

SYNIVERSE HOLDINGS INC
Form 10-Q
May 12, 2008
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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 March 31, 2008

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-32432

333-88168

SYNIVERSE HOLDINGS, INC.

SYNIVERSE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

30-0041666
06-1262301
(I.R.S. Employer
Identification No.)

8125 Highwoods Palm Way

Tampa, Florida 33647

(Address of principal executive office)

(Zip code)

(813) 637-5000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

Shares Outstanding as of May 7, 2008

Syniverse Holdings, Inc.: 68,317,912 shares of common stock, \$0.001 par value

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

all of which are owned by Syniverse Holdings, Inc.

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	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash	\$ 64,525	\$ 49,086
Accounts receivable, net of allowances of \$927 and \$762, respectively	84,244	79,378
Prepaid and other current assets	16,091	12,240
Total current assets	164,860	140,704
Property and equipment, net	43,084	43,856
Capitalized software, net	62,833	62,615
Deferred costs, net	10,343	10,786
Goodwill	630,249	616,304
Identifiable intangibles, net	231,104	232,023
Other assets	2,507	1,262
Total assets	\$ 1,144,980	\$ 1,107,550
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,077	\$ 5,006
Accrued payroll and related benefits	11,968	12,016
Accrued interest	1,792	5,910
Deferred revenues	4,511	5,327
Other accrued liabilities	31,889	34,789
Current portion of Term Note B	3,585	3,459
Total current liabilities	58,822	66,507
Long-term liabilities:		
Deferred tax liabilities	57,579	43,587
7 ³ / ₄ % senior subordinated notes due 2013	175,000	175,000
Term Note B, less current maturities	353,097	344,476
Other long-term liabilities	7,241	7,188
Total long-term liabilities	592,917	570,251

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Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 300,000 shares authorized; no shares issued		
Common stock, \$0.001 par value; 100,300,000 shares authorized; 68,711,605 shares issued and 68,319,607 shares outstanding and 68,683,075 shares issued and 68,302,956 shares outstanding at March 31, 2008 and December 31, 2007, respectively		
	68	68
Additional paid-in capital	464,804	463,711
Retained earnings	20,240	4,851
Accumulated other comprehensive income	8,159	2,191
Common stock held in treasury, at cost; 391,998 and 380,119 at March 31, 2008 and December 31, 2007, respectively	(30)	(29)
Total stockholders' equity	493,241	470,792
Total liabilities and stockholders' equity	\$ 1,144,980	\$ 1,107,550

See Notes to Condensed Unaudited Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2008	2007
Revenues	\$ 115,645	\$ 84,378
Costs and expenses:		
Cost of operations (excluding depreciation and amortization shown separately below)	37,978	33,441
Sales and marketing	10,754	6,812
General and administrative	18,142	13,987
Depreciation and amortization	13,633	10,279
Restructuring	17	1,782
	80,524	66,301
Operating income	35,121	18,077
Other income (expense), net:		
Interest income	430	436
Interest expense	(9,720)	(6,060)
Other, net	57	53
	(9,233)	(5,571)
Income before provision for income taxes	25,888	12,506
Provision for income taxes	10,495	4,860
Net income	\$ 15,393	\$ 7,646
Net income per common share:		
Basic	\$ 0.23	\$ 0.11
Diluted	\$ 0.23	\$ 0.11
Weighted average common shares outstanding:		
Basic	67,509	67,221
Diluted	67,909	67,353

See Notes to Condensed Unaudited Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities		
Net income	\$ 15,393	\$ 7,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including amortization of deferred debt issuance costs	14,076	10,496
Provision for uncollectible accounts	169	78
Deferred income tax expense	8,760	3,432
Stock-based compensation	1,077	486
Loss on disposition of property		294
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(4,535)	1,207
Other current assets	(3,546)	(2,578)
Accounts payable	9	(1,690)
Other current liabilities	(8,178)	2,055
Other assets and liabilities	37	(396)
Net cash provided by operating activities	23,262	21,030
Cash flows from investing activities		
Capital expenditures	(7,341)	(9,589)
Acquisition of BSG Wireless	(767)	
Acquisition of ITHL		(735)
Net cash used in investing activities	(8,108)	(10,324)
Cash flows from financing activities		
Principal payments on senior credit facility	(891)	(348)
Employee stock purchase plan	3	
Stock options exercised	194	16
Minimum tax withholding on restricted stock awards	(181)	(80)
Purchase of treasury stock	(1)	(1)
Net cash used in financing activities	(876)	(413)
Effect of exchange rate changes on cash	1,161	54
Net increase in cash	15,439	10,347
Cash at beginning of period	49,086	26,704
Cash at end of period	\$ 64,525	\$ 37,051
Supplemental cash flow information		
Interest paid	\$ 13,351	\$ 9,252
Income taxes paid	1,510	

See Notes to Condensed Unaudited Consolidated Financial Statements

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SYNIVERSE HOLDINGS, INC.

NOTES TO CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(AMOUNTS IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

1. Business

We are a leading enabler of wireless voice and data services for telecommunications companies worldwide. For over 20 years, we have served a critical role as one of the wireless industry's only operator-neutral intermediaries, solving the challenges that arise as new technologies, standards and protocols emerge. Our mission-critical data clearinghouse, network and technology services solve technical and operational challenges for the wireless industry by translating incompatible communication standards and protocols and simplifying operator interconnectivity. Our fully-integrated suite of transaction-based services allows operators to deliver seamless voice, data and next generation services to wireless subscribers, including roaming, Short Message Service (SMS), Multimedia Messaging Services (MMS), caller ID, number portability and wireless video services. We provide our services to more than 500 operators in over 100 countries. The majority of our revenues are transaction-based and derived from long-term contracts, typically averaging three years in duration.

On February 10, 2005, we completed an initial public offering of 17,620,000 shares of common stock at a price of \$16.00 per common share. The net proceeds of the offering of \$260,966, after deducting underwriting discounts, commissions and expenses, along with \$240,000 received from our credit facility, were used primarily to redeem 124,876 shares of our class A cumulative redeemable preferred stock and tender for \$85,750 of our 12^{3/4}% senior subordinated notes due 2009 and repay and terminate our previous senior credit facility.

On June 16, 2006, we acquired the capital stock of Perfect Profits International (PPIL), which comprises the Interactive Technologies Holdings Limited business (ITHL), from Interactive Technologies Holdings Limited for \$45,747 in cash including working capital adjustments and earn-out to the sellers of \$6,894, which was paid in April 2007. Additionally, in connection with the acquisition, we incurred \$1,106 in acquisition related costs. Headquartered in Hong Kong, ITHL is a leading provider of value-added services to operators in the Asia Pacific region. We believe the acquisition expands our footprint in the Asia Pacific region and adds a complementary customer base, new products, advanced development capabilities and in-region customer support.

2. Basis of Presentation and Principles of Consolidation

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

The consolidated financial statements include the accounts of Syniverse Holdings, Inc. (Syniverse Inc.), Syniverse, Syniverse Technologies, BV (Syniverse BV), Syniverse Brience, LLC (Syniverse Brience), Syniverse Holdings Limited (Syniverse Limited), Perfect Profits International Limited (PPIL) and Syniverse Technologies Limited Luxembourg S.a.r.l. (BSG Wireless). References to the Company, us, or we include all of the consolidated companies. All significant intercompany balances and transactions have been eliminated.

3. Summary of Significant Accounting Policies

Revenue Recognition

The majority of our revenues are transaction-based and derived from long-term contracts, typically averaging three years in duration. Our revenues are primarily the result of the sale of our technology interoperability services, network services, number portability services, call processing services and enterprise solutions to wireless operators throughout the world. In order to encourage higher customer transaction volumes, we generally negotiate tiered pricing schedules with our customers based on certain established transaction volume levels. Generally, there is a seasonal increase in wireless roaming telephone usage and corresponding revenues in the high-travel months of the second and third fiscal quarters.

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Technology Interoperability Services primarily generate revenues by charging per-transaction processing fees. For our wireless roaming clearinghouse, Short Message Service (SMS) and Multimedia Messaging Services (MMS), revenues vary based on the number of data/messaging records provided to us by wireless operators for aggregation, translation and distribution among operators. We recognize revenues at the time the transactions are processed. For our financial clearinghouse and settlement services, revenues vary based on the number of invoices or roaming agreements managed on the customer's behalf. We recognize revenues at the time the transactions are processed. Additionally, we provide solutions with multiple product and service elements which may include software and hardware products, as well as

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installation services, post-contract customer support and training. In those cases, we recognize revenues in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2 (SOP 97-2), *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions*. Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

Network Services primarily generate revenues by charging per-transaction processing fees. In addition, our customers pay monthly connection fees based on the number of network connections as well as the number of switches with which a customer communicates. The per-transaction fees are based on the number of intelligent network messages and intelligent network database queries made through our network and are recognized as revenues at the time the transactions are processed. In addition, a small amount of our revenues are generated through software license fees, maintenance agreements and professional services. Software license fees are generally recognized over the contract period. Maintenance agreements call for us to provide technical support and software enhancements to customers. Revenues on technical support and software enhancement rights are recognized ratably over the term of the support agreement. Professional services include consulting, training and installation services to our customers. Revenues from such services are generally recognized on a straight-line basis over the same period as the software license fees.

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

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

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

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

Due to our billing cycles, which for some products lag as much as 40 days after the month in which the services are rendered, we estimate the amounts of unbilled revenue each reporting period. Our estimates are based on recent volume and pricing trends adjusted for material changes in contracted services. Historically, our estimates have not been materially different from our actual billed revenue. Unanticipated changes in volume and pricing trends or material changes in contracted services could adversely affect our estimates of unbilled revenue. As of March 31, 2008 and December 31, 2007, our estimates of unbilled revenues were \$8,211 and \$7,117, respectively.

Net Income Per Common Share

We compute net income per common share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share* (SFAS 128). Basic net income per common share includes no dilution and is computed by dividing net income by the weighted average number of fully vested common shares outstanding for the period. Our basic weighted average shares outstanding for the three months ended March 31, 2008 excludes 5,939 shares held by our management, which represent the weighted average number of shares, which were not fully vested. Diluted net income per common share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. As of March 31, 2008 and 2007, options to purchase 1,429,492 and 820,748 shares of common stock, respectively, were outstanding. For the three months ended March 31, 2008 and 2007, unvested common stock held by our management and the outstanding options to purchase common stock were used in the calculation of dilutive net income per common share.

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

	Three Months Ended	
	March 31,	
	2008	2007
Basic and diluted net income per common share:		
Net income		\$ 15,393