SYNIVERSE HOLDINGS INC
Form 10-Q
August 11, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NUMBER 333-176382

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 o Accelerated filer o Non-accelerated filer x Smaller reporting company o

(Do not check if a 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 o No x

The number of shares of common stock of the registrant outstanding at August 5, 2016 was 1,000.

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GLOSSARY OF TERMS

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

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$75,613	$166,581
Accounts receivable, net of allowances of $19,479 and $24,343, respectively	185,673	194,259
Income taxes receivable	8,557	6,058
Prepaid and other current assets	29,572	26,113
Total current assets	299,415	393,011
Property and equipment, net	111,311	114,504
Capitalized software, net	169,962	191,078
Goodwill	2,288,856	2,286,876
Identifiable intangibles, net	361,324	400,321
Deferred tax assets	3,277	3,280
Investment in unconsolidated subsidiaries	48,400	3,771
Other assets	12,932	13,499
Total assets	$3,295,477	$3,406,340
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable	$33,958	$50,443
Income taxes payable	1,042	2,112
Accrued liabilities	94,495	98,761
Deferred revenues	4,055	4,558
Current portion of capital lease obligation	19,111	14,667
Current portion of long-term debt, net of original issue discount and deferred financing costs	—	35,445
Total current liabilities	152,661	205,986
Long-term liabilities:		
Deferred tax liabilities	123,943	165,570
Long-term capital lease obligation, less current portion	13,366	18,563
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,988,463	1,981,655
Other long-term liabilities	45,357	44,717
Total liabilities	2,323,790	2,416,491
Commitments and contingencies		
Stockholder equity:		
Common stock $0.01 par value; one thousand shares authorized, issued and outstanding as of June 30, 2016 and December 31, 2015	—	—
Additional paid-in capital	1,263,054	1,250,139
Accumulated deficit	(201,186)	(169,838)
Accumulated other comprehensive loss	(96,621)	(97,586)

Total Syniverse Holdings, Inc. stockholder equity	965,247	982,715
Noncontrolling interest	6,440	7,134
Total equity	971,687	989,849
Total liabilities and stockholder equity	$3,295,477	$3,406,340

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Revenues	$197,718	$216,185	$392,162	$425,802
Costs and expenses:				
Cost of operations (excluding depreciation and amortization shown separately below)	89,527	98,268	184,666	199,808
Sales and marketing	16,724	19,190	37,859	38,356
General and administrative	29,761	32,913	61,549	66,844
Depreciation and amortization	52,507	55,013	103,237	109,861
Employee termination benefits	979	83	994	135
Restructuring charges	(50)	93	13,443	(107)
Acquisition	—	11	—	111
	189,448	205,571	401,748	415,008
Operating income (loss)	8,270	10,614	(9,586)	10,794
Other income (expense), net:				
Interest expense, net	(31,132)	(30,432)	(61,789)	(60,960)
Equity income (loss) in investee	25	(53)	91	1
Other, net	2,239	(1,276)	2,182	(2,823)
	(28,868)	(31,761)	(59,516)	(63,782)
Loss before benefit from income taxes	(20,598)	(21,147)	(69,102)	(52,988)
Benefit from income taxes	(5,974)	(14,711)	(38,689)	(20,571)
Net loss	(14,624)	(6,436)	(30,413)	(32,417)
Net income attributable to nonredeemable noncontrolling interest	482	486	935	610
Net loss attributable to Syniverse Holdings, Inc.	$(15,106)	$(6,922)	$(31,348)	$(33,027)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net loss	$(14,624)	$(6,436)	$(30,413)	$(32,417)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment [(1)]	(9,002)	11,414	779	(37,540)
Amortization of unrecognized loss included in net periodic pension cost [(2)]	31	49	77	99
Other comprehensive (loss) income	(8,971)	11,463	856	(37,441)
Comprehensive (loss) income	(23,595)	5,027	(29,557)	(69,858)
Less: comprehensive income attributable to nonredeemable noncontrolling interest	399	451	826	678
Comprehensive (loss) income attributable to Syniverse Holdings, Inc.	$(23,994)	$4,576	$(30,383)	$(70,536)

(1) Foreign currency translation adjustments are shown net of income tax expense of $134 and $204 for the three and six months ended June 30, 2016, respectively, and net of income tax (benefit) expense of $(40) and $233 for the three and six months ended June 30, 2015, respectively.

(2) Amortization of unrecognized loss included in net periodic pension cost is shown net of income tax expense of $14 and $34 for the three and six months ended June 30, 2016, respectively, and net of income tax benefit of $21 and $43 for the three and six months ended June 30, 2015, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Stockholder of Syniverse Holdings, Inc.						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Nonredeemable Noncontrolling Interest	Total
Balance, December 31, 2014	1	$ —	$1,232,108	$(119,247)	$ (44,222)	$ 7,153	$1,075,792
Net (loss) income	—	—	—	(33,027)	—	610	(32,417)
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustment, net of tax expense of $233	—	—	—	—	(37,608)	68	(37,540)
Amortization of unrecognized loss included in net periodic pension cost, net of tax benefit of $43	—	—	—	—	99	—	99
Stock-based compensation	—	—	6,413	—	—	—	6,413
Distribution to nonredeemable noncontrolling interest	—	—	—	—	—	(1,211)	(1,211)
Distribution to Syniverse Corporation	—	—	(932)	—	—	—	(932)
Balance, June 30, 2015 (Unaudited)	1	$ —	$1,237,589	$(152,274)	$ (81,731)	$ 6,620	$1,010,204
Balance, December 31, 2015	1	$ —	$1,250,139	$(169,838)	$ (97,586)	$ 7,134	$989,849
Net (loss) income	—	—	—	(31,348)	—	935	(30,413)
Other comprehensive (loss) income, net of tax:							
Foreign currency translation adjustment, net of tax expense of $204	—	—	—	—	888	(109)	779
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of $34	—	—	—	—	77	—	77
Stock-based compensation	—	—	9,437	—	—	—	9,437
Distribution to nonredeemable noncontrolling interest	—	—	—	—	—	(1,520)	(1,520)
Contribution from Syniverse Corporation	—	—	3,478	—	—	—	3,478
Balance, June 30, 2016 (Unaudited)	1	$ —	$1,263,054	$(201,186)	$ (96,621)	$ 6,440	$971,687

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
Cash flows from operating activities		
Net loss	$(30,413)	$(32,417)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	103,237	109,861
Amortization of original issue discount and deferred financing costs	7,606	6,489
Allowance for credit memos and uncollectible accounts	8,730	13,920
Deferred income tax benefit	(39,754)	(22,856)
Stock-based compensation	9,437	6,413
Other, net	(351)	2,217
Changes in operating assets and liabilities:		
Accounts receivable	129	(14,781)
Income taxes receivable or payable	(3,694)	(5,287)
Prepaid and other current assets	(4,108)	(3,440)
Accounts payable	(16,613)	5,151
Accrued liabilities and deferred revenues	(5,126)	960
Other assets and other long-term liabilities	(223)	656
Net cash provided by operating activities	28,857	66,886
Cash flows from investing activities		
Capital expenditures	(31,097)	(32,552)
Investment in unconsolidated subsidiaries	(40,192)	—
Redemption of certificate of deposit	209	107
Proceeds from divestitures	—	3
Net cash used in investing activities	(71,080)	(32,442)
Cash flows from financing activities		
Debt modification costs paid	—	(177)
Principal payments on debt	(36,243)	(10,000)
Payments on capital lease obligations	(8,635)	(2,845)
Distribution to Syniverse Corporation	(1,522)	(932)
Distribution to nonredeemable noncontrolling interest	(1,520)	(1,211)
Net cash used in financing activities	(47,920)	(15,165)
Effect of exchange rate changes on cash	(825)	1,869
Net (decrease) increase in cash	(90,968)	21,148
Cash and cash equivalents at beginning of period	166,581	89,347
Cash and cash equivalents at end of period	$75,613	$110,495
Supplemental noncash investing and financing activities		
Assets acquired under capital lease	$8,921	$17,807
Issuance of Syniverse Corporation stock for investment in unconsolidated subsidiaries	$5,000	$—
Supplemental cash flow information		
Interest paid	$54,611	$54,613
Income taxes paid	$4,759	$7,558

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Description of Business
Syniverse is the leading global transaction processor that connects MNOs and enterprises in nearly 200 countries enabling seamless mobile communications across disparate and rapidly evolving networks, devices and applications. We process transactions that include the authorization and delivery of end user traffic, clearing of billing records and settlement of payments. We also offer a unique portfolio of intelligent policy and charging tools that enable our customers to use real-time data generated by these transactions to deliver customized service and choices to their end-users. Our portfolio of mission-critical services enables our customers to connect to the mobile ecosystem, optimize their businesses and enhance and personalize the mobile experience for their end-users. We process nearly 4 billion billable transactions daily and settle approximately $17 billion annually between our customers.
We are the leader in LTE roaming and interconnect, offering superior connectivity critical for delivering the advanced mobile experiences end-users have come to expect from 4G and other advanced mobile network technologies, including VoLTE. Our IPX network currently directly connects to nearly half of the global mobile population. We believe our global footprint and operational scale are unmatched in our industry. As a trusted partner with over 25 years of experience and a history of innovation, we believe we are well positioned to solve the technical, operational and financial complexities of the mobile ecosystem.
Our diverse customer base includes a broad range of participants in the mobile ecosystem, including approximately 1,000 MNOs and 550 OTTs and enterprises. Our customers include 99 of the top 100 MNOs globally, such as Verizon Wireless, América Móvil, Vodafone, Telefónica, China Unicom and Reliance Communications; OTTs, including 3 of the 4 largest social networking sites in the U.S. and one of the largest social networking sites in China; and blue-chip enterprise customers, including the top 3 credit card networks worldwide, 3 of the top 5 airlines and 2 multinational hotel brands.
The mobile experience is a critical and pervasive component of modern life and has become increasingly complex. Mobile devices have evolved from basic cellular phones to include smartphones, tablets, wearables and other connected devices that people now use to conduct an expanding set of activities in real-time, such as streaming videos, posting social media updates, working and shopping. As a result, today’s mobile experience requires seamless and ubiquitous connectivity and coordination between MNOs, OTTs and enterprises across disparate and rapidly evolving networks, devices and applications. The failure to integrate any of these elements can disrupt service, resulting in frustrated end-users, erosion of our customers’ brands and loss of revenue by our customers. Our proprietary services bridge these technological and operational complexities.
Syniverse provides approximately 60 mission-critical services to manage the real-time exchange of information and traffic across the mobile ecosystem, enhance our customers’ brands and provide valuable intelligence about end-users. Our customers demand, and we deliver, high quality service as evidenced by our over 99.999% network availability.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Syniverse Holdings, Inc. have been prepared in accordance with U.S. GAAP for interim financial information and on a basis that is consistent with the accounting principles applied in our audited financial statements for the fiscal year ended December 31, 2015 (the “2015 financial statements”). In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our 2015 financial statements. Operating results for the interim periods noted herein are not necessarily indicative of the results that may be achieved for a full year.

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

In May 2016, we acquired a noncontrolling interest in Vibes Media LLC (“Vibes”) for $45 million. The investment consists of $40 million in cash and common shares of Syniverse Corporation valued at $5 million. The carrying amount of the

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investment in the equity method investee as of June 30, 2016 was $44.5 million and is included in Investment in unconsolidated subsidiaries in the unaudited condensed consolidated balance sheets. In addition to our investment in Vibes, Syniverse and Vibes will partner to distribute Vibes' cloud-based mobile marketing software platform. Expenses incurred from transactions with Vibes for the period from the investment date through June 30, 2016 was $0.1 million.

Use of Estimates

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

Customer Accounts

We provide financial settlement services to wireless operators to support the payment of roaming related charges to their roaming network partners. In accordance with our customer contracts, funds are held by us as an agent on behalf of our customers to settle their roaming related charges to other operators. These funds and the corresponding liability are not reflected in our condensed consolidated balance sheets. The off-balance sheet amounts totaled approximately $373.0 million and $321.0 million as of June 30, 2016 and December 31, 2015, respectively.

Capitalized Software Costs

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

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but is instead tested for impairment, at least annually on October 1, or more frequently if indicators of impairment arise. Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment, referred to as a component. We have not identified any components within our single operating segment and, hence, have a single reporting unit for purposes of our goodwill impairment analysis.

When evaluating goodwill for impairment, the Company may first perform an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This qualitative assessment is commonly referred to as a "step zero" approach. If, based on the review of the qualitative factors, the Company determines it is more-likely-than-not that the fair value of a reporting unit is less than its carrying value, the Company performs a two-step impairment test. In connection with our annual goodwill impairment analysis at October 1, 2015, the fair value of our reporting unit exceeded its carrying value. In the first quarter, we observed a decline in the fair value of our senior notes when evaluating whether events or changes in circumstances indicate it is more likely than not that a potential goodwill impairment exists. We concluded that the decline in the fair value of our senior notes during 2016 was not suggestive of a material decline in the fair value of our reporting unit from the annual goodwill impairment analysis date. In the future, our reporting unit may be at risk of impairment if our operating results decline.

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

The methodology used to determine the fair value of a reporting unit and other indefinite-lived intangible assets includes assumptions with inherent uncertainty, including projected sales volumes and related projected revenues, profitability and cash flows, long-term growth rates, royalty rates that a market participant might assume and judgments regarding the factors to

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develop an applied discount rate. The carrying value of goodwill and other indefinite-lived intangible assets is at risk of impairment if future projected revenues, long-term growth rates or long-term profitability and cash flows are lower than those currently projected, or if factors used in the development of a discount rate result in the application of a higher discount rate.

Foreign Currencies

We have operations in subsidiaries in Europe (primarily the United Kingdom, Germany and Luxembourg), India and the Asia-Pacific region, each of whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the relevant functional currencies are included in Other, net in the unaudited condensed consolidated statements of operations. For the three and six months ended June 30, 2016, we recorded foreign currency transaction gains of $2.2 million. For the three and six months ended June 30, 2015, we recorded foreign currency transaction losses of $1.3 million and $2.8 million, respectively.

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

Segment Information

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

Revenues by service offerings were as follows:

	Three Months Ended June 30,	
	2016	2015
(in thousands)	(Unaudited)	
Mobile Transaction Services	$164,510	$183,783
Enterprise & Intelligence Solutions	33,208	32,402
Revenues	$197,718	$216,185

	Six Months Ended June 30,	
	2016	2015
(in thousands)	(Unaudited)	
Mobile Transaction Services	$326,576	$362,740
Enterprise & Intelligence Solutions	65,586	63,062
Revenues	$392,162	$425,802

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

	Three Months Ended June 30,	
	2016	2015
(in thousands)	(Unaudited)	

North America	$124,367	$134,713
Europe, Middle East and Africa	32,959	36,310
Asia Pacific	29,642	30,818
Caribbean and Latin America	10,750	14,344
Revenues	$197,718	$216,185

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	Six Months Ended June 30,	
	2016	2015
(in thousands)	(Unaudited)	
North America	$244,220	$263,137
Europe, Middle East and Africa	65,695	71,943
Asia Pacific	57,910	61,715
Caribbean and Latin America	24,337	29,007
Revenues	$392,162	$425,802

Reclassifications of Prior Year Presentation

We reclassified investments in unconsolidated subsidiaries, which included our equity method investment in Link2One at December 31, 2015, from Other assets to Investments in unconsolidated subsidiaries in the condensed consolidated balance sheets to conform to the current year presentation. The reclassification had no effect on our reported results of operations or cash flows.

3. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which is included in the ASC in Topic 326. ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments that aren’t measured at fair value through net income. The update will replace the incurred loss approach with an expected credit loss model. It also would require entities to present unrealized losses from available-for-sale debt securities as allowances rather than as a reduction in the amortized cost of the securities. The update is effective for the Company beginning January 1, 2020. We are currently assessing the impact of implementing this guidance on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation - Improvements to Employee Share-Based Payment Accounting, which is included in the ASC in Topic 718. ASU 2016-09 includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The update is effective for our financial statements beginning January 1, 2017. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting, which is included in the ASC in Topic 323. ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. Instead, the equity method of accounting will be applied prospectively from the date significant influence is obtained. The update is effective for our financial statements beginning January 1, 2017. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which is included in the ASC in Topic 842. ASU 2016-02 is intended to improve financial reporting related to leasing transactions. ASU 2016-02 requires recognition of lease assets and lease liabilities by lessees for most leases. The effect on the statement of comprehensive income and the statement of cash flows is largely unchanged from current GAAP. The update is effective for the Company beginning January 1, 2019. Early adoption is permitted. We are currently assessing the impact of implementing this guidance on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, Business Combinations - Simplifying the Accounting for Measurement-Period Adjustments, which is included in the ASC in Topic 805. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are determined. We adopted this update on January 1, 2016. The adoption of this update had no impact on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which is included in the ASC in Topic 350. ASU 2015-05 provides guidance about whether a cloud computing arrangement includes a software license. The update only applies to internal-use

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software that a customer obtains access to in a hosting arrangement if the following criteria are met i) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and ii) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. The costs associated with cloud computing arrangements shall be accounted for as a service if the arrangement does not contain a software license or as internal use software if the arrangement is deemed to contain a software license, up to the amount allocable to software license. We adopted this update on January 1, 2016 using a prospective approach for new arrangements entered into after the effective date. The adoption of this update had no impact on our consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation - Amendments to the Consolidation Analysis, which is included in the ASC in Topic 810. ASU 2015-02 amends the consolidation analysis currently required under U.S. GAAP. The update modifies the process used to evaluate whether limited partnerships and similar entities are VIEs or voting interest entities; affects the analysis performed by reporting entities regarding VIEs, particularly those with fee arrangements and related party relationships; and provides a scope exception for certain investment funds. We adopted this update on January 1, 2016. The adoption of this update had no impact on our consolidated financial statements and related disclosures.

In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual Items - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which is included in the ASC in Topic 225. ASU 2015-01 eliminates the concept of extraordinary items. Under this guidance, entities will no longer be permitted to separately classify, present and disclose extraordinary events and transactions. We adopted this update on January 1, 2016. The adoption of this update had no impact on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The update is effective for the Company beginning December 31, 2016. Early adoption is permitted. We do not expect the adoption of this standard to have an impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is included in the ASC in Topic 606. ASU 2014-09 was issued as a converged guidance with the IASB on recognizing revenue in contracts with customers and is intended to improve the financial reporting requirements for revenue from contracts with customers by providing a principle based approach to the recognition of revenue. The update includes a five-step framework with applicable guidance, which supersedes existing revenue recognition guidance. This update is effective for our financial statements beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early application of the standard is permitted on January 1, 2017. We are currently assessing the impact of implementing this guidance on our consolidated financial statements and related disclosures.

4. Detail of Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	June 30, 2016 (Unaudited)	December 31, 2015
Accrued payroll and related benefits	$ 35,687	$ 34,642
Accrued interest	26,517	26,743
Accrued network payables	14,512	15,368

Accrued revenue share expenses	3,646	2,805
Other accrued liabilities	14,133	19,203
Total accrued liabilities	$ 94,495	$ 98,761

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5. Debt and Credit Facilities

Our total outstanding debt as of June 30, 2016 and December 31, 2015 was as follows:

(in thousands)	June 30, 2016 (Unaudited)	December 31, 2015
Senior Credit Facility:		
Initial Term Loans, due 2019	$891,057	$911,835
Original issue discount	(5,651)	(6,830)
Deferred financing costs	(13,007)	(15,373)
Tranche B Term Loans, due 2019	663,200	678,665
Original issue discount	(1,684)	(2,008)
Deferred financing costs	(12,142)	(14,475)
Senior Notes:		
9.125% senior unsecured notes, due 2019	475,000	475,000
Deferred financing costs	(8,310)	(9,714)
Total Debt and Credit Facilities	1,988,463	2,017,100
Less: Current portion		
Long-term debt, current portion	$—	$(36,243)
Original issue discount, current portion	—	192
Deferred financing costs, current portion	—	606
Long-term debt	$1,988,463	$1,981,655

Amortization of original issue discount and deferred financing costs for the three and six months ended June 30, 2016 was $4.2 million and $7.6 million, respectively. Amortization of original issue discount and deferred financing costs for the three and six months ended June 30, 2015 was $3.1 million and $6.5 million, respectively. Amortization is included in interest expense in the unaudited condensed consolidated statements of operations.

Senior Credit Facility

On April 23, 2012, we entered into a credit agreement (the "Credit Agreement") with Buccaneer LLC (as successor by merger to Buccaneer Holdings, Inc.), Barclays Bank PLC, as administrative agent, swing line lender and letters of credit issuer, and the other financial institutions and lenders from time to time party thereto, providing for a senior credit facility (the "Senior Credit Facility") consisting of (i) a $950.0 million term loan facility (the "Initial Term Loans"); and (ii) a $150.0 million revolving credit facility (the "Revolving Credit Facility") for the making of revolving loans, swing line loans and issuance of letters of credit. The unused commitment under the Revolving Credit Facility was $150.0 million at June 30, 2016.

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

On April 15, 2016, we made principal payments of approximately $36.2 million toward the Initial Term Loans and Tranche B Term Loans as required pursuant to the Excess Cash Flow provision of the Credit Agreement. Commencing on December 31, 2018, our Initial Term Loans and Tranche B Term Loans will resume amortizing in quarterly installments in an amount equal to 0.25% per quarter of the original principal amount thereof, with the remaining balance due at the final maturity.

9.125% senior unsecured notes due 2019

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

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6. Stock-Based Compensation

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

Stock-based compensation expense for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30,	
	2016	2015
(in thousands)	(Unaudited)	
Cost of operations	$178	$124
Sales and marketing	1,032	1,202
General and administrative	4,050	2,836
Stock-based compensation	$5,260	$4,162

	Six Months Ended June 30,	
	2016	2015
(in thousands)	(Unaudited)	
Cost of operations	$336	$183
Sales and marketing	2,284	1,967
General and administrative	6,817	4,263
Stock-based compensation	$9,437	$6,413

The following table summarizes our stock option activity under the 2011 Plan for the six months ended June 30, 2016:

Stock Options	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2015	10,922,076	$ 11.19
Granted	1,015,000	10.00
Exercised	(68,334)	10.00
Canceled or expired	(1,399,997)	11.74
Outstanding at June 30, 2016	10,468,745	$ 11.01

The fair value of options granted during the six months ended June 30, 2016 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	1.41%
Volatility factor	30.30%
Dividend yield	—%
Weighted average expected life of options (in years)	6.25

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Restricted stock are issued and measured at fair value on the date of grant. The following table summarizes our restricted stock activity under the 2011 Plan for the six months ended June 30, 2016:

Restricted Stock	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2015	2,264,482	$ 11.30
Granted	250,000	10.00
Vested	(934,658)	11.32
Forfeited	(127,000)	11.25
Outstanding at June 30, 2016	1,452,824	$ 11.07

7. Employee Termination Benefits and Restructuring

The following table summarizes the activity in our employee termination benefit liabilities for the six months ended June 30, 2016:

(in thousands)	December 31, 2015 Balance	Additions	Payments	Adjustments	June 30, 2016 Balance
Employee termination benefits	$ 1,836	994	(733)	1	$ 2,098

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

The following table summarizes the activity in our restructuring liabilities for the six months ended June 30, 2016:

(in thousands)	December 31, 2015 Balance	Additions	Payments	Adjustments	June 30, 2016 Balance
March 2016 Plan	—	13,367	(8,333)	(25)	5,009
October 2014 Plan	8,195	76	(2,024)	106	6,353
December 2010 Plan	492	—	—	6	498
Total	$ 8,687	$ 13,443	$ (10,357)	$ 87	$ 11,860

In March 2016, we implemented a restructuring plan (the “March 2016 restructuring plan”) to realign costs and expenses with revenue trends across our portfolio, reducing costs associated with certain of our legacy products and services to provide for increased investment in our growth businesses. As a result of this plan, we incurred severance related costs of $13.4 million during the six months ended June 30, 2016 as reflected in Restructuring expense in the unaudited condensed consolidated statements of operations. We have paid $8.3 million related to this plan as of June 30, 2016 and anticipate nearly all cash outlays to take place in the year ending December 31, 2016.

We expect to pay the remainder of the benefits outstanding under each of these plans by the end of the first quarter of 2017.

8. Income Taxes

We provide for federal, state and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date. The effective tax rate for the three and six months ended June 30, 2016, was a benefit of 29.0% and 56.0%, respectively. The effective tax rate for the three and six months ended June 30, 2015, was a benefit of 69.6% and

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38.8%, respectively. The change in our effective tax rate was chiefly attributable to (i) the reversal of a first quarter 2015 loss limitation during the three months ended June 30, 2015, (ii) impact of certain discrete items and (iii) relative mix of earnings and losses in the U.S. versus foreign tax jurisdictions.

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

9. Commitments and Contingencies

We are currently a party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, will not have a material adverse effect on our business, financial condition, results of operations or cash flows. As of June 30, 2016, we have considered all of the claims and disputes of which we are aware and have provided for probable losses, which are not material to the unaudited condensed consolidated financial statements.

10. Fair Value Measurements

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

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

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

Level 3—Unobservable inputs for the asset or liability.

Transfers between levels are determined at the end of the reporting period. No transfers between levels have been recognized for the three and six months ended June 30, 2016 and 2015.

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

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

The carrying value and fair value of our long-term debt, excluding original issue discount and deferred financing costs, as of June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value

(in thousands)	(Unaudited)			
Initial Term Loans	$891,057	$670,520	$911,835	$683,876
Tranche B Term Loans	663,200	499,058	678,665	508,999
Senior Notes	475,000	230,375	475,000	220,875

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

11. Related Party Transactions

Arrangements with Carlyle

On January 13, 2011, we entered into a ten-year consulting agreement with Carlyle under which we pay Carlyle a fee for consulting services Carlyle provides to us and our subsidiaries. During the three and six months ended June 30, 2016 we recorded $0.9 million and $1.7 million, respectively, of expenses in each period associated with the consulting fee and the reimbursement of out-of-pocket expenses in the unaudited condensed consolidated statements of operations. During the three and six months ended June 30, 2015, we recorded $0.8 million and $1.6 million, respectively.

Carlyle, from time to time, participates as a debt holder within the syndicate under our Initial Term Loans and Tranche B Term Loans. As of June 30, 2016, Carlyle held $48.0 million and $25.6 million of our Initial Term Loans and Tranche B Term Loans, respectively. As of December 31, 2015, Carlyle held $51.0 million and $20.5 million of our Initial Term Loans and Tranche B Term Loans, respectively.

From time to time, and in the ordinary course of business we may engage other Carlyle portfolio companies as service providers and other Carlyle portfolio companies may engage us as a service provider. Revenues and expenses associated with these related parties were not material during the three and six months ended June 30, 2016 and 2015.

12. Supplemental Consolidating Financial Information

We have presented supplemental condensed consolidating balance sheets, statements of operations, statements of comprehensive (loss) income and statements of cash flows for Syniverse Holdings, Inc., which we refer to in this footnote only as Syniverse, Inc., the subsidiary guarantors and the subsidiary non-guarantors for all periods presented to reflect the guarantor structure under the Senior Notes. The supplemental financial information reflects the investment of Syniverse, Inc. using the equity method of accounting.

Syniverse, Inc.’s payment obligations under the Senior Notes are guaranteed by the 100% owned subsidiary guarantors, subject to certain exceptions. Syniverse, Inc.’s other subsidiaries are included as non-guarantors (collectively, the “Subsidiary Non-Guarantors”). Such guarantees are irrevocable, full, unconditional and joint and several.

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CONSOLIDATING BALANCE SHEET (UNAUDITED)
AS OF JUNE 30, 2016 (IN THOUSANDS)

	Syniverse, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$28,722	$ 46,891	$—	$75,613
Accounts receivable, net of allowances	—	139,826	45,847	—	185,673
Accounts receivable - affiliates	2,057,193	1,404,872	232,087	(3,694,152)	—
Income taxes receivable	—	2,400	6,157	—	8,557
Prepaid and other current assets	—	18,929	10,643	—	29,572
Total current assets	2,057,193	1,594,749	341,625	(3,694,152)	299,415
Property and equipment, net	—	85,537	25,774	—	111,311
Capitalized software, net	—	138,455	31,507	—	169,962
Goodwill	—	1,924,005	364,851	—	2,288,856
Identifiable intangibles, net	—	302,030	59,294	—	361,324
Deferred tax assets	127,266	—	3,277	(127,266)	3,277
Investment in unconsolidated subsidiaries	—	44,497	3,903	—	48,400
Other assets	—	10,560	2,372	—	12,932
Investment in subsidiaries	2,217,201	652,999	—	(2,870,200)	—
Total assets	$4,401,660	$4,752,832	$ 832,603	$(6,691,618)	$3,295,477
LIABILITIES AND STOCKHOLDER EQUITY					
Current liabilities:					
Accounts payable	$—	$26,888	$ 7,070	$—	$33,958
Accounts payable - affiliates	1,421,651	2,243,301	29,200	(3,694,152)	—
Income taxes payable	—	44	998	—	1,042
Accrued liabilities	26,299	38,933	29,263	—	94,495
Deferred revenues	—	1,635	2,420	—	4,055
Current portion of capital lease obligation	—	19,048	63	—	19,111
Total current liabilities	1,447,950	2,329,849	69,014	(3,694,152)	152,661
Long-term liabilities:					
Deferred tax liabilities	—	172,462	78,747	(127,266)	123,943
Long-term capital lease obligation, net of current portion	—	13,221	145	—	13,366
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,988,463	—	—	—	1,988,463
Other long-term liabilities	—	20,099	25,258	—	45,357
Total liabilities	3,436,413	2,535,631	173,164	(3,821,418)	2,323,790
Commitments and contingencies:					
Stockholder equity:					
Common stock	—	—	—	—	—
Additional paid-in capital	1,168,643	2,166,710	763,584	(2,835,883)	1,263,054
(Accumulated deficit) retained earnings	(202,426)	49,958	(13,278)	(35,440)	(201,186)
Accumulated other comprehensive (loss) income	(970)	533	(97,307)	1,123	(96,621)
Total Syniverse, Inc. stockholder equity	965,247	2,217,201	652,999	(2,870,200)	965,247
Nonredeemable noncontrolling interest	—	—	6,440	—	6,440

Total equity	965,247	2,217,201	659,439	(2,870,200)	971,687
Total liabilities and stockholder equity	$4,401,660	$4,752,832	$ 832,603	$(6,691,618)	$3,295,477

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CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED JUNE 30, 2016
(IN THOUSANDS)

	Syniverse, Inc.	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Revenues	$ —	$ 154,931	$ 42,787	$ —	$ 197,718
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	—	81,455	8,072	—	89,527
Sales and marketing	—	10,106	6,618	—	16,724
General and administrative	—	20,017	9,744	—	29,761
Depreciation and amortization	—	42,581	9,926		