SYNIVERSE HOLDINGS INC
Form 10-Q
May 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
COMMISSION FILE NUMBER 333-176382

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

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

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

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

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

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

o

(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. o

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

The number of shares of common stock of the registrant outstanding at May 4, 2018 was 1,000.

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GLOSSARY OF TERMS

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

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,837	$ 127,677
Accounts receivable, net of allowances of $16,828 and $16,486, respectively	168,130	168,149
Income taxes receivable	4,202	4,134
Prepaid and other current assets	23,990	23,204
Total current assets	281,159	323,164
Property and equipment, net	91,640	93,203
Capitalized software, net	100,075	102,454
Goodwill	2,322,785	2,314,281
Identifiable intangibles, net	246,000	258,986
Deferred tax assets	3,584	3,608
Investment in unconsolidated subsidiaries	46,962	47,258
Other assets	5,704	4,972
Total assets	$ 3,097,909	$ 3,147,926
LIABILITIES AND STOCKHOLDER EQUITY		
Current liabilities:		
Accounts payable	$ 31,083	$ 20,837
Income taxes payable	4,660	4,784
Accrued liabilities	76,222	89,249
Deferred revenues	10,616	5,997
Current portion of capital lease obligation	7,003	6,410
Current portion of long-term debt, net of original issue discount and deferred financing costs	58,130	2,595
Total current liabilities	187,714	129,872
Long-term liabilities:		
Deferred tax liabilities	75,640	73,793
Deferred revenues	2,522	2,096
Long-term capital lease obligation, less current portion	3,278	4,340
Long-term debt, net of current portion, original issue discount and deferred financing costs	1,862,568	1,940,613
Other long-term liabilities	38,483	36,805
Total liabilities	2,170,205	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 March 31, 2018 and December 31, 2017	—	—
Additional paid-in capital	1,279,389	1,275,944
Accumulated deficit	(305,499)	(261,615)

Accumulated other comprehensive loss	(52,339)	(63,226)
Total Syniverse Holdings, Inc. stockholder equity	921,551	951,103
Noncontrolling interest	6,153	9,304
Total equity	927,704	960,407
Total liabilities and stockholder equity	$ 3,097,909	$ 3,147,926

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(Unaudited)	
Revenues	$188,658	$185,848
Costs and expenses:		
Cost of operations (excluding depreciation and amortization shown separately below)	83,432	86,036
Sales and marketing	18,942	18,428
General and administrative	29,936	25,770
Depreciation and amortization	39,909	47,446
Employee termination benefits	4,316	66
Restructuring charges	156	1,151
	176,691	178,897
Operating income	11,967	6,951
Other income (expense), net:		
Interest expense, net	(42,461)	(39,614)
Loss on early extinguishment of debt, net	(4,868)	—
Equity loss in investees	(410)	(107)
Other, net	(1,203)	(279)
	(48,942)	(40,000)
Loss before provision for (benefit from) income taxes	(36,975)	(33,049)
Provision for (benefit from) income taxes	4,261	(9,146)
Net loss	(41,236)	(23,903)
Net income attributable to noncontrolling interest	516	759
Net loss attributable to Syniverse Holdings, Inc.	$(41,752)	$(24,662)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Net loss	$(41,236)	$(23,903)
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	10,755	14,196
Amortization of unrecognized loss included in net periodic pension cost	53	56
Other comprehensive income	10,808	14,252
Comprehensive loss	(30,428)	(9,651)
Less: comprehensive income attributable to noncontrolling interest	437	983
Comprehensive loss attributable to Syniverse Holdings, Inc.	$(30,865)	$(10,634)

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Stockholder of Syniverse Holdings, Inc.						
	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Nonredeemable Noncontrolling Interest	Total
Balance, December 31, 2016	1	$ —	$1,265,752	$(237,021)	$(120,042)	$7,513	$916,202
Net (loss) income	—	—	—	(24,662)	—	759	(23,903)
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustment	—	—	—	—	13,972	224	14,196
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of $25	—	—	—	—	56	—	56
Stock-based compensation	—	—	3,087	—	—	—	3,087
Distribution to noncontrolling interest	—	—	—	—	—	(2,311)	(2,311)
Distribution to Syniverse Corporation	—	—	(1,076)	—	—	—	(1,076)
Balance, March 31, 2017 (Unaudited)	1	$ —	$1,267,763	$(261,683)	$(106,014)	$6,185	$906,251
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	—	—	—	(41,752)	—	516	(41,236)
Other comprehensive (loss) income, net of tax:							
Foreign currency translation adjustment	—	—	—	—	10,834	(79)	10,755
Amortization of unrecognized loss included in net periodic pension cost, net of tax expense of $23	—	—	—	—	53	—	53
Stock-based compensation	—	—	4,334	—	—	—	4,334
Distribution to noncontrolling interest	—	—	—	—	—	(3,588)	(3,588)
Distribution to Syniverse Corporation	—	—	(889)	—	—	—	(889)
Balance, March 31, 2018 (Unaudited)	1	$ —	$1,279,389	$(305,499)	$(52,339)	$6,153	$927,704

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Cash flows from operating activities		
Net loss	$(41,236)	$(23,903)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	39,909	47,446
Amortization of original issue discount and deferred financing costs	2,932	3,157
Allowance for credit memos and uncollectible accounts	3,050	2,321
Deferred income tax expense (benefit)	1,834	(9,360)
Debt modification costs	9,607	9,779
Loss on early extinguishment of debt, net	4,868	—
Stock-based compensation	4,338	3,087
Other, net	3,005	369
Changes in operating assets and liabilities:		
Accounts receivable	(2,098)	(2,087)
Income taxes receivable or payable	(365)	(1,607)
Prepaid and other current assets	(1,527)	(2,174)
Accounts payable	9,710	(4,195)
Accrued liabilities and deferred revenues	(16,775)	(25,592)
Other assets and other long-term liabilities	(2)	2,155
Net cash provided by (used in) operating activities	17,250	(604)
Cash flows from investing activities		
Capital expenditures	(14,440)	(19,416)
Net cash used in investing activities	(14,440)	(19,416)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	1,922,000	—
Principal payments on long-term debt	(1,922,000)	(1,885)
Debt modification costs paid	(37,816)	(9,722)
Payments on capital lease and financing obligations	(2,099)	(7,384)
Distribution to Syniverse Corporation	(1,273)	(1,076)
Distribution to noncontrolling interest	(3,588)	(2,311)
Net cash used in financing activities	(44,776)	(22,378)
Effect of exchange rate changes on cash	(705)	1,978
Net decrease in cash, cash equivalents and restricted cash	(42,671)	(40,420)
Cash, cash equivalents and restricted cash at beginning of period	128,677	137,637
Cash, cash equivalents and restricted cash at end of period	$86,006	$97,217
Supplemental noncash investing and financing activities		
Assets acquired under capital lease and non-cash financing obligations	$6,418	$2,170
Supplemental cash flow information		
Interest paid	$38,054	$37,632
Income taxes paid	$2,717	$1,785

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Description of Business

Syniverse is the leading global transaction processor that connects MNOs and enterprises in nearly 200 countries enabling seamless mobile communications across disparate and rapidly evolving networks, devices and applications. We process transactions that include the authorization and delivery of end user traffic, clearing of billing records and settlement of payments. We also offer a unique portfolio of intelligent policy and charging tools that enable our customers to use 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.

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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 March 31, 2018 and December 31, 2017 was $42.2 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 $2.8 million and $0.6 million during the three months ended March 31, 2018 and March 31, 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 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. Monthly recurring fees do not contain any pricing variability. 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 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 $304.7 million and $372.3 million as of March 31, 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:

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(in thousands)	March 31, 2018 (Unaudited)	December 31, 2017	March 31, 2017 (Unaudited)	December 31, 2016
Cash and cash equivalents	$ 84,837	$ 127,677	$ 95,754	$ 136,174
Restricted cash included in prepaid and other current assets	625	413	1,068	1,068
Restricted cash included in other assets	544	587	395	395
Total cash, cash equivalents and restricted cash	$ 86,006	$ 128,677	$ 97,217	$ 137,637

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 exits, 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. In connection with our annual goodwill impairment analysis at October 1, 2017, 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 as well as pricing pressure across many of our other services and other market factors. 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 assess for impairment, the Company may first perform an assessment of qualitative factors to determine whether it is more likely than not that the asset is impaired. If, based on the review of the qualitative factors, the Company determines it is more-likely-than-not that the identifiable intangible asset is impaired, the Company performs 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 months ended March 31, 2018 and 2017, we recorded foreign currency transaction losses of $1.1 million and $0.2 million, respectively.

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

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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.

Recently Issued Accounting Pronouncements Not Yet Adopted

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 comprehensive income and the statement of cash flows is largely unchanged from current GAAP. The amendments also expand the required disclosures surrounding leasing arrangements. The guidance must be applied using a retrospective application method and will be effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those years. Upon adoption, we expect our balance sheet to include a right of use asset and liability related to substantially all operating lease arrangements. We are currently assessing the impact of implementing this guidance on our condensed consolidated financial statements and related disclosures.

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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. ASU 2016-01 requires entities to present separately, in other comprehensive income, the portion of the total change in a financial liability's fair value that results from a change in instrument-specific credit risk. The update is effective for the Company beginning July 1, 2018. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated financial statements and related disclosures.

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.

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 an increase of $0.2 million for the three months ended March 31, 2018.

Revenue Recognition

Revenues by service offerings were as follows:

	Three Months Ended March 31,	
	2018	2017
(in thousands)	(Unaudited)	
Mobile Transaction Services	$145,767	$150,286
Enterprise & Intelligence Solutions	42,891	35,562
Revenues	$188,658	$185,848

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

	Three Months Ended March 31,	
	2018	2017
(in thousands)	(Unaudited)	
North America	$111,558	$111,557
Europe, Middle East and Africa	31,746	31,753
Asia Pacific	30,446	29,702
Caribbean and Latin America	14,908	12,836
Revenues	$188,658	$185,848

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 three months ended March 31, 2018 is primarily driven by the adoption of ASC Topic 606 and payments received or due in advance of revenue recognition, offset by $3.5 million of revenues recognized that 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

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combination of both. As of March 31, 2018, there was an aggregate amount of $397.7 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 $222.0 million during the remainder of 2018, $135.0 million in 2019, $31.0 million in 2020 and $9.7 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:

(in thousands)	March 31, 2018 (Unaudited)	December 31, 2017
Accrued payroll and related benefits	$ 21,386	$ 28,043
Accrued interest	9,797	18,017
Accrued network payables	17,573	21,999
Accrued revenue share expenses	3,484	2,228
Other accrued liabilities	23,982	18,962
Total accrued liabilities	$ 76,222	$ 89,249

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6. Debt and Credit Facilities

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

(in thousands)	March 31, 2018 (Unaudited)	December 31, 2017
Credit Facilities:		
Tranche C Term Loans, due March 2023	$1,702,000	$—
Original issue discount	(19,346)	—
Deferred financing costs	(17,558)	—
Second Lien Term Loans, due March 2024	220,000	—
Original issue discount	(3,601)	—
Deferred financing costs	(2,277)	—
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	(247)	(322)
SFHC Notes, due 2022	—	369,547
Deferred financing costs	—	(4,418)
Total Debt and Credit Facilities	1,920,698	1,943,208
Less: Current portion		
Long-term debt, current portion	$(58,747)	$(2,622)
Original issue discount, current portion	193	7
Deferred financing costs, current portion	424	20
Current portion of long-term debt, net of original issue discount and deferred financing costs	$(58,130)	$(2,595)
Long-term debt, net of original issue discount and deferred financing costs	$1,862,568	$1,940,613

Amortization of original issue discount and deferred financing costs for the three months ended March 31, 2018 and 2017 was $2.9 million and $3.2 million, respectively, and 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.

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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 (the "Amendment") to the Credit Agreement to, among other things, (i) extend the scheduled maturity date of the revolving credit commitments to January 15, 2019, (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 will begin 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.

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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 March 31, 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 March 31, 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 %

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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 March 31, 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 months ended