

SYNIVERSE HOLDINGS INC
Form 10-K
March 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

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
(State or other jurisdiction of incorporation or
organization)

30-0041666
(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)

Securities registered pursuant to section 12(b) of the Act: None
Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities
Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the
Act. Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant as of June 30, 2012 was \$0. The number of shares of common stock of the registrant outstanding at March 6, 2013 was 1,000.

Documents Incorporated by Reference

None

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STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

Certain of the statements in this Annual Report on Form 10-K, including, without limitation, those related to our future operations or results under the caption entitled “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. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control, and which may cause our actual results, performance or achievements, or the performance of the global telecommunications industry or economy generally, to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that may be forward-looking statements. You can identify these forward-looking statements through our use of words such as “may,” “will,” “anticipate,” “assume,” “should,” “indicate,” “would,” “believe,” “contemplate,” “expect,” “estimate,” “continue,” “plan,” “target,” “point to,” “project,” “predict,” “potential,” and other similar words and expressions of the future or otherwise regarding the outlook for our future business and financial performance and/or the performance of the global telecommunications industry and economy generally. Such forward looking statements include, without limitation, statements regarding:

- expectations of growth of the global wireless telecommunications industry, including increases in new wireless technologies such as smartphones and other connected devices, wireless subscribers, wireless usage, roaming, mobile data, number portability and text and multimedia messaging;

- increases in demand for our services due to growth of the global wireless telecommunications industry, greater technology complexity and the introduction of new and incompatible wireless technologies;

- expectations of changes in our revenues from prior periods to future periods;

- our beliefs concerning the effects that the current economic conditions will have on our business;

- the cost and difficulties of acquiring and integrating complementary businesses and technologies;

- capital expenditures in future periods; and

- the sufficiency of our cash on hand, cash available from operations and cash available from the revolving portion of our New Senior Credit Facility (as defined under Item 1 of this Annual Report on Form 10-K) to fund our operations, debt service and capital expenditures.

These statements are based on certain assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. As you read and consider this Annual Report on Form 10-K, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Many factors could affect our actual financial results and could cause actual results to differ materially from those expressed in the forward-looking statements.

The forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- system failures, security breaches, delays and other problems;

- the loss of major customers and the resulting decrease in revenue;

- future consolidation among our customers that may cause decreased transaction volume and/or a reduction in our pricing;

- the failure to adapt to rapid technological changes in the telecommunications industry;

- intense competition in our market for services and the advantages that many of our competitors have or may develop over us, through acquisitions or technological innovations;

- customer migrations from our services to in-house solutions;

- the failure to achieve or sustain desired pricing levels or transaction volumes;

- certain risks with our continued expansion into international markets;

- the costs and difficulties of acquiring and integrating complementary businesses and technologies;

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- the inability of our customers to successfully implement our services;
- the risk exposure related to our reliance on third-party providers for communications software, hardware and infrastructure;
- our inability to develop or maintain relationships with material vendors;
- fluctuations in currency exchange rates;
- the failure to obtain additional capital on acceptable terms, or at all;
 - the impairment of our intangible assets or goodwill;
- regulations affecting our customers and us and future regulations to which they or we become subject;
- the capacity limits on our network and application platforms and inability to expand and upgrade our systems to meet demand;
- the inability to obtain or retain licenses or authorizations that may be required to sell our services internationally;
- the failure to protect our intellectual property rights;
- claims that we are in violation of intellectual property rights of others and any indemnities to our customers that may result therefrom;
- the loss of key personnel and the potential inability to successfully attract and retain personnel;
- unfavorable general economic conditions in the U.S. or in other major global markets;
- our exposure to, and the expense of defending and resolving, lawsuits that arise in the ordinary course of business;
- other factors disclosed in this Annual Report on Form 10-K; and
- other factors beyond our control.

In light of these risks, uncertainties and assumptions, the forward-looking statements contained in this Annual Report on Form 10-K for the year ended December 31, 2012 might not prove to be accurate and you should not place undue reliance upon them. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as otherwise may be required by law.

MARKET, RANKING AND INDUSTRY DATA

The data included herein regarding markets and ranking, including the size of certain service markets and our position and the position of our competitors and customers within these markets, is based on the referenced independent industry publications, reports from government agencies or other published industry sources and our estimates are based on our management's knowledge and experience in the markets in which we operate. When we rank our customers by size, we base those rankings on the number of subscribers our customers serve. When we describe our market position, we base those descriptions on the number of subscribers serviced by our customers. Our estimates have been based on information obtained from our customers, suppliers, trade and business organizations and other contacts in the markets in which we operate. We believe these estimates to be accurate as of the date of this Annual Report on Form 10-K. However, this information may prove to be inaccurate because of the methods by which we obtain certain data for our estimates, because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in a survey of market size. In addition, the provided market data is not a guarantee of future market characteristics because consumption patterns and consumer preferences can and do change. See also "Statements Regarding Forward-Looking Information."

OTHER DATA

Numerical figures included in this Annual Report on Form 10-K have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in various tables may not be arithmetic aggregations of the figures that precede them.

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PART I

ITEM 1. BUSINESS

Overview

Founded in 1987, we are a leading global provider of technology solutions for mobile operators and the broader wireless ecosystem. Our integrated solutions enable wireless services across disparate networks, technologies and geographies. For nearly 25 years, we have served as an integral third-party intermediary to stakeholders across the global telecommunications industry including mobile operators and enterprise customers, among others. Our product offerings include roaming clearing house and financial settlement services between operators; networks and applications which facilitate connectivity across the wireless ecosystem; and text and multimedia message delivery services.

We clear, process, route, translate and transport over two billion transactions on average each day. A “transaction” is generated by, among other things, an individual phone call, a text or a multimedia message that is sent or received, or the initiation of a mobile data session between different operators’ networks or while roaming. We also operate a secure physical network infrastructure, consisting of 18 data centers and 14 network points-of-presence worldwide, that provides the connections required to complete these transactions. Our Network services provide connectivity to mobile service operators (“MSOs”) and other telecommunications providers, allow subscribers to keep (or “port”) their phone numbers when switching mobile operators, and allow subscribers to utilize caller identification (“caller ID”) services. Our Messaging services allow mobile operators’ subscribers to send text and multimedia messages to other mobile operators’ subscribers and also facilitate text and multimedia messaging between enterprises and their customers. Through the use of our Roaming services, mobile operators enable their subscribers to make phone calls, send and receive text messages, multimedia messages, and email and browse the web or use applications while roaming on another mobile operator’s network.

We generate the majority of our revenues on a per-transaction basis, often generating multiple transactions from a single subscriber call, text message or data session. Growing demand for transactions is driven primarily by the volume of wireless voice calls and data sessions, the frequency of subscriber roaming activity, the amount of data downloaded while roaming, the number of text and multimedia messages exchanged, subscriber adoption of new wireless data services and evolving wireless technology.

We currently provide services to over 740 mobile operators, including Verizon Wireless, Telefónica, Vodafone and China Unicom, and to more than 150 enterprise customers across nearly 160 countries. We have maintained a customer service agreement renewal rate of 98% since 2006.

On January 13, 2011, pursuant to the Merger Agreement, dated as of October 28, 2010, we consummated a merger with Buccaneer Holdings, Inc. (“Holdings”) and Buccaneer Merger Sub, Inc. (“Merger Sub”), affiliates of The Carlyle Group (“Carlyle”), under which Holdings acquired 100% of our equity and Merger Sub merged with and into Syniverse Holdings, Inc. (“Syniverse” or the “Company”) with Syniverse as the surviving corporation (also referred to herein as the “Merger”). As a result of the Merger, the common stock of Syniverse Holdings, Inc. is no longer listed on the New York Stock Exchange (“NYSE”).

Our principal executive offices are located at 8125 Highwoods Palm Way, Tampa, Florida 33647. Our telephone number is +1 (813) 637-5000, and our website is www.syniverse.com. The information on or linked to our website is not part of this Annual Report on Form 10-K, nor is such content incorporated by reference here.

The following sections of our Annual Report on Form 10-K excluding Item 6 and Item 8 represent information about our financial condition and results of operations and cover periods before and after the Merger and the related Transactions (as defined in Note 4 to our Consolidated Financial Statements). Accordingly, the financial information of periods prior to January 13, 2011 do not reflect the significant impact that the Transactions have had on us, including increased levels of indebtedness and the impact of purchase accounting. However, the general nature of our operations was not impacted by the Transactions. As such, for comparative purposes we will discuss changes between the periods presented without reference to the effects of the Predecessor and Successor periods, which is consistent with the manner in which management evaluates the results of operations. Effects of the Transactions will be discussed where applicable. All references to years, unless otherwise noted, refer to our fiscal years, which end on

December 31.

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Executive Overview

Financial Highlights

For the year ended December 31, 2012, revenues decreased \$24.1 million, or 3.1% to \$743.9 million from \$768.0 million for the year ended December 31, 2011. The decrease was primarily driven by the Verizon Wireless contract renewal executed at lower pricing and the impact of lower pricing for other customer contract renewals during the second quarter of 2012. The pricing impact was partially offset by transaction volume increases in our Network service offering, specifically Mobile Data Roaming ("MDR"), our interstandard roaming solution and interworking packet exchange ("IPX") products and our enterprise messaging product. For the year ended December 31, 2012, cost of operations increased \$6.5 million due primarily to higher data processing and hosting costs and message termination fees, partially offset by lower revenue share cost resulting from a contractual rate reduction. Sales, marketing, general and administrative expenses increased \$15.8 million, driven by higher professional services costs associated with business development activities including our pending acquisition (as further discussed below). Depreciation and amortization expenses decreased \$21.6 million to \$177.3 million for the year ended December 31, 2012 from \$198.9 million for the same period in 2011 primarily due to our pattern of consumption amortization method for customer relationships valued in the Merger. Operating income increased \$66.8 million to \$102.3 million for the year ended December 31, 2012 from \$35.6 million for the same period in 2011 due to \$87.8 million of Merger expenses recorded in 2011 relating to the Merger, offset by the factors discussed above.

Business Developments

Business Acquisition Agreement

On June 30, 2012, we entered into an agreement (the "Purchase Agreement") with WP Roaming S.à r.l., a Luxembourg limited liability company (the "Seller"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth in the Purchase Agreement, we will acquire from the Seller all the shares and preferred equity certificates (whether convertible or not) in WP Roaming III S.à r.l. ("WP Roaming") (the "Acquisition"). WP Roaming is a holding company which conducts the business of MACH S.à r.l. ("MACH"). MACH connects and monetizes the telecom world with its comprehensive and growing portfolio of cloud-based communication services, providing its 650 operator customers with solutions to monetize mobile data, simplify interoperability between networks, optimize wholesale processes and protect revenues. Headquartered in Luxembourg, MACH has offices in 12 countries.

At the closing of the Acquisition, which we expect to occur during the second quarter of 2013, we will pay to the Seller an amount equal to €172.7 million, subject to adjustment, plus €0.25 million per month from December 31, 2011 through the closing date of the Acquisition. In addition, at the closing of the Acquisition, we shall, on behalf of WP Roaming, pay all amounts outstanding to WP Roaming's third-party lenders in order to ensure the release of all related guarantees and security interests. On July 2, 2012, we paid the Seller a deposit of €30 million.

Refer to Note 18 and Note 22 to the Consolidated Financial Statements for additional information regarding this pending business acquisition.

Delayed Draw Facility

On February 4, 2013, Syniverse Magellan Finance, LLC, our direct wholly-owned subsidiary entered into a delayed draw credit agreement (the "Delayed Draw Credit Agreement") with Barclays Bank PLC, as administrative agent, and the other lenders from time to time, providing for a new senior credit facility consisting of a \$700 million delayed draw term loan facility (the "Delayed Draw Facility"). The lenders will fund the Delayed Draw Facility when certain conditions are satisfied, including the consummation of the Acquisition discussed above.

Under this facility, borrowings will bear interest at a floating rate which can be, at our 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, in the case of term loans under the Delayed Draw Facility, subject to a Eurodollar rate floor of 1.00% or a base rate floor of 2.00%, as applicable. The applicable margin for the term loans under the Facility is 3.00% per annum for Eurodollar loans and 2.00% per annum for base rate loans.

The Delayed Draw Facility will mature the earliest of (i) April 23, 2019, (ii) if there are no term loans outstanding, the date of termination in whole of the commitments under the Delayed Draw Facility and (iii) the date the loans under

the Delayed Draw Facility are declared due and payable in connection with an event of default; provided that (a) in the event that more than \$50 million of our 9.125% Senior Notes due 2019 (the "Senior Notes") remain outstanding on the date that is 91 days prior to the stated maturity of the Senior Notes (the "First Springing Maturity Date"), the maturity date for the Delayed Draw Facility will be the First Springing Maturity Date and (b) in the event that more than \$50 million in aggregate principal amount of any

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refinancing indebtedness in respect of the Senior Notes remains outstanding on the date that is 91 days prior to the stated maturity of such refinancing indebtedness (the “Second Springing Maturity Date”), the maturity date for the Delayed Draw Facility will be the earlier of the Second Springing Maturity Date and April 23, 2019.

Refer to Note 21 to our Consolidated Financial Statements for additional detail regarding the Delayed Draw Facility. Verizon Wireless Renewal

In September 2011, contracts with Verizon Wireless, our largest customer, expired. Verizon Wireless uses a large suite of our services for its data clearing and roaming operations – products such as interstandard roaming solutions, MDR, data clearing house, Real-Time Intelligence (“RTI”) tools and a number of other services. During the second quarter of the year ending December 31, 2012, the renewal with Verizon Wireless was completed at substantially similar terms and reduced pricing effective May 1, 2012 for a four year term.

Senior Credit Facility Refinancing

On April 23, 2012, we refinanced our Old Senior Credit Facility (as defined in Note 9 of this Annual Report on Form 10-K) and entered into a credit agreement (the “New Credit Agreement”) with 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 new senior credit facility (the “New Senior Credit Facility”) consisting of (i) a \$950.0 million term loan facility (the “Term Loan Facility”); and (ii) a \$150.0 million revolving credit facility (the “Revolving Credit Facility”) for the making of revolving loans, swing line loans and issuance of letters of credit. In conjunction with this refinancing, we utilized \$81.2 million of cash to pay down the principal balance of the term loan under the Old Senior Credit Facility of approximately \$62.2 million, pay the original issue discount on the New Senior Credit Facility of \$9.5 million, \$9.0 million in financing costs and \$0.5 million of accrued interest and fees for the Old Senior Credit Facility.

Please see Note 9 to our Consolidated Financial Statements for additional detail regarding the New Senior Credit Facility.

Business Description

We provide an integrated suite of Network, Messaging and Roaming services for our customers, which are primarily utilized when mobile operators need to interact with one another. We also provide technology turnkey solutions to customers primarily in the Asia Pacific Region. Most of our customers utilize two or more of our service offerings. Our primary service offerings are as follows:

Network services. We offer Network services which primarily consist of our intelligent network products such as Signaling System 7 (“SS7”) solutions, interstandard roaming solutions, MDR, call setup and tear down, internet protocol (“IP”) platform solutions, RTI tools, database solutions and number portability services.

Signaling solutions provide cost effective connectivity to other networks, thereby avoiding the cost and complexity of managing individual network connections with multiple operators, and facilitate the signaling requirements for call delivery and Short Messaging Service (“SMS”) delivery when roaming on Global System for Mobile Communication (“GSM”) and Code Division Multiple Access (“CDMA”) Networks around the world. We have recently enhanced this platform to address interoperability for 4G devices to enable effective, real-time communication between devices on 4G networks and devices on networks that utilize other technology. For example, this platform now supports communication between 4G and 3G networks.

Interstandard roaming solutions and MDR services enable CDMA roaming. Interstandard roaming solutions allow certain CDMA handsets to roam on GSM networks. MDR services allow CDMA data devices to roam on other CDMA operator networks.

Call setup and tear down involves the process of retrieving, processing and routing information in order for a call to transpire.

IP platform solutions enable operators a means of secure transport of roaming, messaging, IPX and signaling traffic to consolidate global network connections via one network for all traffic types. These services optimize streams of data delivered to mobile devices accelerating download speeds and relieving network load by reducing the volume of data being exchanged between our customer’s networks.

RTI tools analyze the real and near real time traffic data being processed through our platforms and networks to provide multiple use cases that enable our customers to more effectively manage their subscriber’s quality of

experience (“QoE”) and satisfaction.

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Database solutions enable caller ID on various technology platforms provided to subscriber devices and intelligent network-based queries to support accurate call routing.

Number portability services allow subscribers to retain their phone numbers when changing mobile service providers. In addition to the services described above, we provide our customers with the ability to connect to various third-party intelligent network database providers (“Off-Network Database Queries”).

Messaging services. We provide mobile operators with routing, translation and delivery services for SMS and Multimedia Messaging Service (“MMS”) messages sent from one operator’s network to another. While mobile operators have routing and delivery capabilities for subscribers within their own networks, they do not generally have an efficient way to directly route and deliver messages to other operators’ networks as this would require a direct connection with each of over a thousand mobile operators throughout the world, as well as sophisticated translation capabilities between numerous mobile standards. Once one of our customers has determined that an SMS or an MMS message needs to be delivered outside of its network, the message is sent to us. From there, we determine where the message is going, translate the message so it can be read by the receiving network and deliver it. This is known as Peer-to-Peer (“P2P”) messaging. As part of our enterprise messaging business, known as Application-to-Peer (“A2P”) messaging, we provide enterprise customers with routing, translation and delivery services for direct communication with their customers and employees via SMS and MMS alerts.

Roaming services. We operate the largest roaming clearing house in the world and process hundreds of billions of roaming transactions each year. A roaming transaction is generated when a subscriber from one mobile operator makes or receives a call, sends or receives an SMS or MMS message, or initiates a data session, in each case, while roaming on another operator’s network. Subscribers typically roam in places where their home operator’s network coverage is relatively limited or non-existent. In order to provide seamless global coverage, mobile operators enter into roaming agreements with one another to provide access for their subscribers to other operators’ networks in a given geography. When its subscribers roam, the home operator must pay the visited operator for use of the network. Through our clearing house, we clear and settle these roaming transactions. The information we provide determines the amount of roaming charges owed by one mobile operator to another and enables the home operator to issue retail bills to its subscribers for their usage while roaming. Fees are paid to us by the visited operator who ultimately bills the home operator for use of its network. In addition to this core service, we provide mobile operators a number of other value-added services, including roaming data analytics, roaming agreement management, fraud prevention and financial settlement services.

Other services. We provide technology turnkey solutions, including operator solutions for number portability readiness, prepaid applications, interactive video, value-added roaming services and mobile broadband solutions. Our turnkey solutions business provides software services to customers primarily in the Asia Pacific region.

Generally, there is a seasonal increase in wireless roaming usage and corresponding revenues in the high-travel months of our second and third fiscal quarters. Products primarily affected by this seasonality include signaling solutions, interstandard roaming, MDR and roaming clearing house.

Segments

We currently operate as a single operating segment, as our Chief Executive Officer reviews financial information on the basis of our consolidated financial results for the purposes of making resource allocation decisions.

Revenues by service offering are as follows:

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	Successor	Combined Predecessor & Successor	Successor	Predecessor	
	Year Ended December 31, 2012	Year Ended December 31, 2011	Period from January 13 to December 31, 2011	Period from January 1 to January 12, 2010	Year Ended December 31, 2010
Network services	(in thousands)				
	\$				