SYNIVERSE HOLDINGS INC
Form 10-Q
November 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NUMBER 333-176382

SYNIVERSE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	30-0041666
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8125 Highwoods Palm Way
Tampa, Florida 33647
(Address of principal executive office)
(Zip code)
(813) 637-5000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller reporting company o	Emerging growth company

o

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of common stock of the registrant outstanding at November 3, 2017 was 1,000.

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GLOSSARY OF TERMS

Term	Definition
2011 Plan	2011 Equity Incentive Plan
4G	Fourth generation
A2P	Application to Peer
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Carlyle	Investment funds affiliated with The Carlyle Group
CDMA	Code division multiple access
CNAM	Caller name directory
EIS	Enterprise & Intelligence Solutions
E.U.	European Union
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FCPA	Foreign Corrupt Practices Act
GMAC	Guideline merged and acquired company
GPC	Guideline public company
GSM	Global system for mobiles
IASB	International Accounting Standards Board
IPX	Interworking packet exchange
LTE	Long-term evolution
M2M	Machine-to-machine
MNO	Mobile network operator
MTS	Mobile Transaction Services
MVNO	Mobile virtual network operators
NOL	Net operating loss
OFAC	The Office of Foreign Assets Control of the U.S. Department of the Treasury
OTT	Over-the-top provider
SEC	Securities and Exchange Commission
SS7	Signaling System 7
U.S.	United States of America
U.S. GAAP	Accounting principles generally accepted in the United States
VIE	Variable interest entity
VoLTE	Voice over LTE

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYNIVERSE HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 121,267	$ 136,174
Accounts receivable, net of allowances of $19,722 and $21,650, respectively	172,325	166,107
Income taxes receivable	6,607	8,296
Prepaid and other current assets	28,512	28,390
Total current assets	328,711	338,967
Property and equipment, net	100,575	108,782
Capitalized software, net	115,852	143,291
Goodwill	2,309,014	2,272,796
Identifiable intangibles, net	275,127	319,441
Deferred tax assets	1,410	1,338
Investment in unconsolidated subsidiaries	46,965	47,181
Other assets	5,402	8,304
Total assets	$ 3,183,056	$ 3,240,100
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable	$ 26,498	$ 30,557
Income taxes payable	1,666	5,049
Accrued liabilities	80,271	107,164
Deferred revenues	6,382	3,014
Current portion of capital lease obligation	8,059	16,354
Current portion of long-term debt, net of original issue discount and deferred financing costs	—	1,853
Total current liabilities	122,876	163,991
Long-term liabilities:		
Deferred tax liabilities	119,182	112,730
Long-term capital lease obligation, less current portion	5,759	8,366
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,979,672	1,993,596
Other long-term liabilities	49,177	45,215
Total liabilities	2,276,666	2,323,898
Commitments and contingencies		
Stockholder equity:		
Common stock $0.01 par value; one thousand shares authorized, issued and outstanding as of September 30, 2017 and December 31, 2016	—	—
Additional paid-in capital	1,273,882	1,265,752
Accumulated deficit	(303,811)	(237,021)

Accumulated other comprehensive loss	(71,230)	(120,042)
Total Syniverse Holdings, Inc. stockholder equity	898,841	908,689
Noncontrolling interest	7,549	7,513
Total equity	906,390	916,202
Total liabilities and stockholder equity	$ 3,183,056	$ 3,240,100

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNIVERSE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited)			
Revenues	$207,009	$196,617	$587,364	$588,779
Costs and expenses:				
Cost of operations (excluding depreciation and amortization shown separately below)	90,483	88,293	265,010	272,959
Sales and marketing	17,295	16,212	54,059	54,071
General and administrative	24,638	25,863	71,876	87,412
Depreciation and amortization	49,834	52,739	145,271	155,976
Employee termination benefits	457	(247)	609	747
Restructuring charges	1,097	1,087	5,126	14,530
Other operating income	—	(5,499)	—	(5,499)
	183,804	178,448	541,951	580,196
Operating income	23,205	18,169	45,413	8,583
Other income (expense), net:				
Interest expense, net	(30,959)	(30,515)	(101,041)	(92,304)
(Loss) gain on early extinguishment of debt, net	(56)	—	306	—
Equity loss in investees	(125)	(213)	(639)	(122)
Other, net	(896)	532	(2,137)	2,714
	(32,036)	(30,196)	(103,511)	(89,712)
Loss before provision for (benefit from) income taxes	(8,831)	(12,027)	(58,098)	(81,129)
Provision for (benefit from) income taxes	16,125	5,136	6,493	(33,553)
Net loss	(24,956)	(17,163)	(64,591)	(47,576)
Net income attributable to noncontrolling interest	809	458	2,199	1,393
Net loss attributable to Syniverse Holdings, Inc.	$(25,765)	$(17,621)	$(66,790)	$(48,969)

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNIVERSE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN THOUSANDS)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited)			
Net loss	$(24,956)	$(17,163)	$(64,591)	$(47,576)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment (1)	12,716	6,351	48,783	7,130
Amortization of unrecognized loss included in net periodic pension cost (2)	62	61	177	138
Other comprehensive income	12,778	6,412	48,960	7,268
Comprehensive loss	(12,178)	(10,751)	(15,631)	(40,308)
Less: comprehensive income attributable to noncontrolling interest	720	558	2,347	1,384
Comprehensive loss attributable to Syniverse Holdings, Inc.	$(12,898)	$(11,309)	$(17,978)	$(41,692)

(1) Foreign currency translation adjustments are shown net of income tax expense of $204 for the nine months ended September 30, 2016.

(2) Amortization of unrecognized loss included in net periodic pension cost is shown net of income tax expense of $28 and $79 for the three and nine months ended September 30, 2017, respectively, and net of income tax expense of $27 and $61 for the three and nine months ended September 30, 2016, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNIVERSE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER EQUITY
(IN THOUSANDS)

	Stockholder of Syniverse Holdings, Inc.						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Nonredeemable Noncontrolling Interest	Total
Balance, December 31, 2015	1	$ —	$ 1,250,139	$ (169,838)	$ (97,586)	$ 7,134	$ 989,849
Net (loss) income	—	—	—	(48,969)	—	1,393	(47,576)
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustment, net of tax expense of $204	—	—	—	—	7,139	(9)	7,130
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of $61	—	—	—	—	138	—	138
Stock-based compensation	—	—	13,049	—	—	—	13,049
Distribution to noncontrolling interest	—	—	—	—	—	(1,520)	(1,520)
Distribution to Syniverse Corporation	—	—	(46)	—	—	—	(46)
Balance, September 30, 2016 (Unaudited)	1	$ —	$ 1,263,142	$ (218,807)	$ (90,309)	$ 6,998	$ 961,024
Balance, December 31, 2016	1	$ —	$ 1,265,752	$ (237,021)	$ (120,042)	$ 7,513	$ 916,202
Net (loss) income	—	—	—	(66,790)	—	2,199	(64,591)
Other comprehensive (loss) income, net of tax:							
Foreign currency translation adjustment	—	—	—	—	48,635	148	48,783
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of $79	—	—	—	—	177	—	177
Stock-based compensation	—	—	11,209	—	—	—	11,209
Distribution to noncontrolling interest	—	—	—	—	—	(2,311)	(2,311)
Distribution to Syniverse Corporation	—	—	(3,079)	—	—	—	(3,079)
Balance, September 30, 2017 (Unaudited)	1	$ —	$ 1,273,882	$ (303,811)	$ (71,230)	$ 7,549	$ 906,390

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNIVERSE HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Nine Months Ended September 30,	
	2017	2016
	(Unaudited)	
Cash flows from operating activities		
Net loss	$(64,591)	$(47,576)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	145,271	155,976
Amortization of original issue discount and deferred financing costs	9,859	11,074
Allowance for credit memos and uncollectible accounts	8,837	14,460
Deferred income tax expense (benefit)	5,648	(34,879)
Debt modification costs	9,780	—
Gain on early extinguishment of debt, net	(306)	—
Stock-based compensation	11,209	13,049
Other operating income	—	(5,499)
Other, net	1,328	(572)
Changes in operating assets and liabilities:		
Accounts receivable	(11,336)	5,683
Income taxes receivable or payable	(2,001)	(4,428)
Prepaid and other current assets	(3,679)	(4,154)
Accounts payable	(4,539)	(17,214)
Accrued liabilities and deferred revenues	(22,045)	(12,629)
Other assets and other long-term liabilities	3,066	5,526
Net cash provided by operating activities	86,501	78,817
Cash flows from investing activities		
Capital expenditures	(50,167)	(43,178)
Investment in unconsolidated subsidiaries	—	(40,544)
Redemption of certificate of deposit	506	317
Net cash used in investing activities	(49,661)	(83,405)
Cash flows from financing activities		
Proceeds from Revolving Credit Facility	—	15,000
Debt issuance costs paid	(1,143)	—
Principal payments on Revolving Credit Facility	—	(15,000)
Debt modification costs paid	(9,768)	—
Principal payments on debt	(25,032)	(36,243)
Payments on capital lease obligations	(14,464)	(12,534)
Distribution to Syniverse Corporation	(3,079)	(5,046)
Distribution to noncontrolling interest	(2,311)	(1,520)
Net cash used in financing activities	(55,797)	(55,343)
Effect of exchange rate changes on cash	4,050	245
Net decrease in cash	(14,907)	(59,686)
Cash and cash equivalents at beginning of period	136,174	166,581
Cash and cash equivalents at end of period	$121,267	$106,895
Supplemental noncash investing and financing activities		
Assets acquired under capital lease and non-cash financing obligations	$5,929	$8,955

Issuance of Syniverse Corporation stock for investment in unconsolidated subsidiaries	$—	$5,000
Supplemental cash flow information		
Interest paid	$92,516	$92,536
Income taxes paid	$2,809	$5,755

See accompanying notes to unaudited condensed consolidated financial statements.

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SYNIVERSE HOLDINGS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business
Syniverse is the leading global transaction processor that connects MNOs and enterprises in nearly 200 countries enabling seamless mobile communications across disparate and rapidly evolving networks, devices and applications. We process transactions that include the authorization and delivery of end user traffic, clearing of billing records and settlement of payments. We also offer a unique portfolio of intelligent policy and charging tools that enable our customers to use the real-time data generated by these transactions to deliver customized services and choices to their end-users. Our portfolio of mission-critical services enables our customers to connect to the mobile ecosystem, optimize their businesses and enhance and personalize the mobile experience for their end-users. We process over 4 billion billable transactions daily and settle over $16 billion annually between our customers.
We are the leader in LTE roaming and interconnect, offering superior connectivity critical for delivering the advanced mobile experiences end-users have come to expect from 4G and other advanced mobile network technologies, including VoLTE. Our IPX network currently directly connects to nearly half of the global mobile population. We believe our global footprint and operational scale are unmatched in our industry. As a trusted partner with over 25 years of experience and a history of innovation, we believe we are well positioned to solve the technical, operational and financial complexities of the mobile ecosystem.
Our diverse customer base includes a broad range of participants in the mobile ecosystem, including approximately 900 MNOs and 450 OTTs and enterprises. Our customers include 98 of the top 100 MNOs globally, such as Verizon Wireless, América Móvil, Vodafone, Telefónica, China Unicom and Reliance Communications; OTTs, including 3 of the 5 largest social networking sites in the U.S. and one of the largest social networking sites in China; and blue-chip enterprise customers, including the top 3 credit card networks worldwide and a multinational hotel brand.
The mobile experience is a critical and pervasive component of modern life and has become increasingly complex. Mobile devices have evolved from basic cellular phones to include smartphones, tablets, wearables and other connected devices that people now use to conduct an expanding set of activities in real-time, such as streaming videos, posting social media updates, working and shopping. As a result, today’s mobile experience requires seamless and ubiquitous connectivity and coordination between MNOs, OTTs and enterprises across disparate and rapidly evolving networks, devices and applications. The failure to integrate any of these elements can disrupt service, resulting in frustrated end-users, erosion of our customers’ brands and loss of revenue by our customers. Our proprietary services bridge these technological and operational complexities.
Syniverse provides approximately 60 mission-critical services to manage the real-time exchange of information and traffic across the mobile ecosystem, enhance our customers’ brands and provide valuable intelligence about end-users. Our customers demand, and we deliver, high quality service as evidenced by our over 99.999% network availability. Our comprehensive suite of Mobile Transaction Services and Enterprise & Intelligence Solutions includes the services described below.

Mobile Transaction Services: Transaction-based services that are designed to support the long-term success of our MNO customers. Through Mobile Transaction Services, we:

- Clear, process and exchange end-user billing records.
- Process and settle payments between participants in the mobile ecosystem.
- Activate, authenticate and authorize end-user mobile activities.
- Manage the worldwide routing and delivery of text (SMS), multimedia (MMS) and next generation messaging.
- Provide data transport services over our global IP data network regardless of technology protocol.
- Provide intelligent policy and charging tools that enable our customers to use real-time data for improved end-user experience.
- Provide risk management tools to prevent fraudulent activity on operator networks and identify problem areas in the end to end billing cycle.

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Enterprise & Intelligence Solutions: Services that bridge OTTs and enterprises with MNOs and incorporate our real-time intelligence capabilities to enable all of our customers to serve their end-users. Through Enterprise & Intelligence Solutions, we:

- Connect enterprises to the mobile ecosystem to allow them to reliably reach and interact with their customers and employees via mobile devices.
- Bridge OTTs to the mobile ecosystem allowing OTT end-users to seamlessly interact with traditional mobile end-users.
- Enable enterprises to rapidly execute and optimize their mobile communications initiatives.
- Provide data analytics and business intelligence solutions designed to measure, enhance and secure the end-user experience for our enterprise customers.
- Provide solutions to enable MNOs to measure and manage the subscriber experience across networks.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Syniverse Holdings, Inc. have been prepared in accordance with U.S. GAAP for interim financial information and on a basis that is consistent with the accounting principles applied in our audited financial statements for the fiscal year ended December 31, 2016 (the “2016 financial statements”). In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our annual report on Form 10-K filed with the SEC on March 7, 2017. Operating results for the interim periods noted herein are not necessarily indicative of the results that may be achieved for a full year.

The unaudited condensed consolidated financial statements include the accounts of Syniverse Holdings, Inc. and all of its wholly owned subsidiaries and a VIE for which Syniverse is deemed to be the primary beneficiary. References to “Syniverse,” “the Company,” “us,” or “we” include all of the consolidated companies. Noncontrolling interest is recognized for the portion of consolidated joint ventures not owned by us. All significant intercompany balances and transactions have been eliminated.

In May 2016, we acquired a noncontrolling interest in Vibes Media LLC (“Vibes”) for $45 million. The investment consisted of $40 million in cash and common shares of Syniverse Corporation valued at $5 million. The carrying amount of the investment in the equity method investee as of September 30, 2017 and December 31, 2016 was $42.9 million and $43.7 million, respectively and is included in Investment in unconsolidated subsidiaries in the unaudited condensed consolidated balance sheets. In addition to our investment in Vibes, Syniverse and Vibes have partnered to distribute Vibes’ cloud-based mobile marketing software platform. Expenses incurred from transactions with Vibes were $2.2 million and $3.2 million during the three and nine months ended September 30, 2017, respectively, and $0.3 million and $0.5 million for the three months ended September 30, 2016 and the period from the investment date through September 30, 2016, respectively.

Use of Estimates

We have prepared our financial statements in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the period. Actual results could differ from those estimates.

Customer Accounts

We provide financial settlement services to wireless operators to support the payment of roaming related charges to their roaming network partners. In accordance with our customer contracts, funds are held by us as an agent on behalf of our customers to settle their roaming related charges to other operators. These funds and the corresponding liability are not reflected in our condensed consolidated balance sheets. The off-balance sheet amounts totaled approximately $390.4 million and $297.9 million as of September 30, 2017 and December 31, 2016, respectively.

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Capitalized Software Costs

We capitalize the cost of externally purchased software and certain software licenses, internal-use software and developed technology that has a useful life of one year or greater. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they enable the software to perform a task it previously was unable to perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized software and developed technology are amortized using the straight-line method over a period of 1 to 5 years and 3 to 8 years, respectively.

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but is instead tested for impairment, at least annually on October 1, or more frequently if indicators of impairment arise. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. We have not identified any components within our single operating segment and, hence, have a single reporting unit for purposes of our goodwill impairment analysis. In connection with our annual goodwill impairment analysis at October 1, 2016, the fair value of our reporting unit was not substantially in excess of its carrying value. In the future, our reporting unit may be at risk of impairment due to lower operating results caused by volume declines in our CDMA portfolio as well as pricing pressure across many of our other services and other market factors. A goodwill impairment charge would not impact Adjusted EBITDA or Free Cash Flow.

Indefinite-lived intangible assets are comprised of tradenames and trademarks. Indefinite-lived intangible assets are not amortized, but instead are tested for impairment, at least annually on October 1, or more frequently if indicators of impairment arise. When evaluating indefinite-lived identifiable intangible assess for impairment, the Company may first perform an assessment of qualitative factors to determine whether it is more likely than not that the asset is impaired. If, based on the review of the qualitative factors, the Company determines it is more-likely-than-not that the identifiable intangible asset is impaired, the Company performs a one-step impairment test.

Foreign Currencies

We have operations in subsidiaries in Europe (primarily the United Kingdom, Germany and Luxembourg), India, the Asia-Pacific region and Latin America, each of whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the relevant functional currencies are included in Other, net in the unaudited condensed consolidated statements of operations. For the three and nine months ended September 30, 2017 we recorded foreign currency transaction losses of $0.8 million and $1.9 million, respectively. For the three and nine months ended September 30, 2016 we recorded foreign currency transaction gains of $0.5 million and $2.7 million, respectively.

The assets and liabilities of subsidiaries whose functional currency is other than the U.S. dollar are translated at the period-end rate of exchange. The resulting translation adjustment is recorded as a component of Accumulated other comprehensive loss and is included in Stockholder equity in the condensed consolidated balance sheets. Transaction gains and losses on intercompany balances which are deemed to be of a long-term investment nature are also recorded as a component of Accumulated other comprehensive loss. Revenues and expenses within the unaudited condensed consolidated statements of operations are translated at the average rates prevailing during the period.

Segment Information

We have evaluated our portfolio of service offerings, reportable segment and the financial information reviewed by our chief operating decision maker for purposes of making resource allocation decisions. We operate as a single operating segment, as our Chief Executive Officer, serving as our chief operating decision maker, reviews financial information on the basis of our consolidated financial results for purposes of making resource allocation decisions.

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Revenues by service offerings were as follows:

	Three Months Ended September 30,	
	2017	2016
(in thousands)	(Unaudited)	
Mobile Transaction Services	$164,646	$163,659
Enterprise & Intelligence Solutions	42,363	32,958
Revenues	$207,009	$196,617

	Nine Months Ended September 30,	
	2017	2016
(in thousands)	(Unaudited)	
Mobile Transaction Services	$471,196	$490,235
Enterprise & Intelligence Solutions	116,168	98,544
Revenues	$587,364	$588,779

Revenues by geographic region, based on the “bill to” location on the invoice, were as follows:

	Three Months Ended September 30,	
	2017	2016
(in thousands)	(Unaudited)	
North America	$120,593	$120,609
Europe, Middle East and Africa	38,594	34,559
Asia Pacific	31,249	29,262
Caribbean and Latin America	16,573	12,187
Revenues	$207,009	$196,617

	Nine Months Ended September 30,	
	2017	2016
(in thousands)	(Unaudited)	
North America	$347,386	$364,829
Europe, Middle East and Africa	105,545	100,254
Asia Pacific	90,643	87,172
Caribbean and Latin America	43,790	36,524
Revenues	$587,364	$588,779

3. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is included in the ASC in Topic 606. ASU 2014-09 was issued as a converged guidance with the IASB on recognizing revenue in contracts with customers and is intended to improve the financial reporting requirements for revenue from contracts with customers by providing a principle based approach to the recognition of revenue. The update includes a five-step framework with applicable guidance, which supersedes existing revenue recognition guidance. This update is effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently finalizing its review of the impact of adopting this new guidance and developing a comprehensive implementation plan. In-depth reviews of a significant portion of commercial contracts have been completed, additional contracts are presently being reviewed and changes to processes and internal controls are being identified to meet the standard’s reporting and disclosure requirements. We currently anticipate adopting the standard effective January 1, 2018, using the modified

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retrospective method such that each prior reporting period will remain unchanged and the new guidance will only affect the post-adoption period.

We have substantially completed the review of our revenue contracts and while we continue to assess all the potential impacts of adopting the standard, we currently expect the revenue recognition for our broad portfolio of services to remain unchanged. However, the guidance is expected to change the timing of revenue recognition in certain areas, including for certain implementation and development activities, which are generally highly dependent on, and interrelated with, the underlying services. In these cases, the implementation and development activities and the underlying services are accounted for as a single performance obligation and such revenue shall be recognized over time instead of upon completion. In addition, the timing of revenue recognition may change for certain contracts with collection uncertainty for which revenue is currently recorded on a cash basis. These changes are not expected to be material to revenue or operating results. We continue to make significant progress on our contract reviews and are also in the process of evaluating the impact, if any, on changes to our business processes, systems and controls to support recognition and disclosures under the standard upon adoption.

4. Detail of Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	September 30, 2017 (Unaudited)	December 31, 2016
Accrued payroll and related benefits	$ 27,835	$ 37,278
Accrued interest	15,577	26,543
Accrued network payables	8,459	13,467
Accrued revenue share expenses	3,441	3,654
Other accrued liabilities	24,959	26,222
Total accrued liabilities	$ 80,271	$ 107,164

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5. Debt and Credit Facilities

Our total outstanding debt was as follows:

(in thousands)	September 30, 2017 (Unaudited)	December 31, 2016
Senior Credit Facility:		
Initial Term Loans, due 2019	$889,976	$891,057
Original issue discount	(3,133)	(4,644)
Deferred financing costs	(7,543)	(10,849)
Tranche B Term Loans, due 2019	662,396	663,200
Original issue discount	(960)	(1,398)
Deferred financing costs	(6,923)	(10,081)
Senior Notes:		
Syniverse Notes, due 2019	81,727	475,000
Deferred financing costs	(775)	(6,836)
SFHC Notes, due 2022	369,547	—
Deferred financing costs	(4,640)	—
Total Debt and Credit Facilities	1,979,672	1,995,449
Less: Current portion		
Long-term debt, current portion	$—	$(1,885)
Original issue discount, current portion	—	7
Deferred financing costs, current portion	—	25
Total current portion of long-term debt	$—	$(1,853)
Long-term debt	$1,979,672	$1,993,596

Amortization of original issue discount and deferred financing costs for the three and nine months ended September 30, 2017 was $3.4 million and $9.9 million, respectively. Amortization of original issue discount and deferred financing costs for the three and nine months ended September 30, 2016 was $3.5 million and $11.1 million, respectively. Amortization is related to our Senior Credit Facility (as defined below) and our Senior Notes (as defined below) and is recorded in interest expense in the unaudited condensed consolidated statements of operations.

Senior Credit Facility

On April 23, 2012, we entered into a credit agreement (the “Credit Agreement”) with Buccaneer LLC (as successor by merger to Buccaneer), Barclays Bank PLC, as administrative agent, swing line lender and letters of credit issuer, and the other financial institutions and lenders from time to time party thereto, providing for a senior credit facility (the “Senior Credit Facility”) consisting of (i) a $950.0 million term loan facility (the “Initial Term Loans”); and (ii) a $150.0 million revolving credit facility (the “Revolving Credit Facility”) for the making of revolving loans, swing line loans and issuance of letters of credit. As of September 30, 2017, there were no amounts outstanding under the Revolving Credit Facility.

On June 28, 2013, the Company borrowed $700.0 million of incremental term loans (the “Tranche B Term Loans”), pursuant to an incremental amendment to the Credit Agreement.

On April 15, 2016, we made principal payments of approximately $36.2 million toward the Initial Term Loans and Tranche B Term Loans as required pursuant to the Excess Cash Flow provision of the Credit Agreement.

On March 24, 2017, we made principal payments of approximately $1.9 million toward the Initial Term Loans and Tranche B Term Loans as required pursuant to the Excess Cash Flow provision of the Credit Agreement. Commencing on December 31, 2018, our Initial Term Loans and Tranche B Term Loans will resume amortizing in quarterly installments in an amount equal to 0.25% per quarter of the original principal amount thereof, with the remaining balance due at the final maturity.

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On April 14, 2017, we entered into an amendment (the “Amendment”) to the Credit Agreement governing our Revolving Credit Facility to, among other things, (i) extend the scheduled maturity date of the revolving credit commitments to the earlier of (x) January 15, 2019 and (y) the date of termination in whole of the revolving credit commitments, the letter of credit sublimit, and the swing line facility; provided that (1) in the event that more than $50 million of the Syniverse Notes remains outstanding on the date that is 180 days prior to the stated maturity of the Syniverse Notes (the “First Revolver Springing Maturity Date”), the maturity date for the revolving credit facility will be the First Revolver Springing Maturity Date and (2) in the event that more than $50 million in aggregate principal amount of any refinancing indebtedness in respect of the Syniverse Notes remains outstanding on the date that is 180 days prior to the stated maturity of such refinancing indebtedness (the “Second Revolver Springing Maturity Date”), the maturity date for the revolving credit facility will be the earlier of the Second Revolver Springing Maturity Date and January 15, 2019, (ii) make certain modifications to the financial maintenance covenant, including, among other things, by increasing the financial maintenance covenant level for so long as certain conditions such as, for example, conditions limiting usage of certain negative covenant baskets, are satisfied and (iii) provide for a flat commitment fee payable to each revolving credit lender of 0.50%. In addition, in connection with the Amendment, we reduced the aggregate revolving credit commitments from $150.0 million to $85.6 million and the letter of credit sublimit from $50.0 million to $40.0 million. Pursuant to the Amendment and subject to the aforementioned conditions, the financial maintenance covenant has been modified to require that our consolidated senior secured debt ratio, as of June 30, 2017 and September 30, 2017, be less than or equal to 6.25:1.00, as of December 31, 2017 and March 31, 2018 be less than or equal to 6.00:1.00 and, as of June 30, 2018 and the end of each fiscal quarter ended thereafter be less than or equal to 5.75:1.00.

The financial maintenance covenant, as amended by the Amendment, is tested only for the benefit of the Revolving Credit Facility lenders and is required to be tested only (i) when, at the end of any fiscal quarter, any revolving credit loans, any swing line loans or any letter of credit obligations (excluding letter of credit obligations not in excess of $10 million and any letters of credit which are cash collateralized to at least 105% of their maximum stated amount) are outstanding, (ii) upon an extension of credit under the Credit Agreement in the form of the making of a revolving credit loan or a swing line loan, or the issuance of a letter of credit and (iii) if certain financial maintenance covenant conditions are not satisfied.

The Initial Term Loans and the Tranche B Loans (collectively the “Term Loan Facilities”) will mature at the earliest of (i) April 23, 2019, (ii) the date of termination in whole of the commitments under the Term Loan Facilities or (iii) the date the loans under the Term Loan Facilities are declared due and payable in connection with an event of default; provided that (a) in the event that more than $50.0 million of the Syniverse Notes remain outstanding on the date that is 91 days prior to the stated maturity of the Syniverse Notes (the “First Springing Maturity Date”), the maturity date for the Term Loan Facilities will be the First Springing Maturity Date and (b) in the event that more than $50.0 million in aggregate principal amount of any refinancing indebtedness in respect of the Syniverse Notes remains outstanding on the date that is 91 days prior to the stated maturity of such refinancing indebtedness (the “Second Springing Maturity Date”), the maturity date for the Term Loan Facilities will be the earlier of the Second Springing Maturity Date and April 23, 2019.

Senior Notes

SFHC Notes

On January 11, 2017, Syniverse Foreign Holdings Corporation (“SFHC”), our wholly-owned subsidiary, completed its offer to exchange (the “Exchange Offer”) the Syniverse Notes (defined below) for new senior unsecured notes issued by SFHC bearing interest at 9.125% per annum that will mature on January 15, 2022 (the “SFHC Notes” and, together with the Syniverse Notes, the “Senior Notes”). Interest on the SFHC notes is paid on January 15 and July 15 of each year.

Pursuant to the Exchange Offer, SFHC issued $369.5 million of SFHC Notes, and a like amount of Syniverse Notes were cancelled.

On or after January 15, 2019, SFHC may redeem some or all of the SFHC Notes at any time at the following redemption prices (expressed as a percentage of principal amount), plus accrued and unpaid interest to, but excluding, the redemption date, if redeemed during the 12-month period commencing on January 15 of the years set forth below:

Period	Redemption Price	
2019	104.563	%
2020	102.281	%
2021 and thereafter	100.000	%

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If we undertake a repayment, repurchase, redemption or refinancing, in whole or in part, in one or a series of transactions, of the outstanding indebtedness under the Senior Credit Facility and/or the Syniverse Notes or other comprehensive refinancing or recapitalization of our existing debt and/or equity capital structure, or if we experience certain kinds of changes of control, in each case at any time prior to January 15, 2019, we may redeem the SFHC Notes at a redemption price of 101%, plus accrued and unpaid interest, if any, to the redemption date.

The SFHC Notes are guaranteed on a senior basis by Syniverse and the subsidiary guarantors that guarantee the Senior Credit Facility and the Syniverse Notes (the "Subsidiary Guarantors"). The right of noteholders to receive payment on the SFHC Notes is effectively subordinated to the rights of any future secured creditors of SFHC.

The SFHC Notes contain customary negative covenants including, but not limited to, (i) restrictions on SFHC's and its restricted subsidiaries' ability to merge and consolidate, sell, transfer or otherwise dispose of assets, incur additional debt or issue certain preferred shares, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends on or make other distributions in respect of SFHC's capital stock or make other restricted payments, enter into certain transactions with affiliates or designate SFHC's subsidiaries as unrestricted, subject to certain exceptions, and (ii) restrictions on Syniverse's and its restricted subsidiaries' (other than SFHC and its restricted subsidiaries) ability to merge and consolidate, sell, transfer or otherwise dispose of assets, make acquisitions, loans, advances or investments, pay dividends on or make other distributions in respect of Syniverse's capital stock or make other restricted payments or designate Syniverse's subsidiaries as unrestricted, subject to certain exceptions.

We incurred debt modification fees of $9.8 million in connection with the Exchange Offer in the period ended March 31, 2017 which is recorded in Interest expense in the unaudited condensed consolidated statements of operations.

Syniverse Notes

On December 22, 2010, we issued $475.0 million senior unsecured notes bearing interest at 9.125% that will mature on January 15, 2019 (the "Syniverse Notes"). Interest on the Syniverse Notes is paid on January 15 and July 15 of each year.

The Syniverse Notes are guaranteed on a senior basis by the Subsidiary Guarantors. In addition, we have the ability to designate certain of our subsidiaries as unrestricted subsidiaries pursuant to the terms of the indenture governing our Syniverse Notes, and any subsidiary so designated will not be a guarantor of the notes. The right of noteholders to receive payment on the Syniverse Notes is effectively subordinated to the rights of our existing and future secured creditors.

We may redeem the Syniverse Notes, at our option, in whole at any time or in part from time to time, at 100% of the principal amount of the Syniverse Notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date.

The Syniverse Notes contain customary negative covenants including, but not limited to, restrictions on our and our restricted subsidiaries' ability to merge and consolidate, sell, transfer or otherwise dispose of assets, incur additional debt or issue certain preferred shares, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends on or make other distributions in respect of Syniverse's capital stock or make other restricted payments or enter into certain transactions with affiliates, subject to certain exceptions.

On January 11, 2017 pursuant to the Exchange Offer, $369.5 million of Syniverse Notes were cancelled. On April 25, 2017 and September 18, 2017, we repurchased $16.0 million and $7.7 million aggregate principal amount of the Syniverse Notes, respectively, and submitted them to Wilmington Trust, National Association, as trustee, for cancellation. Following the Exchange Offer and partial repurchases, $81.7 million aggregate principal amount of the Syniverse Notes remains outstanding at September 30, 2017.

6. Stock-Based Compensation

Effective April 6, 2011, Syniverse Corporation, our indirect parent, established the 2011 Plan for the employees, consultants and directors of Syniverse Corporation and its subsidiaries. The 2011 Plan provides incentive compensation through grants of incentive or non-qualified stock options, stock purchase rights, restricted stock awards, restricted stock units or any combination of the foregoing. Syniverse Corporation will issue shares of its common stock to satisfy equity based compensation instruments.

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Stock-based compensation expense was as follows:

	Three Months Ended September 30,	
	2017	2016
(in thousands)	(Unaudited)	
Cost of operations	$195	$122
Sales and marketing	850	692
General and administrative	2,518	2,798
Stock-based compensation	$3,563	$3,612

	Nine Months Ended September 30,	
	2017	2016
(in thousands)	(Unaudited)	
Cost of operations	$615	$458
Sales and marketing	2,353	2,976
General and administrative	8,241	9,615
Stock-based compensation	$11,209	$13,049

The following table summarizes our stock option activity under the 2011 Plan for the nine months ended September 30, 2017:

Stock Options	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2016	8,952,912	$ 11.04
Granted	1,688,667	10.00
Cancelled or expired	(1,674,745)	11.49
Outstanding at September 30, 2017	8,966,834	$ 10.76

The fair value of options granted during the nine months ended September 30, 2017 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	1.96%
Volatility factor	29.60%
Dividend yield	—%
Weighted average expected life of options (in years)	6.25

Restricted stock is issued and measured at fair value on the date of grant. The following table summarizes our restricted stock activity under the 2011 Plan for the nine months ended September 30, 2017:

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2016	2,050,000	$ 10.59
Granted	692,759	10.00
Vested	(564,500)	11.10
Forfeited	(156,750)	11.01
Outstanding at September 30, 2017	2,021,509	$ 10.22

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7. Employee Termination Benefits and Restructuring

The following table summarizes the activity in our employee termination benefit liabilities for the nine months ended September 30, 2017:

(in thousands)	December 31, 2016 Balance	Additions	Payments	Adjustments	September 30, 2017 Balance
Employee termination benefits	$ 1,131	609	(1,177)	27	$ 590

Employee termination benefits represents non-retirement post-employment benefit costs including severance, benefits and other employee related costs that are unrelated to a restructuring plan.

The following table summarizes the activity in our restructuring liabilities for the nine months ended September 30, 2017:

(in thousands)	December 31, 2016 Balance	Additions	Payments	Adjustments	September 30, 2017 Balance
December 2016 Plan	$ 6,450	2,083	(6,876)	54	$ 1,711
March 2016 Plan	$ 4,981	3,189	(6,221)	—	$ 1,949
October 2014 Plan	$ 3,672	(146)	(3,348)	95	$ 273
December 2010 Plan	$ 48	—	—	6	$ 54
Total	$ 15,151	5,126	(16,445)	155	$ 3,987

In December 2016, we implemented a restructuring plan (the "December 2016 restructuring plan") to realign costs and expenses with revenue trends across our portfolio. As a result of this plan, we incurred severance related costs of $8.8 million which is included in Restructuring expense in the unaudited condensed consolidated statements of operations. We have paid $7.2 million related to this plan as of September 30, 2017 and anticipate all cash outlays to be completed by June 30, 2018.

In March 2016, we implemented a restructuring plan (the "March 2016 restructuring plan") to realign costs and expenses with revenue trends across our portfolio, reducing costs associated with certain of our legacy products and services to provide for increased investment in our growth businesses. As a result of this plan, we incurred severance related costs of $14.3 million and contract termination costs of $8.0 million related to the exit of data center leases. We have paid $20.4 million related to this plan as of September 30, 2017 and anticipate all cash outlays to be completed by June 30, 2018.

In October 2014, we implemented a restructuring plan (the "October 2014 restructuring plan") to realign costs and expenses with revenue trends across our portfolio. As a result of this plan, we incurred severance related costs of $13.9 million and contract termination costs of $3.7 million related to the exit of leased facilities, data centers and networking services. We have paid $16.2 million related to this plan as of September 30, 2017 and anticipate all cash outlays to be completed by January 31, 2018.

8. Income Taxes

We provide for federal, state and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date. The effective tax rate for the three and nine months ended September 30, 2017, was a provision of (182.6)% and (11.2)%, respectively. The effective tax rate for the three and nine months ended September 30, 2016, was a provision of (42.7)% and a benefit of 41.4%, respectively. The change in our effective tax rate was chiefly attributable to (i) impact of certain discrete items in the prior and current year, (ii) relative mix of earnings and losses in the U.S. versus foreign tax jurisdictions and (iii) the current year establishment of a valuation allowance against U.S. deferred tax assets.

As of March 31, 2017, we established a full valuation allowance on U.S. net deferred tax assets, after considering the effect of the deferred tax liabilities related to indefinite lived intangible assets. Evaluating the need for a valuation allowance of deferred tax assets requires significant judgment in assessing the likelihood of the realization of those assets. We currently do not believe that it is more likely than not that our net U.S. deferred tax assets will be realized. In making this determination we evaluated both positive and negative evidence. An accumulation of three years of pre-tax losses is considered strong negative evidence in this evaluation. While we believe that positive evidence exists with regards to the realizability of our deferred tax assets, this evidence is not considered sufficient to outweigh the objectively verifiable negative evidence, including the recent history of pre-tax losses.

We, and our eligible subsidiaries, file a consolidated U.S. federal income tax return under Syniverse Corporation, our parent company. All subsidiaries incorporated outside of the U.S. are consolidated for financial reporting purposes; however, they are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been recorded for these entities. We intend to reinvest substantially all of the unremitted earnings of our non-U.S. subsidiaries and postpone their remittance indefinitely. Accordingly, no provision for U.S. income taxes for these non-U.S. subsidiaries was recorded in the accompanying unaudited condensed consolidated statements of operations.

9. Commitments and Contingencies

We are currently a party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, will not have a material adverse effect on our business, financial condition, results of operations or cash flows. As of September 30, 2017, we have considered all of the claims and disputes of which we are aware and have provided for probable losses, which are not material to the unaudited condensed consolidated financial statements.

10. Fair Value Measurements

The accounting standards for fair value require disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1—Quoted prices for identical assets and liabilities in active markets.

Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Unobservable inputs for the asset or liability.

Transfers between levels are determined at the end of the reporting period. No transfers between levels have been recognized for the three and nine months ended September 30, 2017 and 2016.

Cash, accounts receivable, accounts payable and accrued liabilities are reflected in the condensed consolidated balance sheets at their carrying value, which approximate their fair value due to their short maturity.

From time to time, we measure certain assets at fair value on a non-recurring basis, specifically long-lived assets evaluated for impairment. We estimate the fair value of our long-lived assets using company-specific assumptions which would be categorized within Level 3 of the fair value hierarchy.

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The carrying value and fair value of our long-term debt, excluding original issue discount and deferred financing costs was as follows:

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(in thousands)	(Unaudited)			
Initial Term Loans	$889,976	$862,164	$891,057	$788,585
Tranche B Term Loans	662,396	641,696	663,200	583,616
Syniverse Notes	81,727	81,216	475,000	418,000
SFHC Notes	369,547	376,014	—	—

The fair values of the Initial Term Loans, the Tranche B Term Loans and the Senior Notes were based upon quoted market prices in inactive markets for similar instruments (Level 2).

11. Related Party Transactions

Arrangements with Carlyle

On January 13, 2011, we entered into a ten-year consulting agreement with Carlyle under which we pay Carlyle a fee for consulting services Carlyle provides to us and our subsidiaries. During the three and nine months ended September 30, 2017 we recorded $0.8 million and $2.4 million, respectively, of expenses associated with the consulting fee and the reimbursement of out-of-pocket expenses. During the three and nine months ended September 30, 2016 we recorded $0.8 million and $2.4 million, respectively.

Carlyle, from time to time, participates as a debt holder within the syndicate under our Initial Term Loans and Tranche B Term Loans. As of September 30, 2017, Carlyle held $12.4 million and $24.4 million of our Initial Term Loans and Tranche B Term Loans, respectively. As of December 31, 2016, Carlyle held $37.2 million and $25.6 million of our Initial Term Loans and Tranche B Term Loans, respectively.

From time to time, and in the ordinary course of business we may engage other Carlyle portfolio companies as service providers and other Carlyle portfolio companies may engage us as a service provider. Revenues and expenses associated with these related parties were not material during the three and nine months ended September 30, 2017 and 2016.

12. Supplemental Consolidating Financial Information

On December 22, 2010, Syniverse issued $475.0 million of Syniverse Notes guaranteed on a joint and several basis by each of its existing and future domestic restricted subsidiaries that guarantee the Senior