

SYNIVERSE HOLDINGS INC
Form 10-Q
November 06, 2008
Table of Contents

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

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 001-32432
333-88168

SYNIVERSE HOLDINGS, INC.

SYNIVERSE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
Delaware
(State or other jurisdiction of
incorporation or organization)

30-0041666
06-1262301
(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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Shares Outstanding as of November 4, 2008

Syniverse Holdings, Inc.: 68,432,471 shares of common stock, \$0.001 par value

Syniverse Technologies, Inc.: 2,000 shares of common stock, no par value,

all of which are owned by Syniverse Holdings, Inc.

Table of Contents

TABLE OF CONTENTS

	Page
PART I: <u>FINANCIAL INFORMATION</u>	
ITEM 1: <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2008 (Unaudited) and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited) – September 30, 2008</u>	6
ITEM 2: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
ITEM 3: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
ITEM 4: <u>Controls and Procedures</u>	35
PART II: <u>OTHER INFORMATION</u>	
ITEM 1: <u>Legal Proceedings</u>	36
ITEM 1A: <u>Risk Factors</u>	36
ITEM 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
ITEM 3: <u>Defaults Upon Senior Securities</u>	37
ITEM 4: <u>Submission of Matters to a Vote of Security Holders</u>	37
ITEM 5: <u>Other Information</u>	37
ITEM 6: <u>Exhibits</u>	37
<u>SIGNATURES</u>	38
<u>EXHIBIT INDEX</u>	39

Table of Contents**PART 1****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SYNIVERSE HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)**

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash	\$ 126,035	\$ 49,086
Accounts receivable, net of allowances of \$644 and \$762, respectively	98,599	79,378
Prepaid and other current assets	16,099	12,240
Total current assets	240,733	140,704
Property and equipment, net	47,699	43,856
Capitalized software, net	60,740	62,615
Deferred costs, net	9,456	10,786
Goodwill	608,952	616,304
Identifiable intangibles, net	215,791	232,023
Other assets	2,130	1,262
Total assets	\$ 1,185,501	\$ 1,107,550
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 7,233	\$ 5,006
Accrued payroll and related benefits	17,935	12,016
Accrued interest	1,797	5,910
Deferred revenues	5,422	5,327
Other accrued liabilities	30,994	34,789
Current portion of Term Note B	3,463	3,459
Total current liabilities	66,844	66,507
Long-term liabilities:		
Deferred tax liabilities	65,086	43,587
7 ³ / ₄ % senior subordinated notes due 2013	175,000	175,000
Term Note B, less current maturities	339,354	344,476
Other long-term liabilities	6,457	7,188
Total long-term liabilities	585,897	570,251

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Stockholders' equity:		
Preferred stock, \$0.001 par value; 300,000 shares authorized; no shares issued		
Common stock, \$0.001 par value; 100,300,000 shares authorized; 68,844,182 shares issued and 68,446,184 shares outstanding and 68,683,075 shares issued and 68,302,956 shares outstanding at September 30, 2008 and December 31, 2007, respectively		
	68	68
Additional paid-in capital	469,198	463,711
Retained earnings	66,063	4,851
Accumulated other comprehensive income (loss)	(2,539)	2,191
Common stock held in treasury, at cost; 391,998 and 380,119 at September 30, 2008 and December 31, 2007, respectively	(30)	(29)
Total stockholders' equity	532,760	470,792
Total liabilities and stockholders' equity	\$ 1,185,501	\$ 1,107,550

See Notes to Condensed Unaudited Consolidated Financial Statements

Table of Contents**SYNIVERSE HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 137,169	\$ 100,278	380,433	\$ 276,031
Costs and expenses:				
Cost of operations (excluding depreciation and amortization shown separately below)	\$ 43,133	34,584	122,700	102,100
Sales and marketing	11,071	7,483	34,025	21,947
General and administrative	19,784	14,317	57,794	41,920
Depreciation and amortization	13,809	10,861	41,233	31,864
Restructuring	(46)	(319)	(29)	2,236
	87,751	66,926	255,723	200,067
Operating income	\$ 49,418	33,352	124,710	75,964
Other income (expense), net:				
Interest income	504	424	1,416	1,351
Interest expense	(9,190)	(6,625)	(28,317)	(18,748)
Other, net	(164)	(90)	(379)	38
	\$ (8,850)	(6,291)	(27,280)	(17,359)
Income before provision for income taxes	40,568	27,061	97,430	58,605
Provision for income taxes	15,101	10,582	36,218	22,812
Net income	\$ 25,467	\$ 16,479	61,212	\$ 35,793
Net income per common share:				
Basic	\$ 0.38	\$ 0.24	\$ 0.91	\$ 0.53
Diluted	\$ 0.37	\$ 0.24	\$ 0.90	\$ 0.53
Weighted average common shares outstanding:				
Basic	67,757	67,377	67,629	67,298
Diluted	68,204	67,607	68,075	67,467

See Notes to Condensed Unaudited Consolidated Financial Statements

Table of Contents**SYNIVERSE HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****(AMOUNTS IN THOUSANDS)**

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 61,212	\$ 35,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including amortization of deferred debt issuance costs	42,563	32,661
Provision for (recovery of) uncollectible accounts	(129)	203
Deferred income tax expense	24,006	19,086
Stock-based compensation	3,738	2,445
Loss on disposition of property	478	1,061
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(19,664)	(8,314)
Other current assets	(3,518)	(1,513)
Accounts payable	8,205	618
Other current liabilities	(6,949)	(10,022)
Other assets and liabilities	(26)	(3,982)
Net cash provided by operating activities	109,916	68,036
Cash flows from investing activities		
Capital expenditures	(29,406)	(21,974)
Acquisition of BSG Wireless	(823)	
Acquisition of ITHL		(735)
Net cash used in investing activities	(30,229)	(22,709)
Cash flows from financing activities		
Debt issuance costs		(6,428)
Principal payments on senior credit facility	(2,654)	(24,561)
Employee stock purchase plan	388	430
Stock options exercised	1,951	294
Minimum tax withholding on restricted stock awards	(590)	(275)
Purchase of treasury stock	(1)	(1)
Net cash used in financing activities	(906)	(30,541)
Effect of exchange rate changes on cash	(1,832)	552
Net increase in cash	76,949	15,338
Cash at beginning of period	49,086	26,704
Cash at end of period	\$ 126,035	\$ 42,042
Supplemental cash flow information		
Interest paid	\$ 31,018	\$ 21,421
Income taxes paid	9,059	2,826

See Notes to Condensed Unaudited Consolidated Financial Statements

Table of Contents

SYNIVERSE HOLDINGS, INC.

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

1. Business

We are a leading enabler of wireless voice and data services for telecommunications companies worldwide. For over 20 years, we have served as one of the wireless industry's only operator-neutral intermediaries, solving the challenges that arise as new technologies, standards and protocols emerge. Our data clearinghouse, network and technology services solve technical and operational challenges for the wireless industry by translating incompatible communication standards and protocols and simplifying operator interconnectivity. Our suite of transaction-based services allows operators to deliver seamless voice, data and next generation services to wireless subscribers including roaming, Short Message Service (SMS), Multimedia Messaging Services (MMS), caller ID, number portability and wireless video services. We provide our services to more than 600 operators in over 120 countries.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Syniverse Holdings, Inc. (Syniverse Inc.) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. 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 for the year ended December 31, 2007. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

The unaudited condensed consolidated financial statements include the accounts of Syniverse Inc. and all of its subsidiaries. References to the Company, us, or we include all of the consolidated companies. All significant intercompany balances and transactions have been eliminated.

3. Summary of Significant Accounting Policies

Revenue Recognition

The majority of our revenues are transaction-based and derived from long-term contracts, typically averaging three years in duration. From time to time, if a contract expires and we have not previously negotiated a new contract or renewal with the customer, we continue to provide services under the terms of the expired contract on a month-to-month billing schedule as we negotiate new agreements or renewals. Our revenues are primarily the result of the sale of our technology interoperability services, network services, number portability services, call processing services, enterprise solutions and off-network database query fees to wireless operators throughout the world. Generally, there is a seasonal increase in wireless roaming telephone usage and corresponding revenues in the high-travel months of our second and third fiscal quarters.

Technology Interoperability Services primarily generate revenues by charging per-transaction processing fees. For our wireless roaming clearinghouse, Short Message Service (SMS), Multimedia Messaging Services (MMS), Near Real-Time Roaming Data Exchange (NRTRDE) services, interstandard roaming solutions and Mobile Data Roaming (MDR) services, revenues vary based on the number or size of data/messaging records provided to us by wireless operators for aggregation, translation and distribution among operators. We recognize revenues at the time the transactions are processed. For our financial clearinghouse and settlement services, revenues vary based on the number of invoices or roaming agreements managed on the customer's behalf. We recognize revenues at the time the transactions are processed. Additionally, we provide solutions with multiple product and service elements which may include software and hardware products, as well as installation services, post-contract customer support and training. In those cases, we recognize revenues in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2 (SOP 97-2), *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions*. Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

Table of Contents

Network Services primarily generate revenues by charging per-transaction processing fees. In addition, our customers pay monthly connection fees based on the number of network connections as well as the number of switches with which a customer communicates. The per-transaction fees are based on the number of intelligent network messages and intelligent network database queries made through our network and are recognized as revenues at the time the transactions are processed.

Number Portability Services primarily generate revenues by charging per-transaction processing fees, monthly fixed fees, and fees for customer implementations. We recognize processing revenues at the time the transactions are processed. We recognize monthly fixed fees as revenues on a monthly basis as the services are performed. We defer revenues and incremental customer-specific costs related to customer implementations and recognize these fees and costs on a straight-line basis over the life of the initial customer agreements.

Call Processing Services primarily generate revenues by charging per-transaction processing fees. The per-transaction fee is based on the number of validation, authorization and other call processing messages generated by wireless subscribers. We recognize processing fee revenues at the time the transactions are processed.

Enterprise Solutions Services primarily generate revenues by charging per-subscriber fees. We recognize these revenues at the time the service is performed.

Off-Network Database Query Fees primarily generate revenues by providing access to database providers. We pass these charges onto our customers, with little or no margin, based upon the charges we receive from the third party intelligent network database providers. We recognize revenues at the time the transactions are processed.

Due to our billing cycles, which for some products lag as much as 40 days after the month in which the services are rendered, we estimate the amounts of unbilled revenue each reporting period. Our estimates are based on recent volume and pricing trends adjusted for material changes in contracted services. Historically, our estimates have not been materially different from our actual billed revenue. Unanticipated changes in volume and pricing trends or material changes in contracted services could adversely affect our estimates of unbilled revenue. As of September 30, 2008 and December 31, 2007, our estimates of unbilled revenues were \$7,266 and \$7,117, respectively.

Net Income Per Common Share

We compute net income per common share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share* (SFAS 128). Basic net income per common share includes no dilution and is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Earnings available to common shareholders are the same as reported net income for all periods presented. Diluted net income per common share includes the potential dilution from the exercise of stock options and restricted stock. For the three and nine months ended September 30, 2008, options to purchase 280,380 and 254,220 shares of common stock, respectively, were outstanding during the periods but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive. For the three and nine months ended September 30, 2007, options to purchase 444,757 and 578,757 shares of common stock, respectively, were excluded for the same reason. No additional securities were outstanding that could potentially dilute basic earnings per share that were not included in the computation of diluted earnings per share.

The following table displays the computation of net income per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic and diluted net income per common share:				
Net income available to common shareholders	\$ 25,467	\$ 16,479	\$ 61,212	\$ 35,793
Determination of basic and diluted shares:				
Basic weighted-average common shares outstanding	67,757,215	67,377,332	67,628,621	67,297,664
Unvested common stock		41,576		53,454

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Potentially dilutive stock options and restricted stock	446,403	188,501	446,586	115,802
Diluted weighted-average common shares outstanding	68,203,618	67,607,409	68,075,207	67,466,920
Basic net income per common share	\$ 0.38	\$ 0.24	\$ 0.91	\$ 0.53
Diluted net income per common share	\$ 0.37	\$ 0.24	\$ 0.90	\$ 0.53

Table of Contents**Comprehensive Income**

Comprehensive income includes foreign currency translation adjustments. Comprehensive income, net of taxes, for the three and nine months ended September 30, 2008 and 2007 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 25,467	\$ 16,479	\$ 61,212	\$ 35,793
Foreign currency translation gain (loss), net of taxes	(10,907)	901	(4,730)	918
Total comprehensive income	\$ 14,560	\$ 17,380	\$ 56,482	\$ 36,711

The balance in accumulated other comprehensive income as of September 30, 2008 and December 31, 2007 is comprised of foreign currency translation adjustments.

Interest in Joint Venture

We hold a 5% interest in the joint venture mTLD Top Level Domain, Ltd., a joint venture formed to provide mobile data and content domain name registry services and development guidelines. We account for this investment using the cost method of accounting. As of September 30, 2008 and December 31, 2007, our investment was \$888 and is included in other assets.

Foreign Currency Translation

In accordance with Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation* (SFAS 52), income and expense accounts of foreign operations are translated at the weighted average exchange rates during the year. Assets, including goodwill, and liabilities of foreign operations that operate in a local currency environment are translated to U.S. dollars at the exchange rates in effect at the balance sheet date, with the related translation gains or losses reported as a separate component of stockholder's equity.

Segment Information

For all periods reported, we operated as a single segment, since our chief operating decision maker decides resource allocations on the basis of our consolidated financial results. Revenues by service offerings were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Technology Interoperability Services	\$ 88,568	\$ 51,006	\$ 237,577	\$ 130,862
Network Services	31,097	31,990	92,382	93,659
Number Portability Services	8,076	7,060	21,462	20,104
Call Processing Services	7,546	8,191	23,248	23,821
Enterprise Solutions	524	943	1,943	3,223
Off Network Database Queries	1,358	1,088	3,821	4,362
Total Revenues	\$ 137,169	\$ 100,278	\$ 380,433	\$ 276,031

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
North America (U.S. and Canada)	\$ 98,346	\$ 77,274	\$ 271,491	\$ 213,219
Asia Pacific	10,357	11,279	32,430	30,528
Caribbean and Latin America (includes Mexico)	8,099	6,243	23,413	17,027
Europe, Middle East and Africa	19,009	4,394	49,278	10,895
Off Network Database Queries (i)	1,358	1,088	3,821	4,362
Total Revenues	\$ 137,169	\$ 100,278	\$ 380,433	\$ 276,031

(i) Off-Network Database Queries are not allocated to geographic regions.

For the three months ended September 30, 2008 and 2007, we derived 68.7% and 72.5%, respectively, of our revenues from customers in the United States. For the nine months ended September 30, 2008 and 2007, we derived 67.9% and 73.1%, respectively, of our revenues from customers in the United States.

Derivatives

Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. As of September 30, 2008 and December 31, 2007, we did not have any derivative instruments. Refer to Note 10 Subsequent Event for discussion of derivative instrument entered into on October 6, 2008.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 was effective January 1, 2008. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of SFAS 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We elected a partial deferral of SFAS 157 under the provisions of FSP 157-2. The partial adoption of SFAS 157 effective January 1, 2008 did not have any impact on our financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. The fair value option permits a company to choose to measure eligible items at fair value at specified election dates. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. SFAS 159 was effective on January 1, 2008. As we did not elect to fair value any of our financial instruments under the provisions of SFAS 159, the adoption of this statement did not have any impact on our financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests, and goodwill acquired in a business combination. SFAS 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. We are currently assessing the impact of SFAS 141R on our financial position and results of operations.

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Since SFAS 161 only applies to disclosures, it will not have a material impact on our consolidated financial position, results from operations and cash flows.

Table of Contents**4. Acquisition of BSG Wireless**

On December 19, 2007, we acquired the wireless data clearing and financial settlement business (BSG Wireless) of Billing Services Group Limited (BSG) pursuant to a Share Purchase Agreement, dated April 1, 2007. Under the Purchase Agreement, we acquired all of the outstanding share capital of Billing Services Group Luxembourg S. à r.l. and Billing Services Group Asia Limited from BSG for an aggregate purchase price of \$293,578 in cash, which included debt repaid at closing and acquisition related costs of \$6,608. The acquisition was funded through the draw down of our amended and restated credit facility, which included a delayed draw term loan of \$160,000 in aggregate principal amount and a Euro-denominated delayed draw term loan facility of the equivalent of \$130,000 intended to finance this acquisition. The acquisition was accounted for using the purchase method of accounting. The total purchase price of \$293,578 was allocated to the assets and liabilities, on a preliminary basis, based upon their estimated fair value as of the date of the acquisition. As a result, the purchase price allocation is not yet finalized and preliminary estimates and assumptions are subject to change.

5. Goodwill

The changes to the carrying value of goodwill during the nine months ended September 30, 2008 were as follows:

Goodwill balance as of December 31, 2007	\$ 616,304
Purchase price adjustments from acquisition of BSG Wireless	(1,043)
Effect of foreign currency translation	(6,309)
 Goodwill balance as of September 30, 2008	 \$ 608,952

6. Stock-Based Compensation

Syniverse has three stock-based compensation plans, the Founders Stock Option Plan for non-employee directors, executives and other key employees of Syniverse Inc., the Directors Stock Option Plan, which provides for grants to independent directors, and the 2006 Long-Term Equity Incentive Plan, which provides incentive compensation through grants of incentive or non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights (SARs), performance awards or any combination of the foregoing.

Table of Contents

The impact to our income from operations of recording stock-based compensation for the three and nine months ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of operations	\$ 56	\$ 63	\$ 137	\$ 138
Sales and marketing	346	250	963	386
General and administrative	912	663	2,638	1,921
Total stock-based compensation	\$ 1,314	\$ 976	\$ 3,738	\$ 2,445

The following table summarizes information about our option activity:

Stock Options	Shares
Outstanding at December 31, 2007	1,204,679
Granted	702,200
Exercised	(148,559)
Cancelled or expired	(84,742)
Outstanding at September 30, 2008	1,673,578
Exercisable at September 30, 2008	431,339

Changes in our restricted stock were as follows:

Restricted Stock	Shares
Unvested at December 31, 2007	796,000
Granted	133,700
Vested	(148,800)
Forfeited	(123,400)
Unvested at September 30, 2008	657,500

During the nine months ended September 30, 2008, we issued 148,559 shares related to stock option exercises and 30,806 shares related to the employee stock purchase plan and repurchased 11,879 shares. During the nine months ended September 30, 2007, we issued 23,987 shares related to stock option exercises and 23,612 shares related to employee stock purchase plan issuances and repurchased no shares.

Accounting for Stock-Based Compensation*Stock Options*

The fair values of stock option grants are amortized as compensation expense on a straight-line basis over the vesting period of the grants. Compensation expense recognized is shown in the operating activities section of the consolidated statements of cash flows. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Prior to February 10, 2005, Syniverse Inc.'s common stock was not traded on public markets. Therefore, a

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

volatility of 0% was used in the Black-Scholes option valuation model for options issued prior to our initial public offering. Due to the limited time in which our stock has been publicly traded, we used the average volatility of comparable companies for options issued subsequent to our initial public offering.

SFAS 123(R) requires companies to estimate potential forfeitures of stock grants and adjust compensation cost recorded accordingly. Due to the minimal number of forfeitures we have experienced during the limited life of our option plans, as well as the minimal forfeitures we expect to experience, our forfeiture rate is not material to our fair value calculation; therefore, we currently use actual forfeitures in our calculations.

Table of Contents

Option Plans

On May 16, 2002, our Board of Directors adopted a Founders' Stock Option Plan for non-employee directors, executives and other key employees of Syniverse Inc. In addition, the Board of Directors adopted a Directors' Stock Option Plan on August 2, 2002, which provided for grants to independent directors to purchase up to 20,000 shares upon election to the board. The plans had a term of five years and provided for the granting of options to purchase shares of Syniverse Inc.'s non-voting Class B common stock. As part of our initial public offering, we reclassified the Class B common stock into our common stock and hence all of our options now provide for purchase of our common stock.

Under the plans, the options have an initial exercise price based on the fair value of each share, as determined by the Board. The per share exercise price of each stock option will not be less than the fair market value of the stock on the date of the grant or, in the case of an equity holder owning more than 10% of the outstanding stock of Syniverse Inc., the price for incentive stock options is not less than 110% of such fair market value. The Board of Syniverse Inc. reserved 402,400 shares of common stock, par value \$.001 per share for issuance under the Founders' plan and 160,360 shares under the Directors' plan.

Both the Founders' Stock Option Plan and the Directors' Stock Option Plan have expired and the Board of Syniverse, Inc. no longer grants options under these plans. As of September 30, 2008, there were options to purchase 137,434 shares outstanding under the Founders' Stock Option Plan and options to purchase 100,240 shares outstanding under the Directors' Stock Option Plan.

All options issued under the plans are presumed to be nonqualified stock options unless otherwise indicated in the option agreement. Each option has an exercisable life of no more than 10 years from the date of grant for both nonqualified and incentive stock options in the case of grants under the Founders' Stock Option Plan and under the Directors' Stock Option Plan. Generally, the options under these plans vest 20% after the first year and 5% per quarter thereafter.

2006 Long-Term Equity Incentive Plan

On May 9, 2006, our Board of Directors adopted the 2006 Long-Term Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan provides incentive compensation through grants of incentive or non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights ("SARs"), performance awards, or any combination of the foregoing. The Incentive Plan is designed to allow for the grant of long term incentive awards that conform to the requirements for tax deductible performance based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Under the Incentive Plan, 6,000,000 shares of common stock were authorized for issuance, of which 1,000,000 shares may be issued as restricted stock, restricted stock units or performance shares. The number of shares and price per share is determined by the Compensation Committee (the "Committee") for those awards granted. However, the exercise price of any option may not be less than 100% of the fair market value of a share of common stock on the date of grant and the exercise price of an incentive option awarded to a person who owns stock constituting more than 10% of Syniverse, Inc.'s voting power may not be less than 110% of the fair market value on the date of grant. Those eligible to participate in the Incentive Plan are limited to directors (including non-employee directors), officers (including non-employee officers) and employees of Syniverse, Inc. and its subsidiaries selected by the Committee, including participants located outside the United States. Determinations made by the Committee under the Incentive Plan need not be uniform and may be made selectively among eligible individuals under the Incentive Plan.

As of September 30, 2008, there were 1,435,904 options outstanding, vesting 33 1/3% per year, which had been granted to certain directors, executive officers and other employees. As of September 30, 2008, there were 657,500 unvested restricted shares outstanding, vesting 20% per year, which had been granted to certain directors, executive officers and other employees.

Employee Stock Purchase Plan

On May 9, 2006, our Board of Directors adopted the 2006 Employee Stock Purchase Plan (the "Purchase Plan"). All employees, including Directors who are employees and all employees of any subsidiary, are eligible to participate in any one or more of the offerings to purchase common stock under the Purchase Plan. Eligible employees may purchase a limited number of shares of Syniverse, Inc.'s common stock at 85% of the market value during a series of offering periods. The purchase price is set based on the price on the New York Stock Exchange at the close of either the first or the last trading day of the offering period, whichever is lower. The fair value of shares issued under the Purchase Plan is estimated on the commencement date of each offering period using the Black-Scholes option pricing model.

As of September 30, 2008, approximately 404,324 shares were reserved for future issuance. As of September 30, 2008, there were 121 enrollments under the Purchase Plan.

7. Restructurings

In August 2006, we completed a restructuring plan in our operations and marketing groups, resulting in the termination of 30 employees. As a result, we incurred \$741 in severance related costs. The balance in this restructuring accrual was reduced to zero during the first quarter of 2008.

Table of Contents

In January 2007, we completed a restructuring plan resulting in the closure of our Oklahoma office, the elimination of certain executive positions, and the termination of 10 employees. As a result, we incurred \$664 in severance related costs and \$1,384 in costs associated with the lease termination of our corporate aircraft. The balance in this restructuring accrual was reduced to zero during the third quarter of 2008.

In June 2007, we committed to a restructuring plan affecting our technology development and support groups. We estimated that the plan would result in the elimination of 56 employees over the remainder of the year. As a result, we accrued \$572 in severance related costs. During the third and fourth quarter of 2007, we experienced a higher than expected level of attrition among the employees impacted by the offshoring plan resulting in a reduction of our severance liability of \$449. The balance in this restructuring accrual was reduced to zero during the third quarter of 2008.

In connection with the BSG Wireless acquisition in December 2007, we began to formulate a restructuring plan, which consists primarily of the elimination of redundant positions. As a result of this plan, we estimated \$2,027 of employee termination benefits as liabilities in our purchase accounting in accordance with Emerging Issues Task Force Issue No. 95-3 (EITF 95-3), *Recognition of Liabilities in Connection with a Purchase Business Combination*. This estimate is subject to change as we continue to formulate our plan. We expect to pay the remainder of these benefits in 2008 and 2009.

As of September 30, 2008, the balance in our restructuring accrual was \$290. In the nine months ended September 30, 2008, we had the following activity in our restructuring accruals:

	December 31, 2007				September 30, 2008
	Balance	Additions	Payments	Reductions	Balance
August 2006 Restructuring Termination costs	\$ 20	\$	\$	\$ (20)	\$
January 2007 Restructuring Termination costs	185		(185)		
June 2007 Restructuring Termination costs	123	37	(114)	(46)	
December 2007 Restructuring * Termination costs	2,027		(1,289)	(448) +	290
Total	\$ 2,355	\$ 37	\$ (1,588)	\$ (514)	\$ 290

* These accruals were reflected in purchase accounting.

+ Adjustment to goodwill

8. Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). Under SFAS 109, deferred tax assets or liabilities are computed based upon the difference between financial statement and income tax bases of assets and liabilities using the enacted tax laws and rates. Our effective tax rate was 37.22% and 37.17% for the three and nine months ended September 30, 2008, respectively, and 39.10% and 38.93% for the three and nine months ended September 30, 2007, respectively.

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 or results of operations. As of September 30, 2008, we have considered all of the claims and disputes of which we are aware and have provided for probable losses as part of the allowance for doubtful accounts, allowance for credit memos or accrued liabilities.

10. Subsequent Events

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

On October 5, 2008, Lehman Commercial Paper Inc. (Lehman CPI) filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. Lehman CPI is the administrative agent of our senior credit facility. Lehman CPI has \$28,200 (45.5 percent) of the \$62,000 in commitments under our undrawn revolving credit line. It is doubtful Lehman CPI will honor its obligations under the revolving credit line. We do not expect that the Lehman CPI bankruptcy filing will have a material adverse effect on our liquidity or financial position.

On October 6, 2008, we entered into an agreement to hedge \$100,000 of our U.S.-denominated term loan under our senior credit facility. The hedge effectively swaps variable rate interest expense based on 1-month LIBOR to a fixed rate interest expense thereby reducing our exposure to interest rate fluctuations. The effective date of the swap is October 31, 2008 and the maturity date is October 31, 2010. The fixed rate is 5.26% based on our 2.76% swap rate plus our 2.50% applicable margin.

Table of Contents

11. Supplemental Consolidating Financial Information

Syniverse Technologies, Inc.'s (Syniverse) payment obligations under the senior notes are guaranteed by Syniverse Inc. and all domestic subsidiaries of Syniverse including Syniverse Briece (collectively, the Guarantors). The results of Syniverse Technologies BV, Syniverse Holdings Limited, Perfect Profits International Limited and Syniverse Technologies Limited Luxembourg S. à r.l. are included as non-guarantors. Such guarantees are full, unconditional and joint and several. The following supplemental financial information sets forth, on an unconsolidated basis, balance sheets, statements of income, and statements of cash flows information for Syniverse Inc., the Guarantors and the non-guarantor subsidiaries. The supplemental financial information reflects the investment of Syniverse, Inc. and Syniverse using the equity method of accounting.

Table of Contents**CONSOLIDATING BALANCE SHEET (UNAUDITED)****AS OF SEPTEMBER 30, 2008****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash	\$ 44	\$ 79,868	\$ 46,123	\$	\$ 126,035
Accounts receivable, net of allowances		71,704	26,895		98,599
Accounts receivable affiliates	3,998	15,813	2,484	(22,295)	
Prepaid and other current assets		8,967	7,132		16,099
Total current assets	4,042	176,352	82,634	(22,295)	240,733
Property and equipment, net		44,041	3,658		47,699
Capitalized software, net		41,704	19,036		60,740
Deferred costs, net		9,456			9,456
Goodwill		361,317	247,635		608,952
Identifiable intangibles, net		157,088	58,703		215,791
Other assets		84,654	197	(82,721)	2,130
Investment in subsidiaries	529,222	267,782		(797,004)	
Total assets	\$ 533,264	\$ 1,142,394	\$ 411,863	\$ (902,020)	\$ 1,185,501
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	\$	\$ 2,109	\$ 5,124	\$	\$ 7,233
Accounts payable affiliates	299		18,698	(18,997)	
Accrued payroll and related benefits	236	13,499	4,200		17,935
Accrued interest		1,797	3,298	(3,298)	1,797
Deferred revenues		983	4,439		5,422
Other accrued liabilities	(31)	26,742	4,283		30,994
Current portion of Term Note B		3,463			3,463
Total current liabilities	504	48,593	40,042	(22,295)	66,844
Long-term liabilities:					
Deferred tax liabilities		48,931	16,155		65,086
7 ³ / ₄ % Senior Subordinated Notes due 2013		175,000			175,000
Term Note B, less current maturities		339,354			339,354
Other long-term liabilities		1,294	87,884	(82,721)	6,457
Total long-term liabilities		564,579	104,039	(82,721)	585,897
Stockholders equity:					
Common stock	68		115	(115)	68
Additional paid-in capital	469,198	465,698	249,927	(715,625)	469,198
Retained earnings	66,063	66,063	21,241	(87,304)	66,063
Accumulated other comprehensive loss	(2,539)	(2,539)	(3,501)	6,040	(2,539)
Common stock held in treasury, at cost	(30)				(30)

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Total stockholders' equity	532,760	529,222	267,782	(797,004)	532,760
Total liabilities and stockholders' equity	\$ 533,264	\$ 1,142,394	\$ 411,863	\$ (902,020)	\$ 1,185,501

Table of Contents**CONSOLIDATING STATEMENT OF INCOME (UNAUDITED)****THREE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
Revenues	\$	\$ 110,279	\$ 26,890	\$	\$ 137,169
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	56	34,154	8,923		43,133
Sales and marketing	345	7,260	3,466		11,071
General and administrative	912	15,617	3,255		19,784
Depreciation and amortization		10,396	3,413		13,809
Restructuring		(46)			(46)
	1,313	67,381	19,057		87,751
Operating income (loss)	(1,313)	42,898	7,833		49,418
Other income (expense), net:					
Income from equity investment	26,263	7,891		(34,154)	
Interest income		246	258		504
Interest expense		(9,190)			(9,190)
Other, net		(13)	(151)		(164)
	26,263	(1,066)	107	(34,154)	(8,850)
Income before provision for income taxes	24,950	41,832	7,940	(34,154)	40,568
Provision for income taxes	(517)	15,569	49		15,101
Net income	25,467	26,263	7,891	(34,154)	25,467

Table of Contents**CONSOLIDATING STATEMENT OF INCOME (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
Revenues	\$	\$ 305,740	\$ 74,693	\$	\$ 380,433
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	137	99,110	23,453		122,700
Sales and marketing	962	21,839	11,224		34,025
General and administrative	2,638	45,162	9,994		57,794
Depreciation and amortization		30,909	10,324		41,233
Restructuring		(29)			(29)
	3,737	196,991	54,995		255,723
Operating income (loss)	(3,737)	108,749	19,698		124,710
Other income (expense), net:					
Income from equity investment	63,477	18,527		(82,004)	
Interest income	2	557	857		1,416
Interest expense		(28,317)			(28,317)
Other, net		(117)	(262)		(379)
	63,479	(9,350)	595	(82,004)	(27,280)
Income before provision for income taxes	59,742	99,399	20,293	(82,004)	97,430
Provision for income taxes	(1,470)	35,922	1,766		36,218
Net income	61,212	63,477	18,527	(82,004)	61,212

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities					
Net income	\$ 61,212	\$ 63,477	\$ 18,527	\$ (82,004)	\$ 61,212
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization including amortization of deferred debt issuance costs		32,444	10,119		42,563
Provision for (recovery of) uncollectible accounts		(145)	16		(129)
Deferred income tax expense		24,051	(45)		24,006
Income from equity investment	(63,477)	(18,527)		82,004	
Stock-based compensation	3,738				3,738
Loss on disposition of property		478			478
Changes in operating assets and liabilities, net of acquisitions:					
Accounts receivable		(12,143)	(7,521)		(19,664)
Other current assets		149	(3,667)		(3,518)
Accounts payable		(962)	9,167		8,205
Other current liabilities	(517)	862	(7,294)		(6,949)
Other assets and liabilities	(2,703)	2,261	416		(26)
Net cash provided by (used in) operating activities	(1,747)	91,945	19,718		109,916
Cash flows from investing activities					
Capital expenditures		(23,723)	(5,683)		(29,406)
Acquisition of BSG Wireless		(823)			(823)
Net cash used in investing activities		(24,546)	(5,683)		(30,229)
Cash flows from financing activities					
Principal payments on senior credit facility		(2,654)			(2,654)
Employee stock purchase plan	388				388
Stock options exercised	1,951				1,951
Minimum tax withholding on restricted stock awards	(590)				(590)
Purchase of treasury stock	(1)				(1)
Net cash provided by financing activities	1,748	(2,654)			(906)
Effect of exchange rate changes on cash		1	(1,833)		(1,832)
Net increase in cash	1	64,746	12,202		76,949
Cash at beginning of period	43	15,121	33,922		49,086
Cash at end of period	\$ 44	\$ 79,867	\$ 46,124	\$	\$ 126,035

Table of Contents**CONSOLIDATING BALANCE SHEET**

AS OF DECEMBER 31, 2007

(Amounts in Thousands)

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash	\$ 43	\$ 15,121	\$ 33,922	\$	\$ 49,086
Accounts receivable, net of allowances		57,861	21,517		79,378
Accounts receivable affiliates	2,051	5,799		(7,850)	
Prepaid and other current assets		6,516	5,724		12,240
Total current assets	2,094	85,297	61,163	(7,850)	140,704
Property and equipment, net		41,862	1,994		43,856
Capitalized software, net		42,765	19,850		62,615
Deferred costs, net		10,786			10,786
Goodwill		361,318	254,986		616,304
Identifiable intangibles, net		166,069	65,954		232,023
Other assets		1,062	200		1,262
Investment in subsidiaries	469,003	349,348		(818,351)	
Total assets	\$ 471,097	\$ 1,058,507	\$ 404,147	\$ (826,201)	\$ 1,107,550
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	\$	\$ 2,399	\$ 2,607	\$	\$ 5,006
Accounts payable affiliates	298		7,552	(7,850)	
Accrued payroll and related benefits	38	9,844	2,134		12,016
Accrued interest		5,910			5,910
Deferred revenues		1,003	4,324		5,327
Other accrued liabilities	(31)	19,343	15,477		34,789
Current portion of Term Note B		3,459			3,459
Total current liabilities	305	41,958	32,094	(7,850)	66,507
Long-term liabilities:					
Deferred tax liabilities		21,103	22,484		43,587
7 ³ / ₄ % Senior Subordinated Notes due 2013		175,000			175,000
Term Note B, less current maturities		344,476			344,476
Other long-term liabilities		6,967	221		7,188
Total long-term liabilities		547,546	22,705		570,251
Stockholders equity:					
Common stock	68		115	(115)	68
Additional paid-in capital	463,711	461,961	341,466	(803,427)	463,711
Retained earnings	4,851	4,851	1,461	(6,312)	4,851
Accumulated other comprehensive income	2,191	2,191	6,306	(8,497)	2,191
Common stock held in treasury, at cost	(29)				(29)

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Total stockholders' equity	470,792	469,003	349,348	(818,351)	470,792
Total liabilities and stockholders' equity	\$ 471,097	\$ 1,058,507	\$ 404,147	\$ (826,201)	\$ 1,107,550

Table of Contents**CONSOLIDATING STATEMENT OF INCOME (UNAUDITED)****THREE MONTHS ENDED SEPTEMBER 30, 2007****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
Revenues	\$	\$ 87,666	\$ 12,612	\$	\$ 100,278
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	63	29,802	4,719		34,584
Sales and marketing	250	4,896	2,337		7,483
General and administrative	663	12,484	1,170		14,317
Depreciation and amortization		10,199	662		10,861
Restructuring		(319)			(319)
	976	57,062	8,888		66,926
Operating income (loss)	(976)	30,604	3,724		33,352
Other income (expense), net:					
Income from equity investment	17,069	3,356		(20,425)	
Interest income	1	347	76		424
Interest expense		(6,625)			(6,625)
Other, net		128	(218)		(90)
	17,070	(2,794)	(142)	(20,425)	(6,291)
Income before provision for income taxes	16,094	27,810	3,582	(20,425)	27,061
Provision for income taxes	(385)	10,741	226		10,582
Net income	16,479	17,069	3,356	(20,425)	16,479

Table of Contents**CONSOLIDATING STATEMENT OF INCOME (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2007****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
Revenues	\$	\$ 247,279	\$ 28,752	\$	\$ 276,031
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	138	89,256	12,706		102,100
Sales and marketing	386	15,350	6,211		21,947
General and administrative	1,921	35,859	4,140		41,920
Depreciation and amortization		29,843	2,021		31,864
Restructuring		2,236			2,236
	2,445	172,544	25,078		200,067
Operating income (loss)	(2,445)	74,735	3,674		75,964
Other income (expense), net:					
Income from equity investment	37,275	3,382		(40,657)	
Interest income	2	1,152	197		1,351
Interest expense		(18,747)	(1)		(18,748)
Other, net		129	(91)		38
	37,277	(14,084)	105	(40,657)	(17,359)
Income before provision for income taxes	34,832	60,651	3,779	(40,657)	58,605
Provision for income taxes	(961)	23,376	397		22,812
Net income	35,793	37,275	3,382	(40,657)	35,793

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)****NINE MONTHS ENDED SEPTEMBER 30, 2007****(Amounts in Thousands)**

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
Cash flows from operating activities					
Net income	\$ 35,793	\$ 37,275	\$ 3,382	\$ (40,657)	\$ 35,793
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization including amortization of deferred debt issuance costs					
		30,786	1,875		32,661
Provision for uncollectible accounts		203			203
Deferred income tax expense		18,182	904		19,086
Income from equity investment	(37,275)	(3,382)		40,657	
Stock-based compensation	2,445				2,445
Loss on disposition of property		1,061			1,061
Changes in operating assets and liabilities, net of acquisitions:					
Accounts receivable		(9,979)	1,665		(8,314)
Other current assets		(2,200)	687		(1,513)
Accounts payable		1,880	(1,262)		618
Other current liabilities	(962)	(8,067)	(993)		(10,022)
Other assets and liabilities	(393)	(3,631)	42		(3,982)
Net cash provided by (used in) operating activities	(392)	62,128	6,300		68,036
Cash flows from investing activities					
Capital expenditures		(21,200)	(774)		(21,974)
Acquisition of ITHL		14	(749)		(735)
Net cash used in investing activities		(21,186)	(1,523)		(22,709)
Cash flows from financing activities					
Debt issuance costs		(6,428)			(6,428)
Principal payments on senior credit facility		(24,561)			(24,561)
Employee stock purchase plan	430				430
Stock options exercised	294				294
Minimum tax withholding on restricted stock awards	(330)		55		(275)
Purchase of treasury stock	(1)				(1)
Net cash provided by (used in) financing activities	393	(30,989)	55		(30,541)
Effect of exchange rate changes on cash			552		552
Net increase in cash	1	9,953	5,384		15,338
Cash at beginning of period	41	18,920	7,743		26,704
Cash at end of period	\$ 42	\$ 28,873	\$ 13,127	\$	\$ 42,042

Table of Contents

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Forward-Looking Statements

Certain of the statements in this Report, including, without limitation, those related to our future operations or results under the caption entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, may constitute forward-looking statements for purposes of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control, and which may cause our actual results, performance or achievements, or the global telecommunications industry or economy generally, to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that may be forward-looking statements. You can identify these forward-looking statements through our use of words such as may, will, anticipate, assume, should, indicate, would, believe, could, expect, estimate, continue, plan, target, point to, project, predict, could, intend, target, potential, and other similar words, or future or otherwise regarding the outlook for our future business and financial performance and/or the performance of the global telecommunications industry and economy generally.

Although we presently believe that the plans, expectations and results expressed in or suggested by the forward-looking statements are reasonable, these forward-looking statements are based upon information presently available to our management and are inherently subjective, uncertain and subject to change, due to any number of risks and uncertainties, including, without limitation, those risks and factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 under the captions Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements and Risk Factors, and otherwise in the reports and filings that we make with the Securities and Exchange Commission. New factors emerge from time to time, and it is not possible for us to predict the nature, or assess the potential impact, of each new factor on our business. Accordingly, you should not place undue reliance on any forward-looking statements, since those statements speak only as of the date that they are made. We have no obligation and do not undertake to publicly update, revise or correct any of the forward-looking statements after the date of this Report, or after the respective dates on which such statements otherwise are made, whether as a result of new information, future events, or otherwise, except as otherwise may be required by law.

Overview

We are a leading enabler of wireless voice and data services for telecommunications companies worldwide. For over 20 years, we have served as one of the wireless industry's only operator-neutral intermediaries, solving the challenges that arise as new technologies, standards and protocols emerge. Our data clearinghouse, network and technology services solve technical and operational challenges for the wireless industry by translating incompatible communication standards and protocols and simplifying operator interconnectivity. Our suite of transaction-based services allows operators to deliver seamless voice, data and next generation services to wireless subscribers, including roaming, Short Message Service (SMS), Multimedia Messaging Services (MMS), caller ID, number portability and wireless video services. We provide our services to more than 600 operators in over 120 countries.

Company History

We were founded in 1987 as GTE Telecommunication Services Inc. (TSI), a unit of GTE Corporation (GTE), to address the industry-wide need for inter-operator wireless roaming telephone service. As the wireless industry has grown, we have continuously enhanced and extended our service offerings to meet the evolving technology service requirements of the telecommunications industry.

In early 2000, GTE combined our business with its Intelligent Network Services business, a leading Signaling System 7 (SS7) network and intelligent network database provider. This combination enhanced our services suite to include national SS7 signaling and intelligent network database management capabilities. In June 2000, GTE and Bell Atlantic Corporation merged to form Verizon Communications. As a result of this transaction, we became an indirect, wholly owned subsidiary of Verizon Communications Inc. (Verizon).

In February 2002, we were acquired by certain members of our then senior management team and an investor group led by GTCR Golder Rauner, LLC (GTCR). Following the acquisition, we became an independent corporate entity separate from Verizon. Syniverse Holdings, Inc. was a wholly owned subsidiary of Syniverse Holdings, LLC, which was the ultimate parent of the consolidated group of Syniverse entities. On February 10, 2005, we completed an initial public offering of 17,620,000 shares of common stock at a price of \$16.00 per common share. In connection with our initial public offering in February 2005, Syniverse Holdings, LLC distributed all of the shares of Class A cumulative redeemable convertible preferred stock and common stock of Syniverse Holdings, Inc. that it owned to its members and subsequently dissolved. Following this dissolution and distribution, Syniverse Holdings, Inc. became the ultimate parent of the consolidated group of Syniverse entities.

Table of Contents

On November 7, 2007, we completed a registered secondary offering on behalf of the selling stockholders of 20,000,000 shares of common stock, plus 3,000,000 shares sold pursuant to the underwriters' exercise of the over-allotment option, pursuant to a shelf registration statement previously filed with the Securities and Exchange Commission on June 8, 2007. The offering was priced at \$14.84125, reflecting a price to the public of \$15.50 per share, less underwriting discounts and commissions of \$0.65875 per share. We incurred approximately \$0.7 million of offering expenses related to the sale which were recorded to general and administrative expenses in the fourth quarter of 2007. We did not receive any proceeds from the sale.

Acquisitions

On June 16, 2006, we acquired the capital stock of Perfect Profits International, which comprises the Interactive Technologies Holdings Limited business (ITHL), from Interactive Technologies Holdings Limited for \$45.7 million in cash including \$1.1 million in acquisition related costs and working capital adjustments and earn-out to the sellers of \$6.9 million, which was paid in April 2007. Headquartered in Hong Kong, ITHL is a leading provider of value-added services to operators in the Asia Pacific region. The acquisition expanded our footprint in the Asia Pacific region and adds a complementary customer base, new products, advanced development capabilities and in-region customer support.

On December 19, 2007, we acquired the wireless data clearing and financial settlement business (BSG Wireless) of Billing Services Group Limited (BSG) pursuant to a Share Purchase Agreement, dated April 1, 2007. Under the Purchase Agreement, we acquired all of the outstanding share capital of Billing Services Group Luxembourg S. à r.l. and Billing Services Group Asia Limited from BSG for an aggregate purchase price of \$293.6 million in cash, which included debt paid repaid at closing and acquisition related costs of \$6.6 million. The acquisition was funded through the draw down of our amended and restated credit facility, which included a delayed draw term loan of \$160.0 million in aggregate principal amount and a Euro-denominated delayed draw term loan facility of the equivalent of \$130.0 million intended to finance this acquisition. The acquisition allows us to combine our industry-leading technology interoperability and network services capabilities with BSG Wireless' GSM data clearing expertise, European, Middle Eastern and Asian operator relationships, and financial clearing and settlement capabilities.

Verizon Acquisition of Alltel

During the second quarter of 2008, Verizon Wireless (Verizon) announced that it would acquire Alltel Corporation (Alltel), subject to regulatory approval. The impact of the combination of these two customers on us ranges across a variety of services, which affect revenues we receive not only from Verizon and Alltel, but from other roaming partners as well. Shortly after this transaction was announced, we performed an analysis of its impact to our business. Using our then current outlook for 2008, we estimated that if the Verizon and Alltel merger had been announced and fully integrated as of January 1, 2008, we believe the full-year impact to 2008 would have been a \$33.0 million to \$36.0 million decrease to our revenues. We have made certain assumptions in calculating this revenue impact. Our analysis assumes a loss of all the roaming traffic between Verizon and Alltel plus other roaming traffic where Verizon has coverage but where Alltel currently uses a different roaming partner. Where Syniverse is the vendor to either Verizon or Alltel, but not both, we have assumed a loss of all Alltel services where Verizon is using a different vendor. We also assumed that we keep those services we provide for Verizon. If Alltel is using a different vendor, we do not assume a switch to Syniverse. We also assumed the affected services from these customers to grow by 15% to 20% annually and that 60% of the impact would be in the first 12 months after closing of the merger based on the expected integration timeline. The analysis described above is based on current information available at this time and we can provide no assurance that the actual impact of this transaction will not be more or less than described in our analysis.

Potential Alltel/Sprint Insourcing Initiative

As a result of the significant volume growth in messaging and mobile data in the wireless industry, we understand that some operators are beginning to explore various ways to reduce their costs to deliver these services to their subscribers. The most significant operator initiative of which we are aware, and could have an immediate effect on our revenue, relates to a proposed insourcing arrangement between two of our CDMA customers—Alltel and Sprint. Specifically, we understand that these customers have proposed, and have been working towards, the insourcing of their mobile data roaming platforms during the fourth quarter of 2008. If this initiative is consummated, transactions between these two operators would no longer be processed through our platform.

While we cannot predict the likelihood or the timing of the consummation of this initiative, we do anticipate that such an initiative, if consummated upon the terms that have been targeted, would result in a reduction in revenues in the range of \$6.0 to \$8.0 million during the fourth quarter of 2008, which includes the impact of volumes from both customers.

The full year revenue impact of this proposed insourcing initiative should be analyzed in two distinct components, if the initiative occurred on January 1, 2008:

First, the revenue effect of the Alltel volumes that we expect will no longer be processed through our platform because of the insourcing initiative was included as a component of the \$33.0 to \$36.0 million annual revenue estimate discussed as a result of the Verizon acquisition of Alltel, above. Accordingly, the revenue impact of the insourcing initiative for the Alltel volumes is not an incremental impact; rather, it is an acceleration in the loss of revenue. We would now expect to see an acceleration in the loss of revenue from 60% to 80% in the first twelve months after Verizon's acquisition is completed.

The estimated full year impact on 2008 revenue associated with Sprint's mobile data roaming volumes is \$16.0 to \$18.0 million. We presently expect these services to grow 20% annually.

New Products

In September 2008, we announced we are working with Colibria to develop an Advanced Messaging Hub solution. This hub will deliver seamless interworking between operators for instant messaging (IM), SMS, MMS and subscriber presence applications. This advanced messaging hub will be the first to offer interworking and interconnection between all messaging types. This type of solution plays to our core interoperability strengths while enabling us to capitalize on the emerging mobile IM market in a cost-efficient manner. We have structured our agreement with Colibria as a joint development agreement where we each bring our core capabilities to develop a state-of-the-art solution where we will own the intellectual property. We will be contributing \$4.0 to \$5.0 million in capital expenditures to this joint development effort with approximately \$2.0 million in 2008.

Revenues

Most of our revenues are transaction-based and derived from long-term contracts, typically with terms averaging three years in duration. From time to time, if a contract expires and we have not previously negotiated a new contract or renewal with the customer, we continue to provide services on a month to month billing schedule under the terms of the expired contract as we negotiate new agreements or renewals. Most of the services and solutions we offer to our customers are based on applications, network connectivity and technology platforms owned and operated by us. We also generate revenues through the sale of software licenses, hardware and professional services. We generate our revenues through the sale of our technology interoperability services, network services, number portability services, call processing services, enterprise solutions and off-network database query fees to telecommunications operators throughout the world. Generally, there is a slight increase in wireless roaming telephone usage and corresponding revenues in the high-travel months of our second and third fiscal quarters.

Future increases or decreases in revenues are dependent on many factors, such as industry subscriber growth, subscriber habits, and volume and pricing trends, with few of these factors known in advance. From time to time, specific events such as customer contract renewals at different terms, a customer contract termination, a customer's decision to change technologies or to provide solutions in-house, or a consolidation of operators will be known to us and then we can estimate their impact on our revenues.

Table of Contents

Set forth below is a brief description of our primary service offerings and associated revenue recognition:

Technology Interoperability Services. We operate one of the largest wireless data clearinghouses globally, enabling the accurate invoicing and settlement of domestic and global wireless roaming telephone calls and wireless data events. We also provide Short Message Service (SMS), Multimedia Messaging Services (MMS) routing and translation, Near Real-Time Roaming Data Exchange (NRTRDE) services, interstandard roaming solutions and Mobile Data Roaming (MDR) services between operators. In addition, we have expanded our mobile data solutions to include interactive video and mobile broadband solutions, prepaid applications and value-added roaming services. Wireless operators send data records to our service platforms for processing, aggregation, translation and distribution among operators. We primarily generate revenues by charging per-transaction processing fees based on the number or size of data/messaging records provided to us by wireless operators for our wireless roaming clearinghouse and SMS and MMS routing services. We recognize revenues at the time the transactions are processed. Over time, we expect the average per-transaction fee for certain services to continue to decline as a result of our volume-based and service bundling pricing strategy for most of our offerings as well as competitive pricing pressure. With our acquisition of BSG Wireless, we provide financial settlement services to GSM operators. We primarily generate revenues by charging fees based on the number of invoices or roaming agreements managed on the customer's behalf. We recognize revenues at the time the transactions are processed. Additionally, we provide mobile data solutions that include interactive video and mobile broadband solutions, prepaid applications and value-added roaming services. Some of these solutions contain multiple product and service elements which may include software and hardware products, as well as installation services, post-contract customer support and training. In those cases, we recognize revenues in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2 (SOP 97-2), *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions*. Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

Network Services. Through our SS7 network, we connect disparate wireless operator networks and enable access to intelligent network database services such as caller ID. We also provide translation and routing services to support the delivery and establishment of telephone calls. SS7 is the telecommunications industry's standard network signaling protocol used by substantially all operators to enable critical telecommunications functions such as line busy signals, toll-free calling services and caller ID. We primarily generate revenues by charging either per-transaction or fixed processing fees determined by expected customer volumes. In addition, our customers pay monthly connection fees based on the number of network connections as well as the number of switches with which a customer communicates. The per-transaction fees are based on the number of intelligent network messages and intelligent network database queries made through our network and are recognized as revenues at the time the transactions are processed. Over time, we expect the average per-transaction fee for certain services will continue to decline as a result of our volume-based and service bundling pricing strategy and competitive pricing pressures.

Number Portability Services. We provide number portability services to the wireless industry. When wireless subscribers choose to change operators but keep their existing telephone number, the former operator must send the subscribers' information to the new operator. Our services perform the necessary processing between the two operators to allow the subscribers to change service providers while keeping their existing telephone number. We primarily generate revenues by charging per-transaction processing fees, monthly fixed fees and fees for customer implementations. We recognize processing revenues at the time the transactions and services are processed. We recognize monthly fixed fees as revenues on a monthly basis as the services are performed. We defer revenues and incremental customer-specific costs related to customer implementations and recognize these fees and costs on a straight-line basis over the shorter of the life of the initial customer agreement or the period remaining until the amended contract end date for those contracts terminated early.

Call Processing Services. We provide wireless operators global call handling, signaling and fraud management solutions that allow wireless subscribers from one operator to make and accept calls while roaming on another operator's network. We primarily generate revenues by charging per-transaction processing fees based on the number of validation, authorization and other call processing messages generated by wireless subscribers. We recognize processing fee revenues at the time the transactions are processed.

Enterprise Solutions Services. Our enterprise wireless data management platform allows operators to offer large corporate customers reporting and analysis tools to manage telecom-related expenses. We primarily generate revenues by charging per-subscriber fees. We recognize these revenues at the time the service is performed. Our enterprise solutions services revenues have declined as customers migrate off of our wireless data management platform and we expect this decline to continue.

Table of Contents

Off-Network Database Query Fees. Through interconnection with other operator networks, we have access to other service providers' databases that support caller ID and toll-free routing. If one of our customers uses our network to access another service provider's database, we are charged fees for access to that database. We pass these charges onto our customers, with little or no margin, based upon the charges we receive from these database providers. We recognize revenues at the time the transaction is performed. We expect a continued decline in these revenues as customers seek direct connections with the database providers.

Costs and Expenses

Our costs and expenses consist of cost of operations, sales and marketing, general and administrative and depreciation and amortization.

Cost of operations includes data processing costs, network costs, facilities costs, hardware costs, licensing fees, personnel costs associated with service implementation, training and customer care and off-network database query charges.

Sales and marketing includes personnel costs, advertising costs, trade show costs and relationship marketing costs.

General and administrative includes research and development expenses, a portion of the expenses associated with our facilities, business development expenses, and expenses for executive, finance, legal, human resources and other administrative departments and professional service fees relating to these functions. Our research and development expenses, which are primarily personnel, relate to technology creation, enhancement and maintenance of new and existing services. Historically, most of these costs are expensed and recorded as general and administrative expenses. The capitalized portion, which is recorded as capitalized software costs, relates to costs incurred during the application development stage for the new service offerings and significant service enhancements.

Depreciation and amortization relate primarily to our property and equipment including our SS7 network, infrastructure facilities related to information management and other intangible assets recorded in purchase accounting.

Table of Contents**Results of Operations**

The following tables present an overview of our results of operations for the three and nine months ended September 30, 2008 and 2007 (dollars in thousands):

	Three Months Ended September 30, 2008	% of Revenues	Three Months Ended September 30, 2007	% of Revenues	2008 vs. 2007 \$	Change %
Revenues:						
Technology Interoperability Services	\$ 88,568	64.6%	\$ 51,006	50.9%	\$ 37,562	73.6%
Network Services	31,097	22.7%	31,990	31.9%	(893)	(2.8)%
Number Portability Services	8,076	5.9%	7,060	7.0%	1,016	14.4%
Call Processing Services	7,546	5.5%	8,191	8.2%	(645)	(7.9)%
Enterprise Solutions	524	0.4%	943	0.9%	(419)	(44.5)%
Revenues excluding Off-Network Data Base	135,811	99.0%	99,190	98.9%	36,621	36.9%
Off-Network Database Query Fees	1,358	1.0%	1,088	1.1%	270	24.8%
Total revenues	137,169	100.0%	100,278	100.0%	36,891	36.8%
Costs and expenses:						
Cost of operations	43,133	31.4%	34,584	34.5%	8,549	24.7%
Sales and marketing	11,071	8.1%	7,483	7.5%	3,588	47.9%
General and administrative	19,784	14.4%	14,317	14.3%	5,467	38.2%
Depreciation and amortization	13,809	10.1%	10,861	10.8%	2,948	27.1%
Restructuring	(46)	(0.0)%	(319)	(0.3)%	273	(85.6)%
	87,751	64.0%	66,926	66.7%	20,825	31.1%
Operating income	49,418	36.0%	33,352	33.3%	16,066	48.2%
Other income (expense), net:						
Interest income	504	0.4%	424	0.4%	80	18.9%
Interest expense	(9,190)	(6.7)%	(6,625)	(6.6)%	(2,565)	38.7%
Other, net	(164)	(0.1)%	(90)	(0.1)%	(74)	82.2%
	(8,850)	(6.5)%	(6,291)	(6.3)%	(2,559)	40.7%
Income before provision for income taxes	40,568	29.6%	27,061	27.0%	13,507	49.9%
Provision for income taxes	15,101	11.0%	10,582	10.6%	4,519	42.7%
Net income	\$ 25,467	18.6%	\$ 16,479	16.4%	\$ 8,988	54.5%

Table of Contents

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007		2008 vs. 2007 \$	Change %
		% of Revenues		% of Revenues		
Revenues:						
Technology Interoperability Services	\$ 237,577	62.4%	\$ 130,862	47.4%	\$ 106,715	81.5%
Network Services	92,382	24.3%	93,659	33.9%	(1,277)	(1.4)%
Number Portability Services	21,462	5.6%	20,104	7.3%	1,358	6.8%
Call Processing Services	23,248	6.1%	23,821	8.6%	(573)	(2.4)%
Enterprise Solutions	1,943	0.5%	3,223	1.2%	(1,280)	(39.7)%
Revenues excluding Off-Network Data						
Base	376,612	99.0%	271,669	98.4%	104,943	38.6%
Off-Network Database Query Fees	3,821	1.0%	4,362	1.6%	(541)	(12.4)%
Total revenues	380,433	100.0%	276,031	100.0%	104,402	37.8%
Costs and expenses:						
Cost of operations	122,700	32.3%	102,100	37.0%	20,600	20.2%
Sales and marketing	34,025	8.9%	21,947	8.0%	12,078	55.0%
General and administrative	57,794	15.2%	41,920	15.2%	15,874	37.9%
Depreciation and amortization	41,233	10.8%	31,864	11.5%	9,369	29.4%
Restructuring	(29)	(0.0)%	2,236	0.8%	(2,265)	(101.3)%
	255,723	67.2%	200,067	72.5%	55,656	27.8%
Operating income	124,710	32.8%	75,964	27.5%	48,746	64.2%
Other income (expense), net:						
Interest income	1,416	0.4%	1,351	0.5%	65	4.8%
Interest expense	(28,317)	(7.4)%	(18,748)	(6.8)%	(9,569)	51.0%
Other, net	(379)	(0.1)%	38	0.0%	(417)	(1097.4)%
	(27,280)	(7.2)%	(17,359)	(6.3)%	(9,921)	57.2%
Income before provision for income taxes	97,430	25.6%	58,605	21.2%	38,825	66.2%
Provision for income taxes	36,218	9.5%	22,812	8.3%	13,406	58.8%
Net income	\$ 61,212	16.1%	\$ 35,793	12.9%	\$ 25,419	71.0%

Revenues by geographic region for the three and nine months ended September 30, 2008 and 2007 were as follows (dollars in thousands):

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007		2008 vs. 2007 \$	2008 vs. 2007 %
		% of Revenues		% of Revenues		
North America (U.S. and Canada)	\$ 98,346	71.7%	\$ 77,274	77.1%	\$ 21,072	27.3%
Asia Pacific	10,357	7.6%	11,279	11.2%	(922)	(8.2)%
Caribbean and Latin America (includes Mexico)	8,099	5.9%	6,243	6.2%	1,856	29.7%
Europe, Middle East and Africa	19,009	13.9%	4,394	4.4%	14,615	332.6%
Subtotal non- North American Revenue	37,465	27.3%	21,916	21.8%	15,549	71.0%
Revenues excluding Off Network						
Database Queries	135,811	99.0%	99,190	98.9%	36,621	36.9%
Off-Network Database Queries	1,358	1.0%	1,088	1.1%	270	24.8%

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Total Revenues	\$	137,169	100.0%	\$	100,278	100.0%	\$	36,891	36.8%
		Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007			2008 vs. 2007	
			% of Revenues			% of Revenues		2007 \$	2008 vs. 2007 %
North America (U.S. and Canada)	\$	271,491	71.4%	\$	213,219	77.2%	\$	58,272	27.3%
Asia Pacific		32,430	8.5%		30,528	11.1%		1,902	6.2%
Caribbean and Latin America (includes Mexico)		23,413	6.2%		17,027	6.2%		6,386	37.5%
Europe, Middle East and Africa		49,278	13.0%		10,895	3.9%		38,383	352.3%
Subtotal non- North American Revenue		105,121	27.6%		58,450	21.2%		46,671	79.8%
Revenues excluding Off Network									
Database Queries		376,612	99.0%		271,669	98.4%		104,943	38.6%
Off-Network Database Queries		3,821	1.0%		4,362	1.6%		(541)	(12.4)%
Total Revenues	\$	380,433	100.0%	\$	276,031	100.0%	\$	104,402	37.8%

Table of Contents***Comparison of the Three and Nine Months Ended September 30, 2008 and 2007******Revenues***

Total revenues increased \$36.9 million to \$137.2 million for the three months ended September 30, 2008 from \$100.3 million for the same period in 2007. Total revenues increased \$104.4 million to \$380.4 million for the nine months ended September 30, 2008 from \$276.0 million for the same period in 2007. The increase in revenues was primarily due to growth in Technology Interoperability Services driven by organic volume growth in our wireless data clearinghouse services, SMS and MMS interoperability, MDR services and the addition of \$42.3 million of revenues from BSG Wireless. For the year ended December 31, 2008, we expect revenues excluding off network database queries to be between \$485.0 and \$495.0 million.

Technology Interoperability Services revenues increased \$37.6 million to \$88.6 million for the three months ended September 30, 2008 from \$51.0 million for the same period in 2007. *Technology Interoperability Services* revenues increased \$106.7 million to \$237.6 million for the nine months ended September 30, 2008 from \$130.9 million for the same period in 2007. The increase in revenues was primarily due to organic volume growth in our wireless data clearinghouse services, SMS and MMS interoperability, MDR and the addition of \$15.8 million and \$42.3 million of revenues from BSG Wireless for the three and nine months ended September 30, 2008.

Effective September 30, we have extended our contract with Verizon for three years. Verizon uses a large suite of services, for its data clearing and roaming operations products such as MDR, data clearing house, Visibility, UniRoam and a number of other services. The impact of Verizon's new terms and reduced pricing are expected to be approximately \$6.0 million in fourth quarter and remain transaction-based, primarily affecting *Technology Interoperability Services*.

Network Services revenues decreased \$0.9 million to \$31.1 million for the three months ended September 30, 2008 from \$32.0 million for the same period in 2007. *Network Services* revenues decreased \$1.3 million to \$92.4 million for the nine months ended September 30, 2008 from \$93.7 million for the same period in 2007. The decrease in revenues was primarily due to customer migrations off our services platform partially offset by increases in data networking and *Visibility* services.

Number Portability Services revenues increased \$1.0 million to \$8.1 million for the three months ended September 30, 2008 from \$7.1 million for the same period in 2007. The increase in revenues was primarily due to higher porting. *Number Portability Services* revenues increased \$1.4 million to \$21.5 million for the nine months ended September 30, 2008 from \$20.1 million for the same period in 2007. The increase was primarily driven by an increase in wireless porting volumes resulting from both specific promotions of certain significant wireless operators in the U.S. and other porting activities.

Call Processing Services revenues decreased \$0.6 million to \$7.5 million for the three months ended September 30, 2008 from \$8.2 million for the same period in 2007. *Call Processing Services* revenues decreased \$0.6 million to \$23.2 million for the nine months ended September 30, 2008 from \$23.8 million for the same period in 2007. The decrease in revenues was due to continued declines in our legacy fraud-related services and *Signaling Solutions* due to expected network migrations. We expect this decline to continue for our legacy fraud-related services.

Enterprise Solutions Services revenues decreased \$0.4 million to \$0.5 million for the three months ended September 30, 2008 from \$0.9 million for the same period in 2007. *Enterprise Solutions Services* revenues decreased \$1.3 million to \$1.9 million for the nine months ended September 30, 2008 from \$3.2 million for the same period in 2007. The decrease in revenues was primarily due to a lower number of subscribers on our enterprise wireless data management platform. We expect this decline to continue.

Off-Network Database Queries revenues increased \$0.3 million to \$1.4 million for the three months ended September 30, 2008 from \$1.1 million for the same period in 2007. *Off-Network Database Queries* revenues decreased \$0.5 million to \$3.8 million for the nine months ended September 30, 2008 from \$4.4 million for the same period in 2007. The decrease in revenues was primarily driven by customers moving to direct access and billing arrangements with third-party intelligent network database providers. We pass these off-network database query fees onto our customers, with little or no margin, based upon the charges we receive from the third-party database providers. We expect this decline to continue.

Table of Contents**Costs and expenses**

Cost of operations increased \$8.5 million to \$43.1 million for the three months ended September 30, 2008 from \$34.6 million for the same period in 2007. Cost of operations increased \$20.6 million to \$122.7 million for the nine months ended September 30, 2008 from \$102.1 million for the same period in 2007. The increase was primarily due to expenses incurred by BSG Wireless, increased performance compensation and higher data processing costs commensurate with higher revenues.

Sales and marketing expenses increased \$3.6 million to \$11.1 million for the three months ended September 30, 2008 from \$7.5 million for the same period in 2007. Sales and marketing expenses increased \$12.1 million to \$34.0 million for the nine months ended September 30, 2008 from \$21.9 million for the same period in 2007. The increase was primarily due to higher employee-related expenses for our global expansion, increased performance compensation and expenses incurred by BSG Wireless.

General and administrative expenses increased \$5.5 million to \$19.8 million for the three months ended September 30, 2008 from \$14.3 million for the same period in 2007. General and administrative expenses increased \$15.9 million to \$57.8 million for the nine months ended September 30, 2008 from \$41.9 million for the same period in 2007. The increase was primarily due to expenses incurred by BSG Wireless, increased legal fees, increased travel, increased performance compensation and severance and relocation expenses associated with changes in our senior management team.

Depreciation and amortization expenses increased \$2.9 million to \$13.8 million for the three months ended September 30, 2008 from \$10.9 million for the same period in 2007. Depreciation and amortization expenses increased \$9.3 million to \$41.2 million for the nine months ended September 30, 2008 from \$31.9 million for the same period in 2007. The increase was primarily due to additional amortization of acquired intangible assets from our acquisition of BSG Wireless. Included in our depreciation and amortization expense for the nine months ended September 30, 2008 and 2007 is approximately \$21.4 million and \$14.1 million, respectively, of amortization related to intangible assets recorded in purchase accounting due to acquisitions we made beginning with our February 2002 acquisition from Verizon through our December 2007 acquisition of BSG Wireless.

Restructuring expense was \$0 and \$(0.3) million for the three months ended September 30, 2008 and 2007, respectively. Restructuring expense was \$0 and \$2.2 million for the nine months ended September 30, 2008 and 2007, respectively. In January 2007, we completed a restructuring plan resulting in the closure of our Oklahoma office, the elimination of certain executive positions, and the termination of 10 employees. As a result, we incurred \$0.7 million in severance related costs and \$1.3 million in costs associated with the lease of our corporate aircraft. In June 2007, we committed to a restructuring plan affecting our technology development and support groups. We estimated that the plan would result in the elimination of 56 employees over the remainder of the year. As a result, we accrued \$0.6 million in severance related costs. During the third and fourth quarter of 2007, we experienced a higher than expected level of attrition among the employees impacted by the offshoring plan resulting in a reduction of our severance liability of \$0.4 million.

Other

Interest income was \$0.5 million and \$0.4 million for the three months ended September 30, 2008 and 2007, respectively. Interest income was \$1.4 million for both the nine months ended September 30, 2008 and 2007. Interest income was primarily earned on outstanding cash balances.

Interest expense increased \$2.6 million to \$9.2 million for the three months ended September 30, 2008 from \$6.6 million for the same period in 2007. Interest expense increased \$9.6 million to \$28.3 million for the nine months ended September 30, 2008 from \$18.7 million for the same period in 2007. The increase was primarily due to higher outstanding debt resulting from the financing of our acquisition of BSG Wireless in December 2007.

Provision for income taxes increased \$4.5 million to \$15.1 million for the three months ended September 30, 2008 from \$10.6 million for the same period in 2007. Provision for income taxes increased \$13.4 million to \$36.2 million for the nine months ended September 30, 2008 from \$22.8 million for the same period in 2007. The increase in income taxes was primarily due to higher income before taxes. Our effective tax rate for the nine months ended September 30, 2008 was approximately 37.2% as compared to 38.9% for the same period in 2007.

Table of Contents**Liquidity and Capital Resources***Cash Flow Information*

The following table sets forth, for the periods indicated, selected consolidated cash flow information (in thousands).

	Nine Months Ended September 30,	
	2008	2007
Net cash provided by operating activities	\$ 109,916	\$ 68,036
Net cash used in investing activities	(30,229)	(22,709)
Net cash used in financing activities	(906)	(30,541)
Effect of exchange rate changes on cash	(1,832)	552
Net increase in cash	\$ 76,949	\$ 15,338

Net cash provided by operating activities was \$109.9 million for the nine months ended September 30, 2008 as compared to \$68.0 million for the same period in 2007. The increase was primarily related to higher net income adjusted for non-cash items (depreciation and amortization, provision for uncollectible accounts, deferred income tax expense, stock-based compensation and loss on disposition of property) and changes in operating assets and liabilities. Cash and cash equivalents were \$126.0 million at September 30, 2008 as compared to \$49.1 million at December 31, 2007. This increase was primarily due to an increase in net cash provided by operating activities. Our working capital increased \$99.7 million to \$173.9 million at September 30, 2008 from \$74.2 million at December 31, 2007 primarily due to increased cash and accounts receivable.

Net cash used in investing activities was \$30.2 million for the nine months ended September 30, 2008, which includes \$0.8 million associated with the acquisition of BSG Wireless as compared to \$22.7 million for the same period in 2007. For the nine months ended September 30, 2008, we incurred approximately \$29.4 million for capital expenditures primarily for our network infrastructure to support customer growth, non-network production upgrades and capitalized software. These capital expenditures also include amounts relating to the BSG Wireless platform integration and investments in the joint development effort with Colibria. For the nine months ended September 30, 2007, we incurred approximately \$22.0 million for capital expenditures primarily for non-network production upgrades, investment in our messaging infrastructure to support our anticipated growth and capitalized software development. We expect total capital expenditures in 2008 to be approximately 8.5% of revenues compared to 7.3% in 2007.

Net cash used in financing activities was \$0.9 million for the nine months ended September 30, 2008, which includes \$2.7 million of principal payments on our senior credit facility offset by \$2.3 million related to stock option exercises and the employee stock purchase plan. Net cash used in financing activities was \$30.5 million for the nine months ended September 30, 2007, which includes \$24.6 million of principal payments on our senior credit facility and \$6.4 million of debt issuance costs related to our amended and restated senior credit facility entered into on August 9, 2007.

Our principal sources of liquidity are cash flows generated from operations and borrowings under our senior credit facility. Our principal uses of cash are to meet debt service requirements, finance our capital expenditures, make acquisitions and provide working capital. We expect that cash on hand, cash available from operations, and the availability of cash under our revolving line of credit will be sufficient to fund our operations, debt service and capital expenditures for the foreseeable future.

On September 15, 2008, Lehman Brothers Holdings Inc. (Lehman) filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. A subsidiary of Lehman, Lehman Commercial Paper Inc. (Lehman CPI) is a one of the lenders under our senior credit facility.

On October 5, 2008, Lehman CPI filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. Lehman CPI is the administrative agent of our senior credit facility. Lehman CPI has \$28.2 million (45.5 percent) of the \$62.0 million in commitments under our undrawn revolving credit line. It is doubtful Lehman CPI will honor its obligations under the revolving credit line. We do not expect that the Lehman CPI bankruptcy filing will have a material adverse effect on our liquidity or financial position.

Debt and Credit Facilities

Amended and Restated Senior Credit Facility

On August 9, 2007, we entered into a \$464.0 million amended and restated credit agreement (the "senior credit facility") with Lehman Brothers Inc. and Deutsche Bank Securities Inc. as joint lead arrangers and joint book-running managers, Lehman Commercial Paper Inc., as administrative agent, Deutsche Bank AG New York Branch, as syndication agent, Bear Stearns Corporate Lending Inc. and LaSalle Bank National Association, as co-documentation agents and the lenders from time to time parties thereto. The obligations under the senior credit facility are unconditionally guaranteed by Syniverse Holdings, Inc. and all material U.S. domestic subsidiaries of Syniverse Technologies, Inc. (the "Guarantors") and are secured by a security interest in substantially all of the tangible and intangible assets of Syniverse Technologies, Inc. and the Guarantors. The obligations under the senior credit facility are also secured by a pledge of the capital stock of Syniverse Technologies, Inc. and its direct and indirect U.S. subsidiaries.

Table of Contents

The senior credit facility provides for aggregate borrowings of \$464.0 million as follows:

- a term loan of \$112.0 million in aggregate principal amount;
- a delayed draw term loan of \$160.0 million in aggregate principal;
- a Euro-denominated delayed draw term loan facility of the equivalent of \$130.0 million;
- a revolving credit line of \$42.0 million; and
- a Euro-denominated revolving credit line of the equivalent of \$20.0 million.

On December 19, 2007, the delayed draw term loans of \$290.0 million (delayed draw term loan of \$160.0 million and Euro-denominated delayed draw term loan of the equivalent of \$130.0 million) were used to fund the acquisition of the BSG Wireless including the repayment of existing debt and to pay related transaction fees and expenses. The delayed draw term loans were subject to a commitment fee of 1.25% per annum on undrawn amounts. The commitment to fund the delayed draw term loans expired at the earliest to occur of (i) the draw down to fund the acquisition of BSG Wireless, (ii) termination of the BSG acquisition agreement or (iii) September 30, 2008.

The applicable margin for the base rate term loan and the base rate revolving loans is 1.50%. U.S. dollar denominated borrowings bear interest at either a base rate or, at our option, a LIBOR rate. The applicable margin for the Eurodollar term loan, Euro-denominated delayed draw term loan and Eurodollar revolving loans is 2.50%. Euro-denominated borrowings under the senior credit facility bear interest at a EURIBOR rate. The term loan facilities require regularly scheduled quarterly payments of principal and interest, and the entire amount of the term loan facilities will mature on August 9, 2014. The full amount borrowed under the revolving credit line will mature on August 9, 2013. In the event we fail to refinance our 7 ³/₄% senior subordinated notes by February 15, 2013, then the maturity date of our term loan facilities and revolving credit line will be accelerated to February 15, 2013.

As of September 30, 2008 we had an aggregate face amount of \$342.8 million of outstanding indebtedness under our senior credit facility representing \$213.7 million in U.S. dollar denominated term loans, \$129.1 million in Euro-denominated delayed draw term loans, \$42.0 million available under the revolving credit facility and \$18.1 million available under the Euro-denominated revolving credit line. As of September 30, 2008 the applicable interest rate was 6.2% on the term loan based on the LIBOR option, 6.2% on the delayed draw term loan based on the LIBOR option, and 7.51% on the Euro-denominated delayed term loan based on the EURIBOR option.

The senior credit facility contains covenants that will limit our ability and that of our Guarantors to, among other things, incur or guarantee additional indebtedness, create liens, pay dividends on or repurchase stock, make certain types of investments, restrict dividends or other payments from our subsidiaries, enter into transactions with affiliates and sell assets or merge with other companies. The senior credit facility also requires compliance with financial covenants, including a maximum ratio of total indebtedness to Consolidated EBITDA. As of September 30, 2008, we believe we are in compliance with all of our covenants contained in the senior credit facility.

On October 6, 2008, we entered into an agreement to hedge \$100.0 million of our U.S.-denominated term loan under the senior credit facility. The hedge effectively swaps variable rate interest expense based on 1-month LIBOR to fixed rate interest expense thereby reducing our exposure to interest rate fluctuations. The effective date of the swap is October 31, 2008 and the maturity date is October 31, 2010. The fixed rate is 5.26% based on our 2.76% swap rate plus our 2.50% applicable margin.

7³/₄% Senior Subordinated Notes Due 2013

On August 24, 2005, we completed a private offering of \$175.0 million in aggregate principal amount of our 7 ³/₄% senior subordinated notes due 2013. Interest on the notes accrues at the rate of 7 ³/₄% per annum and is payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2006.

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

The indenture governing our 7³/₄% senior subordinated notes due 2013 contains certain covenants that among other things, limit our ability to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of our subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates. As of September 30, 2008, we believe we are in compliance with all of the covenants contained in the indenture governing our senior subordinated notes.

Effect of Inflation

Inflation generally affects us by increasing our cost of labor, equipment and new materials. We do not believe that inflation has had any material effect on our results of operations during the three and nine months ended September 30, 2008 and 2007.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses. We consider an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations or financial condition. We have identified the following critical accounting policies that affect the more significant estimates and judgments.

Table of Contents***Revenue Recognition***

We derive revenues from six categories: Technology Interoperability Services, Network Services, Number Portability Services, Call Processing Services, Enterprise Solutions and Off-Network Database Queries. The revenue recognition policy for each of these areas is described in Note 3 of Notes to Condensed Unaudited Consolidated Financial Statements contained in this report.

Due to our billing cycles, which for some of our products lag as much as 40 days after the calendar month in which the services are rendered, we estimate the amounts of unbilled revenue each reporting period. Our estimates are based on recent volume and pricing trends adjusted for material changes in contracted service, because actual information is not available immediately. Based on a retrospective review of our actual billings compared to our estimates, our estimates have been reasonable. Historically, our estimates have approximated our actual subsequently billed revenue. Unanticipated changes in volume and pricing trends or material changes in contracted service could adversely affect our estimates of unbilled revenue. This estimate is critical to our financial statements because it impacts revenue and amounts recorded as accounts receivable on our balance sheet. As of September 30, 2008, our estimated unbilled revenues were \$7.3 million. A 10% change in our estimate would result in either an increase or decrease in revenues and accounts receivable of approximately \$0.7 million.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to pay their invoices to us in full. We regularly review the adequacy of our accounts receivable allowance after considering the size of the accounts receivable balance, each customer's expected ability to pay and our collection history with each customer. A portion of this analysis is dependent on our ability to gather reliable information about our customers' specific circumstances. As part of our analysis, we review significant invoices that are past due to determine if an allowance is necessary based on the risk category using the factors described above. Based on the circumstances, we place each customer into a risk category and assign allowance percentages between 5% and 100%. Our estimates of allowances for doubtful accounts have tracked well with our actual experience of customers who are unable to pay their invoices in full. However, uncollectible accounts that are not identified or properly assessed in our review could have a significant impact on our bad debt provision. In addition, if our customers' financial condition or the economy in general deteriorates, we may need to increase these allowances for doubtful accounts. Excluding all risk categories that are reserved at 100%, a 10% change in each one of our risk categories would cause our allowance for doubtful accounts as of September 30, 2008 and our bad debt expense for the nine months then ended to change by \$0.1 million. Because we perform our analysis and establish our allowance for doubtful accounts on a customer-by-customer basis, we generally do not record a reserve for unknown factors. However, if we were to apply a reserve for unknown factors of 1% to our unreserved accounts receivable balance, it would increase our allowance for doubtful accounts as of September 30, 2008 and our bad debt expense for the nine months then ended by approximately \$0.9 million.

Allowance for Credit Memos

We maintain an allowance for credit memos based on our historical credit memo activity. In addition, we establish allowances for credit memos resulting from specific customer matters. This allowance is recorded as a direct reduction of accounts receivable and revenues. Since our allowances for credit memos are derived in large part from specific customer matters, our estimates have tracked well with our actual credit memo experience. If our billing errors or discrepancies are not resolved satisfactorily or our customers' disputes over billing are not resolved satisfactorily, increases to the allowance would be required. As of September 30, 2008, our allowance for credit memos totaled \$2.2 million. If our allowance for credit memos, including identified specific customer matters, changed by 10%, our allowance for credit memos and revenues would change by approximately \$0.2 million.

Impairment Losses on Long-Lived Assets

We review our long-lived assets, including property and equipment and intangibles with definite lives for impairment when events or changes in circumstances indicate the carrying value of such assets may not be recoverable. We also evaluate the useful life of our assets each reporting period, and if deemed to be shorter than originally estimated, would result in an increase in our annual depreciation and/or amortization expense.

Table of Contents

If an impairment indicator existed, we would perform a comparison of the carrying value of the assets with the assets' expected future undiscounted cash flows without interest costs. An impairment loss is recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is deemed to not be recoverable if it exceeds the sum of its undiscounted cash flows. Estimates of expected future cash flows are management's best estimate based on reasonable and supportable assumptions and projections. If actual market conditions are less favorable than those projected by management, asset impairment charges may be required. Management continues to evaluate overall industry and company-specific circumstances and conditions to identify indicators of impairment. No impairment was recognized for the nine months ended September 30, 2008.

Impairment Losses on Goodwill

We evaluate goodwill for impairment at least annually, or more frequently if indicators of impairment arise, in accordance with the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Our evaluation of goodwill is measured by a two-step impairment test. The first step compares the fair value of our reporting unit with its carrying amount, including goodwill. If the carrying amount of our reporting unit exceeds its fair value, we then compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recognized to the extent that the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill. Estimates of expected future cash flows represent management's best estimate based on reasonable and supportable assumptions and projections. If actual market conditions are less favorable than those projected by management, an impairment loss may be required to be recognized. Management will continue to evaluate overall industry and company-specific circumstances and conditions as necessary. No impairment was recognized for the nine months ended September 30, 2008.

Purchase Accounting

We have made estimates of the fair values of the assets acquired from our various acquisitions, based primarily on appraisals from third parties and also based on certain internally generated information. If the subsequent actual and updated projections of the underlying business activity change as compared to the underlying assumptions and projections used to develop these fair values, then we could experience impairment losses, as described above. In addition, we have estimated the economic lives of certain of these assets and these lives were used to calculate depreciation and amortization expense. If our estimates of the economic lives change, then additional depreciation or amortization expense could be incurred on an annual basis. We have not made any changes in these areas. If the estimates of the economic lives on the definite-lived intangible assets acquired were reduced by one year, our projected 2008 amortization expense would increase by approximately \$2.9 million.

Income Taxes

On January 1, 2007 we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), resulting in a change to our liability for uncertain tax positions, which is currently \$9.0 million. No increases or decreases were made to this liability during the nine months ended September 30, 2008.

We review our deferred tax assets on a regular basis to evaluate their recoverability based on projections of the turnaround timing of our deferred tax liabilities, projections of future taxable income, and tax planning strategies that we might employ to utilize such assets, including net operating loss carryforwards. Unless it is more likely than not that we will recover such assets through the above means, we establish a valuation allowance. We have recorded a valuation allowance for net deferred tax assets primarily associated with foreign and state net operating losses and capital loss carry forwards. The valuation allowance also includes amounts recorded for certain net deferred tax assets associated with the BSG acquisition.

We file our tax returns on a calendar year basis. As of December 31, 2007, we had federal net operating losses or NOLs of approximately \$44.8 million and capital losses totaling \$0.9 million, both of which we succeeded to as the result of a state law merger with Brience, Inc., now known as Syniverse Brience LLC in July 2003. As a result of this merger, our consolidated group succeeded to approximately \$76 million of NOLs. The merger was treated as a tax-free reorganization under the Internal Revenue code of 1986, as amended (the Code). If the Internal Revenue Service were to challenge successfully this reorganization, the amount of our consolidated group's NOLs would be substantially reduced. In addition, these NOLs are subject to the separate return limitation rules under the consolidated return regulations which means that they generally can be utilized only to offset income from Brience Inc. and other members of its consolidated group of corporations at the time the losses were generated, or their successors. Finally, Section 382 of the Code imposes an annual limitation on the use of a corporation's NOLs if the corporation undergoes an ownership change during a three year testing period. In general, an ownership change occurs if, on any testing date, the beneficial ownership of the corporation by one or more 5 percent shareholders has increased, in the aggregate, by more than 50 percentage points over the respective lowest ownership percentages of such 5-percent shareholders during the testing period preceding such date. The sale of our shares in November 2007 caused an ownership change within the meaning of this Section. As a result, the maximum amount of pre-change NOLs that can be used to offset our taxable income in any given year after 2007 will be limited to the product of (1) the value of our equity immediately prior to the ownership change, subject to certain adjustments, and (2) the applicable federal long-term tax-exempt interest

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

rate published by the Internal Revenue Service. We do not believe this ownership change will materially limit our utilization of the NOLs. All of our consolidated group's NOLs remain subject to examination and adjustment by the Internal Revenue Service.

Table of Contents

Recent Accounting Pronouncements

See Note 3 Summary of Significant Accounting Policies of Notes to Condensed Unaudited Consolidated Financial Statements in this report for the discussion on recent accounting pronouncements.

Off-Balance Sheet Arrangements

We use off-balance sheet financing primarily in the form of operating leases for facility space and equipment and we expect to continue this practice. Since the terms of these lease agreements meet the definitions of operating lease agreements, the sum of future lease payments is not reflected on our consolidated balance sheet. Furthermore, we do not use any other type of joint venture or special purpose entities that would create off-balance sheet financing. Our remaining operating lease payment obligations for 2008 total approximately \$2.6 million based on leases in effect at September 30, 2008.

Available Information

Our internet website address is www.syniverse.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act are available free of charge (except for the user's internet access charge) through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. Our website and the information contained or incorporated therein are not intended to be incorporated into, and are not a part of, this report.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Market Risk

We are exposed to changes in interest rates on our senior credit facility. Our senior credit facility is variable rate debt. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. As of September 30, 2008 and December 31, 2007, we had \$342.8 million and \$347.9 million, respectively, of variable rate debt outstanding on our senior credit facility. Holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates on our variable debt would have had an estimated impact on pre-tax earnings and cash flows for the next year of approximately \$3.4 million. Under the terms of the senior credit facility at least 25% of our funded debt must bear interest that is effectively fixed. As a result, we may from time to time be required to enter into interest rate protection agreements establishing a fixed maximum interest rate with respect to a portion of our total indebtedness.

On October 6, 2008, we entered into an agreement to hedge \$100,000 of our U.S.-denominated term loan under our senior credit facility. The hedge effectively swaps variable rate interest expense based on 1-month LIBOR to a fixed rate interest expense thereby reducing our exposure to interest rate fluctuations. The effective date of the swap is October 31, 2008 and the maturity date is October 31, 2010. The fixed rate is 5.26% based on our 2.76% swap rate plus our 2.50% applicable margin.

Foreign Currency Exchange Rate Risk

We operate globally and transact business in currencies other than the U.S. dollar. As we continue our global expansion, we are increasingly exposed to foreign currency exchange rate risks. We are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business, such as customer agreements, salaries and rent that are collectible and payable in currencies other than the functional currency, which could result in significant foreign currency gains or losses. Our primary currency exchange rate exposures are with the Euro and the British pound against the U.S. dollar. As part of our senior credit facility, we have \$129.1 million in Euro-denominated delayed draw term loans, and \$18.1 million available under the Euro-denominated revolving credit line. At this time, we have not entered into any derivative, forward or option arrangements to hedge our risks from foreign currency.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In connection with the preparation of this quarterly report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2008. Based on this evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective as of September 30, 2008.

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

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 or results of operations. As of September 30, 2008, we have considered all of the claims and disputes of which we are aware and accrued amounts in our analysis of doubtful accounts, allowances for credit memos or probable loss accruals. See Note 8 Commitments and Contingencies of Notes to Condensed Unaudited Consolidated Financial Statements for the discussion of legal matters.

ITEM 1A: RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, see the discussion in Item 1A Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007. The following risk factor should be considered together with the other risks and factors that we have described in our other public filings. Other than as set forth below, or elsewhere in this Report or our other filings with the Securities and Exchange Commission, we believe that there have been no material changes to the risk factors disclosed in our 2007 Annual Report and our other public filings.

Future consolidation among our customers may cause us to lose transaction volume and reduce our prices, which would negatively impact our financial performance.

In the past, consolidation among our customers has caused us to lose transaction volume and to reduce prices. In the future, our transaction volume and pricing may decline for similar reasons. Such consolidation activities may take the form of business combinations, strategic partnerships, or other business arrangements between the operators.

We may not be able to expand our customer base to make up any revenue declines if we lose customers or if our transaction volumes decline as a result of consolidation activities. Our attempts to diversify our customer base and reduce our reliance on particular customers may not be successful.

If the national and world-wide financial crisis intensifies, potential disruptions in the capital and credit markets may adversely affect our business, including the availability and cost of short-term funds for liquidity requirements and banks' ability to meet long-term commitments each could adversely affect our results of operations, cash flows and financial condition.

Disruptions in the capital and credit markets, as have been experienced during 2008, could adversely affect our ability to draw on our revolving credit facilities. Our access to funds under our revolving credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from us and other borrowers within a short period of time.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures, acquisition activities or other discretionary uses of cash.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

Table of Contents

(c) None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5: OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

ITEM 6: EXHIBITS

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of TSI Telecommunication Services Inc. (n/k/a Syniverse Technologies, Inc.) (1)
3.1.1	Certificate of Amendment of Restated Certificate of Incorporation of Syniverse Technologies, Inc. (2)
3.1.2	Second Amended and Restated Certificate of Incorporation of Syniverse Holdings, Inc. (3)
3.2	Bylaws of Syniverse Technologies, Inc. (1)
3.2.1	Amended and Restated Bylaws of Syniverse Holdings, Inc. (3)
*31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
*31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.
*32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
*32.2	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.

(1) Incorporated by reference to the Registrants Registration Statement on Form S-4 (Registration No. 333-88168).

(2) Incorporated by reference to Syniverse Holdings, LLC and Syniverse Technologies, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

(3) Incorporated by reference to Syniverse Holdings, Inc. s Registration Statement on Form S-1/A (Registration No. 333-120444).

* Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 6, 2008

SYNIVERSE HOLDINGS, INC.

(Registrant)

/s/ David W. Hitchcock
David W. Hitchcock
Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

SYNIVERSE TECHNOLOGIES, INC.

(Registrant)

/s/ David W. Hitchcock
David W. Hitchcock
Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

Table of Contents

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of TSI Telecommunication Services Inc. (n/k/a Syniverse Technologies, Inc.) (1)
3.1.1	Certificate of Amendment of Restated Certificate of Incorporation of Syniverse Technologies, Inc. (2)
3.1.2	Second Amended and Restated Certificate of Incorporation of Syniverse Holdings, Inc. (3)
3.2	Bylaws of Syniverse Technologies, Inc. (1)
3.2.1	Amended and Restated Bylaws of Syniverse Holdings, Inc. (3)
*31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
*31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.
*32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.
*32.2	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.

(1) Incorporated by reference to the Registrants Registration Statement on Form S-4 (Registration No. 333-88168).

(2) Incorporated by reference to Syniverse Holdings, LLC and Syniverse Technologies, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

(3) Incorporated by reference to Syniverse Holdings, Inc. s Registration Statement on Form S-1/A (Registration No. 333-120444).

* Filed herewith