SYNIVERSE HOLDINGS INC
Form 10-Q
May 08, 2009
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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 March 31, 2009

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	**30-0041666**
Delaware	**06-1262301**
(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 x No ¨

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 ¨ 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 x 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 x

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 May 6, 2009

Syniverse Holdings, Inc.: 68,451,626 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.

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PART 1

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SYNIVERSE HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash	$ 173,950	$ 165,605
Accounts receivable, net of allowances of $3,171 and $2,347, respectively	81,624	88,782
Prepaid and other current assets	22,656	20,971
Total current assets	278,230	275,358
Property and equipment, net	51,230	50,251
Capitalized software, net	55,967	60,184
Deferred costs, net	8,586	7,288
Goodwill	584,848	596,662
Identifiable intangibles, net	200,744	208,518
Other assets	1,580	1,573
Total assets	$ 1,181,185	$ 1,199,834
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,343	$ 7,311
Accrued payroll and related benefits	8,920	20,111
Accrued interest	1,763	5,160
Accrued income taxes	2,470	9,891
Deferred revenues	3,917	4,260
Other accrued liabilities	27,509	28,975
Current portion of Term Note B	3,351	3,431
Total current liabilities	54,273	79,139
Long-term liabilities:		
Deferred tax liabilities	70,769	65,546
7 3/4% senior subordinated notes due 2013	175,000	175,000
Term Note B, less current maturities	326,701	335,382
Other long-term liabilities	9,869	8,925
Total liabilities	636,612	663,992
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; 68,826,773 shares issued and 68,434,775 shares outstanding and 68,847,632 shares issued and 68,455,634 shares outstanding at March 31, 2009 and December 31, 2008, respectively	68	68
Additional paid-in capital	472,612	471,524
Retained earnings	99,347	83,315
Accumulated other comprehensive loss	(28,405)	(19,035)
Common stock held in treasury, at cost; 391,998 at March 31, 2009 and December 31, 2008	(30)	(30)
Total Syniverse stockholders equity	543,592	535,842
Noncontrolling interest	981	
Total equity	544,573	535,842
Total liabilities and equity	$ 1,181,185	$ 1,199,834

See Notes to Condensed Unaudited Consolidated Financial Statements

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SYNIVERSE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues	$ 108,924	$ 115,645
Costs and expenses:		
Cost of operations (excluding depreciation and amortization shown separately below)	39,958	37,978
Sales and marketing	8,688	10,754
General and administrative	16,998	18,142
Depreciation and amortization	13,584	13,633
Restructuring		17
	79,228	80,524
Operating income	29,696	35,121
Other income (expense), net:		
Interest income	192	430
Interest expense	(7,356)	(9,720)
Other, net	283	57
	(6,881)	(9,233)
Income before provision for income taxes	22,815	25,888
Provision for income taxes	6,783	10,495
Net income	$ 16,032	$ 15,393
Net income per common share:		
Basic	$ 0.23	$ 0.23
Diluted	$ 0.23	$ 0.23
Weighted average common shares outstanding:		
Basic	67,877	67,509
Diluted	67,942	67,576

See Notes to Condensed Unaudited Consolidated Financial Statements

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SYNIVERSE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended March 31,	
	2009	**2008**
Cash flows from operating activities		
Net income	$ 16,032	$ 15,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including amortization of deferred debt issuance costs	14,014	14,076
Provision for uncollectible accounts	199	169
Deferred income tax expense	1,801	8,760
Stock-based compensation	1,107	1,077
Other, net	22	
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	6,511	(4,535)
Other current assets	(3,556)	(3,546)
Accounts payable, accrued payroll and related benefits	(12,098)	9
Other current liabilities	(8,323)	(8,178)
Other assets and liabilities	1,292	37
Net cash provided by operating activities	17,001	23,262
Cash flows from investing activities		
Capital expenditures	(6,815)	(7,341)
Acquisition of BSG Wireless, net of acquired cash		(767)
Net cash used in investing activities	(6,815)	(8,108)
Cash flows from financing activities		
Principal payments on senior credit facility	(847)	(891)
Issuances of stock under employee stock purchase plan		3
Issuance of stock for stock options exercised	83	194
Minimum tax withholding on restricted stock awards	(102)	(181)
Purchase of treasury stock		(1)
Capital contribution from noncontrolling interest in a joint venture	981	
Net cash provided by (used in) financing activities	115	(876)
Effect of exchange rate changes on cash	(1,956)	1,161
Net increase in cash	8,345	15,439
Cash at beginning of period	165,605	49,086
Cash at end of period	$ 173,950	$ 64,525
Supplemental cash flow information		
Interest paid	$ 10,071	$ 13,351
Income taxes paid	8,898	1,510

See Notes to Condensed Unaudited Consolidated Financial Statements

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SYNIVERSE HOLDINGS, INC.

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

1. Business

We are a leading enabler of wireless voice and data services for telecommunications companies worldwide. We were incorporated in Delaware on November 9, 2001 and completed our initial public offering on February 10, 2005. For over 20 years, including our time as part of our former parent company, 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 wireless voice and data roaming, Short Message Service (SMS), Multimedia Messaging Services (MMS), Mobile Instant Messaging (MIM), number portability and wireless value-added services. We currently provide our services to more than 650 operators in over 140 countries.

2. Summary of Significant Accounting Policies

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 considered necessary for a fair presentation have been included and are of a normal, recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

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

Revenue Recognition

The majority of our revenues are transaction-based charges under 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 queries 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, SMS services, MMS services, DataNet 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 services are performed. 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.

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.

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

Off-Network Database Queries 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.

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. Diluted net income per common share includes the potential dilution from the exercise of stock options and restricted stock.

On January 1, 2009, we adopted FASB Staff Position Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1). Under FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are treated as participating securities and are included in the computation of earnings per share pursuant to the two-class method in accordance with SFAS 128. Certain of our unvested share-based payment awards contain nonforfeitable rights to dividends and dividend equivalents. Upon adoption of FSP EITF 03-6-1, we used the two-class method in the computation of earnings per share for the three months ended March 31, 2009 and retrospectively adjusted our net income per common share data for the three months ended March 31, 2008 to conform with the provisions in FSP EITF 03-6-1.

The following table displays the computation of net income per common share using the two-class method:

	Three Months Ended March 31,	
	2009	**2008**
Basic and diluted net income per common share:		
Net income	$ 16,032	$ 15,393
Less: net income allocated to restricted stock	(133)	(181)
Net income available to common shareholders	$ 15,899	$ 15,212
Determination of basic and diluted shares:		
Basic weighted-average common shares outstanding	67,876,715	67,508,523
Potentially dilutive stock options and restricted stock	65,181	67,161
Diluted weighted-average common shares outstanding	67,941,896	67,575,684
Basic net income per common share	$ 0.23	$ 0.23

Diluted net income per common share	$	0.23	$	0.23

For the three months ended March 31, 2009 and 2008, options to purchase 2,090,328 and 1,429,492 shares of common stock were outstanding during the periods but were not included in the computation of diluted net income per common share because their effect would be anti-dilutive. No additional securities were outstanding that could potentially dilute basic net income per common share that were not included in the computation of diluted net income per common share.

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Comprehensive Income

Comprehensive income is comprised of changes in our currency translation adjustment account and net changes in the fair value of our interest rate swap. Comprehensive income for the three months ended March 31, 2009 and 2008 is as follows:

	Three Months Ended March 31,	
	2009	2008
Net income	$ 16,032	$ 15,393
Foreign currency translation adjustments, net of tax benefit of $4,009	(9,459)	5,968
Net change in fair value of interest rate swap, net of tax of $17	89	
Total comprehensive income	$ 6,662	$ 21,361

The balance in accumulated other comprehensive loss as of March 31, 2009 and December 31, 2008 was $28,405 and $19,035, respectively.

Joint Venture Interests

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 March 31, 2009 and December 31, 2008, our investment was $888 and is included in other assets.

In February 2009, we entered into a joint venture agreement to implement number portability services in India. We expect to provide India s telecommunications operators with number portability clearing house and centralized database solutions for the next 10 years. We have determined that the joint venture is a variable interest entity (VIE) under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)). FIN 46(R) provides a framework for identifying VIE s and determining when a company should include the assets, liabilities, noncontrolling interests and results of operations of a VIE in its consolidated financial statements. FIN 46(R) requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the VIE s residual returns (if no party absorbs a majority of the VIE s losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. We have determined that we are the primary beneficiary of the joint venture. As a result, we have consolidated the joint venture in accordance with FIN 46(R).

Derivative Instruments and Hedging Activities

We account for derivative financial instruments under FASB Statement No. 133, A*ccounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133). Under SFAS 133, all derivatives are recorded on the consolidated balance sheets as assets or liabilities and measured at fair value. For derivatives designated as cash flow hedges, the effective portion of the changes in fair value of the derivatives are recorded in accumulated other comprehensive income (loss) and subsequently recognized in earnings when the hedged items impact income. Changes in the fair value of derivatives not designated as hedges and the ineffective portion of cash flow hedges are recorded in current earnings. We have designated our interest rate swap as a cash flow hedge that effectively swaps variable rate interest based on 1-month LIBOR to a fixed rate interest thereby reducing our exposure to interest rate fluctuations. We do not hold or enter into financial instruments for speculative trading purposes. See Note 6 for more information on our interest rate swap.

Foreign Currencies

We have significant operations in subsidiaries in Europe, primarily the United Kingdom and Germany, and the Asia-Pacific region whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the functional currencies are included in determining net income for the period. For the three months ended March 31, 2009 and 2008, we recorded transaction gains of $287 and $57, respectively.

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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 income (loss) and is included in stockholders equity. Translation gains and losses on intercompany balances which are deemed to be of a long-term investment nature are also recorded as a component of other comprehensive income. Income statement items are translated at the average rates during the period.

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 March 31,	
	2009	**2008**
Technology Interoperability Services	$ 62,920	$ 68,701
Network Services	29,975	29,741
Number Portability Services	7,240	6,950
Call Processing Services	7,157	8,389
Enterprise Solutions	390	786
Off-Network Database Queries	1,242	1,078
Total Revenues	$ 108,924	$ 115,645

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

	Three Months Ended March 31,	
	2009	**2008**
North America (U.S. and Canada)	$ 78,209	$ 82,213
Asia Pacific	9,465	10,218
Caribbean and Latin America	7,951	7,859
Europe, Middle East and Africa	12,057	14,277
Off-Network Database Queries (i)	1,242	1,078
Total Revenues	$ 108,924	$ 115,645

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

For the three months ended March 31, 2009 and 2008, we derived 67.8%, and 66.9% respectively, of our revenues from customers in the United States.

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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. Federal, state and foreign tax benefits are recorded as a reduction of income taxes. 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. During the three months ended March 31, 2009 and 2008, the effective tax rate was 29.7% and 40.5%, respectively. During the three months ended March 31, 2009, the income tax provision was adjusted for a tax benefit of approximately $1,471 due to an adjustment for an item believed to be non-deductible in prior periods.

We, and our eligible subsidiaries, file a consolidated U.S. federal income tax return. 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 consolidated statements of income.

3. Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent s ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We adopted SFAS 160 on January 1, 2009. The adoption of SFAS 160 did not have a material impact on our financial position and 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 adopted SFAS 141R as of January 1, 2009. However, we have not entered into any business combinations during the three month period ended March 31, 2009.

4. Goodwill

The changes to the carrying value of goodwill during the three months ended March 31, 2009 were as follows:

Goodwill balance as of December 31, 2008	$ 596,662
Effect of foreign currency translation	(11,814)
Goodwill balance as of March 31, 2009	$ 584,848

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5. 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.

The impact to our income from operations of recording stock-based compensation for the three months ended March 31, 2009 and 2008 was as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cost of operations	$ 39	$ 7
Sales and marketing	224	264
General and administrative	844	806
Total stock-based compensation	$ 1,107	$ 1,077

The following table summarizes information about our stock option activity:

Stock Options	Shares
Outstanding at December 31, 2008	1,785,877
Granted	340,000
Exercised	(7,214)
Cancelled or expired	(28,335)
Outstanding at March 31, 2009	2,090,328
Exercisable at March 31, 2009	675,323

Changes in our restricted stock were as follows:

Restricted Stock	Shares
Unvested at December 31, 2008	604,800
Granted	20,000
Vested	(14,000)
Forfeited	(53,420)
Unvested at March 31, 2009	557,380

We issued 7,214 and 15,642 shares related to stock option exercises during the three months ended March 31, 2009 and 2008, respectively.

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Accounting for Stock-Based Compensation

Stock Options

The fair values of stock option grants are amortized as compensation expense, reduced for estimated forfeitures, 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 s common stock was not traded on public markets. Therefore, a volatility of 0% was used in the Black-Scholes option valuation model for options issued prior to our initial public offering. We use average historical volatility for options issued subsequent to our initial public offering.

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 the 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 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 Founder s Stock Option Plan and the Directors Stock Option Plan have expired and the Board of Syniverse no longer grants options under these plans. As of March 31, 2009, there were options to purchase 132,018 shares outstanding under the Founder s 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 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 March 31, 2009, there were 1,858,070 options outstanding, vesting 33 $^{1}/3$% per year, which had been granted to certain directors, executive officers and other employees. As of March 31, 2009, there were 557,380 unvested restricted shares outstanding, vesting 20% per year, which had been granted to certain directors, executive officers and other employees.

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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 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 March 31, 2009, approximately 356,773 shares were reserved for future issuance. As of March 31, 2009, there were 124 enrollments under the Purchase Plan.

6. Derivative Instruments and Hedging Activities

On October 6, 2008, we entered into an interest rate swap agreement to hedge $100,000 of our U.S.-denominated term loan under our senior credit facility to manage interest rate risk. The hedge effectively swaps variable rate interest based on 1-month LIBOR to a fixed rate interest thereby reducing our exposure to interest rate fluctuations for the next two years. This agreement involves the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of the underlying principal amount. 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.

We have designated the interest rate swap as a cash flow hedge in accordance with SFAS 133. The counterparty to this interest rate swap agreement is a major financial institution, and we do not anticipate nonperformance by this counterparty. Changes in the fair value of the interest rate swap that are effective are recorded in accumulated other comprehensive income (loss). There was no ineffective portion of the swap for the three months ended March 31, 2009. As of March 31, 2009, the fair value of our interest rate swap (based on Level 2 inputs) is $2,854, which is recorded in other long-term liabilities in the consolidated balance sheets. As of March 31, 2009, we recognized other comprehensive gain of $89, net of tax, related to the effectively hedged portion of the swap.

7. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157) requires 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.

As of March 31, 2009, we held certain items that are required to be measured at fair value on a recurring basis including an interest rate swap agreement. Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reflected in the financial statements at their carrying value, which approximate their fair value due to their short maturity. The following item is measured at fair value on a recurring basis subject to the disclosure requirements of SFAS 157 as of March 31, 2009:

		Fair Value Measurements at Reporting Date Using		
	March 31, 2009	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		Assets (Level 1)		
Liabilities				
Interest rate swap	$ (2,854)	$	$ (2,854)	$

We have elected to use the income approach to value our interest rate swap, using observable Level 2 market expectations at measurement date and standard valuation techniques to convert future amounts to a single present value amount assuming that participants are motivated, but not compelled to transact.

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8. 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.

9. Subsequent Events

On August 9, 2007, we entered into a $464,000 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.

On May 4, 2009, we entered into an Amendment, Waiver, Resignation and Appointment Agreement, or the amendment, with Lehman Commercial Paper Inc., Bank of America, N.A., and certain of the other parties to the senior credit facility. Pursuant to the amendment, Lehman Commercial Paper has resigned as administrative agent and Bank of America has been appointed as successor administrative agent under the senior credit facility. The amendment also provides for other modifications of the senior credit facility including the termination of Lehman Commercial Paper s commitments under our undrawn revolving credit lines of $28,200 and provides for Bank of America to extend commitments under our undrawn revolving credit lines of $10,000. This modification reduces our revolving credit lines from $62,000 to $43,800.

10. Supplemental Consolidating Financial Information

Syniverse Technologies, Inc. s (Syniverse) payment obligations under the senior notes are guaranteed by Syniverse Holdings, Inc. (Syniverse Inc.) and all domestic subsidiaries of Syniverse Holdings, Inc. including Syniverse Brience (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 Holdings, Inc., the Guarantors and the non-guarantor subsidiaries. The supplemental financial information reflects the investment of Syniverse Holdings, Inc. and Syniverse Technologies, Inc. using the equity method of accounting.

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CONSOLIDATING BALANCE SHEET (UNAUDITED)

AS OF MARCH 31, 2009

	Syniverse Inc.	Syniverse	Subsidiary Non-Guarantors	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash	$ 44	$ 142,413	$ 31,493	$	$ 173,950
Accounts receivable, net of allowances		61,163	20,461		81,624
Accounts receivable affiliates	5,107	9,789	(1,670)	(13,226)	
Prepaid and other current assets		11,134	11,522		22,656
Total current assets	5,151	224,499	61,806	(13,226)	278,230
Property and equipment, net		48,752	2,478		51,230
Capitalized software, net		39,358	16,609		55,967
Deferred costs, net		8,586			8,586
Goodwill		360,581	224,267		584,848
Identifiable intangibles, net		150,844	49,900		200,744
Other assets		49,496	1,528	(49,444)	1,580
Investment in subsidiaries	539,934	255,993		(795,927)	
Total assets	$ 545,085	$ 1,138,109	$ 356,588	$ (858,597)	$ 1,181,185
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$	$ 2,352	$ 3,991	$	$ 6,343
Accounts payable affiliates	299		11,894	(12,193)	
Accrued payroll and related benefits	247	6,210	2,463		8,920
Accrued interest		1,763	1,033	(1,033)	1,763
Accrued income taxes	(34)	2,188	316		2,470
Deferred revenues		730	3,187		3,917
Other accrued liabilities		19,210	8,299		27,509
Current portion of Term Note B		3,351			3,351
Total current liabilities	512	35,804	31,183	(13,226)	54,273
Long-term liabilities:					
Deferred tax liabilities		57,090	13,679		70,769
7 3/4% senior subordinated notes due 2013		175,000			