



Agenda Date: 11/19/18
Agenda Item: 3C

STATE OF NEW JERSEY
Board of Public Utilities
44 South Clinton Avenue, 3rd Floor, Suite 314
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

CABLE TELEVISION

IN THE MATTER OF ALTICE USA, INC.)
NOTIFICATION OF PRO FORMA TRANSACTION)
ORDER)
DOCKET NO. CM18101191)

Parties of Record:

Paul Jamieson, Esq., Vice President, Government Affairs and Policy, Altice USA, Inc.
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

On October 10, 2018, Altice USA, Inc. ("Altice USA," "Petitioner," or "Company") noticed the Board of Public Utilities ("Board") ("Notification") of a plan to combine the organizational structure of its Cablevision Systems Corporation ("Cablevision") and Cequel Corporation ("Cequel") business segments ("Combination") and consolidate Cequel's capital debt structure with Cablevision's ("Refinancing") (together, "Transaction"). Altice USA asserts that this will simplify its operating structure and allow it to further reduce financial leverage, with the public benefitting from enhanced operating and financial conditions that will further its investment in the network, products and services serving New Jersey households. Following closing on the transaction, the same services will continue to be offered in New Jersey at the same rates, terms, and conditions to customers.

BACKGROUND

Altice USA is a publicly traded Delaware corporation that is one of the largest cable operators in the United States. As of June 30, 2018, Altice USA served approximately 4.9 million residential and commercial customers across twenty-one states. Altice USA is an authorized provider of cable television and telecommunications services in New Jersey through its subsidiaries which were formerly indirect wholly-owned subsidiaries of Cablevision and acquired by Altice N.V.: Cablevision Lightpath-NJ, LLC ("Lightpath"); 4Connections, LLC ("4Connections"); and CSC TKR, LLC ("CSC TKR") and its subsidiaries, operating under its immediate corporate parent,

CSC Holdings, LLC ("CSC Holdings")¹ ("2016 Board Order"). Altice USA separated from Altice N.V. in March 2018² ("March 2018 Board Order").

Altice USA acquired Cequel on December 21, 2015. Today, Altice USA serves its customers through two business segments reflecting this legacy corporate structure. Its Cablevision subsidiaries offer services under the Optimum brand in New Jersey, New York, and Connecticut and small areas in Pennsylvania, and its Cequel subsidiaries offer services under the "Suddenlink" brand in seventeen (17) other states, principally in the South-Central United States.

On October 2, 2018, Altice USA circulated a press release announcing its intention to reorganize its organizational structure by combining its Cablevision and Cequel business segments together with Cablevision surviving. Simultaneously, existing debt held by Cequel affiliates would be converted into debt held by CSC Holdings in addition to amending CSC Holdings' existing credit facility.

A. The Combination

The Transaction will be accomplished first by merging certain intermediate holding companies of the Cequel organizational structure into intermediate holding companies that are part of Cablevision's organizational structure. The effect of these changes will be to ultimately cause the Cequel subsidiaries to become indirect Cablevision subsidiaries. Cablevision will then distribute the Suddenlink Licensees to its direct subsidiary CSC Holdings, resulting in the Suddenlink Licensees being held indirectly by Cablevision through CSC Holdings.

B. The Refinancing

The Refinancing will be accomplished by an exchange of existing Cequel senior secured and senior notes or various rates and terms into new Cequel senior secured and senior notes ("New Notes") issued by the same issuers, with the same rates and terms, totaling \$5.520 billion, which will automatically convert into new senior guaranteed and senior notes ("New CSC Notes") of CSC Holdings upon satisfaction of certain conditions, including the consummation of the Combination.

The aggregate principal outstanding obligations of the New Notes will remain unchanged following the exchange, and the aggregate principal outstanding obligations of the New CSC Notes will be no greater than \$5.520 billion. The New CSC Senior Guaranteed Notes will be issued by CSC Holdings and guaranteed by each subsidiary of CSC Holdings and Cequel that provides a guarantee under the current credit facilities (including Lightpath but not including CSC TKR). The New CSC Senior Notes will be issued by CSC Holdings and will be unsecured and without guarantors.

¹ See I/M/O the Verified Joint Petition of Altice N.V. and Cablevision Systems Corporation and Cablevision Cable Entities for Approval to Transfer Control of Cablevision Entities and I/M/O the Verified Joint Petition of Altice N.V. and Cablevision Systems Corporation, Cablevision Lightpath-NJ, LLC, and 4Connections LLC for Approval to Transfer Control of Cablevision Lightpath-NJ, LLC and 4Connections LLC, and for Certain Financing Arrangements, BPU Docket Nos. CM15111255 and TM15111256 (May 25, 2016).

² See I/M/O the Notification of the Separation of Altice USA, Inc., from Altice, N.V., BPU Docket No. CO18030262. (March 26, 2018).

In addition, CSC Holdings entered into an amendment to its existing credit agreement "Amended CSC Credit Agreement") for a new \$1.275 billion, seven-year Senior Secured Term Loan B maturing January 2026, providing for the refinancing of the entire \$1.25 billion principal amount of loans under Cequel's existing Term Loan Facility and other transaction costs related to the Financing. Thus, both the Amended CSC Credit Agreement and the New CSC Senior Guaranteed Notes are expected to share the same guarantors (including Lightpath) following the Transaction.

Because the existing Cequel debt conversion to CSC Holdings debt will be accomplished simultaneously with the addition of the Cequel entities' asset and revenue base into the Cablevision corporate structure, the Refinancing is expected to be "leverage neutral"³ for Altice USA, as attested to by three Credit Ratings Agencies⁴ ("Credit Rating Agencies Reports").

In addition to the notice provided, on October 18, 2018, Board Staff ("Staff") met with Altice USA to further discuss the Transaction. Subsequently, Altice USA submitted additional information in response to inquiries by Staff regarding the impact of the financing portion of the Transaction and the Transaction's impact on Altice USA's New Jersey customers.

Altice USA asserts that the Transaction is in the public interest in that, by aligning Altice USA's businesses and debt capital structure with the way Altice USA is managed – as a unified company with a common strategy – the Combination will result in a more diversified "credit silo" that is expected to simplify Altice USA's financing strategy and financial reporting requirements.

Further, Altice USA notes that there will be no change in ownership to New Jersey subsidiaries; no impact on the Company's New Jersey legal commitments, customers, or employees and legal entities holding authorizations from the Board or their compliance with applicable law, including Board regulations and the Merger Conditions,⁵ no change to the existing Management or Board of Directors of Altice USA or of its New Jersey subsidiaries; no impact on New Jersey residential customers; no adverse impact on the ability of Altice USA's New Jersey subsidiaries to provide safe and reliable service to its subscribers, even under extraordinary circumstances; no change to Altice USA's local management team; no impact on Altice USA's New Jersey customers and workforce; no negative impact on rates, terms, and conditions of Altice USA's products and services offered to New Jersey customers; and no impact on the ability of Altice USA to fulfill any pension obligations. Further, Altice USA states that no New Jersey assets will be used to secure financing; and Altice USA asserts that Credit Rating Agencies Reports view the Transaction positively. Additionally, Altice USA asserts that neither the Company's assets used to provide cable service (via its subsidiary CSC TKR, LLC and its affiliates) nor telecommunications services (via its subsidiaries Cablevision Lightpath-NJ, LLC and 4Connections, LLC) to its New Jersey customers are being used as security to guarantee any new financing. As Altice USA states, a principal driver of the Transaction is to create the conditions for further deleveraging, which advances a Board interest captured in the Merger Conditions in reducing leverage.

³ Leverage: An important financial benchmark ratio measuring the net debt to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

⁴ Fitch Ratings, Oct. 5, 2018; Moody's Investor Services, Oct. 2, 2018; and S&P Global Ratings, Oct. 2, 2018.

⁵ See 2016 Board Order "Merger Conditions."

Altice USA nonetheless maintains that the Combination is a purely internal, pro forma reorganization not subject to Board review under either N.J.S.A. 48:2-51.1, as applicable to Lightpath and 4Connections, or under N.J.S.A. 48:5A-38 and -43, as applicable to CSC TKR and its subsidiaries, because it does not involve any changes to the corporate structure of the New Jersey entities and only involves parent CSC Holdings seeking to acquire control of Cequel (i.e., Altice USA's Suddenlink affiliates), which does not itself provide telecommunications or cable services in New Jersey. Further, regarding the Refinancing, Altice USA asserts that the Board's authority is also not implicated, either under N.J.S.A. 48:5A-42(c), -40(c), N.J.S.A. 48:3-7(g) and -9(b), because none of the New Jersey entities will be issuing notes, borrowing any funds, or offering any new security interest in the assets used to serve New Jersey customers.

Notwithstanding, under the existing credit facility in conjunction with the 2016 Board Order, a facility guaranty agreement was issued and executed by each of the affiliates of the borrower, CSC Holdings, including Lightpath. Lightpath remains in a position with this new Refinancing (as with the financing associated with the March 2018 Board Order), to assume the liability for payment of the debt if CSC Holdings defaults in its performance or payment under the credit agreement. Additionally, Lightpath is also a new guarantor of the New CSC Senior Guaranteed Notes. Therefore, an evidence of indebtedness exists involving the Amended CSC Credit Agreement and the New CSC Senior Guaranteed Notes below the parent-level transaction, attributable to Lightpath.

On October 26, 2018, the New Jersey Division of Rate Counsel ("Rate Counsel"), after having been given notice of the transfer, filed comments with the Board stating that, based on the assertions and commitments contained in the filing, Rate Counsel would not object to Board approval of the Transaction contingent on certain conditions. Rate Counsel recommended that the Board adopt and memorialize the commitments contained in the filing, which affirm that the Transaction involves no change in ownership to New Jersey subsidiaries; affirm no impact on the Company's New Jersey legal commitments, customers, or employees; and confirm that no New Jersey assets were used to secure financing. Additionally, Rate Counsel requested that the Board's approval also confirm that the Company will fulfill employee pension obligations and continue to be bound by the commitments, obligations, service terms, and conditions previously approved and directed under prior Board Orders.

The Board is cognizant of Rate Counsel's recommendations and takes notice of Altice USA's assertions and statements, as part of reviewing the Transaction and in its findings.

FINDINGS AND CONCLUSION

The Transaction appears to involve both cable systems and telephone utilities under the Board's jurisdiction. N.J.S.A. 48:5A-38(a) provides that "no CATV company shall combine, merge, or consolidate with, or acquire control of, another organization without first obtaining the approval of the board, which shall be granted only after an investigation and finding that such proposed combination, merger, consolidation, or acquisition is in the public interest." Also, N.J.S.A. 48:5A-40(a) states that "no CATV company shall, without the approval of the board, sell, lease, mortgage or otherwise dispose of or encumber its property, franchises, privileges or rights, or any part thereof; or merge or consolidate its property, franchises, privileges or rights, or any part thereof, with that of any other CATV company. Every sale, mortgage, lease, disposition, encumbrance, merger or consolidation made in violation of this section shall be void."

Pursuant to N.J.S.A. 48:2-51.1(a), the Board shall evaluate the impact of an acquisition of control of a public utility on competition, on the rates of ratepayers affected by the acquisition of control, on the employees of the affected public utility or utilities, and on the provision of safe and adequate utility service at just and reasonable rates. The Board must be satisfied that positive benefits will flow to customers and the State of New Jersey and, at a minimum, that there are no adverse impacts on any of the criteria delineated in N.J.S.A. 48:2-51.1, as set forth above. Also, pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-10, the Board must determine whether the public utility, or a wholly owned subsidiary thereof, may be unable to fulfill its pension obligations to any of its employees. Finally, pursuant to N.J.S.A. 48:3-9, the Board must approve the Financing to the extent necessary if it is satisfied that it is to be made in accordance with law and the purpose thereof is approved by the Board.

Based upon the Board's independent review of the record in this matter pursuant to the above-referenced statutes, the Board **HEREBY FINDS** that, as asserted in the Notification, the Transaction is not likely to create any adverse impacts, is in the public interest, and has the likelihood of creating positive benefits by simplifying Altice USA's structure and operations, allowing Altice USA increasingly to reap the operational and commercial benefits of common ownership and one management team, which ultimately benefits the customers in Altice USA's New Jersey communities.

Additionally, the Board is satisfied that positive benefits will flow to customers based upon the information provided and that the Transaction would not result in the ability of Altice USA to be able to exercise market power to raise prices above competitive levels or exclude competitors from the marketplace. The Board therefore **FINDS** that the proposed transaction will have little impact on competition. The Board additionally **FINDS** that there will be no negative impact on rates or the present provision of safe, adequate, and proper service since Petitioner's New Jersey customers will continue to receive the same services at the same rates and under the same terms and conditions and the provision of service quality on competitive offerings is in the public interest. The transaction will also not result in any change in the ability of Altice USA to fulfill pension obligations. The Board **FURTHER FINDS** that the proposed Financing is consistent with applicable law and is in the public interest.

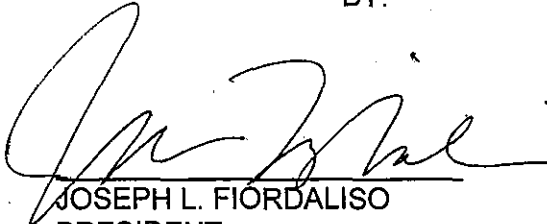
Accordingly, the Board **FINDS** the proposed Transaction is in compliance with relevant law and regulation and therefore **APPROVES** the Transaction as described in the Notification and related documents, including all the statements and assertions of neutral or positive benefits.

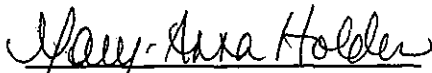
In the event Altice USA enters into any future agreements resulting in the grant of any security interest or indebtedness of any public utility or cable television assets used to serve New Jersey customers, Altice USA shall file the appropriate petitions seeking prior approval, as required under governing laws. The Board **CONCLUDES** that approval of this transaction does not affect the obligations of Altice USA or modify the 2016 Board Order or the March 2018 Board Order. The Board further **CONCLUDES** that Altice USA shall still be bound by all conditions of the 2016 Board Order.

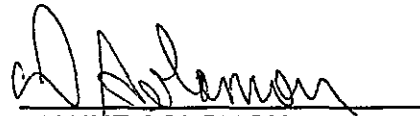
This Order shall be effective on November 29, 2018.


DATED: 11/19/18

BOARD OF PUBLIC UTILITIES
BY:



JOSEPH L. FIORDALISO
PRESIDENT


MARY-ANNA HOLDEN
COMMISSIONER


DIANNE SOLOMON
COMMISSIONER


UPENDRA J. CHIVUKULA
COMMISSIONER


ROBERT M. GORDON
COMMISSIONER

ATTEST: 
AIDA CAMACHO-WELCH
SECRETARY

HEREBY CERTIFY that the within
document is a true copy of the original
of the Board of Public Utilities.

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