead the Federal Communications Commission abandoned an Obama-era effort to impose caps on in-state calls, a priority for activists since about 80% of calls are local. Prison telecoms, including Securus, had sued to block the caps and had scored a victory in appeals court.

Then, just months after the deal closed, Platinum attempted to buy the third-largest prison telecom. The merger with ICSolutions was right out of the private equity industry's playbook, but it infuriated activist groups, which blanketed the FCC docket in opposition, arguing that Securus had a history of flouting regulations and that the deal would lead to even higher rates.

In a surprise, the agency nixed the acquisition, prompting Platinum to abandon the deal. Tylek said the decision energized the activist community and made Platinum realize they wielded real power. "That opened their eyes," she said.

In February, activist groups sent letters to Platinum and other private equity firms with holdings in



Bianca Tylek is executive director of Worth Rises, a nonprofit campaigning against Platinum and other private equity firms. (Kwame Owusu-Kesse)

prison service companies asking to meet with them and demanding that they exit those investments. One of the groups, the American Federation of Teachers, also issued a report that warned public pension fund managers that investing in private equity firms with such holdings could result in lower returns because of the growing backlash against the prison industry.

A month later, Worth Rises demanded Platinum implement a series of "operational reforms" and exit the Securus investment by the end of next year. Among the demands were free phone calls for all

juvenile inmates, flat rates for all call types, a \$5 price cap for a 30-minute video chat and free app options for all tablet content.

In response to the growing furor, Platinum told investors in a letter that some of Securus' most offensive practices had been discontinued before the acquisition, including contracts that as a condition of providing video chats limited in-person visits. It also stated that while it supported reforms in the prison services industry, the companies benefit inmates and "the larger debate over mass incar-



Tom Gores with kids on court at the Palace of Auburn Hills. (Mike Ferdinande)

ceration is outside of our purview.”

The activists set about trying to directly quash investment in Platinum’s latest fund — its largest ever at \$8 billion — starting with New York City’s public pension funds. No decision has yet been released, but a source close to the matter said the funds went ahead with a \$300-million investment. However, they are reportedly working on a “side letter” prohibiting use of the money in any prison-related companies.

Platinum and the activists clashed again last month before the Pennsylvania Public School Employees’ Retirement System board. The fund had invested \$1.08 billion in prior Platinum rounds and is earning what amounts to an annualized return of more than 30% — exceptional even by private equity industry standards.

The board went ahead with a \$300-million investment despite activists’ opposition, with Plati-

num partner Mark Barnhill pledging to the board to turn Securus into a “responsible market leader.” Citing securities regulations, Platinum will not discuss fundraising, but before the August meeting it reported in a filing that it had raised \$7.17 billion toward its latest fund.

Gores acknowledged that he never expected the Securus deal would lead to a campaign pressuring his firm’s institutional investors — “there’s a lot of hindsight here” — but he refused to accede to demands for an early exit, saying the company will reinvest profits to improve operations. Platinum typically owns its portfolio companies three to five years.

“We are not going to pop in, make a few bucks and pop out. We are going to make it right first,” Gores said.

Barnhill told *The Times* that Platinum agrees rates are too high but reforming the company will be a slow process involving contract-

by-contract negotiations as it attempts to wean corrections agencies off commissions. One method is requiring Securus to offer every agency it serves a commission-free contract option.

He said Platinum remains open to working with the activists and is attempting to meet Worth Rises’ demands where it can, but he complained that activists really prefer to have the company and industry shut down and dismantled.

“I’ll just tell you the work is the work,” he said, adding that activists prefer to “demonize us, to demonize the company, to demonize the industry.”

Tylek acknowledged the goal is to make companies such as Securus “toxic assets,” but said Platinum still needs to move faster on reforms, which she said have come only under the most extreme pressure. “They continue to promise action, but the longer it takes for our communities to see relief, the more their promises are sounding like marketing,” she said.

Activists plan to next target Apex Partners, a London firm that is raising money and owns electronic-monitoring company Attenti. Instead of freeing prisoners from jail or prison, critics say these companies actually widen the net of incarceration by encouraging monitoring. But Tylek said Worth Rises “will continue to be a thorn in Platinum Equity’s side,” focusing especially in Detroit, where Gores is a prominent local figure.

“We will go at every available public pressure point, and if that means leveraging their public face

with the Pistons we will do that,” Tylek said.

Clearly, there would be sensitivities in Detroit, where the Pistons are a month away from opening a \$90-million practice facility that will feature shops and other community benefits, and few are willing so far to comment on the matter.

Mayor Mike Duggan, who has effusively praised Gores for bringing the Pistons back to the city, declined to comment for this article, with a spokesman saying that he has never heard of Securus.

ESPN analyst Jalen Rose, a former NBA player who runs a Detroit charter school Gores supports through a celebrity golf tournament, said through a spokesman that he “respectfully declined” to participate in this article after being told of its content.

Gores is a personable billionaire who whoops it up on the sidelines and has a reputation as a player-friendly owner, video-chatting and texting with athletes.

During the height of the Colin Kaepernick controversy, when the NFL quarterback was drawing massive attention for kneeling during the national anthem to protest police brutality, Gores stood out when he said he would support his players if they wanted to do so themselves.

But the optics of an investment in a prison telecom are worsening as consensus grows that mass incarceration — with an estimated 2.2 million people in U.S. jails and prisons — has contributed to poverty, destroyed families and eaten



Former NBA players Jalen Rose, center, and Rick Mahorn, right, attend the Jalen Rose Leadership Academy Celebrity Golf Classic, presented by Tom Gores and Platinum Equity in August. (Scott Legato/Getty Images)

into government budgets at all levels.

Former Vice President Joe Biden has had to repeatedly defend himself on the presidential campaign trail for his backing of 1994 tough-on-crime legislation that critics say contributed to the problem. And bipartisan legislation that could cut the prison terms of some federal offenders even drew President Trump’s signature this year.

Gores maintains the outcry has energized him, and he promised to get more personally involved in managing Securus, something typically left to Platinum’s operations staff. He also offered to sit down face to face with activists to help improve the company.

“There are not a lot of things that get me too excited, but this is in a way something where I can get inspired to make a difference to a lot of people,” he said. “I am a

kid who grew up in Flint and started with nothing, and if I could figure that out and get where I am today then I can figure this out, and I am going to make a difference.”