

SYNIVERSE HOLDINGS INC

Form 10-Q

November 07, 2018

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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 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 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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

(Do not check if a smaller
reporting company)

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

Table of Contents

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

The number of shares of common stock of the registrant outstanding at November 2, 2018 was 1,000.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Glossary of Terms</u>	<u>4</u>
<u>PART I</u>	
Item 1. <u>Financial Statements</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Loss</u>	<u>7</u>
<u>Condensed Consolidated Statements of Changes in Stockholder Equity</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>9</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>10</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>58</u>
Item 4. <u>Controls and Procedures</u>	<u>58</u>
<u>PART II</u>	
Item 1. <u>Legal Proceedings</u>	<u>59</u>
Item 1A. <u>Risk Factors</u>	<u>59</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>59</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>59</u>
Item 5. <u>Other Information</u>	<u>59</u>
Item 6. <u>Exhibits</u>	<u>60</u>
<u>Signatures</u>	<u>61</u>

Table of Contents

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

Table of ContentsPART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,684	\$ 127,677
Accounts receivable, net of allowances of \$16,693 and \$16,486, respectively	168,331	168,149
Income taxes receivable	4,645	4,134
Prepaid and other current assets	30,607	23,204
Total current assets	279,267	323,164
Property and equipment, net	84,429	93,203
Capitalized software, net	91,018	102,454
Goodwill	2,301,320	2,314,281
Identifiable intangibles, net	215,981	258,986
Deferred tax assets	3,242	3,608
Investment in unconsolidated subsidiaries	45,259	47,258
Other assets	16,901	4,972
Total assets	\$ 3,037,417	\$ 3,147,926
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable	\$ 39,225	\$ 20,837
Income taxes payable	2,370	4,784
Accrued liabilities	83,401	89,249
Deferred revenues	8,282	5,997
Current portion of capital lease obligation	5,310	6,410
Current portion of long-term debt, net of original issue discount and deferred financing costs	58,315	2,595
Total current liabilities	196,903	129,872
Long-term liabilities:		
Deferred tax liabilities	75,724	73,793
Deferred revenues	1,908	2,096
Long-term capital lease obligation, less current portion	1,350	4,340
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,857,550	1,940,613
Other long-term liabilities	38,512	36,805
Total liabilities	2,171,947	2,187,519
Commitments and contingencies (Note 10)		
Stockholder equity:		
Common stock \$0.01 par value; one thousand shares authorized, issued and outstanding as of September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	1,284,372	1,275,944

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Accumulated deficit	(345,031	) (261,615)
Accumulated other comprehensive loss	(79,677	) (63,226)
Total Syniverse Holdings, Inc. stockholder equity	859,664	951,103	
Noncontrolling interest	5,806	9,304	
Total equity	865,470	960,407	
Total liabilities and stockholder equity	\$ 3,037,417	\$ 3,147,926	

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
Revenues		\$202,700	\$207,009	\$582,199
Costs and expenses:				\$587,364
Cost of operations (excluding depreciation and amortization shown separately below)	90,580	90,483	259,531	265,010
Sales and marketing	18,073	17,295	54,090	54,059
General and administrative	26,389	24,638	85,370	71,876
Depreciation and amortization	37,197	49,834	115,114	145,271
Employee termination benefits	415	457	5,735	609
Restructuring charges	8,294	1,097	8,510	5,126
	180,948	183,804	528,350	541,951
Operating income	21,752	23,205	53,849	45,413
Other income (expense), net:				
Interest expense, net	(40,855)	(30,959)	(122,348)	(101,041)
(Loss) gain on early extinguishment of debt, net	—	(56)	(4,868)	306
Equity loss in investees	(1,020)	(125)	(1,848)	(639)
Other, net	1,124	(896)	1,876	(2,137)
	(40,751)	(32,036)	(127,188)	(103,511)
Loss before (benefit from) provision for income taxes	(18,999)	(8,831)	(73,339)	(58,098)
(Benefit from) provision for income taxes	(229)	16,125	7,485	6,493
Net loss	(18,770)	(24,956)	(80,824)	(64,591)
Net income attributable to noncontrolling interest	190	809	460	2,199
Net loss attributable to Syniverse Holdings, Inc.	\$(18,960)	\$(25,765)	\$(81,284)	\$(66,790)

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
	(Unaudited)			
Net loss		\$(18,770)		\$(80,824)
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(5,073)	12,716	(21,085)	48,783
Changes related to cash flow derivative hedges	4,112	—	4,112	—
Amortization of unrecognized loss included in net periodic pension cost (1)	49	62	152	177
Other comprehensive (loss) income	(912)	12,778	(16,821)	48,960
Comprehensive loss	(19,682)	(12,178)	(97,645)	(15,631)
Less: comprehensive income attributable to noncontrolling interest	43	720	90	2,347
Comprehensive loss attributable to Syniverse Holdings, Inc.		\$(19,725)		\$(12,898)
				\$(97,735)
				\$(17,978)

Amortization of unrecognized loss included in net periodic pension cost is shown net of income tax expense of \$22 (1) and \$67 for the three and nine months ended September 30, 2018, respectively, and net of income tax expense of \$28 and \$79 for the three and nine months ended September 30, 2017, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Stockholder of Syniverse Holdings, Inc.						
	Common Stock		Accumulated Deficit	Accumulated Comprehensive (Loss) Income	Other Noncontrolling Interest	Nonredeemable Total	
Shares	Amount	Additional Paid-In Capital					
Balance, December 31, 2016	1	\$	—\$1,265,752	\$(237,021)	\$ (120,042)	\$ 7,513	\$916,202
Net (loss) income	—	—	—	(66,790)	—	2,199	(64,591)
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustment	—	—	—	—	48,635	148	48,783
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of \$79	—	—	—	—	177	—	177
Stock-based compensation	—	—	11,209	—	—	—	11,209
Distribution to noncontrolling interest	—	—	—	—	—	(2,311)	(2,311)
Distribution to Syniverse Corporation	—	—	(3,079)	—	—	—	(3,079)
Balance, September 30, 2017 (Unaudited)	1	\$	—\$1,273,882	\$(303,811)	\$ (71,230)	\$ 7,549	\$906,390
Balance, December 31, 2017	1	\$	—\$1,275,944	\$(261,615)	\$ (63,226)	\$ 9,304	\$960,407
Cumulative effect of accounting change, net of tax of \$36	—	—	—	(2,132)	—	—	(2,132)
Net (loss) income	—	—	—	(81,284)	—	460	(80,824)
Other comprehensive (loss) income, net of tax:							
Foreign currency translation adjustment	—	—	—	—	(20,715)	(370)	(21,085)
Changes related to cash flow derivative hedges	—	—	—	—	4,112	—	4,112
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of \$67	—	—	—	—	152	—	152
Stock-based compensation	—	—	12,417	—	—	—	12,417
Distribution to noncontrolling interest	—	—	—	—	—	(3,588)	(3,588)
Distribution to Syniverse Corporation	—	—	(3,989)	—	—	—	(3,989)
Balance, September 30, 2018 (Unaudited)	1	\$	—\$1,284,372	\$(345,031)	\$ (79,677)	\$ 5,806	\$865,470

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2018	2017
	(Unaudited)	
Cash flows from operating activities		
Net loss	\$(80,824)	\$(64,591)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	115,114	145,271
Amortization of original issue discount and deferred financing costs	6,728	9,859
Allowance for credit memos and uncollectible accounts	8,906	8,837
Deferred income tax expense	3,032	5,648
Debt modification costs	9,646	9,780
Loss (gain) on early extinguishment of debt, net	4,868	(306)
Stock-based compensation	12,417	11,209
Other, net	2,958	1,328
Changes in operating assets and liabilities:		
Accounts receivable	(10,218)	(11,336)
Income taxes receivable or payable	(3,529)	(2,001)
Prepaid and other current assets	(10,220)	(3,679)
Accounts payable	18,563	(4,539)
Accrued liabilities and deferred revenues	(10,735)	(22,045)
Other assets and other long-term liabilities	(5,534)	3,043
Net cash provided by operating activities	61,172	86,478
Cash flows from investing activities		
Capital expenditures	(46,648)	(50,167)
Net cash used in investing activities	(46,648)	(50,167)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	1,922,000	—
Principal payments on long-term debt	(1,930,510)	(25,032)
Debt issuance costs paid	—	(1,143)
Debt modification costs paid	(40,446)	(9,768)
Payments on capital lease and financing obligations	(6,859)	(14,464)
Distribution to Syniverse Corporation	(3,989)	(3,079)
Distribution to noncontrolling interest	(3,588)	(2,311)
Net cash used in financing activities	(63,392)	(55,797)
Effect of exchange rate changes on cash	(2,834)	4,050
Net decrease in cash, cash equivalents and restricted cash	(51,702)	(15,436)
Cash, cash equivalents and restricted cash at beginning of period	128,677	137,690
Cash, cash equivalents and restricted cash at end of period	\$76,975	\$122,254
Supplemental noncash investing and financing activities		
Assets acquired under capital lease and non-cash financing obligations	\$9,229	\$5,929
Supplemental cash flow information		
Interest paid	\$115,516	\$92,516
Income taxes paid	\$7,900	\$2,809

See accompanying notes to unaudited condensed consolidated financial statements.

9

Table of Contents

SYNIVERSE HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Syniverse is the leading global transaction processor that connects MNOs and enterprises in nearly 200 countries enabling seamless mobile communications across disparate and rapidly evolving networks, devices and applications. We process transactions that include the authorization and delivery of end user traffic, clearing of billing records and settlement of payments. We also offer a unique portfolio of intelligent policy and charging tools that enable our customers to use the real-time data generated by these transactions to deliver customized services and choices to their end-users. Our portfolio of mission-critical services enables our customers to connect to the mobile ecosystem, optimize their businesses and enhance and personalize the mobile experience for their end-users. We process over 4 billion billable transactions daily and settle approximately \$15 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 30 years of experience and a history of innovation, we believe we are well positioned to solve the technical, operational and financial complexities of the mobile ecosystem.

Our diverse customer base includes a broad range of participants in the mobile ecosystem, including approximately 900 MNOs and 450 OTTs and enterprises. Our customers include 97 of the top 100 MNOs globally, such as Verizon Wireless, América Móvil, Vodafone, Telefónica, China Unicom and Reliance Communications; OTTs, including 3 of the 5 largest social networking sites in the U.S. and one of the largest social networking sites in China; and blue-chip enterprise customers, including the top 3 credit card networks worldwide and a multinational hotel brand.

The mobile experience is a critical and pervasive component of modern life and has become increasingly complex. Mobile devices have evolved from basic cellular phones to include smartphones, tablets, wearables and other connected devices that people now use to conduct an expanding set of activities in real-time, such as streaming videos, posting social media updates, working and shopping. As a result, today's mobile experience requires seamless and ubiquitous connectivity and coordination between MNOs, OTTs and enterprises across disparate and rapidly evolving networks, devices and applications. The failure to integrate any of these elements can disrupt service, resulting in frustrated end-users, erosion of our customers' brands and loss of revenue by our customers. Our proprietary services bridge these technological and operational complexities.

Syniverse provides approximately 60 mission-critical services to manage the real-time exchange of information and traffic across the mobile ecosystem, enhance our customers' brands and provide valuable intelligence about end-users. Our customers demand, and we deliver, high quality service as evidenced by our over 99.999% network availability. Our comprehensive suite of Mobile Transaction Services and Enterprise & Intelligence Solutions includes the services described below.

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

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

Table of Contents

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Syniverse Holdings, Inc. have been prepared in accordance with U.S. GAAP for interim financial information and on a basis that is consistent with the accounting principles applied in our audited financial statements for the fiscal year ended December 31, 2017 (the “2017 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 condensed consolidated financial statements and footnotes included in our annual report on Form 10-K filed with the SEC on March 14, 2018. Operating results for the interim periods noted herein are not necessarily indicative of the results that may be achieved for a full year.

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

In May 2016, we acquired a noncontrolling interest in Vibes Media LLC (“Vibes”) for \$45 million. The investment consisted of \$40 million in cash and common shares of Syniverse Corporation valued at \$5 million. The carrying amount of the investment in the equity method investee as of September 30, 2018 and December 31, 2017 was \$40.9 million and \$42.7 million, respectively, and is included in Investment in unconsolidated subsidiaries in the unaudited condensed consolidated balance sheets. In addition to our investment in Vibes, Syniverse and Vibes have partnered to distribute Vibes’ cloud-based mobile marketing software platform. Expenses incurred from commercial transactions with Vibes, which is a related party to the Company, were \$2.9 million and \$8.6 million during the three and nine months ended September 30, 2018, respectively, and \$2.2 million and \$3.2 million during the three and nine months ended September 30, 2017, respectively.

Use of Estimates

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

Revenue Recognition

Our revenues are generated through the sale of Mobile Transaction Services and Enterprise & Intelligence Solutions to MNOs and enterprise customers throughout the world. Revenues are recognized when control of our promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our contracts with customers generally contain one or more performance obligations to stand-ready to process an unknown quantity of transactions as and when they are presented. We recognize revenue related to our stand-ready performance obligations satisfied over time as the customer simultaneously receives and consumes the benefits provided by our

Table of Contents

performance. We consider these performance obligations a series of distinct services that are substantially the same and have the same pattern of transfer to the customer.

The transaction price of each contract includes the amount to which we expect to be entitled which is comprised of both fixed and variable consideration. Variable consideration includes transaction-based fees that are invoiced each month according to the number of records or transactions processed, the size of data records processed or both, and may include a fixed price per unit, a tier-based price per unit or fee, or a fixed amount plus additional fees for volume overages above a contractual threshold. For services with transaction-based fees, we allocate variable consideration to each distinct month in which our service is performed as the variable consideration relates specifically to our efforts to transfer each distinct monthly service during that period. The variability is driven by the number of transactions presented by the customer or end-user for the Company to process. The uncertainty related to the variable consideration is resolved on a monthly basis as the Company satisfies its obligation to perform services each month. For services performed under contracts with exclusively fixed monthly recurring fees, we generally record revenue on a straight-line basis over the contractual term. Less commonly, we enter into contracts with monthly recurring fees which are fixed over the course of each year under the contract, but which change at the completion of each twelve month period of the contract. In such cases, we apply judgment to determine whether a time-based measure or another output-based measure, such as volume, is the most appropriate measure of the pattern of our performance to satisfy the performance obligation. For contracts with significant customer implementations and development services that are highly interrelated with the ongoing services, we generally defer revenues and the associated direct costs and recognize them on a straight-line basis over the contractual term.

Revenues are recognized net of allowances and any taxes collected from customers and subsequently remitted to governmental authorities. We maintain an allowance for credit memos based upon an assessment of customer creditworthiness, historical payment experience and specific known matters. These allowances are recorded primarily as the result of service level penalties, price concessions, billing and service disputes and other customer specific matters. Allowances for credit memos are recorded as reductions of accounts receivable and revenues. If our billing discrepancies are not resolved satisfactorily or our customers' disputes over billing are not resolved satisfactorily, increases to the allowance may be required.

Our payment terms vary by the type and location of our customers and the products or services offered. The term between invoicing and payment due date is not significant. For certain services, we require payment shortly before the services are delivered. For contracts containing significant implementation and development activities, we typically invoice the customer near the completion of such activities and record the revenues over time as the ongoing services to which the significant implementation and development services relate are performed.

Refer to Note 4 for further discussion of Revenues.

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 \$281.8 million and \$372.3 million as of September 30, 2018 and December 31, 2017, respectively.

Cash, Cash Equivalents and Restricted Cash

We consider all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents consists primarily of deposit accounts that are stated at cost, which

approximates fair value.

Amounts included in restricted cash represent certificates of deposits and time deposits with original maturities greater than three months and cash that is restricted as to withdrawal or usage. These amounts are classified in prepaid and other current assets and other assets in the accompanying balance sheets.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within our condensed consolidated balance sheets that sum to the total cash, cash equivalents and restricted cash in our condensed consolidated statements of cash flows:

12

Table of Contents

	September 30, 2018 (Unaudited)	December 31, 2017	September 30, 2017 (Unaudited)	December 31, 2016
(in thousands)				
Cash and cash equivalents	\$ 75,684	\$ 127,677	\$ 121,267	\$ 136,174
Restricted cash included in prepaid and other current assets	596	413	400	1,121
Restricted cash included in other assets	695	587	587	395
Total cash, cash equivalents and restricted cash	\$ 76,975	\$ 128,677	\$ 122,254	\$ 137,690

Capitalized Software Costs

We capitalize the cost of externally purchased software and certain software licenses, internal-use software and developed technology that has a useful life of one year or greater. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they enable the software to perform a task it previously was unable to perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized software and developed technology are amortized using the straight-line method over a period of 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 quantitative impairment test. If based on this assessment an impairment exists, a charge is recorded for the excess of the reporting unit's carrying amount over its fair value in the condensed consolidated statement of operations. We did not record any impairment loss on goodwill for the year ended December 31, 2017. In the future, our reporting unit may be at risk of impairment due to lower operating results caused by declines in our CDMA portfolio. In addition, pricing pressure across many of our services and other market factors can result in the loss of any of our major customers or any services provided to these customers which would negatively impact our business. Any non-renewal of contracts with these customers could materially reduce our revenues. We continue to monitor goodwill for potential impairment and will perform impairment testing as part of our annual goodwill assessment. A goodwill impairment charge would not affect our adjusted EBITDA or free cash flows.

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, or more frequently if indicators of impairment arise. When evaluating indefinite-lived identifiable intangible assets 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 an impairment test.

Foreign Currencies

We have operations in subsidiaries in Europe (primarily the United Kingdom, Germany and Luxembourg), India, the Asia-Pacific region and Latin America, each of whose functional currency is their local currency. Gains and losses on transactions denominated in currencies other than the relevant functional currencies are included in Other, net in the unaudited condensed consolidated statements of operations. For the three and nine months ended September 30, 2018, we recorded foreign currency transaction gains of \$1.2 million and \$2.7 million, respectively. For the three and nine months ended September 30, 2017, we recorded foreign currency transaction losses of \$0.8 million and \$1.9 million, respectively.

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

Table of Contents

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.

Reclassifications

On January 1, 2018, we adopted ASU 2016-18, Restricted Cash using retrospective application. As a result, we have reclassified prior period amounts in our condensed consolidated statements of cash flows to conform to current year presentation.

3. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which is included in ASC Topic 230. ASU 2016-18 requires companies to show the change in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted this update on January 1, 2018 and retrospectively applied the adjustment to all periods presented. The impact of this adoption was not material to our condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which is included in ASC Topic 230. ASU 2016-15 includes multiple provisions intended to simplify various treatments of certain cash receipts and cash payments in the statement of cash flows under ASC Topic 230. We adopted this update on January 1, 2018. The adoption of this update had no impact on our condensed consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is included in ASC 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. It requires entities to recognize revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which entity expects to be entitled in exchange for those goods or services. We adopted ASC Topic 606 on January 1, 2018 using the modified retrospective transition method. Refer to Note 4 for further details.

In January 2016, the FASB issued ASU 2016-01, Financial instruments - Overall, which is included in ASC Topic 825. ASU 2016-01 will enhance certain aspects of the recognition, measurement, presentation and disclosure requirements for financial instruments. The amendments in this update make targeted improvements to GAAP by requiring equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This update also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. We adopted this update on July 1, 2018. The adoption of this update had no impact on our condensed consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU 2017-12, Derivative and Hedging, which is included in ASC Topic 815. ASU 2017-12 was issued to simplify and align the financial reporting of hedging relationships to the economic results of an entity's risk management activities. In addition, the amendments in this update make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. We will perform a quantitative assessment of the hedge effectiveness at inception, if the derivative is highly effective, and the facts and circumstances do not change, we will use a qualitative approach on an ongoing basis to assess the effectiveness. The earnings effect of the hedging instrument will be reported in the same period and in the same income statement line item in which the

earnings effect of the hedged item is reported. We early adopted this update as of July 1, 2018 prior to entering into our interest rate swap agreements. Refer to Note 11 for more details. The impact of this adoption was not material to our condensed consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software, which is included in ASC Subtopic 350-40. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Additionally, the amendments in this update improve current GAAP by clarifying the accounting for implementation costs for hosting arrangements, regardless of whether they convey a license to the hosted software.

Table of Contents

The update is effective for the Company beginning January 1, 2020 and earlier adoption is permitted. We are currently assessing the impact of implementing this guidance on our condensed consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which is included in ASC Topic 820. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. The update is effective for the Company beginning January 1, 2020 and earlier adoption is permitted for removal and modification of disclosures. We are currently assessing the impact of implementing this guidance. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which is included in ASC Topic 220. ASU 2018-02 will improve the usefulness of information reported in the financial statements by allowing reclassification from accumulated other comprehensive income to retained earnings for the income tax effects resulting from the enactment of the Tax Cuts and Jobs Act legislation. The update is effective for the Company beginning January 1, 2019 and will be applied retrospectively to all periods affected by the Tax Cuts and Jobs Act. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, 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 condensed 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 transparency and comparability of lease accounting among organizations. For leases with a term greater than 12 months, the amendments require the lease rights and obligations arising from the leasing arrangements, including operating leases, to be recognized as assets and liabilities on the balance sheet. However, the effect on the statement of operations and the statement of cash flows is largely unchanged from current GAAP. The amendments also expand the required disclosures surrounding leasing arrangements. The update is effective for the Company beginning January 1, 2019 and can be applied retrospectively to each prior reporting period presented in the financial statements or retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment.

Syniverse's lease portfolio is primarily comprised of office space, data centers and equipment. We will adopt the standard using the modified retrospective approach with a cumulative-effect adjustment, if any, to the opening balance of retained earnings at January 1, 2019. Although we have not completed our evaluation, or quantified its impact, we expect the adoption of this guidance to have a significant impact on our consolidated balance sheet due to the recognition of the right of use asset and liability for our operating leases. We expect to apply the package of practical expedients that allows companies not to reassess whether any expired or expiring contracts are or contain leases, lease classification for any expired or expiring leases and initial direct costs for any expired or expiring leases. We also expect to make an accounting policy election to keep leases with a term of 12 months or less off the balance sheet. We are in the process of evaluating our processes and internal controls to meet the accounting, reporting and disclosure requirements for the prospective accounting requirements of the guidance.

4. Revenues

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, we adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. We recognized the cumulative effect of applying ASC Topic 606 as an adjustment to the opening balance of retained earnings at January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while results for comparable prior periods are not adjusted and continue to be reported in accordance with the historical accounting standards in effect for those periods. We do not expect the adoption of ASC Topic 606 to have a material impact to revenue or net income on an ongoing basis.

Table of Contents

We recorded a reduction to opening retained earnings at January 1, 2018 of \$2.1 million, net of tax, for the cumulative effect of adopting ASC Topic 606, with the impact primarily related to deferring revenue associated with significant implementation and development services that are highly interrelated with the ongoing services we provide our customers. The impact to revenues as a result of applying ASC Topic 606 was not material for the three and nine months ended September 30, 2018.

Revenue Recognition

Revenues by service offerings were as follows:

	Three Months Ended September 30,	
(in thousands)	2018	2017
	(Unaudited)	
Mobile Transaction Services	\$147,803	\$164,646
Enterprise & Intelligence Solutions	54,897	42,363
Revenues	\$202,700	\$207,009
	Nine Months Ended September 30,	
(in thousands)	2018	2017
	(Unaudited)	
Mobile Transaction Services	\$439,229	\$471,196
Enterprise & Intelligence Solutions	142,970	116,168
Revenues	\$582,199	\$587,364

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

	Three Months Ended September 30,	
(in thousands)	2018	2017
	(Unaudited)	
North America	\$128,209	\$120,593
Europe, Middle East and Africa	33,089	38,594
Asia Pacific	28,337	31,249
Caribbean and Latin America	13,065	16,573
Revenues	\$202,700	\$207,009
	Nine Months Ended September 30,	
(in thousands)	2018	2017
	(Unaudited)	
North America	\$355,470	\$347,386
Europe, Middle East and Africa	98,057	105,545
Asia Pacific	87,919	90,643
Caribbean and Latin America	40,753	43,790
Revenues	\$582,199	\$587,364

We record deferred revenues when cash payment is received or we have an unconditional right to payment in advance of revenue recognition. The increase in deferred revenues for the nine months ended September 30, 2018 is primarily driven by the adoption of ASC Topic 606 and payments received or due in advance of revenue recognition, offset by

\$9.7 million of revenues recognized, of which \$6.6 million were included in the deferred revenue balance on January 1, 2018.

We generally enter into multi-year non-cancelable contracts with our customers. The transaction price of each contract includes the amount to which we expect to be entitled which is comprised of fixed consideration, variable consideration or a

16

Table of Contents

combination of both. As of September 30, 2018, there was an aggregate amount of \$327.0 million of revenue under these contracts to which we will be entitled upon providing services in the future. We expect to recognize revenue of approximately \$92.0 million during the remainder of 2018, \$158.2 million in 2019, \$48.6 million in 2020 and \$28.2 million thereafter under these contracts. These estimated amounts relate to the fixed consideration within the contracts and do not contain variable consideration under existing contracts related to transaction-based fee revenue. Given the transaction-based nature of our revenue, variable consideration has historically been a significant portion of the revenue recognized during each period which we expect to continue in the future. The uncertainty related to the variable consideration is resolved on a monthly basis as the Company satisfies its obligation to perform services each month.

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.

5. Detail of Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2018	December 31, 2017
(in thousands)	(Unaudited)	
Accrued payroll and related benefits	\$ 28,229	\$ 28,043
Accrued interest	8,280	18,017
Accrued network payables	21,305	21,999
Accrued revenue share expenses	2,885	2,228
Other accrued liabilities	22,702	18,962
Total accrued liabilities	\$ 83,401	\$ 89,249

Table of Contents

6. Debt and Credit Facilities

Our total outstanding debt as of September 30, 2018 and December 31, 2017 was as follows:

	September 30, 2018	December 31, 2017
	(Unaudited)	
(in thousands)		
Credit Facilities:		
Tranche C Term Loans, due March 2023	\$1,693,490	\$—
Original issue discount	(17,672)	—
Deferred financing costs	(16,060)	—
Second Lien Term Loans, due March 2024	220,000	—
Original issue discount	(3,386)	—
Deferred financing costs	(2,141)	—
Initial Term Loans, due 2019	—	889,976
Original issue discount	—	(2,607)
Deferred financing costs	—	(6,449)
Tranche B Term Loans, due 2019	—	662,396
Original issue discount	—	(809)
Deferred financing costs	—	(5,833)
Senior Notes:		
Syniverse Notes, due January 2019	41,727	41,727
Deferred financing costs	(93)	(322)
SFHC Notes, due 2022	—	369,547
Deferred financing costs	—	(4,418)
Total Debt and Credit Facilities	1,915,865	1,943,208
Less: Current portion		
Long-term debt, current portion	\$(58,747)	\$(2,622)
Original issue discount, current portion	178	7
Deferred financing costs, current portion	254	20
Current portion of long-term debt, net of original issue discount and deferred financing costs	\$(58,315)	\$(2,595)
Long-term debt, net of original issue discount and deferred financing costs	\$1,857,550	\$1,940,613

Amortization of original issue discount and deferred financing costs for the three and nine months ended September 30, 2018 was \$1.9 million and \$6.7 million, respectively. Amortization of original issue discount and deferred financing costs for the three and nine months ended September 30, 2017 was \$3.4 million and \$9.9 million, respectively. Amortization was related to our Senior Credit Facility (as defined below), First Lien and Second Lien credit facilities (as defined below) and our Senior Notes (as defined below) and were recorded in interest expense in the unaudited condensed consolidated statements of operations.

Credit Facilities

Senior Credit Facilities

On April 23, 2012, we entered into a credit agreement (the “Credit Agreement”) with Buccaneer Holdings, LLC (as successor by merger to Buccaneer), Barclays Bank PLC, as administrative agent, swing line lender and letters of credit issuer, and the other financial institutions and lenders from time to time party thereto, providing for a senior credit facility consisting of (i) a \$950.0 million term loan facility (the “Initial Term Loans”); and (ii) a \$150.0 million

revolving credit facility for the making of revolving loans, swing line loans and issuance of letters of credit.

Table of Contents

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. The proceeds of the Tranche B Term Loans were used to refinance indebtedness used to fund the MACH Acquisition.

On September 23, 2013, the Company entered into the Second Amendment to the Credit Agreement. Under the Second Amendment, the rate at which the Initial Term Loans under the Credit Agreement bear interest was amended to reduce (i) the margin for Eurodollar rate loans from 3.75% to 3.00%, (ii) the margin for base rate loans from 2.75% to 2.00%, (iii) the Eurodollar rate floor from 1.25% to 1.00% and (iv) the base rate floor from 2.25% to 2.00%.

On April 14, 2017, we entered into an amendment to the Credit Agreement to, among other things, (i) extend the scheduled maturity date of the revolving credit commitments, (ii) make certain modifications to the financial maintenance covenant, and (iii) provide for a flat commitment fee payable to each revolving credit lender of 0.50%. In addition, in connection with the Amendment, we reduced the aggregate revolving credit commitments from \$150.0 million to \$85.6 million and the letter of credit sublimit from \$50.0 million to \$40.0 million.

First Lien Credit Facility

On March 9, 2018, we completed the refinancing (the “2018 Refinancing”) of our old first lien credit facility (the “Old First Lien Credit Facility”) with the fifth amendment to the Old First Lien Credit Facility. The new first lien credit facility (the “New First Lien Credit Facility”), among other things, (i) extends the scheduled maturity date of the revolving credit facility (the “Revolving Credit Facility”), by converting the Revolving Credit Facility into a new tranche of revolving credit commitments (the “New Extended Revolving Credit Facility”), (ii) provides for a new tranche of term loans “C” in an aggregate principal amount of \$1,702 million (the “Tranche C Term Loans”), (iii) amends the Old First Lien Credit Facility to, among other things, permit incurrence of the Tranche C Term Loans and the Second Lien Term Loans (as defined below) and (iv) further amends certain terms and conditions of the Old First Lien Credit Facility and the security agreement and guarantees entered into in connection therewith. The New Extended Revolving Credit Facility will mature on December 9, 2022 and the Tranche C Term Loans will mature on March 9, 2023. The Company’s obligations under the New Extended Revolving Credit Facility and the Tranche C Term Loans are guaranteed by the same guarantors, and secured by the same assets, that guaranteed and secured the Revolving Credit Facility and the Old First Lien Credit Facility.

Beginning with the end of the first full fiscal quarter commencing after March 9, 2018 (the “Closing Date”), the Tranche C Term Loans began amortizing in equal quarterly installments in an amount equal to 0.25% per quarter of the original principal amount thereof, with the remaining balance due at final maturity.

Borrowings under the New Extended Revolving Credit Facility and the Tranche C Term Loans bear interest at a floating rate which can be, at the Company’s option, either (i) a Eurodollar borrowing rate for a specified interest period plus an applicable margin or, (ii) an alternative base rate plus an applicable margin, subject to, a base rate floor of 0.00%, and in the case of the Tranche C Term Loans, a Eurodollar rate floor of 1.00%. The applicable margin for borrowings under the New Extended Revolving Credit Facility ranges from 4.50% to 5.00% per annum for Eurodollar loans and from 3.50% to 4.00% per annum for base rate loans and is determined by reference to a pricing grid based on the Company’s consolidated net first lien leverage ratio. The applicable margin for the Tranche C Term Loans is 5.00% per annum for Eurodollar loans and 4.00% per annum for base rate loans.

The New First Lien Credit Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are subject to customary exceptions and limited to the following: limitations on the incurrence of debt, liens, fundamental changes, restrictions on subsidiary distributions, transactions with affiliates, further negative pledge, asset sales, restricted equity and debt payments, investments and acquisitions, repayment of certain debt in the event of a change of control, amendments of certain debt documents and the activities

of Buccaneer Holdings, LLC.

There are no financial covenants included in the New First Lien Credit Facility other than a springing maximum net first lien leverage ratio of (i) 6.50:1.00 for the fiscal quarters ended on June 30, 2018 and September 30, 2018 and (ii) 6.25:1.00 for the fiscal quarter ended on December 31, 2018 and each fiscal quarter ended thereafter, which is tested only for the benefit of the revolving lenders and only (x) commencing with the first full fiscal quarter of the Company after the Closing Date, when, at the end of any fiscal quarter, any revolving loans, any swing line loans or any letter of credit obligations (excluding undrawn letters of credit not in excess of \$10.0 million in the aggregate and any letters of credit which are cash collateralized to at least 105.0% of their maximum stated amount) are outstanding and (y) upon an extension of credit under the New Extended Revolving Credit Facility in the form of the making of a revolving loan or a swing line loan, or the issuance of a letter of credit.

Table of Contents

In connection with the 2018 Refinancing, we incurred debt modification costs of \$9.6 million which was recorded in interest expense and loss on early extinguishment of debt, net, of \$4.9 million for the period ended September 30, 2018 in the unaudited condensed consolidated statements of operations. We also recorded \$23.2 million of original issue discount and \$21.2 million of deferred financing costs to be amortized through interest expense over the life of the New Credit Facilities using the effective interest method.

As of September 30, 2018, there were no amounts outstanding under the New Extended Revolving Credit Facility.

Second Lien Credit Facility

On March 9, 2018, the Company also entered into a second lien credit agreement (the “Second Lien Credit Agreement”). The Second Lien Credit Agreement established the New Second Lien Credit Facility in an aggregate principal amount of \$220 million. Proceeds of the term loans under the New Second Lien Credit Facility (the “Second Lien Term Loans”), together with proceeds of the Tranche C Term Loans and cash on hand, were used to fund the 2018 Refinancing. The Second Lien Term Loans will mature on March 11, 2024 and have no scheduled amortization prior to maturity. The Company’s obligations under the New Second Lien Credit Facility will be guaranteed by Buccaneer Holdings, LLC and certain subsidiary guarantors, which is junior to the lien securing facilities under the New First Lien Credit Facility.

Borrowings under the Second Lien Term Loans bear interest at a floating rate which can be, at the Company’s option, either (i) a Eurodollar borrowing rate for a specified interest period plus an applicable margin or, (ii) an alternative base rate plus an applicable margin, subject to a Eurodollar rate floor of 1.00% or a base rate floor of 0.00%, as applicable. The applicable margin for the Second Lien Term Loans is 9.00% per annum for Eurodollar loans and 8.00% per annum for base rate loans.

The Second Lien Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are subject to customary exceptions and limited to the following: limitations on the incurrence of debt, liens, fundamental changes, restrictions on subsidiary distributions, transactions with affiliates, further negative pledge, asset sales, restricted equity and debt payments, investments and acquisitions, repayment of certain debt in the event of a change of control, amendments of certain debt documents and the activities of Buccaneer Holdings, LLC.

There are no financial covenants included in the New Second Lien Credit Facility.

Proceeds of the Tranche C Term Loans, together with proceeds of the Second Lien Term Loans and cash on hand, were used to (i) prepay in full the Initial Term Loans and the Tranche B Term Loans, in each case, under and as defined in the Old First Lien Credit Facility, (ii) redeem in full the SFHC Notes and (iii) pay interest, premiums, costs, fees and expenses in connection with the foregoing. The New Extended Revolving Credit Facility replaced the old Revolving Credit Facility in its entirety. The New Extended Revolving Credit Facility will be used to finance the working capital needs of the company and for general corporate purposes.

The Company must prepay the term loans (New First Lien Credit Facility and the Second Lien Credit Facility) with the net cash proceeds of asset sales, casualty and condemnation events, the incurrence or issuance of indebtedness (other than indebtedness permitted to be incurred under the credit agreements (“First Lien Credit Agreement” and “Second Lien Credit Agreement”)) and, for the year ended December 31, 2018 and thereafter, excess cash flow (as defined by the credit agreements). In addition, the Company may voluntarily prepay the Term Loans, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty, except for the prepayment premiums set forth below:

Credit Facility	Anniversary	Prepayment Price
Tranche C Term Loans	On or prior to six months from closing date	101.000 %
Second Lien Term Loans	Prior to twelve months from closing date	103.000 %
Second Lien Term Loans	On or after twelve months and before twenty four months from closing date	102.000 %
Second Lien Term Loans	On or after twenty four months and before thirty six months from closing date	101.000 %

Table of Contents

Senior Notes

SFHC Notes

On January 11, 2017, pursuant to the Exchange Offer, SFHC, our wholly-owned subsidiary, issued \$369.5 million of SFHC Notes bearing interest at 9.125% per annum with a maturity date of January 15, 2022, and a like amount of Syniverse Notes were cancelled. We incurred debt modification fees of \$9.8 million in connection with the Exchange Offer in the period ended March 31, 2017 which was recorded in Interest expense in the accompanying condensed consolidated statements of operations. On March 12, 2018, the SFHC Notes were redeemed in full in connection with the 2018 Refinancing.

Syniverse Notes

On December 22, 2010, we issued \$475.0 million Syniverse Notes bearing interest at 9.125% that will mature on January 15, 2019. Interest on the notes is paid on January 15 and July 15 of each year. We incurred financing fees of \$20.4 million in connection with the issuance of the Syniverse Notes which have been amortized over the term of the notes using the effective interest method.

The Syniverse Notes are guaranteed on a senior basis by the Subsidiary Guarantors. In addition, we have the ability to designate certain of our subsidiaries as unrestricted subsidiaries pursuant to the terms of the indenture governing our Syniverse Notes, and any subsidiary so designated will not be a guarantor of the notes. The right of noteholders to receive payment on the Syniverse Notes is effectively subordinated to the rights of our existing and future secured creditors. We may redeem the Syniverse Notes, at our option, in whole at any time or in part from time to time, at 100% of the principal amount of the Syniverse Notes to be redeemed, plus accrued and unpaid interest, if any, to the redemption date.

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

On January 11, 2017 pursuant to the Exchange Offer, \$369.5 million of Syniverse Notes were cancelled. Following the Exchange Offer, \$105.5 million aggregate principal amount of the Syniverse Notes were outstanding. On April 25, 2017 and September 18, 2017, we repurchased \$16.0 million and \$7.7 million aggregate principal amount of the Syniverse Notes, respectively, and submitted them to Wilmington Trust, National Association, as trustee, for cancellation. On December 29, 2017, we redeemed an additional \$40.0 million aggregate principal amount of the Syniverse Notes at 100%. Following these transactions, \$41.7 million aggregate principal amount of the Syniverse Notes remains outstanding at September 30, 2018.

7. 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 nine months ended September 30, 2018 and 2017 was as follows:

	Three Months Ended September 30, 2018 2017	
(in thousands)	(Unaudited)	
Cost of operations	\$ 132	\$ 195
Sales and marketing	970	850
General and administrative	2,975	2,518
Stock-based compensation	\$4,077	\$3,563

Table of Contents

	Nine Months Ended September 30,	
(in thousands)	2018	2017
	(Unaudited)	
Cost of operations	\$564	\$615
Sales and marketing	2,274	2,353
General and administrative	9,579	8,241
Stock-based compensation	\$12,417	\$11,209

The following table summarizes our stock option activity under the 2011 Plan for the nine months ended September 30, 2018:

Stock Options	Shares	Weighted- Average Exercise Price
Outstanding at December 31, 2017	8,249,251	\$ 10.79
Granted	3,905,001	12.68
Canceled or expired	(1,393,250)	10.80
Outstanding at September 30, 2018	10,761,002	\$ 11.43

The fair value of options granted during the nine months ended September 30, 2018 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

Risk-free interest rate	2.5%
Volatility factor	27.1%
Dividend yield	—%
Weighted average expected life of options (in years)	5.7

Restricted stock is issued and measured at fair value on the date of grant. The following table summarizes our restricted stock activity under the 2011 Plan for the nine months ended September 30, 2018:

Restricted Stock	Shares	Weighted- Average Grant-Date Fair Value
Outstanding at December 31, 2017	1,617,759	\$ 10.27
Granted	1,905,259	10.00
Vested	(781,250)	10.52
Forfeited	(151,250)	10.18
Outstanding at September 30, 2018	2,590,518	\$ 10.00

8. Employee Termination Benefits and Restructuring

The following table summarizes the activity in our employee termination benefit liabilities for the nine months ended September 30, 2018:

(in thousands)	December 31, 2017	Additions	Payments	Adjustments	September 30, 2018
Employee termination benefits	\$ 1,234	5,735	(4,362)	(58)	\$ 2,549

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.

Table of Contents

The following table summarizes the activity in our restructuring liabilities for the nine months ended September 30, 2018:

(in thousands)	December 31, 2017	Additions	Payments	Adjustments	September 30, 2018
2018 Plan	\$ —	8,293	—	—	\$ 8,293
December 2016 Plan	\$ 937	40	(975)	(1)	\$ 1
March 2016 Plan	\$ 1,579	177	(1,756)	—	\$ —
October 2014 Plan	\$ 275	—	(235)	15	\$ 55
Total	\$ 2,791	\$ 8,510	\$ (2,966)	\$ 14	\$ 8,349

In 2018, we recorded severance costs related to a restructuring plan (the “2018 restructuring plan”) to realign costs and expenses with revenue trends across our portfolio. As a result of this plan, we recorded severance related costs of \$8.3 million.

In December 2016, we implemented a restructuring plan (the “December 2016 restructuring plan”) to realign costs and expenses with revenue trends across our portfolio. As a result of this plan, we incurred severance related costs of \$9.0 million. We have paid \$9.1 million related to this plan as of September 30, 2018 and anticipate the remaining cash outlays to take place during 2018.

In March 2016, we implemented a restructuring plan (the “March 2016 restructuring plan”) to realign costs and expenses with revenue trends across our portfolio, reducing costs associated with certain of our legacy products and services to provide for increased investment in our growth businesses. As a result of this plan, we incurred severance related costs of \$14.4 million and contract termination costs of \$9.2 million related to the exit of data center leases. We have paid \$23.5 million related to this plan as of September 30, 2018 and anticipate the remaining cash outlays to take place during 2018.

9. Income Taxes

We provide for federal, state and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date. The effective tax rate for the three and nine months ended September 30, 2018, was a benefit of 1.2% and a provision of (10.2)%, respectively. The effective tax rate for the three and nine months ended September 30, 2017, was a provision of (182.6)% and (11.2)%, respectively. The change in our effective tax rate was chiefly attributable to (i) the impact of the new U.S. base erosion and anti-abuse tax in 2018, (ii) the establishment of a valuation allowance against U.S. deferred tax assets which was first established in Q1 2017, (iii) the impact of the U.S. provisional transition tax offset by the change in valuation allowance, and (iv) the relative mix of earnings and losses in the U.S. versus foreign tax jurisdictions.

On December 22, 2017, the United States enacted comprehensive tax legislation called the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code including reducing the US federal corporate tax rate from 35% to 21%, requiring a mandatory transition tax on unremitted foreign earnings, a move from a worldwide to a territorial tax system and placing potential limits on the deductibility of interest expense. In 2017, we recorded a provisional deferred income tax benefit of \$36.8 million related to the revaluation of the Company’s net deferred tax assets and liabilities at the December 22, 2017 enactment date using the new 21% statutory rate. The

calculation of the one-time transition tax is based on our total post-1986 deferred foreign income held in cash and other assets. We have recorded a provisional non-cash charge of \$6.9 million for the transition tax on previously deferred foreign earnings. In addition, we continue to assess the other provisions of the Tax Act.

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, outside of the transition tax mentioned

Table of Contents

above, for these non-U.S. subsidiaries was recorded in the accompanying unaudited condensed consolidated statements of operations.

10. Commitments and Contingencies

We are currently a party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, will not have a material adverse effect on our business, financial condition, results of operations or cash flows. As of September 30, 2018, 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.

11. Fair Value Measurements and Derivative Instruments

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 nine months ended September 30, 2018 and 2017.

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 fair values of our long-term debt, which is not measured at fair value in our financial statements, were based upon quoted market prices in inactive markets for similar instruments (Level 2). The principal amount and fair value of our long-term debt, as of September 30, 2018 and December 31, 2017 were as follows:

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(in thousands)	(Unaudited)			
Tranche C Term Loans	\$1,693,490	\$1,700,899	\$—	\$—
Second Lien Term Loans	\$220,000	\$215,600	\$—	\$—
Syniverse Notes	\$41,727	\$41,310	\$41,727	\$41,414
Initial Term Loans	\$—	\$—	\$889,976	\$874,401
Tranche B Term Loans	\$—	\$—	\$662,396	\$650,804

SFHC Notes	\$—	\$—	\$369,547	\$378,786
------------	-----	-----	-----------	-----------

The fair values of our interest rate swaps have been categorized based upon the fair value hierarchy. The following table presents the line item captions and information about our derivative instruments recorded at fair value on a recurring basis:

24

Table of Contents

		Fair Value Measurements Level 2 ⁽¹⁾	
Location		September 30, 2018	December 31, 2017
(in thousands)		(Unaudited)	
Assets:			
Interest Rate Swaps	Other assets	\$ 6,748	\$ —
		\$ 6,748	\$ —
Liabilities:			
Interest Rate Swaps	Accrued liabilities	\$ 2,636	\$ —
		\$ 2,636	\$ —

Fair value is derived using valuation models that take into account the contract terms, such as maturity, as well as (1) other inputs, such as interest rate yield curves. In addition, the derivative instrument fair values take into account the creditworthiness of the counterparty and the Company.

The credit risk associated with counterparty nonperformance for our derivative instruments is not considered significant as we primarily conduct business with large, well-established financial institutions. We do not anticipate nonperformance by any of the counterparties.

Derivative Instruments

Interest Rate Risk

The risk associated with our exposure to changes in interest rates relates to our long-term debt obligations and the potential increase in interest payments resulting from an increase in floating rates. We use interest rate swap agreements to reduce our exposure to interest rate movements by effectively converting a portion of our floating-rate debt to a fixed-rate basis. As of September 30, 2018, interest on approximately 62.7% of our long-term debt was effectively capped. The financial impact of these hedging instruments is primarily offset by corresponding changes in the underlying exposures being hedged. We achieve this by closely matching the notional amount, term and conditions of the derivative instruments with the underlying risk being hedged.

Interest Rate Swaps

During the quarter ended September 30, 2018, we entered into three interest rate swaps with a total notional amount of \$1.2 billion to manage our exposure to variable rates on our Tranche C terms loans. Our interest rate swaps are recorded on the consolidated balance sheet at their fair value and are designated as cash flow hedges. At inception of the hedge relationship, a derivative instrument that hedges a forecasted transaction or the variability of cash flows related to a recognized asset or liability is designated as a cash flow hedge. Gains and losses on derivatives that are designated as cash flow hedges are recorded as a component of Accumulated other comprehensive loss (AOCI) until the underlying hedged transactions are recognized in earnings.

At inception, we assessed whether the derivatives used in hedging transactions were “highly effective” in offsetting changes in the cash flow of the hedged items. We assessed hedge effectiveness using a regression analysis over an observation period of three years for each hedge relationship under our interest rate swap program. High effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the changes in the fair values of the derivative instrument and the hedged item. We consider the classification of the underlying hedged item’s cash flows in determining the classification for the designated derivative instrument’s cash flows. Cash flows from derivative instruments that are designated as cash flow hedges are classified in the same category as the cash flows from the underlying hedged items.

As of September 30, 2018, we maintained interest rate swap agreements with the following terms:

Hedged Item	Swap Notional ⁽¹⁾	Swap Maturity	Long-Term Debt Floating Rate	Swap Fixed Rate
Tranche C Term Loans	\$1,200,000,000	August 2022	1-Month LIBOR (1.0% Floor)	2.83%

Table of Contents

(1) We have three interest rate swap agreements with notional amounts of \$600.0 million, \$400.0 million and \$200.0 million for a total notional of \$1.2 billion.

We have master International Swaps and Derivatives Association (“ISDA”) agreements in place with our derivative instrument counterparties. These ISDA agreements provide for final close out netting with our counterparties for all positions in the case of default or termination of the ISDA agreement. We have determined that our ISDA agreements provide us with rights of setoff on the fair value of derivative instruments in a gain position and those in a loss position with the same counterparty. As of September 30, 2018, we have elected not to offset such derivative instrument fair values in our consolidated balance sheets which nets to a \$4.1 million interest rate swap asset.

The effect of derivative instruments qualifying and designated as cash flow hedging instruments on accumulated other comprehensive income was as follows:

	Gain (Loss) Recognized in AOCI				Location	Gain (Loss) Reclassified from AOCI			
	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
(in thousands)	(Unaudited)					(Unaudited)			
Interest rate swaps	\$3,346	\$ —	\$ —	\$ —	Interest expense, net	\$766	\$ —	\$ —	\$ —
	\$3,346	\$ —	\$ —	\$ —		\$766	\$ —	\$ —	\$ —

Credit Related Contingent Features

We have agreements with each of our derivative counterparties that contain provisions where a failure by any of the parties to comply with or perform any of the obligations to be complied with or performed in accordance with the master agreements, if such failure is continuing after any applicable grace period has elapsed, then the party could be declared in default on its derivative obligations. Our interest rate swaps do not require us to post collateral.

12. Related Party Transactions

Arrangements with Carlyle

On January 13, 2011, we entered into a ten-year consulting agreement with Carlyle under which we pay Carlyle a fee for consulting services Carlyle provides to us and our subsidiaries. During the three and nine months ended September 30, 2018, we recorded \$0.8 million and \$2.4 million, respectively, of expenses associated with the consulting fee and the reimbursement of out-of-pocket expenses. During the three and nine months ended September 30, 2017, we recorded \$0.8 million and \$2.4 million, respectively, of expenses associated with the consulting fee and the reimbursement of out-of-pocket expenses.

Carlyle, from time to time, participates as a debt holder within the syndicate under our Term Loans. As of September 30, 2018, Carlyle held \$52.7 million of our Tranche C Term Loans. As of December 31, 2017, Carlyle held \$19.4 million and \$24.4 million of our Initial Term Loans and Tranche B Term Loans, respectively.

From time to time, and in the ordinary course of business we may engage other Carlyle portfolio companies as service providers and other Carlyle portfolio companies may engage us as a service provider. Revenues and expenses associated with these related parties were not material during the three and nine months ended September 30, 2018

and 2017.

13. Supplemental Consolidating Financial Information

On December 22, 2010, Syniverse issued \$475.0 million of Syniverse Notes guaranteed on a joint and several basis by each of its existing and future domestic restricted subsidiaries that guarantee the Senior Credit Facility (collectively, the "Subsidiary Guarantors"). Such guarantees are irrevocable, full, unconditional and joint and several.

We have presented supplemental consolidating balance sheets, statements of operations, statements of comprehensive income (loss) 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

26

Table of Contents

the Senior Notes. The supplemental financial information reflects the investment of Syniverse, Inc. using the equity method of accounting.

The Company is presenting the tables below in order to comply with the covenant contained in the indenture of the Syniverse Notes.

Table of Contents

CONSOLIDATING BALANCE SHEET (UNAUDITED)
AS OF SEPTEMBER 30, 2018
(IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$44,582	\$ 31,102	\$—	\$ 75,684
Accounts receivable, net of allowances	—	128,377	39,954	—	168,331
Accounts receivable - affiliates	1,998,845	1,829,870	99,193	(3,927,908)	—
Income taxes receivable	—	282	4,363	—	4,645
Prepaid and other current assets	240	20,907	9,460	—	30,607
Total current assets	1,999,085	2,024,018	184,072	(3,927,908)	279,267
Property and equipment, net	—	63,268	21,161	—	84,429
Capitalized software, net	—	72,911	18,107	—	91,018
Goodwill	—	1,924,005	377,315	—	2,301,320
Identifiable intangibles, net	—	185,679	30,302	—	215,981
Deferred tax assets	—	—	3,242	—	3,242
Investment in unconsolidated subsidiaries	—	40,852	4,407	—	45,259
Other assets	7,514	5,617	3,770	—	16,901
Investment in subsidiaries	2,493,664	501,964	—	(2,995,628)	—
Total assets	\$4,500,263	\$4,818,314	\$ 642,376	\$(6,923,536)	\$3,037,417
LIABILITIES AND STOCKHOLDER EQUITY					
Current liabilities:					
Accounts payable	\$—	\$27,898	\$ 11,327	\$—	\$ 39,225
Accounts payable - affiliates	1,735,665	2,144,876	47,367	(3,927,908)	—
Income taxes payable	—	818	1,552	—	2,370
Accrued liabilities	10,818	40,003	32,580	—	83,401
Deferred revenues	—	5,838	2,444	—	8,282
Current portion of capital lease obligation	—	4,442	868	—	5,310
Current portion of long-term debt, net of original issue discount and deferred financing costs	58,315	—	—	—	58,315
Total current liabilities	1,804,798	2,223,875	96,138	(3,927,908)	196,903
Long-term liabilities:					
Deferred tax liabilities	(21,749)	86,119	11,354	—	75,724
Deferred revenues	—	1,205	703	—	1,908
Long-term capital lease obligation, net of current portion	—	1,288	62	—	1,350
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,857,550	—	—	—	1,857,550
Other long-term liabilities	—	12,163	26,349	—	38,512
Total liabilities	3,640,599	2,324,650	134,606	(3,927,908)	2,171,947
Commitments and contingencies:					
Stockholder equity:					
Common stock	—	—	—	—	—

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Additional paid-in capital	1,207,531	2,243,496	752,265	(2,918,920)	1,284,372
(Accumulated deficit) retained earnings	(344,137)	251,309	(174,372)	(77,831)	(345,031)
Accumulated other comprehensive (loss) income	(3,730)	(1,141)	(75,929)	1,123	(79,677)
Total Syniverse, Inc. stockholder equity	859,664	2,493,664	501,964	(2,995,628)	859,664
Noncontrolling interest	—	—	5,806	—	5,806
Total equity	859,664	2,493,664	507,770	(2,995,628)	865,470
Total liabilities and stockholder equity	\$4,500,263	\$4,818,314	\$ 642,376	\$(6,923,536)	\$3,037,417

28

Table of Contents

CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Revenues	\$—	\$ 163,224	\$ 39,476	\$—	\$ 202,700
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	—	82,277	8,303	—	90,580
Sales and marketing	—	12,641	5,432	—	18,073
General and administrative	—	18,212	8,177	—	26,389
Depreciation and amortization	—	28,435	8,762	—	37,197
Employee termination benefits	—	277	138	—	415
Restructuring	—	—	8,294	—	8,294
	—	141,842	39,106	—	180,948
Operating income	—	21,382	370	—	21,752
Other income (expense), net:					
Income (loss) from equity investment	19,488	1,366	—	(20,854)	—
Interest expense, net	(40,763)	(77)	(15)	—	(40,855)
Equity (loss) income in investee	—	(895)	(125)	—	(1,020)
Other, net	2,315	(1,565)	374	—	1,124
	(18,960)	(1,171)	234	(20,854)	(40,751)
(Loss) income before (benefit from) provision for income taxes	(18,960)	20,211	604	(20,854)	(18,999)
Provision for income taxes	—	723	(952)	—	(229)
Net (loss) income	(18,960)	19,488	1,556	(20,854)	(18,770)
Net loss attributable to noncontrolling interest	—	—	190	—	190
Net (loss) income attributable to Syniverse, Inc.	\$(18,960)	\$ 19,488	\$ 1,366	\$(20,854)	\$(18,960)

Table of Contents

CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Net (loss) income	\$(18,960)	\$ 19,488	\$ 1,556	\$ (20,854)	\$ (18,770)
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	(5,073)	—	(5,073)
Changes related to cash flow derivative hedges	4,112	—	—	—	4,112
Amortization of unrecognized loss included in net periodic pension cost, net of income tax expense of \$22	—	—	49	—	49
Other comprehensive loss	4,112	—	(5,024)	—	(912)
Comprehensive (loss) income	(14,848)	19,488	(3,468)	(20,854)	(19,682)
Less: comprehensive income attributable to noncontrolling interest	—	—	43	—	43
Comprehensive (loss) income attributable to Syniverse, Inc.	\$(14,848)	\$ 19,488	\$ (3,511)	\$ (20,854)	\$ (19,725)

Table of Contents

CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Revenues	\$—	\$463,299	\$ 118,900	\$—	\$ 582,199
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	—	237,089	22,442	—	259,531
Sales and marketing	—	37,272	16,818	—	54,090
General and administrative	—	59,102	26,268	—	85,370
Depreciation and amortization	—	88,162	26,952	—	115,114
Employee termination benefits	—	3,721	2,014	—	5,735
Restructuring	—	180	8,330	—	8,510
	—	425,526	102,824	—	528,350
Operating income	—	37,773	16,076	—	53,849
Other income (expense), net:					
Income (loss) from equity investment	17,444	7,310	—	(24,754)	—
Interest expense, net	(115,141)	(337)	(6,870)	—	(122,348)
Loss on early extinguishment of debt, net	(3,910)	—	(958)	—	(4,868)
Equity (loss) income in investee	—	(1,825)	(23)	—	(1,848)
Other, net	20,323	(19,859)	1,412	—	1,876
	(81,284)	(14,711)	(6,439)	(24,754)	(127,188)
(Loss) income before (benefit from) provision for income taxes	(81,284)	23,062	9,637	(24,754)	(73,339)
Provision for income taxes	—	5,618	1,867	—	7,485
Net (loss) income	(81,284)	17,444	7,770	(24,754)	(80,824)
Net income attributable to nonredeemable noncontrolling interest	—	—	460	—	460
Net (loss) income attributable to Syniverse, Inc.	\$(81,284)	\$17,444	\$ 7,310	\$(24,754)	\$(81,284)

Table of Contents

CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Net (loss) income	\$(81,284)	\$ 17,444	\$ 7,770	\$ (24,754)	\$ (80,824)
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	(21,085)	—	(21,085)
Changes related to cash flow derivative hedges	4,112	—	—	—	4,112
Amortization of unrecognized loss included in net periodic pension cost, net of income tax expense of \$67	—	—	152	—	152
Other comprehensive loss	4,112	—	(20,933)	—	(16,821)
Comprehensive (loss) income	(77,172)	17,444	(13,163)	(24,754)	(97,645)
Less: comprehensive income attributable to nonredeemable noncontrolling interest	—	—	90	—	90
Comprehensive (loss) income attributable to Syniverse, Inc.	\$(77,172)	\$ 17,444	\$ (13,253)	\$ (24,754)	\$ (97,735)

Table of Contents

CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustment	Consolidated
Cash flows from operating activities					
Net cash provided by (used in) operating activities	\$ 12,499	\$ 74,980	\$ (26,307	) \$	—\$ 61,172
Cash flows from investing activities					
Capital expenditures	—	(36,589	) (10,059	) —	(46,648)
Net cash used in investing activities	—	(36,589	) (10,059	) —	(46,648)
Cash flows from financing activities					
Proceeds from issuance of long-term debt	1,922,000	—	—	—	1,922,000
Principal payments on long-term debt	(1,930,510)	—	—	—	(1,930,510)
Debt modification costs paid	—	(40,446	) —	—	(40,446)
Payments on capital lease obligation	—	(6,341	) (518	) —	(6,859)
Distribution to Syniverse Corporation	(3,989	) —	—	—	(3,989)
Distribution to noncontrolling interest	—	—	(3,588	) —	(3,588)
Net cash used in financing activities	(12,499	) (46,787	) (4,106	) —	(63,392)
Effect of exchange rate changes on cash	—	—	(2,834	) —	(2,834)
Net decrease in cash, cash equivalents and restricted cash	—	(8,396	) (43,306	) —	(51,702)
Cash, cash equivalents and restricted cash at beginning of period	—	53,709	74,968	—	128,677
Cash, cash equivalents and restricted cash at end of period	\$—	\$ 45,313	\$ 31,662	\$	—\$ 76,975

Table of Contents

CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2017
(IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$53,243	\$ 74,434	\$—	\$ 127,677
Accounts receivable, net of allowances	—	120,369	47,780	—	168,149
Accounts receivable - affiliates	2,071,648	1,716,547	57,954	(3,846,149)	—
Income taxes receivable	—	231	3,903	—	4,134
Prepaid and other current assets	686	13,856	8,662	—	23,204
Total current assets	2,072,334	1,904,246	192,733	(3,846,149)	323,164
Property and equipment, net	—	70,355	22,848	—	93,203
Capitalized software, net	—	78,212	24,242	—	102,454
Goodwill	—	1,922,230	392,051	—	2,314,281
Identifiable intangibles, net	—	218,332	40,654	—	258,986
Deferred tax assets	21,749	—	3,608	(21,749)	3,608
Investment in unconsolidated subsidiaries	—	42,676	4,582	—	47,258
Other assets	29	2,719	2,224	—	4,972
Investment in subsidiaries	2,152,970	178,693	—	(2,331,663)	—
Total assets	\$4,247,082	\$4,417,463	\$ 682,942	\$(6,199,561)	\$3,147,926
LIABILITIES AND STOCKHOLDER EQUITY					
Current liabilities:					
Accounts payable	\$—	\$14,834	\$ 6,003	\$—	\$ 20,837
Accounts payable - affiliates	1,715,046	2,094,598	36,504	(3,846,148)	—
Income taxes payable	—	242	4,542	—	4,784
Accrued liabilities	2,853	43,484	42,912	—	89,249
Deferred revenues	—	3,975	2,022	—	5,997
Current portion of capital lease obligation	—	6,311	99	—	6,410
Current portion of long-term debt, net of original issue discount and deferred financing costs	2,595	—	—	—	2,595
Total current liabilities	1,720,494	2,163,444	92,082	(3,846,148)	129,872
Long-term liabilities:					
Deferred tax liabilities	—	84,186	11,356	(21,749)	73,793
Deferred revenues	—	1,852	244	—	2,096
Long-term capital lease obligation, net of current portion	—	4,229	111	—	4,340
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,575,484	—	365,129	—	1,940,613
Other long-term liabilities	—	10,782	26,023	—	36,805
Total liabilities	3,295,978	2,264,493	494,945	(3,867,897)	2,187,519
Commitments and contingencies					
Stockholder equity:					
Common stock	—	—	—	—	—

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Additional paid-in capital	1,214,927	1,919,497	368,464	(2,226,944)	1,275,944
(Accumulated deficit) retained earnings	(262,853)	232,940	(125,858)	(105,844)	(261,615)
Accumulated other comprehensive (loss) income	(970)	533	(63,913)	1,124	(63,226)
Total Syniverse, Inc. stockholder equity	951,104	2,152,970	178,693	(2,331,664)	951,103
Noncontrolling interest	—	—	9,304	—	9,304
Total equity	951,104	2,152,970	187,997	(2,331,664)	960,407
Total liabilities and stockholder equity	\$4,247,082	\$4,417,463	\$ 682,942	\$(6,199,561)	\$3,147,926

34

Table of Contents

CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017
(IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Revenues	\$—	\$ 154,687	\$ 52,322	\$—	\$ 207,009
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	—	79,574	10,909	—	90,483
Sales and marketing	—	11,258	6,037	—	17,295
General and administrative	—	15,601	9,037	—	24,638
Depreciation and amortization	—	40,204	9,630	—	49,834
Employee termination benefits	—	161	296	—	457
Restructuring	—	1,073	24	—	1,097
	—	147,871	35,933	—	183,804
Operating income	—	6,816	16,389	—	23,205
Other income (expense), net:					
Income (loss) from equity investment	55,465	29,380	—	(84,845)	—
Interest expense, net	(22,255)	(144)	(8,560)	—	(30,959)
Gain on early extinguishment of debt, net	(56)	—	—	—	(56)
Equity (loss) income in investee	—	(172)	47	—	(125)
Other, net	(21,384)	20,797	(309)	—	(896)
	11,770	49,861	(8,822)	(84,845)	(32,036)
Income (loss) before provision for (benefit from) income taxes	11,770	56,677	7,567	(84,845)	(8,831)
Provision for (benefit from) income taxes	37,535	1,212	(22,622)	—	16,125
Net (loss) income	(25,765)	55,465	30,189	(84,845)	(24,956)
Net income attributable to noncontrolling interest	—	—	809	—	809
Net (loss) income attributable to Syniverse, Inc.	\$(25,765)	\$ 55,465	\$ 29,380	\$(84,845)	\$(25,765)

Table of Contents

CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Net (loss) income	\$(25,765)	\$ 55,465	\$ 30,189	\$(84,845)	\$(24,956)
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	12,716	—	12,716
Amortization of unrecognized loss included in net periodic pension cost, net of income tax expense of \$28	—	—	62	—	62
Other comprehensive income	—	—	12,778	—	12,778
Comprehensive (loss) income	(25,765)	55,465	42,967	(84,845)	(12,178)
Less: comprehensive income attributable to noncontrolling interest	—	—	720	—	720
Comprehensive (loss) income attributable to Syniverse, Inc.	\$(25,765)	\$ 55,465	\$ 42,247	\$(84,845)	\$(12,898)

Table of Contents

CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Revenues	\$—	\$ 450,923	\$ 136,441	\$—	\$ 587,364
Costs and expenses:					
Cost of operations (excluding depreciation and amortization shown separately below)	—	241,181	23,829	—	265,010
Sales and marketing	—	36,837	17,222	—	54,059
General and administrative	—	48,522	23,354	—	71,876
Depreciation and amortization	—	118,430	26,841	—	145,271
Employee termination benefits	—	130	479	—	609
Restructuring	—	4,891	235	—	5,126
	—	449,991	91,960	—	541,951
Operating income	—	932	44,481	—	45,413
Other income (expense), net:					
Income (loss) from equity investment	93,036	19,615	—	(112,651)	—
Interest expense, net	(66,109)	(485)	(34,447)	—	(101,041)
Interest income (expense) - affiliate, net	—	10	(10)	—	—
Gain on early extinguishment of debt, net	306	—	—	—	306
Equity (loss) income in investee	—	(804)	165	—	(639)
Other, net	(73,432)	72,212	(917)	—	(2,137)
	(46,199)	90,548	(35,209)	(112,651)	(103,511)
(Loss) income before provision for (benefit from) income taxes	(46,199)	91,480	9,272	(112,651)	(58,098)
Provision for (benefit from) income taxes	20,591	(1,556)	(12,542)	—	6,493
Net (loss) income	(66,790)	93,036	21,814	(112,651)	(64,591)
Net income attributable to nonredeemable noncontrolling interest	—	—	2,199	—	2,199
Net (loss) income attributable to Syniverse, Inc.	\$(66,790)	\$ 93,036	\$ 19,615	\$(112,651)	\$(66,790)

Table of Contents

CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustments	Consolidated
Net (loss) income	\$(66,790)	\$ 93,036	\$ 21,814	\$(112,651)	\$(64,591)
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	—	—	48,783	—	48,783
Amortization of unrecognized loss included in net periodic pension cost, net of income tax expense of \$79	—	—	177	—	177
Other comprehensive income	—	—	48,960	—	48,960
Comprehensive (loss) income	(66,790)	93,036	70,774	(112,651)	(15,631)
Less: comprehensive income attributable to noncontrolling interest	—	—	2,347	—	2,347
Comprehensive (loss) income attributable to Syniverse, Inc.	\$(66,790)	\$ 93,036	\$ 68,427	\$(112,651)	\$(17,978)

Table of Contents

CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
 (IN THOUSANDS)

	Syniverse	Subsidiary Guarantors	Subsidiary Non-Guarantors	Adjustment	Consolidated
Cash flows from operating activities					
Net cash provided by operating activities	\$28,111	\$ 15,194	\$ 43,173	\$ —	\$ 86,478
Cash flows from investing activities					
Capital expenditures	—	(37,663)	(12,504)	—	(50,167)
Capital contribution to subsidiary	—	(453)	—	453	—
Return of capital from subsidiary	—	16,000	—	(16,000)	—
Receipts on intercompany notes	—	12,000	—	(12,000)	—
Net cash provided by (used in) investing activities	—	(10,116)	(12,504)	(27,547)	(50,167)
Cash flows from financing activities					
Debt issuance costs paid	—	(1,143)	—	—	(1,143)
Debt modification costs paid	—	(9,768)	—	—	(9,768)
Principal payments on long-term debt	(25,032)	—	—	—	(25,032)
Payments on capital lease obligation	—	(14,404)	(60)	—	(14,464)
Contribution from parent	—	—	453	(453)	—
Dividends paid	—	—	(16,000)	16,000	—
Distribution to Syniverse Corporation	(3,079)	—	—	—	(3,079)
Distribution to noncontrolling interest	—	—	(2,311)	—	(2,311)
Payments on intercompany notes	—	—	(12,000)	12,000	—
Net cash (used in) provided by financing activities	(28,111)	(25,315)	(29,918)	27,547	(55,797)
Effect of exchange rate changes on cash	—	—	4,050	—	4,050
Net (decrease) increase in cash, cash equivalents and restricted cash	—	(20,237)	4,801	—	(15,436)
Cash, cash equivalents and restricted cash at beginning of period	—	89,794	47,896	—	137,690
Cash, cash equivalents and restricted cash at end of period	\$—	\$ 69,557	\$ 52,697	\$ —	\$ 122,254

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain of the statements in this Quarterly Report on Form 10-Q, including, without limitation, those included in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may constitute “forward-looking statements” for purposes of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Some of the forward-looking statements can be identified by the use of terms such as “believes,” “expects,” “may,” “will,” “should,” “could,” “seeks,” “intends,” “plans,” “estimates,” “anticipates” or other comparable and similar expressions. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this Quarterly Report on Form 10-Q and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects and growth strategies and the industries in which we operate and including, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control and you should not place undue reliance on these forward-looking statements. We caution you that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition and liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this Quarterly Report on Form 10-Q. In addition, even if our consolidated results of operations, financial condition and liquidity, and industry development are consistent with the forward-looking statements contained in this Quarterly Report on Form 10-Q, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the risks and uncertainties described or referenced in Part II, Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

- system failures or delays which could harm our reputation;
- we do not control the networks over which many of our services are transmitted;
- our reliance on third-party providers for communications software, hardware and infrastructure;
- security breaches which could result in significant liabilities;
- our ability to adapt quickly to technological and other changes;
- our newly offered services may not perform as anticipated;
- the loss of any of our significant customers;
- the failure to achieve or sustain desired pricing levels;
- consolidation among, or network buildouts by, customers could cause us to lose transaction volume and affect pricing;
- the reduction of services by existing customers;
- increased competition;
- our customers may develop in-house solutions and no longer use our services;
- the success of our international expansion is uncertain;
- political instability in certain countries where we operate;
- our compliance with anti-corruption laws and regulations;
- our limited business in countries targeted by economic sanctions which could harm our reputation;
- our compliance with domestic and international tax law;
- our ability to receive and retain licenses or authorizations required to conduct our business internationally;
- our ability to acquire and integrate complementary business and technologies;

- unfavorable general economic conditions in the United States or in other major global markets;
- additional costs and liabilities for maintaining privacy compliance;
- our failure to generate the capital necessary to expand our operations and invest in new services;
- changes in the regulatory landscape affecting us and our customers;
- our ability to attract and retain key personnel;
- failure to protect our intellectual property rights or claims by third parties that we infringe on or are in violation of their intellectual property rights;
- fluctuation in currency exchange rates;
- impairment of our intangible assets or goodwill;

Table of Contents

- potential litigation;
- our ability to achieve desired organic growth;
- our ability to maintain effective internal controls over financial reporting;
- the significant influence Carlyle has over corporate decisions;
- our ability to service our indebtedness.

These cautionary statements should not be construed by you to be exhaustive and are made only as of the date of this Quarterly Report on Form 10-Q and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Business

Syniverse is the leading global transaction processor that connects MNOs and enterprises in nearly 200 countries enabling seamless mobile communications across disparate and rapidly evolving networks, devices and applications. We process transactions that include the authorization and delivery of end-user traffic, clearing of billing records and settlement of payments. We also offer a unique portfolio of intelligent policy and charging tools that enable our customers to use the real-time data generated by these transactions to deliver customized services and choices to their end users. Our portfolio of mission-critical services enables our customers to connect to the mobile ecosystem, optimize their businesses and enhance and personalize the mobile experience for their end-users. We process over 4 billion billable transactions daily and settle approximately \$15 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 30 years of experience and a history of innovation, we believe we are well positioned to solve the technical, operational and financial complexities of the mobile ecosystem.

Our diverse customer base includes a broad range of participants in the mobile ecosystem, including approximately 900 MNOs and 450 OTTs and enterprises. Our customers include 97 of the top 100 MNOs globally, such as Verizon Wireless, América Móvil, Vodafone, Telefónica, China Unicom and Reliance Communications; OTTs, including 3 of the 5 largest social networking sites in the U.S. and one of the largest social networking sites in China; and blue-chip enterprise customers, including the top 3 credit card networks worldwide and a multinational hotel brand.

The mobile experience is a critical and pervasive component of modern life and has become increasingly complex. Mobile devices have evolved from basic cellular phones to include smartphones, tablets, wearables and other connected devices that people now use to conduct an expanding set of activities in real-time, such as streaming videos, posting social media updates, working and shopping. As a result, today's mobile experience requires seamless and ubiquitous connectivity and coordination between MNOs, OTTs and enterprises across disparate and rapidly evolving networks, devices and applications. The failure to integrate any of these elements can disrupt service, resulting in frustrated end-users, erosion of our customers' brands and loss of revenue by our customers. Our proprietary services bridge these technological and operational complexities.

Syniverse provides approximately 60 mission-critical services to manage the real-time exchange of information and traffic across the mobile ecosystem, enhance our customers' brands and provide valuable intelligence about end-users. Our customers demand, and we deliver, high quality service as evidenced by our over 99.999% network availability. Our comprehensive suite of Mobile Transaction Services and Enterprise & Intelligence Solutions includes the services described below.

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

• Clear, process, and exchange end-user billing records.

• Process and settle payments between participants in the mobile ecosystem.

• Activate, authenticate and authorize end-user mobile activities.

• Manage the worldwide routing and delivery of text (SMS), multimedia (MMS) and next generation messaging.

• Provide data transport services over our global IP data network regardless of technology protocol.

41

Table of Contents

• Provide intelligent policy and clearing tools that enable our customers to use real-time data for improved end-user experience.

• Provide mobile protection tools to prevent fraudulent activity on operator networks and identify problem areas in the end to end billing cycle.

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

• Connect enterprises to the mobile ecosystem to allow them to reliably reach and interact with their customers and employees via mobile devices.

• Bridge OTTs to the mobile ecosystem allowing OTT end-users to seamlessly interact with traditional mobile end-users.

• Enable enterprises to rapidly execute and optimize their mobile communications initiatives.

• Provide data analytics and business intelligence solutions designed to measure, enhance and secure the end-user experience for our enterprise and OTT customers.

• Provide solutions to enable MNOs to measure and manage the subscriber experience across networks.

Executive Overview

Financial Highlights

Revenues decreased \$4.3 million, or 2.1%, to \$202.7 million for the three months ended September 30, 2018, from \$207.0 million for the same period in 2017. Operating income decreased \$1.5 million to \$21.8 million for the three months ended September 30, 2018 from \$23.2 million for the same period in 2017. Net loss decreased \$6.2 million to \$18.8 million for the three months ended September 30, 2018 from \$25.0 million for the same period in 2017. Net loss for the three months ended September 30, 2018 includes a decrease of \$16.4 million in the provision for income taxes. Adjusted EBITDA decreased \$5.1 million, or 6.5%, to \$74.2 million for the three months ended September 30, 2018 from \$79.3 million for the same period in 2017. See “Non-GAAP Financial Measures” below for a reconciliation of Net loss to Adjusted EBITDA.

Business Developments

On March 9, 2018, we completed the 2018 Refinancing with the fifth amendment to the Old First Lien Credit Facility to, among other things, establish a new tranche of term loans maturing on March 9, 2023, in an aggregate principal amount of \$1,702 million (the “New First Lien Credit Facility”) and to extend the Revolving Credit Facility (the “New Extended Revolving Credit Facility”) until December 9, 2022. On the same date, we entered into the \$220 million New Second Lien Credit Facility maturing on March 11, 2024. We used the borrowings under the New Credit Facilities to prepay in full (i) all term loans outstanding under the Old First Lien Credit Facility and (ii) the SFHC Notes.

During the quarter ended September 30, 2018, we entered into three interest rate swaps with a total notional amount of \$1.2 billion to manage our exposure to variable interest rates on our Tranche C terms loans. The interest rate swaps effectively cap interest on a portion of our floating rate debt obligations.

Factors and Trends Affecting Our Results of Operations

Our results of operations have been, and we expect them to continue to be, affected by the following factors, which may cause our future results of operations to differ from our historical results of operations discussed under “Results of Operations” below:

• rapid technological change in the industries we serve, including the increasing demand for seamless and ubiquitous connectivity, personalized mobile services and the proliferation of new and increasingly complex mobile devices, which could lead to growth in our potential customer base, increased opportunities to provide new services to our

customers and increased transaction volumes. We may also increase investment in our business in order to develop new technologies and services to effectively serve our customers in light of these developments. In addition, our failure or inability to respond to these developments through the provision of new or updated services or otherwise could have a negative effect on our ability to grow or retain our customer base and on our transaction volumes;

Table of Contents

the rate at which new entrants to the mobile ecosystem adopt our services in order to connect to other mobile participants which will affect the extent to which new entrants potentially seek to utilize our services, which will affect growth in transaction volumes and revenue;

downward pressure on the prices we charge for our services from our existing customers as we enter into contract renewals, which could have a negative impact on our revenues and margin;

the extent to which our customers buildout or expand their own networks, which could have a negative impact on transaction volume from those customers and on our revenue;

costs associated with our international operations, including integration of acquired international operations, compliance with applicable foreign regulations and fluctuations in foreign currency exchange rates may differ from historical experience and our projections, which could impact our earnings;

the rate of growth associated with our expanded international operations and geographic reach, which may lead to an increase in our number of customer and transaction volumes and would affect our future revenue growth;

our ability to execute on currently pending and future cost savings initiatives, including efficient resource allocation, management realignment and other activities;

the extent to which current or future customers develop in-house solutions to provide analogous services or seek alternative providers of our services, which could reduce the number of services we provide their customers and our overall termination volumes which would have a negative impact on our revenue;

consolidation in the mobile industry which may result in reduced transaction volumes, and, as a result, have a negative impact on our revenue;

the extent to which increasingly complex requirements and changes in the regulatory landscape drive the need for enhancements to our existing services and infrastructure, the development of new compliance oriented services and the design and implementation of internal control procedures and processes, any of which may increase operational costs and burdens which could reduce our operating margins. Our ability to adapt to these new requirements and provide compliant services also could improve our competitive position and generally drive growth in demand for our services, which would drive growth in our revenue; and

the abolition of retail roaming charges beginning June 15, 2017 in the E.U. as a result of actions taken by the European Commission will affect our MNO customers' roaming charges and could increase downward pressure on the prices we charge for our data clearing services. A decrease in roaming charges may also lead to an increase in the number of roaming transactions, as the cost to end-users for such transactions would be reduced, and such an increase could drive growth in the number of transactions we process, which could positively affect our revenue.

Revenues

Our revenues are generated through the sale of Mobile Transaction Services and Enterprise & Intelligence Solutions to MNOs and enterprise customers throughout the world. Revenues are recognized when control of our promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our contracts with customers generally contain one or more performance obligations to stand-ready to process an unknown quantity of transactions as and when they are presented. We recognize revenue related to our stand-ready performance obligations satisfied over time as the customer simultaneously receives and consumes the benefits provided by our performance. We consider these performance obligations a series of distinct services that are substantially the same and have the same pattern of transfer to the customer.

The transaction price of each contract includes the amount to which we expect to be entitled which is comprised of both fixed and variable consideration. Variable consideration includes transaction-based fees that are invoiced each month according to the number of records or transactions processed, the size of data records processed or both, and may include a fixed price per unit, a tier-based price per unit or fee, or a fixed amount plus additional fees for volume overages above a contractual threshold. For services with transaction-based fees, we allocate variable consideration to each distinct month in which our service is performed as the variable consideration relates specifically to our efforts to

transfer each distinct monthly service during that period. The variability is driven by the number of transactions presented by the customer or end-user for the Company to process. The uncertainty related to the variable consideration is resolved on a monthly basis as the Company satisfies its obligation to perform services each month. For services performed under contracts with exclusively fixed monthly recurring fees, we generally record revenue on a straight-line basis over the contractual term. Less commonly, we enter into contracts with monthly recurring fees which are fixed over the course of each year the contract, but which change at the completion of each twelve month period of the contract. In such cases, we apply judgment to determine whether a time-based measure or another output-based measure, such as volume, is the most appropriate measure of the pattern of our performance to satisfy the performance obligation. For contracts with significant customer implementations and development services that are highly interrelated with the ongoing

Table of Contents

services, we generally defer revenues and the associated direct costs and recognize them on a straight-line basis over the contractual term.

Costs and Expenses

Our costs and expenses consist of cost of operations, sales and marketing, general and administrative, depreciation and amortization, employee termination benefits, restructuring and acquisitions expense.

Cost of operations includes data processing costs, network costs, variable costs, such as revenue share service provider arrangements and message termination fees, facilities costs, hardware costs, licensing fees, personnel costs associated with service implementation, training and customer care and off-network database query charges. Variable costs are paid to third party providers and are direct costs that fluctuate either as a percentage of revenue or by the number of transactions processed.

Sales and marketing includes personnel costs, advertising and website costs, trade show costs and related marketing costs.

General and administrative includes research and development expenses, a portion of the expenses associated with our facilities, business development expenses, and expenses for executive, finance, legal, human resources and other administrative departments and professional service fees relating to those functions. Our research and development expenses, consisting primarily of personnel costs, relate to technology creation, enhancement and maintenance of new and existing services.

Depreciation and amortization relate primarily to our property and equipment, capitalized software and identifiable intangibles including our SS7 network, computer equipment, infrastructure facilities related to information management and other identifiable intangible assets recorded as a result of purchase accounting.

- Employee termination benefits represents costs related to severance and other employee related costs that are unrelated to a restructuring plan.

Restructuring charges represents costs related to certain exit activities such as involuntary termination costs and contract termination costs.

Table of Contents

Results of Operations - Three Months Ended September 30, 2018 and 2017

The following table presents an overview of our results of operations for the three months ended September 30, 2018 and 2017:

(in thousands)	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017		2018 compared to 2017	
	Revenues	% of Revenues	Revenues	% of Revenues	\$ change	% change
Revenues:						
Mobile Transaction Services	\$ 147,803	72.9 %	\$ 164,646	79.5 %	\$(16,843)	(10.2) %
Enterprise & Intelligence Solutions Revenues	54,897	27.1 %	42,363	20.5 %	12,534	29.6 %
Costs and expenses:						
Cost of operations (excluding depreciation and amortization shown separately below)	90,580	44.7 %	90,483	43.7 %	97	0.1 %
Sales and marketing	18,073	8.9 %	17,295	8.4 %	778	4.5 %
General and administrative	26,389	13.0 %	24,638	11.9 %	1,751	7.1 %
Depreciation and amortization	37,197	18.4 %	49,834	24.1 %	(12,637)	(25.4) %
Employee termination benefits	415	0.2 %	457	0.2 %	(42)	(9.2) %
Restructuring charges	8,294	4.1 %	1,097	0.5 %	7,197	656.1 %
Operating income	180,948	89.3 %	183,804	88.8 %	(2,856)	(1.6) %
Other income (expense), net:						
Interest expense, net	(40,855)	(20.2) %	(30,959)	(15.0) %	(9,896)	32.0 %
Loss on early extinguishment of debt, net	—	— %	(56)	— %	56	(100.0) %
Equity loss in investees	(1,020)	(0.5) %	(125)	(0.1) %	(895)	716.0 %
Other, net	1,124	0.6 %	(896)	(0.4) %	2,020	(225.4) %
Loss before (benefit from) provision for income taxes	(40,751)	(20.1) %	(32,036)	(15.5) %	(8,715)	27.2 %
(Benefit from) provision for income taxes	(18,999)	(9.4) %	(8,831)	(4.3) %	(10,168)	115.1 %
Net loss	(229)	(0.1) %	16,125	7.8 %	(16,354)	(101.4) %
	\$(18,770)	(9.3) %	\$(24,956)	(12.1) %	\$6,186	(24.8) %

Revenues

Revenues decreased \$4.3 million, or 2.1%, to \$202.7 million for the three months ended September 30, 2018 from \$207.0 million for the same period in 2017.

Revenue from Mobile Transaction Services decreased \$16.8 million, or 10.2%, to \$147.8 million for the three months ended September 30, 2018 from \$164.6 million for the same period in 2017. The decrease was primarily attributable to declines across our GSM and CDMA portfolios totaling \$12.6 million, primarily related to pricing reductions in connection with GSM contract renewals and continued reductions in CDMA. We also experienced a decrease in messaging services revenue of \$3.1 million as a result of volume declines in SMS traffic during the period. In addition, revenue from our number portability services was negatively impacted by \$2.7 million as a result of an unexpected rate reduction effective February 1, 2018 that was mandated by the national regulatory authority for these services in India. These declines were partially offset by an increase in our MTS growth products primarily from

growth within our LTE portfolio, which includes our IPX and LTE signaling products, as well as our messaging monetization services that were implemented during the quarter.

Revenue from Enterprise & Intelligence Solutions increased \$12.5 million, or 29.6%, to \$54.9 million for the three months ended September 30, 2018 from \$42.4 million for the same period in 2017. The increase was primarily attributable to a \$12.2 million increase in our Enterprise A2P messaging services, driven by volume growth from our enterprise and OTT customers.

Table of Contents

Costs and Expenses

Costs and expenses decreased \$2.9 million to \$180.9 million for the three months ended September 30, 2018 from \$183.8 million for the same period in 2017.

Cost of operations increased \$0.1 million to \$90.6 million for the three months ended September 30, 2018 from \$90.5 million for the same period in 2017. The table below summarizes our cost of operations by category:

(in thousands)	Three Months Ended September 30,		2018 compared to 2017	
	2018	2017	\$ change	% change
Cost of Operations:				
Headcount and related costs	\$16,679	\$19,532	\$(2,853)	(14.6)%
Variable costs	46,560	38,752	7,808	20.1 %
Data processing, hosting and support costs	15,269	18,327	(3,058)	(16.7)%
Network costs	10,007	11,216	(1,209)	(10.8)%
Other operating related costs	2,065	2,656	(591)	(22.3)%
Cost of Operations	\$90,580	\$90,483	\$97	0.1 %

The decrease in headcount and related costs for the three months ended September 30, 2018 was driven by lower headcount and lower incentive compensation in 2018 compared to the same period in prior year.

Variable costs increased \$7.8 million for the three months ended September 30, 2018 compared to the prior year period. The increase in variable costs was primarily due to higher message termination costs related to volume growth in our enterprise messaging services, partially offset by volume reductions in our MTS messaging services. Other elements of cost of operations for the three months ended September 30, 2018 were lower as a result of a \$1.2 million decrease in network costs mainly due to network optimizations and a \$3.1 million decrease in data processing, hosting and support costs attributed to lower data processing volume and lower support and software maintenance costs in 2018.

As a percentage of revenues, cost of operations was 44.7% and 43.7% for the three months ended September 30, 2018 and 2017, respectively.

Sales and marketing expense increased \$0.8 million to \$18.1 million for the three months ended September 30, 2018 from \$17.3 million for the same period in 2017. The increase was primarily due to higher professional fees related to Syniverse's new brand launch in 2018 compared to the same period in prior year. As a percentage of revenues, sales and marketing expense was 8.9% and 8.4% for the three months ended September 30, 2018 and 2017, respectively.

General and administrative expense increased \$1.8 million to \$26.4 million for the three months ended September 30, 2018 from \$24.6 million for the same period in 2017. The increase in general and administrative expense was primarily due to higher expenses for professional services of approximately \$1.7 million related to legal matters, Syniverse's new brand launch and advisory services associated with entering into the interest rate swaps. As a percentage of revenues, general and administrative expense was 13.0% and 11.9% for the three months ended September 30, 2018 and 2017, respectively.

Depreciation and amortization expense decreased \$12.6 million to \$37.2 million for the three months ended September 30, 2018 from \$49.8 million for the same period in 2017. The decrease was primarily driven by lower amortization of developed technology assets of \$7.0 million that originated with the Carlyle acquisition and became

fully amortized during the period ended March 31, 2018 and \$2.9 million of lower amortization of intangible assets resulting from our pattern of consumption amortization method for customer related intangibles acquired in the Carlyle and MACH acquisitions.

Restructuring charges increased \$7.2 million to \$8.3 million for the three months ended September 30, 2018 from \$1.1 million for the same period in 2017. The increase in restructuring expense was primarily driven by severance costs related to the 2018 restructuring plan. Refer to Note 8 in our unaudited condensed consolidated financial statements for additional details regarding our restructuring plans.

Other Income (Expense), net

Interest expense, net increased \$9.9 million to \$40.9 million for the three months ended September 30, 2018 from \$31.0 million for the same period in 2017. The increase was primarily attributed to an increase in the interest rate spread on the Tranche

Table of Contents

C Term Loans and Second Lien Term Loans following the 2018 Refinancing and higher LIBOR rates in 2018. This increase was partially offset by a lower principal amount of Syniverse Notes outstanding in 2018 as a result of our redemptions and repurchases in 2017.

Other, net increased \$2.0 million to a \$1.1 million gain for the three months ended September 30, 2018 from a \$0.9 million loss for the same period in 2017 primarily due to the foreign currency impact related to the weakening of the pound sterling and the Euro value compared to the US dollar during the three months ended September 30, 2018.

(Benefit from) Provision for Income Taxes

We recorded an income tax benefit of \$0.2 million for the three months ended September 30, 2018, compared to a provision of \$16.1 million for the three months ended September 30, 2017. During the three months ended September 30, 2018 and 2017, the effective tax rate was a benefit of 1.2% and a provision of (182.6)%, respectively. The change in our effective tax rate was chiefly attributable to (i) the impact of the new U.S. base erosion and anti-abuse tax in 2018, (ii) the establishment of a valuation allowance against U.S. deferred tax assets which was first established in Q1 2017, (iii) the impact of the U.S. provisional transition tax offset by the change in valuation allowance, and (iv) the relative mix of earnings and losses in the U.S. versus foreign tax jurisdictions.

Results of Operations - Nine Months Ended September 30, 2018 and 2017

The following table presents an overview of our results of operations for the nine months ended September 30, 2018 and 2017:

(in thousands)	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017		2018 compared to 2017	
	\$	% of Revenues	\$	% of Revenues	\$ change	% change
Revenues:						
Mobile Transaction Services	\$439,229	75.4 %	\$471,196	80.2 %	\$(31,967)	(6.8) %
Enterprise & Intelligence Solutions	142,970	24.6 %	116,168	19.8 %	26,802	23.1 %
Revenues	582,199	100.0 %	587,364	100.0 %	(5,165)	(0.9) %
Costs and expenses:						
Cost of operations (excluding depreciation and amortization shown separately below)	259,531	44.6 %	265,010	45.1 %	(5,479)	(2.1) %
Sales and marketing	54,090	9.3 %	54,059	9.2 %	31	0.1 %
General and administrative	85,370	14.7 %	71,876	12.2 %	13,494	18.8 %
Depreciation and amortization	115,114	19.8 %	145,271	24.7 %	(30,157)	(20.8) %
Employee termination benefits	5,735	1.0 %	609	0.1 %	5,126	841.7 %
Restructuring charges	8,510	1.5 %	5,126	0.9 %	3,384	66.0 %
	528,350	90.8 %	541,951	92.3 %	(13,601)	(2.5) %
Operating income	53,849	9.2 %	45,413	7.7 %	8,436	18.6 %
Other income (expense), net:						
Interest expense, net	(122,348)	(21.0) %	(101,041)	(17.2) %	(21,307)	21.1 %
(Loss) gain on early extinguishment of debt, net	(4,868)	(0.8) %	306	0.1 %	(5,174)	(1,690.8) %
Equity loss in investees	(1,848)	(0.3) %	(639)	(0.1) %	(1,209)	189.2 %
Other, net	1,876	0.3 %	(2,137)	(0.4) %	4,013	(187.8) %
	(127,188)	(21.8) %	(103,511)	(17.6) %	(23,677)	22.9 %
Loss before provision for income taxes	(73,339)	(12.6) %	(58,098)	(9.9) %	(15,241)	26.2 %

Edgar Filing: SYNIVERSE HOLDINGS INC - Form 10-Q

Provision for income taxes	7,485	1.3	%	6,493	1.1	%	992	15.3	%
Net loss	\$(80,824)	(13.9)	%	\$(64,591)	(11.0)	%	\$(16,233)	25.1	%

47

Table of Contents

Revenues

Revenues decreased \$5.2 million, or 0.9%, to \$582.2 million for the nine months ended September 30, 2018 from \$587.4 million for the same period in 2017.

Revenue from Mobile Transaction Services decreased \$32.0 million, or 6.8%, to \$439.2 million for the nine months ended September 30, 2018 from \$471.2 million for the same period in 2017. The decrease was primarily attributable to declines across our GSM and CDMA portfolios totaling \$24.3 million, primarily related to pricing reductions in connection with GSM contract renewals and continued reductions in CDMA. We also experienced a decrease in messaging services revenue of \$8.7 million as a result of volume declines in SMS traffic during the period, which included \$5.6 million related to volume declines attributable to one low margin customer contract. In addition, revenue from our number portability services was negatively impacted by \$7.2 million as a result of an unexpected rate reduction effective February 1, 2018 that was mandated by the national regulatory authority for these services in India. We also experienced declines in certain lower margin non-strategic services that management has de-emphasized. These declines were partially offset by a \$14.5 million increase in our MTS growth products primarily from growth within our LTE portfolio, which includes our IPX and LTE signaling products, as well as growth within our policy and charging solutions and our messaging monetization services that were implemented in 2018.

Revenue from Enterprise & Intelligence Solutions increased \$26.8 million, or 23.1%, to \$143.0 million for the nine months ended September 30, 2018 from \$116.2 million for the same period in 2017. The increase was primarily attributable to a \$26.9 million increase in our Enterprise A2P messaging services, driven by volume growth from our enterprise and OTT customers.

Costs and Expenses

Costs and expenses decreased \$13.6 million to \$528.4 million for the nine months ended September 30, 2018 from \$542.0 million for the same period in 2017.

Cost of operations decreased \$5.5 million to \$259.5 million for the nine months ended September 30, 2018 from \$265.0 million for the same period in 2017. The table below summarizes our cost of operations by category:

(in thousands)	Nine Months Ended		2018 compared to	
	September 30, 2018	September 30, 2017	\$ change	% change
Cost of Operations:				
Headcount and related costs	\$55,156	\$62,042	\$(6,886)	(11.1)%
Variable costs	120,620	106,750	13,870	13.0 %
Data processing, hosting and support costs	47,041	53,612	(6,571)	(12.3)%
Network costs	30,280	33,491	(3,211)	(9.6)%
Other operating related costs	6,434	9,115	(2,681)	(29.4)%
Cost of Operations	\$259,531	\$265,010	\$(5,479)	(2.1)%

The decrease in headcount and related costs for the nine months ended September 30, 2018 was driven by lower headcount and lower incentive compensation in 2018 compared to the same period in prior year.

Variable costs increased \$13.9 million for the nine months ended September 30, 2018 compared to the prior year period. The increase in variable costs was primarily due to higher message termination costs related to volume growth in our enterprise messaging services, partially offset by volume reduction in our MTS messaging services. Other

elements of cost of operations for the nine months ended September 30, 2018 were generally lower as a result of a \$3.2 million decrease in network costs mainly due to network optimizations and a \$6.6 million decrease in data processing, hosting and support costs attributed to lower data processing volume, lower support and software maintenance costs, and lower data center facility costs in 2018. We also incurred lower expenses of \$1.7 million for professional services in 2018.

As a percentage of revenues, cost of operations was 44.6% and 45.1% for the nine months ended September 30, 2018 and 2017, respectively.

Sales and marketing expense in 2018 was consistent with the prior period. As a percentage of revenues, sales and marketing expense was 9.3% and 9.2% for the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

General and administrative expense increased \$13.5 million to \$85.4 million for the nine months ended September 30, 2018 from \$71.9 million for the same period in 2017. The increase in general and administrative expense was primarily due to an increase of \$3.0 million in headcount and related costs mainly attributed to CEO transition costs and higher fringe benefit costs, as well as higher stock compensation expense associated with vesting acceleration, partially offset by lower performance compensation. We also experienced an increase in general and administrative expense as a result of the favorable outcome of a \$3.8 million indirect tax examination in one of our European jurisdictions in 2017 that did not recur in 2018. Additionally, we incurred higher expenses for professional services of approximately \$5.5 million related to various legal and tax matters, Syniverse's new brand launch and advisory services associated with entering into the interest rate swaps. As a percentage of revenues, general and administrative expense was 14.7% and 12.2% for the nine months ended September 30, 2018 and 2017, respectively.

Depreciation and amortization expense decreased \$30.2 million to \$115.1 million for the nine months ended September 30, 2018 from \$145.3 million for the same period in 2017. The decrease was primarily driven by lower amortization of developed technology assets of \$19.7 million that originated with the Carlyle acquisition and became fully amortized during the period ended March 31, 2018 and \$8.0 million of lower amortization of intangible assets resulting from our pattern of consumption amortization method for customer related intangibles acquired in the Carlyle and MACH acquisitions.

Employee termination benefits expense increased \$5.1 million to \$5.7 million for the nine months ended September 30, 2018 from \$0.6 million for the same period in 2017. The increase in employee termination costs was primarily driven by an increase in severance related costs in 2018 which is unrelated to a restructuring plan.

Restructuring charges increased \$3.4 million to \$8.5 million for the nine months ended September 30, 2018 from \$5.1 million for the same period in 2017. The increase in restructuring expense was primarily driven by severance costs related to the 2018 restructuring plan, partially offset by lower severance costs related to the March 2016 and December 2016 restructuring plans and lower data center contract termination costs in 2018 compared to 2017. Refer to Note 8 in our unaudited condensed consolidated financial statements for additional details regarding our restructuring plans.

Other Income (Expense), net

Interest expense, net increased \$21.3 million to \$122.3 million for the nine months ended September 30, 2018 from \$101.0 million for the same period in 2017. The increase was primarily attributed to higher interest rates on our Initial Term Loans and Tranche B Term Loans prior to the 2018 Refinancing in March 2018 and an increase in the interest rate spread on the Tranche C Term Loans and Second Lien Term Loans following the 2018 Refinancing and higher LIBOR rates in 2018. This increase was partially offset by a lower principal amount of Syniverse Notes outstanding in 2018 as a result of our redemptions and repurchases in 2017 and a decrease in debt modification costs for the nine months ended September 30, 2018 compared to the same period in the prior year.

(Loss) gain on early extinguishment of debt, net was a \$4.9 million loss for the nine months ended September 30, 2018 compared to a 0.3 million gain for the same period in 2017. The increased in these costs were associated with the 2018 Refinancing completed on March 9, 2018. Refer to Note 6 in our unaudited condensed consolidated financial statements for additional details.

Other, net increased \$4.0 million to a \$1.9 million gain for the nine months ended September 30, 2018 from a \$2.1 million loss for the same period in 2017 primarily due to the foreign currency impact related to the weakening of the pound sterling and the Euro value compared to the US dollar during the nine months ended September 30, 2018.

Provision for Income Taxes

We recorded an income tax provision of \$7.5 million for the nine months ended September 30, 2018, compared to a provision of \$6.5 million for the nine months ended September 30, 2017. During the nine months ended September 30, 2018 and 2017, the effective tax rate was a provision of (10.2)% and a provision of (11.2)%, respectively. The change in our effective tax rate was chiefly attributable to (i) the impact of the new U.S. base erosion and anti-abuse tax in 2018, (ii) the establishment of a valuation allowance against U.S. deferred tax assets which was first established in Q1 2017, (iii) the impact of the U.S. provisional transition tax offset by the change in valuation allowance, and (iv) the relative mix of earnings and losses in the U.S. versus foreign tax jurisdictions.

Table of Contents

Liquidity and Capital Resources

Our operations are conducted almost entirely through our subsidiaries and our ability to generate cash to meet our debt service obligations is highly dependent on the earnings and the receipt of funds from our subsidiaries via dividends or intercompany loans.

Our primary sources of liquidity are expected to be cash flow from operations as well as funds available under the New Extended Revolving Credit Facility and we believe that we have sufficient liquidity to meet our currently anticipated business needs, including short and long-term capital expenditures and working capital requirements. In addition, we believe that our liquidity is sufficient to fund our debt repayment obligations. Our ability to make payments on our indebtedness will depend on our ability to generate cash flow from operating activities in the future. Our indebtedness requires us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to fund acquisitions, working capital, capital expenditures, research and development efforts and other general corporate purposes. Annually, as required pursuant to the Excess Cash Flow provision of the Credit Agreement (as defined below), we are required to make a mandatory principal payment on our New Credit Facilities equal to 50% of the Excess Cash Flow as defined in the Credit Agreement and determined as of December of each year. As of September 30, 2018, approximately 41% of our cash and cash equivalents were held by our foreign subsidiaries. Our New Extended Revolving Credit Facility requires that we comply with the financial maintenance covenant on a pro forma basis to receive extensions of credit under the facility.

We may from time to time seek to prepay, repurchase or otherwise retire or extend our debt or debt securities, including the Syniverse Notes and/or take other steps to reduce our debt or otherwise improve our financial position. These actions may include open market debt repurchases, privately negotiated repurchases, other retirements of outstanding debt, and/or opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired or refinanced, if any, will depend on market conditions and prices, our cash position, contractual restrictions, including compliance with debt covenants and other considerations. Our affiliates may also purchase our debt or debt securities from time to time, through open market purchases or other transactions. In such cases, our debt may not be retired, in which case we would continue to pay interest in accordance with the terms of the debt, and we would continue to reflect the debt as outstanding in our condensed consolidated financial statements.

We believe that our cash on hand, together with cash flow from operations and our revolving credit facility, will be sufficient to meet our cash requirements for the next twelve months. To the extent we require supplemental funding for our operating activities, we may need access to the debt and equity markets; however, there can be no assurances such funding will be available on acceptable terms or at all.

Cash Flow

Cash, cash equivalents and restricted cash were \$77.0 million at September 30, 2018 as compared to \$128.7 million at December 31, 2017. The following table summarizes the activity within our unaudited condensed consolidated statements of cash flows.

(in thousands)	Nine Months Ended	
	September 30,	
	2018	2017
Net cash provided by operating activities	\$61,172	\$86,478
Net cash used in investing activities	(46,648)	(50,167)
Net cash used in financing activities	(63,392)	(55,797)
Effect of exchange rate changes on cash	(2,834)	4,050
Net decrease in cash, cash equivalents and restricted cash	\$(51,702)	\$(15,436)

Net cash provided by operating activities was \$61.2 million for the nine months ended September 30, 2018 as compared to \$86.5 million for the same period in 2017. The decrease of \$25.3 million was primarily driven by:

- a decrease in cash flows from operating activities primarily attributable to net loss adjusted for non-cash items excluding allowance for credit memos and uncollectible accounts in the consolidated statements of cash flows, for the amount of \$44.3 million in 2018 as compared to the same period in 2017. This decrease was substantially driven by a \$23.0 million

Table of Contents

increase in interest payments due to higher interest rate spread on our Tranche C Term Loans and Second Lien Term Loans following the 2018 Refinancing and higher LIBOR rates in 2018;

The decrease was partially offset by:

a \$23.1 million change on accounts payable due to a \$18.6 million increase in 2018 compared to a \$4.5 million decrease in 2017, mainly attributable to improved timing of payments to vendors in 2018 compared to the same period in prior year.

Net cash used in investing activities was \$46.6 million for the nine months ended September 30, 2018 as compared to \$50.2 million for the same period in 2017. The decrease was primarily associated with a decrease in capacity and network infrastructure costs, partially offset by an increase in security costs.

Net cash used in financing activities was \$63.4 million for the nine months ended September 30, 2018 as compared to \$55.8 million for the same period in 2017. The increase of \$7.6 million was primarily due to:

debt modification payments of \$40.4 million associated with the 2018 Refinancing that was completed in March 2018, as compared to debt modification payments of \$9.8 million associated with the debt exchange offer in 2017;

The increase was partially offset by:

a net decrease in principal payments on long-term debt of \$16.5 million in 2018 as compared to the same period in 2017; and

decreased payments on capital lease obligations of \$7.6 million in 2018 as compared to the same period in 2017.

Debt and Credit Facilities

Senior Credit Facilities

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

On June 28, 2013, the Company borrowed \$700.0 million of incremental term loans (the "Tranche B Term Loans"), pursuant to the Incremental Amendment to the Credit Agreement. The proceeds of the Tranche B Term Loans were used to refinance indebtedness used to fund the MACH Acquisition.

On September 23, 2013, the Company entered into the Second Amendment to the Credit Agreement. Under the Second Amendment, the rate at which the Initial Term Loans under the Credit Agreement bear interest was amended to reduce (i) the margin for Eurodollar rate loans from 3.75% to 3.00%, (ii) the margin for base rate loans from 2.75% to 2.00%, (iii) the Eurodollar rate floor from 1.25% to 1.00% and (iv) the base rate floor from 2.25% to 2.00%.

On April 14, 2017, we entered into an amendment to the Credit Agreement to, among other things, (i) extend the scheduled maturity date of the revolving credit commitments, (ii) make certain modifications to the financial maintenance covenant, and (iii) provide for a flat commitment fee payable to each revolving credit lender of 0.50%. In addition, in connection with the Amendment, we reduced the aggregate revolving credit commitments from \$150.0

million to \$85.6 million and the letter of credit sublimit from \$50.0 million to \$40.0 million.

First Lien Credit Facility

On March 9, 2018 (the “Closing Date”), we completed the refinancing of our Old First Lien Credit Facility with the fifth amendment to the Old First Lien Credit Facility. The New First Lien Credit Facility, among other things, (i) extends the scheduled maturity date of the Revolving Credit Facility, by converting the Revolving Credit Facility into a new tranche of revolving credit commitments, (ii) provides for a new tranche of term loans “C” in an aggregate principal amount of \$1,702

Table of Contents

million (the “Tranche C Term Loans”), (iii) amends the Old First Lien Credit Facility to, among other things, permit incurrence of the Tranche C Term Loans and the Second Lien Term Loans (as defined below) and (iv) further amends certain terms and conditions of the Old First Lien Credit Facility and the security agreement and guarantees entered into in connection therewith.

Proceeds of the Tranche C Term Loans, together with proceeds of the Second Lien Term Loans and cash on hand, were used to (i) prepay in full the Initial Term Loans and the Tranche B Term Loans, in each case, under and as defined in the Old First Lien Credit Facility, (ii) satisfy and discharge the SFHC Notes and the SFHC Indenture (each, as defined below) and redeem in full the SFHC Notes and (iii) pay interest, premiums, costs, fees and expenses in connection with the foregoing. The New Extended Revolving Credit Facility replaced the Revolving Credit Facility in its entirety. The New Extended Revolving Credit Facility will be used to finance the working capital needs of the company and for general corporate purposes.

The New Extended Revolving Credit Facility will mature on December 9, 2022 and the Tranche C Term Loans will mature on March 9, 2023.

Beginning with the end of the first full fiscal quarter commencing after the Closing Date, the Tranche C Term Loans began amortizing in equal quarterly installments in an amount equal to 0.25% per quarter of the original principal amount thereof, with the remaining balance due at final maturity.

The Company may voluntarily prepay the Tranche C Term Loans, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty, except that prepayments and certain refinancings of, and certain replacements of lenders under, the Tranche C Term Loans on or prior to the six month anniversary of the Closing Date, in each case, in connection with a repricing event, will be subject to a prepayment premium of 1.0% of the principal amount so prepaid, refinanced or replaced. The Company must prepay the Tranche C Term Loans with the net cash proceeds of asset sales, casualty and condemnation events, the incurrence or issuance of indebtedness (other than indebtedness permitted to be incurred under the New First Lien Credit Facility unless specifically incurred to refinance a portion of the Tranche C Term Loans) and, for the year ended December 31, 2018 and thereafter, 50% of excess cash flow (such percentage to be subject to a reduction to 25% on the achievement of a net first lien leverage ratio of less than 3.75:1.0 and a further reduction to zero on the achievement of a net first lien leverage ratio of less than 2.75:1.0), in each case, subject to certain reinvestment rights and other exceptions, including for the ratable prepayment or redemption of pari passu indebtedness, as well as the right of the lenders to decline certain prepayments.

Borrowings under the New Extended Revolving Credit Facility and the Tranche C Term Loans bear interest at a floating rate which can be, at the Company’s option, either (i) a Eurodollar borrowing rate for a specified interest period plus an applicable margin or, (ii) an alternative base rate plus an applicable margin, subject to, a base rate floor of 0.00%, and in the case of the Tranche C Term Loans, a Eurodollar rate floor of 1.00%. The applicable margin for borrowings under the New Extended Revolving Credit Facility ranges from 4.50% to 5.00% per annum for Eurodollar loans and from 3.50% to 4.00% per annum for base rate loans and is determined by reference to a pricing grid based on the Company’s consolidated net first lien leverage ratio. The applicable margin for the Tranche C Term Loans is 5.00% per annum for Eurodollar loans and 4.00% per annum for base rate loans.

The following fees are applicable under the New Extended Revolving Credit Facility: (i) an unused line fee of 0.50% per annum, subject to an adjustment to 0.375% per annum based on a net first lien leverage ratio of 4.00:1.00, (ii) a letter of credit participation fee on the aggregate stated amount of each letter of credit available to be drawn equal to the applicable margin for Eurodollar rate loans under the New Extended Revolving Credit Facility, (iii) a letter of credit fronting fee equal to 0.125% per annum on the daily amount of each letter of credit available to be drawn and (iv) certain other customary fees and expenses payable to letter of credit issuers.

The Company's obligations under the New Extended Revolving Credit Facility and the Tranche C Term Loans are guaranteed by the same guarantors, and secured by the same assets, that guaranteed and secured the Revolving Credit Facility and the Old First Lien Credit Facility.

The New First Lien Credit Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are subject to customary exceptions and limited to the following: limitations on the incurrence of debt, liens, fundamental changes, restrictions on subsidiary distributions, transactions with affiliates, further negative pledge, asset sales, restricted equity and debt payments, investments and acquisitions, repayment of certain debt in the event of a change of control, amendments of certain debt documents and the activities of Buccaneer Holdings, LLC.

Table of Contents

There are no financial covenants included in the New First Lien Credit Facility other than a springing maximum net first lien leverage ratio of (i) 6.50:1.00 for the fiscal quarters ended on June 30, 2018 and September 30, 2018 and (ii) 6.25:1.00 for the fiscal quarter ended on December 31, 2018 and each fiscal quarter ended thereafter, which is tested only for the benefit of the revolving lenders and only (x) commencing with the first full fiscal quarter of the Company after the Closing Date, when, at the end of any fiscal quarter, any revolving loans, any swing line loans or any letter of credit obligations (excluding undrawn letters of credit not in excess of \$10.0 million in the aggregate and any letters of credit which are cash collateralized to at least 105.0% of their maximum stated amount) are outstanding and (y) upon an extension of credit under the New Extended Revolving Credit Facility in the form of the making of a revolving loan or a swing line loan, or the issuance of a letter of credit.

The New First Lien Credit Facility provides that, upon the occurrence of certain events of default, the Company's obligations thereunder may be accelerated and the lending commitments terminated. Such events of default include payment defaults to the lenders, material inaccuracies of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, voluntary and involuntary bankruptcy proceedings, material money judgments, material ERISA/pension plan events, certain change of control events and other customary events of default. The events of default are subject to exceptions and cure rights.

As of September 30, 2018, the aggregate principal amount of our outstanding indebtedness under Tranche C Term Loans and Second Lien Term Loans, was \$1,693.5 million and \$220.0 million, respectively. As of December 31, 2017, the aggregate principal amount of our outstanding indebtedness under the Initial Term Loans and Tranche B Term Loans, was \$890.0 million and \$662.4 million, respectively.

At September 30, 2018, there were no borrowings outstanding under the New Extended Revolving Credit Facility.

During the quarter ended September 30, 2018, we entered into three interest rate swaps with a total notional amount of \$1.2 billion to manage our exposure to variable interest rates on our Tranche C terms loans. The interest rate swaps effectively cap interest on a portion of our floating rate debt obligations.

Second Lien Credit Facility

On the Closing Date, the Company entered into a second lien credit agreement (the "Second Lien Credit Agreement"). The Second Lien Credit Agreement established the New Second Lien Credit Facility in an aggregate principal amount of \$220 million. Proceeds of the term loans under the New Second Lien Credit Facility (the "Second Lien Term Loans"), together with proceeds of the Tranche C Term Loans and cash on hand, were used to fund the 2018 Refinancing. The Second Lien Term Loans will mature on March 11, 2024 and have no scheduled amortization prior to maturity.

The Company's obligations under the New Second Lien Credit Facility will be guaranteed by Buccaneer Holdings, LLC and certain subsidiary guarantors, which is junior to the lien securing facilities under the New First Lien Credit Facility.

The Company may voluntarily prepay the Second Lien Term Loans, in whole or in part, subject to minimum amounts, with prior notice but without premium or penalty, except that prepayments and certain refinancings of the Second Lien Term Loans and certain amendments or replacements of lenders under the Second Lien Term Loans in connection with a repricing event, in each case, prior to the third anniversary of the Closing Date will be subject to a prepayment premium as follows: (i) 3% of the aggregate principal amount of the Second Lien Term Loans so prepaid, refinanced, amended or replaced prior to the first anniversary of the Closing Date, (ii) 2% of the aggregate principal amount of the Second Lien Term Loans so prepaid, refinanced, amended or replaced on or after the first anniversary of the Closing Date but prior to the second anniversary of the Closing date and (iii) 1% of the aggregate principal

amount of the Second Lien Term Loans so prepaid, refinanced, amended or replaced on or after the second anniversary of the Closing Date but prior to the third anniversary of the Closing date. The Company must prepay the Second Lien Term Loans with the net cash proceeds of asset sales, casualty and condemnation events, the incurrence or issuance of indebtedness (other than indebtedness permitted to be incurred under the New First Lien Credit Facility unless specifically incurred to refinance a portion of the Second Lien Term Loans) and, for the year ended December 31, 2018 and thereafter, 50% of excess cash flow (such percentage to be subject to a reduction to 25% on the achievement of a net senior secured leverage ratio of less than 5.25:1.0 and a further reduction to zero on the achievement of a net senior secured leverage ratio of less than 4.25:1.0), in each case, subject to credit for voluntary prepayment or redemption of the New First Lien Credit Facility and other senior priority indebtedness, certain reinvestment rights and other exceptions, including for the ratable prepayment or redemption of pari passu indebtedness, as well as the right of the lenders to decline certain prepayments. Until Discharge of Senior Obligations under, and as defined in, the Intercreditor Agreement, no mandatory prepayments of the Second Lien Term Loans with the net cash from asset sales, casualty and condemnation events and excess cash flow will be

Table of Contents

required, except to the extent of the respective mandatory prepayments under the New First Lien Credit Facility or other senior priority indebtedness declined by the lenders thereunder and only to the extent permitted thereunder.

Borrowings under the Second Lien Term Loans bear interest at a floating rate which can be, at the Company's option, either (i) a Eurodollar borrowing rate for a specified interest period plus an applicable margin or, (ii) an alternative base rate plus an applicable margin, subject to a Eurodollar rate floor of 1.00% or a base rate floor of 0.00%, as applicable. The applicable margin for the Second Lien Term Loans is 9.00% per annum for Eurodollar loans and 8.00% per annum for base rate loans.

The Second Lien Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are subject to customary exceptions and limited to the following: limitations on the incurrence of debt, liens, fundamental changes, restrictions on subsidiary distributions, transactions with affiliates, further negative pledge, asset sales, restricted equity and debt payments, investments and acquisitions, repayment of certain debt in the event of a change of control, amendments of certain debt documents and the activities of Buccaneer Holdings, LLC.

There are no financial covenants included in the New Second Lien Credit Facility.

The Second Lien Credit Agreement provides that, upon the occurrence of certain events of default, the Company's obligations thereunder may be accelerated and the lending commitments terminated. Such events of default include payment defaults to the lenders, material inaccuracies of representations and warranties, covenant defaults, cross-payment defaults and cross-acceleration to other material indebtedness, voluntary and involuntary bankruptcy proceedings, material money judgments, material ERISA/pension plan events, certain change of control events and other customary events of default. The events of default are subject to exceptions and cure rights.

Senior Notes

Syniverse Notes

On December 22, 2010, we issued \$475.0 million Syniverse Notes bearing interest at 9.125% that will mature on January 15, 2019. Interest on the notes is paid on January 15 and July 15 of each year. On January 11, 2017 pursuant to the Exchange Offer, \$369.5 million of Syniverse Notes were cancelled. On April 25, 2017 and September 18, 2017, we repurchased \$16.0 million and \$7.7 million aggregate principal amount of the Syniverse Notes, respectively, and submitted them to Wilmington Trust, National Association, as trustee, for cancellation. On December 29, 2017, we redeemed an additional \$40.0 million aggregate principal amount of the Syniverse Notes. Pursuant to the indenture governing the Syniverse Notes, the Syniverse Notes were redeemed at 100% of the principal amount, plus accrued and unpaid interest. Following the Exchange Offer, the partial repurchases and the redemption, \$41.7 million aggregate principal amount of the Syniverse Notes remains outstanding at September 30, 2018.

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

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

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

We incurred financing fees of \$20.4 million in connection with the issuance of the Syniverse Notes which have been amortized over the term of the notes using the effective interest method.

SFHC Notes

Table of Contents

On January 11, 2017, pursuant to the Exchange Offer, SFHC, our wholly-owned subsidiary, issued \$369.5 million of SFHC Notes bearing interest at 9.125% per annum with a maturity date of January 15, 2022, and a like amount of Syniverse Notes were cancelled. We incurred debt modification fees of \$9.8 million in connection with the Exchange Offer in the period ended March 31, 2017 which was recorded in Interest expense in the accompanying condensed consolidated statements of operations. On March 12, 2018, the SFHC Notes were redeemed in full in connection with the 2018 Refinancing.

Non-GAAP Financial Measures

Adjusted EBITDA and Free Cash Flow are not presentations made in accordance with U.S. GAAP. Adjusted EBITDA and Free Cash Flow should not be considered as alternatives to net loss, operating income, revenues or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance or operating cash flows or liquidity. We believe that Adjusted EBITDA and Free Cash Flow are measures commonly used by investors to evaluate our performance and that of our competitors. We further believe that the disclosure of Adjusted EBITDA and Free Cash Flow is useful to investors, as these non-GAAP measures form the basis of how our executive team and Board of Directors evaluate our performance. By disclosing these non-GAAP measures, we believe that we create for investors a greater understanding of, and an enhanced level of transparency into, some of the means by which our management team operates and evaluates our Company and facilitates comparisons of the current period's results with those of prior periods.

In addition, these non-GAAP measures may not be comparable to other similarly titled measures of other companies in our industry or otherwise. Because of these limitations, Adjusted EBITDA and Free Cash Flow should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We attempt to compensate for these limitations by relying primarily upon our U.S. GAAP results and using Adjusted EBITDA and Free Cash Flow as supplemental information only.

Adjusted EBITDA and Free Cash Flow have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under U.S. GAAP. For example, some of the limitations of Adjusted EBITDA are as follows:

- excludes certain tax payments or the cash requirements necessary to service interest or principal payments on our debt that may represent a reduction in cash available to us;
- does not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;
- does not reflect cash outlays for future contractual commitments;
- does not reflect changes in, or cash requirements for, our working capital needs; and
- does not reflect the significant interest expense on our debt.

Adjusted EBITDA is determined by adding the following items to net loss: other expense, net; provision for income taxes; depreciation and amortization; employee termination benefits; restructuring charges; non-cash stock-based compensation; business development, integration and other expenses; and the Carlyle annual management fee including related expenses.

We believe that Adjusted EBITDA is a useful financial metric to assess our operating performance from period to period by excluding certain items that we believe are not representative of our core business. We rely on Adjusted EBITDA as a primary measure to review and assess the operating performance of our management team in connection with our executive compensation and bonus plans. We also review Adjusted EBITDA to compare our current operating results with prior periods and with the operating results of other companies in our industry. In addition, we utilize Adjusted EBITDA as an assessment of our overall liquidity and our ability to meet our debt service obligations. Adjusted EBITDA is also a measure calculated in accordance with our Credit Agreement and used under the indenture governing the Syniverse Notes; however, the credit agreement governing the New Credit Facilities and the indenture governing the Syniverse Notes permit us to make certain additional adjustments, such as projected cost savings, unusual or non-recurring charges, and pro forma EBITDA and anticipated synergies from acquisitions, which are not reflected in the Adjusted EBITDA data presented herein.

Table of Contents

Reconciliation of Non-GAAP Measures to GAAP

A reconciliation of Syniverse Holdings, Inc. net loss, the closest GAAP measure, to Adjusted EBITDA is presented in the following table:

(in thousands)	Three Months Ended	
	September 30,	
	2018	2017
Reconciliation to Adjusted EBITDA		
Net loss	\$(18,770)	\$(24,956)
Other expense, net	40,751	32,036
(Benefit from) provision for income taxes	(229)	16,125
Depreciation and amortization	37,197	49,834
Employee termination benefits (a)	415	457
Restructuring (b)	8,294	1,097
Non-cash stock-based compensation (c)	4,077	3,563
Business development, integration and other expenses (d)	1,650	308
Consulting fee and related expenses (e)	780	845
Adjusted EBITDA	\$74,165	\$79,309
	Nine Months Ended	
	September 30,	
	2018	2017
Reconciliation to Adjusted EBITDA		
Net loss	\$(80,824)	\$(64,591)
Other expense, net	127,188	103,511
Provision for income taxes	7,485	6,493
Depreciation and amortization	115,114	145,271
Employee termination benefits (a)	5,735	609
Restructuring (b)	8,510	5,126
Non-cash stock-based compensation (c)	12,417	11,209
Business development, integration and other expenses (d)	6,906	5,026
Consulting fee and related expenses (e)	2,326	2,401
Adjusted EBITDA	\$204,857	\$215,055

(a) Reflects employee termination benefits expense which represents severance and other employee related costs that are unrelated to a restructuring plan.

(b) Reflects restructuring expense which represents costs related to certain exit activities such as involuntary termination costs and contract termination costs associated with a restructuring plan.

(c) Reflects non-cash expenses related to equity compensation awards.

(d) Reflects items associated with business development activities; integration activities, such as incremental contractor, travel and marketing costs; and other expenses such as certain advisory services, employee retention costs, CEO transition costs and certain data center migration costs.

(e) Reflects management fees paid to Carlyle and related expenses pursuant to a consulting agreement with Carlyle.

Free Cash Flow is defined as net cash provided by operating activities less capital expenditures.

We believe that Free Cash Flow is a useful financial metric to assess our ability to pursue opportunities to enhance our growth. We also use Free Cash Flow as a measure to review and evaluate the operating performance of our management team in connection with our executive compensation and bonus plans. Additionally, we believe this is a useful metric for investors to assess our ability to repay debt.

Table of Contents

A reconciliation of Syniverse Holdings, Inc. net cash provided by operating activities, the closest GAAP measure, to Free Cash Flow is presented in the following table:

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Reconciliation to Free Cash Flow		
Net cash provided by operating activities, as reported	\$61,172	\$86,478
Impact of adoption of ASC 2016-18 ⁽¹⁾	—	22
Net cash provided by operating activities	61,172	86,500
Capital expenditures	(46,648)	(50,167)
Free Cash Flow	\$14,524	\$36,333

⁽¹⁾ ASU 2016-18, Restricted Cash, was adopted on January 1, 2018 and adjustments were applied retrospectively to all periods presented. Refer to Note 3.

Off-Balance Sheet Arrangements

We provide financial settlement services to MNOs 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 MNOs. These funds and the corresponding liability are not reflected in our condensed consolidated balance sheets. The off-balance sheet amounts totaled approximately \$281.8 million and \$372.3 million as of September 30, 2018 and December 31, 2017, respectively.

We have also used off-balance sheet financing in recent years primarily in the form of operating leases for facility space and equipment and we expect to continue these practices. We do not use any other type of joint venture or special purpose entities that would create off-balance sheet financing. We believe that our decision to lease office space is similar to that used by many other companies of our size. We intend to continue to enter into operating leases for facilities and equipment as these leases expire or additional capacity is required.

Related Party Transactions**Arrangements with Carlyle**

On January 13, 2011, we entered into a ten-year consulting agreement with Carlyle under which we pay Carlyle a fee for consulting services Carlyle provides to us and our subsidiaries. During the three and nine months ended September 30, 2018, we recorded \$0.8 million and \$2.4 million, respectively, of expenses associated with the consulting fee and the reimbursement of out-of-pocket expenses. During the three and nine months ended September 30, 2017, we recorded \$0.8 million and \$2.4 million, respectively, of expenses associated with the consulting fee and the reimbursement of out-of-pocket expenses.

Carlyle, from time to time, participates as a debt holder within the syndicate under our Term Loans. As of September 30, 2018, Carlyle held \$52.7 million of our Tranche C Term Loans. As of December 31, 2017, Carlyle held \$19.4 million and \$24.4 million of our Initial Term Loans and Tranche B Term Loans, respectively.

From time to time, and in the ordinary course of business we may engage other Carlyle portfolio companies as service providers and other Carlyle portfolio companies may engage us as a service provider. Revenues and expenses associated with these related parties were not material during the three and nine months ended September 30, 2018 and 2017.

Contractual Obligations

There have been no material changes to our Contractual Obligations disclosure as filed in our Annual Report on Form 10-K for the year ended December 31, 2017. Refer to Note 6, Debt and Credit Facilities, for a discussion on debt related transactions during the period.

Critical Accounting Policies and Estimates

The preparation of our unaudited condensed consolidated financial statements and related disclosures in conformity with U.S. GAAP requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues

and expenses. We consider an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances.

There have been no material changes to our Critical Accounting Policies and Estimates disclosure as filed in our Annual Report on Form 10-K for the year ended December 31, 2017, except as discussed in Note 3. Recent Accounting Pronouncements of our unaudited condensed consolidated financial statements in relation to revenue recognition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Market Risk

We have exposure to fluctuations in interest rates on our New Credit Facilities. Our New Credit Facilities are subject to variable interest rates dependent upon the Eurodollar rate floor. Under the New Credit Facilities, the Eurodollar rate floor is 1.00% and the base rate floor is 0.00% as of September 30, 2018. Interest rate changes therefore generally do not affect the fair value of such debt but do impact the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. As of September 30, 2018, a one-percent change in assumed interest rates on our term loans that are subject to variable rates, considering the impact of our interest rate swaps, would result in \$7.1 million of additional annual interest expense.

Foreign Currency Market Risk

Although the majority of our operations are conducted in U.S. dollars, a portion of our foreign operations are conducted in Euros and Great British Pounds. On a less significant basis, we conduct operations in the various currencies of the Asia-Pacific region, Canada and Latin America. Consequently, a portion of our revenues and expenses are affected by fluctuations in foreign currency exchange rates. We are also affected by fluctuations in exchange rates on assets and liabilities related to our foreign operations. We have not hedged our foreign currency exposure through the use of derivative instruments.

A 10% change in average foreign currency rates against the U.S. dollar during the nine months ended September 30, 2018 would have increased or decreased our revenues and net loss by approximately \$10.1 million and \$0.3 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

Our management, including our principal executive officer and principal financial officer, concluded an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of September 30, 2018. Based on the evaluation, as of September 30, 2018, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

Table of Contents

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently a party to various claims and legal actions that arise in the ordinary course of business. We believe such claims and legal actions, individually and in the aggregate, will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying important factors that could cause actual results to differ materially from those anticipated, see the discussion of risk factors disclosed under the caption "Risk Factors" in our 2017 Annual Report on Form 10-K. There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No. Description

*31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.

*31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.

**32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer.

**32.2 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer.

101 The following financial information from Syniverse Holdings, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2018, filed with the SEC, formatted in Extensible Business Reporting Language (XBRL): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Comprehensive Loss, (iv) the Unaudited Condensed Consolidated Statement of Changes in Stockholder Equity, (v) the Unaudited Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.

Notes:

* Filed herewith

** Furnished herewith

Table of Contents

SIGNATURES

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

SYNIVERSE HOLDINGS, INC.

By: /s/ ROBERT F. REICH

Robert F. Reich

Executive Vice President and Chief Financial Officer

Date: November 7, 2018