PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Syniverse Holdings, Inc.

Our common stock is listed on the New York Stock Exchange under the symbol "SVR." Public trading of our common stock commenced on February 10, 2005. Prior to that date, there was no public trading market for our common stock.

Our Chief Executive Officer, Tony G. Holcombe, certifies that the previous year's Annual Written Affirmation certification was submitted to the NYSE without qualifications.

The following table sets forth the high and low sales closing prices per share for our common stock as reported on the New York Stock Exchange for the years ended December 31, 2006 and 2005:

2006	High	Low
First quarter	$24.01	$13.90
Second quarter	$17.99	$14.11
Third quarter	$16.75	$12.28
Fourth quarter	$15.68	$13.11
2005		
First quarter (February 15—March 31)	$16.00	$13.80
Second quarter	$14.45	$10.82
Third quarter	$16.52	$13.00
Fourth quarter	$21.25	$14.99

On March 7, 2007, the last reported sale price of our common stock on The New York Stock Exchange was $10.40 per share. As of March 2, 2007 there were approximately 4,553 holders of record of our common stock.

We have not paid any dividends on our common stock during the past fiscal year and do not intend to pay dividends on our common stock in the foreseeable future. In addition, our indenture and new senior credit facility include restrictions on our ability to pay cash dividends on our common stock.

In connection with our initial public offering, Syniverse Holdings, LLC was dissolved following the distribution to its members of the outstanding class A cumulative redeemable preferred stock and common stock of Syniverse Holdings, Inc. Concurrent with our initial public offering, we amended and restated the senior management agreements of Messrs. Lawless, Wilcock, O'Brien, Nelson, Garcia, Mosher, Bergen, Henegouwen, and Corrao in addition to other senior management agreements of senior officers who have since resigned, including Ms. Hermansen, and Messrs. Evans, Kremian and Drexler, pursuant to which they acquired as part of the pro rata distribution of the outstanding capital stock of Syniverse Holdings, Inc. to the members of Syniverse Holdings, LLC an aggregate of 1,938.5 shares of class A cumulative redeemable convertible preferred stock and 5,221,972 shares of common stock. See "Certain Relationships and Related Transactions—Senior Management Agreements" incorporated by reference to our proxy statement.

See Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," incorporated by reference to our proxy statement, for information regarding shares of common stock authorized for issuance under our equity compensation plans.

Syniverse Technologies, Inc.

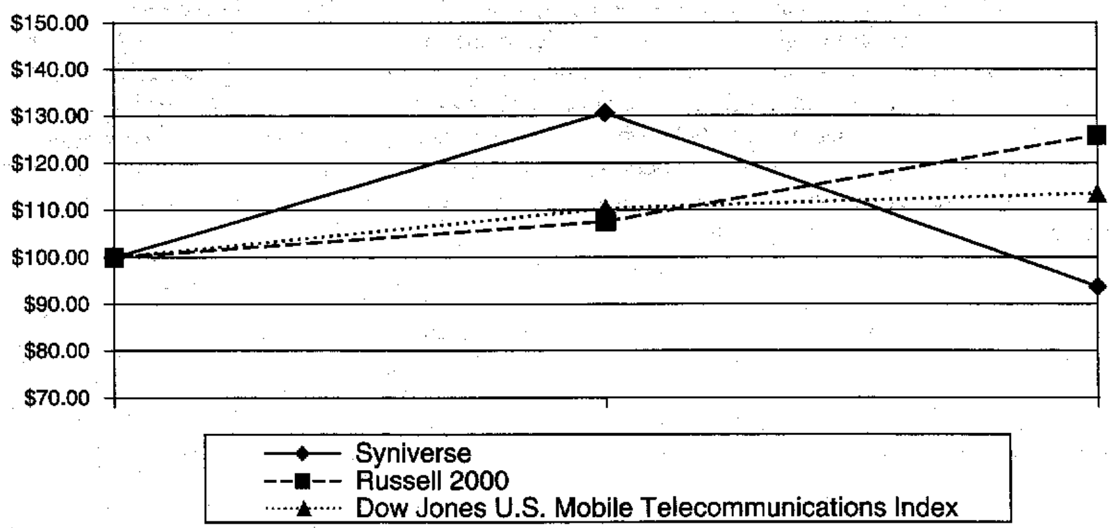
There is currently no established public trading market for the common stock, no par value, of Syniverse Technologies, Inc., a company which is wholly owned by Syniverse Holdings, Inc.

Syniverse Technologies, Inc. has not paid any dividends on its common stock during the past fiscal year and does not intend to pay dividends on its common stock in the foreseeable future. In addition, our indenture and new senior credit facility include restrictions on its ability to pay cash dividends on its common stock.

Syniverse Technologies, Inc. does not have any shares of common stock authorized for issuance under any equity compensation plans.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The following stock performance graph and accompanying table compare the shareholders' cumulative return on the common stock from February 10, 2005 to December 31, 2006 with the cumulative total return of the Russell 2000 Index and the Dow Jones U.S. Mobile Telecommunications Index over the same period. The comparative data assumes that $100.00 was invested on the date of our initial public offering, February 10, 2005, in the common stock and in each of the indices referred to above and that any dividends were reinvested. The stock price performance shown in the table set forth below is not necessarily indicative of future stock price performance.



	February 10, 2005	December 30, 2005	December 31, 2006
Syniverse	100.00	130.63	93.69
Russell 2000	100.00	107.59	125.88
Dow Jones U.S. Mobile Telecommunications Index	100.00	110.32	113.59

ITEM 6. SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth certain of our historical financial data for the most recent five years. We have derived the selected historical consolidated financial data as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 from our audited financial statements and the related notes included elsewhere herein. The selected historical consolidated financial data as of December 31, 2002, 2003 and 2004 and for the period from January 1, 2002 to February 13, 2002 and the period from February 14, 2002 to December 31, 2002 and for the year ended December 31, 2003 have been derived from our audited consolidated financial statements, which are not included in this filing. The selected historical financial data as of February 13, 2002 was derived from an unaudited balance sheet as of that date not included in this filing. The selected historical financial data set forth below is not necessarily indicative of the results of our future operations and should be read in conjunction with the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements and accompanying notes included elsewhere herein.

As a result of applying the required purchase accounting rules to our acquisition from Verizon on February 14, 2002, our financial statements were significantly affected. The application of purchase accounting rules result in different accounting bases and hence the financial information for the periods beginning on February 14, 2002 are not comparable to the information prior to this date.

The term "successor" refers to Syniverse Holdings, Inc. following our acquisition from Verizon on February 14, 2002. The historical financial results of Brience from February 14, 2002, which is the date that GTCR Fund VII, L.P. and its affiliates possessed common control of us and Brience, through July 23, 2003, which is the date that we merged with Brience, are included in the financial results of the successor because this acquisition is accounted for as a combination of entities under common control, similar to a pooling of interests. The portion of historical results attributed to the common stock ownership of Syniverse Networks, Inc., which Syniverse Holdings, LLC owned between February 14, 2002 and January 17, 2005 when Syniverse Holdings, LLC contributed these shares of Syniverse Networks, Inc. to Syniverse Holdings, Inc., have been included in the financial results of the successor because this acquisition is also accounted for as a combination of entities under common control, similar to a pooling of interests.

The term "predecessor" refers to Syniverse Technologies, Inc. prior to being acquired by Syniverse Holdings, Inc. on February 14, 2002.

	Predecessor	Successor				
	Period from January 1 to February 13, 2002	Period from February 14 to December 31, 2002	Year Ended December 31,			
			2003	2004	2005	2006
		(dollars in thousands)				
Statement of Operations Data:						
Revenues						
Technology Interoperability	$ 8,464	$ 70,215	$ 66,536	$ 81,077	$108,429	$138,655
Network Services	14,103	99,647	111,845	130,408	132,120	124,832
Number Portability Services	—	860	5,469	48,478	50,836	28,766
Call Processing Services	6,429	46,336	42,764	34,569	28,619	29,315
Enterprise Solution Services	2,412	17,869	15,265	14,122	11,026	7,289
Revenues Excluding Off-Network Database Query Fees	31,408	234,927	241,879	308,654	331,030	328,857
Off-Network Database Query Fees	8,588	61,117	29,529	23,749	10,761	8,162
Total Revenues	39,996	296,044	271,408	332,403	341,791	337,019
Costs and expenses:						
Cost of operations	20,655	130,364	109,744	138,484	129,190	134,641
Sales and marketing	2,614	22,706	18,631	20,244	23,344	25,446
General and administrative	4,341	41,937	40,347	41,774	49,396	58,508
Depreciation and amortization (1)	1,464	33,285	37,319	41,972	46,815	41,172
Restructuring (2)	—	2,845	2,164	289	143	1,006
Impairment losses on intangible assets (3)	—	—	53,712	14,056	—	—
	29,074	231,137	261,917	256,819	248,888	260,773
Operating income	10,922	64,907	9,491	75,584	92,903	76,246
Other income (expense), net:						
Interest income	432	965	768	1,148	1,957	1,824
Interest expense	—	(54,105)	(58,128)	(52,928)	(34,647)	(27,328)
Loss on extinguishment of debt	—	—	—	—	(42,804)	(924)
Other income (expense), net	(19)	(275)	—	(12)	1,436	332
	413	(53,415)	(57,360)	(51,792)	(74,058)	(26,096)
Income (loss) from continuing operations before provision for income taxes	11,335	11,492	(47,869)	23,792	18,845	50,150
Provision for (benefit from) income taxes	4,418	9,320	10,057	8,729	9,041	(39,574)
Income (loss) from continuing operations	6,917	2,172	(57,926)	15,063	9,804	89,724
Discontinued operations:						
Loss from discontinued operations	—	(1,541)	—	—	—	—
Net income (loss)	6,917	631	(57,926)	15,063	9,804	89,724
Preferred stock dividends	—	(33,340)	(30,230)	(31,564)	(4,195)	—
Net income (loss) attributable to common stockholders	$ 6,917	$ (32,709)	$ (88,156)	$ (16,501)	$ 5,609	$ 89,724
Net income (loss) per common share:						
Basic	$ —	$ (0.82)	$ (2.21)	$ (0.41)	$ 0.09	$ 1.34
Diluted	$ —	$ (0.82)	$ (2.21)	$ (0.41)	$ 0.09	$ 1.33
Weighted average common shares outstanding:						
Basic	—	39,838	39,838	39,838	61,973	66,943
Diluted	—	39,838	39,838	39,838	62,978	67,298
Other Financial Data:						
EBITDA (4)	$ 12,367	$ 96,376	$ 46,810	$ 117,544	$ 98,350	$116,826
Net cash provided by (used in):						
Operating activities	1,185	59,756	48,422	85,696	110,577	97,811
Investing activities	34,781	(12,278)	(18,883)	(78,663)	(32,555)	(63,683)
Financing activities	(11,250)	(44,187)	(63,430)	2,697	(46,603)	(57,052)
Capital expenditures	(606)	(12,278)	(18,280)	(22,184)	(34,001)	(19,921)
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 25,000	$ 42,190	$ 8,299	$ 17,919	$ 49,294	$ 26,704
Property and equipment, net	23,306	33,728	33,548	35,703	43,426	42,880
Total assets	159,457	833,068	730,271	777,193	771,358	784,147
Total debt, net of discount, and redeemable preferred stock	—	856,973	753,425	793,062	367,794	311,561
Total stockholder's equity (deficit)	133,510	(81,453)	(90,317)	(106,860)	322,639	414,794

(1) Depreciation and amortization amounts exclude accretion of debt discount and amortization of deferred finance costs, which are both included in interest expense in the statement of operations data. Depreciation and amortization amounts after February 14, 2002 are not

comparable to the periods prior to that date because the successor company's assets were revalued as a result of the purchase accounting treatment of the acquisition.

(2) Restructuring expense is comprised of severance benefits associated with our cost rationalization initiatives, which were implemented in August 2002, February 2003, July 2003, April 2004, September 2005, February 2006 and August 2006. Our restructuring in July 2003 was related to the acquisitions of Brience. This excludes amounts related to acquisitions where restructuring costs were accrued as a part of purchase accounting. Our restructurings in April 2004 and September 2005 were related to our acquisition of Syniverse Holdings Limited (formerly Softwright Holdings, Ltd). Our restructuring in February 2006 was related to a restructuring plan in our marketing group and our restructuring in August 2006 was related to a restructuring plan affecting our operations and marketing groups.

(3) Impairment losses on intangible assets in 2003 relate primarily to the trademark value associated with our previous corporate name of \$51.0 million and to certain capitalized software costs of \$2.7 million which will no longer be recoverable due to our phase-outs of other service offerings. In 2004, \$9.0 million of these losses relate to capitalized software costs associated with our phase out of certain service offerings and reduced valuation of certain call processing services and \$5.1 million relates to customer base intangible assets resulting from a technology interoperability customer notifying us that it does not intend to renew its contract for these services.

(4) EBITDA is determined by adding net interest expense, income taxes, depreciation and amortization to net income (loss). We present EBITDA because we believe that EBITDA provides useful information regarding our operating results. We rely on EBITDA as a primary measure to review and assess the operating performance of our company and our management team in connection with our executive compensation and bonus plans. We also use EBITDA to compare our current operating results with corresponding periods and with the operating results of other companies in our industry. We believe that it is useful to investors to provide disclosures of our operating results on the same basis as that used by our management. We also believe that it can assist investors in comparing our performance to that of other companies on a consistent basis without regard to depreciation, amortization, interest or taxes, which do not directly affect our operating performance. In addition, we also utilize EBITDA as a measure of our liquidity and our ability to meet our debt service obligations and satisfy our debt covenants, which are partially based on EBITDA.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for net income, cash flows from operating activities and other consolidated income or cash flows statement data prepared in accordance with accounting principles generally accepted in the United States. Some of these limitations are:

- EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;
- EBITDA does not reflect income taxes or the cash requirements for any tax payments; and
- Other companies in our industry may calculate EBITDA differently than we do, thereby limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business or as a measure of performance in compliance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA only supplementally. See our consolidated statements of operations and our consolidated statements of cash flows included in our financial statements included elsewhere in this annual report.

The following table reconciles net income (loss) to EBITDA for the periods presented. We have also provided supplemental information regarding items associated with our restructuring expense and intangible asset impairments.

	Predecessor	Successor				
	Period from January 1 to February 13, 2002	Period from February 14 to December 31, 2002	Year Ended December 31,			
			2003	2004	2005	2006
	(dollars in thousands)					
Reconciliation of EBITDA to Net Income (Loss):						
Net income (loss) as reported	$ 6,917	$ 631	$(57,926)	$ 15,063	$ 9,804	$ 89,724
Interest expense, net	(432)	53,140	57,360	51,780	32,690	25,504
Depreciation and amortization	1,464	33,285	37,319	41,972	46,815	41,172
Provision for (benefit from) income taxes	4,418	9,320	10,057	8,729	9,041	(39,574)
EBITDA	$12,367	$96,376	$ 46,810	$117,544	$ 98,350	$116,826
Supplemental information:						
Restructuring expense (i)	$ —	$ 2,845	$ 2,164	$ 289	$ 143	$ 1,006
Impairment losses on intangible assets (ii)	—	—	53,712	14,056	—	—
Loss on extinguishment of debt (iii)	—	—	—	—	(42,804)	(924)
Facility move (iv)	—	—	—	—	2,671	5,298
Loss on disposal of assets (v)	—	—	—	—	612	—

(i) Restructuring expense is comprised primarily of severance benefits associated with our cost rationalization initiatives, which were implemented in August 2002, February 2003, July 2003, April 2004, September 2005, February 2006 and August 2006. The restructurings occurring between February 2003 and September 2005 were related to two acquisitions. This excludes amounts related to acquisitions where restructuring costs were accrued as a part of purchase accounting. The restructurings for 2006 were related to internal reorganizations.

(ii) Impairment losses on intangible assets in 2003 relate primarily to the trademark value associated with our previous corporate name of \$51.0 million and to certain capitalized software costs of \$2.7 million, which will no longer be recoverable due to our phase-outs of certain service offerings. In 2004, \$9.0 million of these losses relate to capitalized software costs associated with our phase out of other service offerings and reduced valuation of certain call processing services and \$5.1 million relates to customer base intangible assets resulting from a technology interoperability customer recently notifying us that it does not intend to renew its contract for these services.

(iii) Loss on extinguishment of debt relates to the early extinguishment of debt related to our previous senior credit facility, repaid in February 2005 and the February 2005 and August 2005 tender for our 12 3/4% senior subordinated notes due 2009. In February 2005, we recognized a loss of \$23.8 million on the early extinguishment of debt related to our previous senior credit facility and the tender of 35% of our 12 3/4% senior subordinated notes. The loss includes a non-cash write-off of \$6.0 million of unamortized deferred financing costs and \$5.4 million of unamortized debt discount relating to the previous senior credit facility and the tendered portion of the 12 ¾% senior subordinated notes, as well as a \$12.4 million cash charge related to the prepayment premium on the tendered portion of the senior subordinated notes. In August 2005, we recognized \$19.0 million on the early extinguishment of debt related to the tender of \$144.8 million of our 12 3/4% senior subordinated notes. The loss includes a non-cash write-off of \$2.6 million of unamortized deferred financing costs and \$1.6 million of unamortized debt discount, as well as a \$14.3 million cash charge related to the prepayment premium and \$0.5 million of other costs. In February 2006, we redeemed all outstanding 12 3/4% senior subordinated notes due 2009 resulting in a prepayment premium of \$0.9 million.

(iv) Facilities move expenses consist of expenses incurred related to our headquarters relocation, which commenced in the fourth quarter of 2005.

(v) Loss on disposal of assets relates to the retirement of computer equipment related to our call processing services.

The following table reconciles cash flows from operations to EBITDA for the periods presented.

	Predecessor	Successor				
	Period from January 1 to February 13, 2002	Period from February 14 to December 31, 2002	Year Ended December 31, 2003	2004	2005	2006
		(dollars in thousands)				
Reconciliation of Cash Flows from Operations to EBITDA:						
Net cash provided by operating activities	\$ 1,185	\$59,756	\$ 48,422	\$ 85,696	\$110,577	\$ 97,811
Net interest paid (collected)	315	30,187	46,152	44,296	40,695	26,455
Pension and other employee retirement benefits	(546)	—	—	—	—	—
Impairment losses on intangible assets	—	—	(53,712)	(14,056)	—	—
Gain on sale of marketable securities	—	—	—	—	1,446	119
Loss on extinguishment of debt	—	—	—	—	(42,804)	(924)
Other working capital changes	12,753	15,496	19,522	8,615	(7,796)	(2,981)
Changes in other non-cash items	(1,340)	(9,456)	(11,489)	(9,054)	(4,774)	(4,116)
Other assets and liabilities	—	393	(2,085)	2,047	1,006	462
EBITDA	\$12,367	\$96,376	\$ 46,810	\$117,544	\$ 98,350	\$116,826

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the information set forth under "Selected Historical Financial Data" and our consolidated financial statements and the notes to those statements included elsewhere herein. The statements in this discussion regarding our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" and "Forward-Looking Statements." Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Company History

Our business was founded in 1987 as GTE Telecommunication Services Inc., a unit of GTE. In early 2000, GTE combined our business with its Intelligent Network Services business to further broaden our network services offering. In June 2000, when GTE and Bell Atlantic merged to form Verizon Communications Inc., we became an indirect, wholly owned subsidiary of Verizon. In February 2002, we were acquired from Verizon by members of our senior management team and an investor group led by GTCR Golder Rauner, LLC (GTCR).

On February 9, 2005, Syniverse Holdings, LLC (Syniverse LLC) entered into an Amendment No. 1 to Limited Liability Company Agreement and Dissolution Agreement, dated as of February 9, 2005, with Syniverse Holdings, Inc. (Syniverse Inc.) and certain members of Syniverse LLC (the Dissolution Agreement). The Dissolution Agreement provided, among other things, for (i) the distribution of the capital stock of Syniverse Inc. to the members of Syniverse LLC, (ii) the termination of certain equity agreements among Syniverse LLC and its members and (iii) the subsequent dissolution of Syniverse LLC.

On February 9, 2005, we merged our subsidiaries, Syniverse Networks and Syniverse Finance, with and into Syniverse Technologies, Inc. (Syniverse).

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 were $261.0 million after deducting underwriting discounts, commissions and expenses, and, along with the $240.0 million received from our new credit facility, were used primarily to redeem 124,876 shares of our class A cumulative redeemable preferred stock as described below, tender for 35% of our 12 3/4% senior subordinated notes and repay our previous senior credit facility.

On February 15, 2005, we redeemed 124,876 shares of our class A cumulative redeemable convertible preferred stock including accrued and unpaid dividends with $176.5 million of proceeds received from our initial public offering completed on February 10, 2005.

On March 28, 2005, we converted the remaining 115,604 shares of our class A cumulative redeemable convertible preferred stock including accrued and unpaid dividends at a liquidation value of $163.4 million into 10,209,598 shares of our class A common stock.

Acquisitions

On September 30, 2004, we acquired the wireless clearinghouse business of IOS North America from EDS. We paid $53.7 million on the date of the acquisition and an additional $1.1 million in January 2005 resulting from the settlement of the final working capital adjustment pursuant to the purchase agreement. We financed the acquisition through increased borrowings under our previous senior credit facility and available cash. The primary services of IOS North America include wireless voice and data clearinghouse services. These post-acquisition revenues are reported in Technology Interoperability Services.

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 $45.0 million, in cash including preliminary working capital adjustments and earn-out to sellers of approximately $6.2 million. In connection with the acquisition, we incurred $1.1 million in acquisition related costs. In addition, the purchase agreement contains certain earn-out provisions, pursuant to which the sellers may receive up to $7.0 million in additional cash consideration based upon achieving certain levels of revenues and EBITDA. Headquartered in Hong Kong, ITHL is a leading provider of value-added services to carriers 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.

Introduction

We provide an integrated suite of services to wireless telecommunications carriers that meet the evolving technology requirements of the wireless industry. These services include:

- **Technology Interoperability Services.** We operate the largest wireless clearinghouse in the world that enables the accurate invoicing and settlement of domestic and international wireless roaming telephone calls and wireless data events. We also provide SMS and MMS routing and translation services between carriers. In addition, we provide mobile data solutions that include interactive video and mobile broadband solutions, prepaid applications and value-added roaming services through our acquisition of ITHL.
- **Network Services.** Through our SS7 network, we connect disparate wireless carrier networks and enable access to intelligent network database services such as caller ID and provide translation and routing services to support the delivery and establishment of telephone calls.
- **Number Portability Services.** Our number portability services are used by many wireless carriers, including the five largest domestic carriers, to enable wireless subscribers to switch service providers while keeping the same telephone number.
- **Call Processing Services.** We provide wireless carriers global call handling and fraud management solutions that allow wireless subscribers from one carrier to make and accept telephone calls while roaming on another carrier's network.
- **Enterprise Solutions.** Our enterprise wireless data management platform allows carriers to offer large corporate customers reporting and analysis tools to manage telecom-related expenses.
- **Off-Network Database Queries.** We provide our network customers with access to various third-party intelligent network databases.

Revenues

Most of our revenues are transaction-based and derived from long-term contracts, typically with terms averaging three years in duration. Most of the services and solutions we offer to our customers are based on applications, network connectivity and technology platforms owned and operated by us. We also generate revenues through the sale of software licenses, hardware and professional services. We generate our revenues through the sale of our technology interoperability services, network services, number portability services, call processing services and enterprise solutions to telecommunications carriers throughout the world. In order to encourage higher customer transaction volumes, we generally negotiate tiered and flat rate pricing schedules with our customers based on certain established transaction volume levels. As a result, the average per-transaction fee for many of our products has declined over time as customers have increasingly used our services and transaction volumes have grown. We expect this trend to continue. Generally, there is also a slight increase in wireless roaming telephone usage and corresponding revenues in the high-travel months of the second and third fiscal quarters.

Future increases or decreases in revenues are dependent on many factors, such as industry subscriber growth, with few of these factors known in advance. From time to time, specific events such as customer contract renewals at different terms, a customer contract termination, a customer's decision to change technologies or to provide solutions in-house, will be known to us and then we can estimate their impact on our revenues.

Set forth below is a brief description of our primary service offerings and associated revenue recognition:

- **Technology Interoperability Services.** We operate the largest wireless clearinghouse in the world that enables the accurate invoicing and settlement of domestic and international wireless roaming telephone calls and wireless data events. We also provide SMS and MMS routing and translation services between carriers. Wireless carriers send data records to our service platforms for processing, aggregation, translation and distribution among carriers. We primarily generate revenues by charging per-transaction processing fees based on the number of data/messaging records provided to us by wireless carriers for our wireless roaming clearinghouse and SMS and MMS routing services. We recognize revenues at the time the transactions are processed. Over time, we expect the average per-transaction fee for certain services to continue to decline as a result of our volume-based and service bundling pricing strategy for most of our offerings as well as competitive pricing pressure. With our acquisition of ITHL, we provide mobile data solutions that include interactive video and mobile broadband solutions, prepaid applications and value-added roaming services. Some of these solutions contain multiple product and service elements which may include software and hardware products, as well as installation services, post-contract customer support and training. In those cases, we recognize revenues in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2 (SOP 97-2), *Software Revenue Recognition,* as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions.* Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is probable.

- **Network Services.** Through our SS7 network, we connect disparate wireless carrier networks and enable access to intelligent network database services such as caller ID. We also provide translation and routing services to support the delivery and establishment of telephone calls. SS7 is the telecommunications industry's standard network signaling protocol used by substantially all carriers to enable critical telecommunications functions such as line busy signals, toll-free calling services and caller ID. We primarily generate revenues by charging either per-transaction or fixed processing fees determined by expected customer volumes. 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. Over time, we expect the average per-transaction fee for certain services will continue to decline as a result of our volume-based and service bundling pricing strategy and competitive pricing pressures.

- **Number Portability Services.** We provide number portability services to the wireless industry. When wireless subscribers choose to change carriers but keep their existing telephone number, the former carrier must send the subscribers' information to the new carrier. Our services perform the necessary processing between the two carriers to allow the subscribers to change service providers while keeping their existing telephone number. We 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 and services 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 shorter of the life of the initial customer agreement or the period remaining until the amended contract end date for those contracts terminated early. We expect number portability services revenues to decrease approximately 10.0% in 2007. This decrease is attributable to contract renewals concluded in late 2006 and early 2007, offset in part by expected revenues from new customers.

- **Call Processing Services.** We provide wireless carriers global call handling and fraud management solutions that allow wireless subscribers from one carrier to make and accept calls while roaming on another carrier's network. We primarily generate revenues by charging per-transaction processing fees 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. We expect our call processing revenues will continue to decline due to the continued migration of customers off the fraud prevention services that are near the end of their life cycle.
- **Enterprise Solutions Services.** Our enterprise wireless data management platform allows carriers to offer large corporate customers reporting and analysis tools to manage telecom-related expenses. We primarily generate revenues by charging per-subscriber fees. We recognize these revenues at the time the service is performed. We expect a gradual decline in these revenues as customers migrate off of our wireless data management platform.
- **Off-Network Database Queries.** Through interconnection with other carrier networks, we have access to other service providers' databases that support caller ID and toll-free routing. If one of our customers uses our network to access another service provider's database, we are charged fees for access to that database. We pass these charges onto our customers, with little or no margin, based upon the charges we receive from these database providers. We recognize revenues at the time the transaction is performed. Over time, these revenues are expected to continue to decline as customers seek direct connections with the database providers.

For more information about how we recognize revenues for each of our service categories, please see the discussion below under "Critical Accounting Policies and Estimates."

Costs and Expenses

Our costs and expenses consist of cost of operations, sales and marketing, general and administrative and depreciation and amortization.

- Cost of operations includes data processing costs, network costs, royalty costs, hardware costs, personnel costs associated with service implementation, training and customer care and off-network database query charges.
- Sales and marketing includes personnel costs, advertising costs, trade show costs and relationship marketing costs.
- General and administrative consists primarily of research and development expenses, a portion of the expenses associated with our facilities, internal management expenses, business development expenses, and expenses for finance, legal, human resources and other administrative departments. In addition, we incur significant service development costs. These costs, which are primarily personnel, relate to technology creation, enhancement and maintenance of new and existing services. Historically, most of these costs are expensed and recorded as general and administrative expenses. The capitalized portion, which is recorded as capitalized software costs, relates to costs incurred during the application development stage for the new service offerings and significant service enhancements.
- Depreciation and amortization relate primarily to our property and equipment including our SS7 network, infrastructure facilities related to information management and other intangible assets recorded in purchase accounting.

Results of Operations

Comparison of 2006 and 2005

The following table presents an overview of our results of operations for the years ended December 31, 2006 and 2005:

	Year Ended December 31, 2005	% of Revenues	Year Ended December 31, 2006	% of Revenues	2006 vs. 2005 $	$ Change %
			(dollars in thousands)			
Revenues:						
Technology Interoperability Services	$108,429	31.7%	$138,655	41.1%	$ 30,226	27.9%
Network Services	132,120	38.7%	124,832	37.0%	(7,288)	(5.5)%
Number Porting Services	50,836	14.9%	28,766	8.5%	(22,070)	(43.4)%
Call Processing Services	28,619	8.4%	29,315	8.7%	696	2.4%
Enterprise Solutions	11,026	3.2%	7,289	2.2%	(3,737)	(33.9)%
Revenues excluding Off-Network Data Base Query Fees	331,030	96.9%	328,857	97.6%	(2,173)	(0.7)%
Off-Network Database Query Fees	10,761	3.1%	8,162	2.4%	(2,599)	(24.2)%
Total revenues	341,791	100.0%	337,019	100.0%	(4,772)	(1.4)%
Costs and expenses:						
Cost of operations	129,190	37.8%	134,641	40.0%	5,451	4.2%
Sales and marketing	23,344	6.8%	25,446	7.6%	2,102	9.0%
General and administrative	49,396	14.5%	58,508	17.4%	9,112	18.4%
Depreciation and amortization	46,815	13.7%	41,172	12.2%	(5,643)	(12.1)%
Restructuring	143	0.0%	1,006	0.3%	863	603.5%
	248,888	72.8%	260,773	77.4%	11,885	4.8%
Operating income	92,903	27.2%	76,246	22.6%	(16,657)	(17.9)%
Other income (expense), net:						
Interest income	1,957	0.6%	1,824	0.5%	(133)	(6.8)%
Interest expense	(34,647)	(10.2)%	(27,328)	(8.1)%	7,319	(21.1)%
Loss on extinguishment of debt	(42,804)	(12.5)%	(924)	(0.3)%	41,880	(97.8)%
Other, net	1,436	0.4%	332	0.1%	(1,104)	(76.9)%
	(74,058)	(21.7)%	(26,096)	(7.7)%	47,962	(64.8)%
Income before provision for (benefit from) income taxes	18,845	5.5%	50,150	14.9%	31,305	166.1%
Provision for (benefit from) income taxes	9,041	2.6%	(39,574)	(11.7)%	(48,615)	(537.7)%
Net income	9,804	2.9%	89,724	26.6%	79,920	815.2%
Preferred stock dividends	(4,195)	(1.2)%	—	0.0%	4,195	(100.0)%
Net income attributable to common stockholders	$ 5,609	1.7%	$ 89,724	26.6%	$ 84,115	1499.6%

Revenues

Total revenues decreased $4.8 million to $337.0 million for the year ended December 31, 2006 from $341.8 million for 2005. Excluding Off-Network Database Query Fees, which decreased $2.6 million for the year ended December 31, 2006, total revenues decreased $2.2 million for the year ended December 31, 2006. The decrease in revenues was primarily due to decreases in our Number Portability Services due to the Sprint migration of the number portability error resolution services and decreases in Network Services, Enterprise Solutions and Off-Network Database Query Fees, offset in part, by increases in Technology Interoperability Services, which includes the addition of revenues from our acquisition of ITHL, and Call Processing Services.

Technology Interoperability Services revenues increased $30.2 million to $138.7 million for the year ended December 31, 2006 from $108.4 million for 2005. The increase in revenues was primarily due to organic volume growth in our wireless clearinghouse services and SMS services, and the addition of revenues from our acquisition of ITHL, partially offset by a decline in revenues due to a competitive pricing environment and a decline in per-transaction fees pursuant to our volume-based and service bundling pricing strategy for certain services.

During the preparation of our 2006 annual financial statements, we discovered a customer billing error related to one of our services. As a result, we determined that our revenues were overstated during the period from October 2005 to September 2006 by $2.4 million, of which $0.1 million related to the fourth quarter of 2005. We reviewed the impact of the error on the fourth quarter of 2005 and through the third quarter of 2006 and concluded that the cumulative impact of the error was not material to the previously reported quarters. As a result, we have recorded the full amount of the error in the fourth quarter of 2006.

Network Services revenues decreased $7.3 million to $124.8 million for the year ended December 31, 2006 from $132.1 million for 2005. The decrease in revenues was primarily due to the migration off our services platform by some of our customers and price concessions commensurate with our volume-based and service bundling pricing strategy for certain of our services and a competitive pricing environment. In addition, two of our SS7 customers have substantially completed the process of replacing our SS7 network solution. This replacement has resulted in the reduction of 2006 network services revenues by $6.3 million. We expect network services revenues to be at least $10.0 million lower in 2007 compared to 2006, given the impact of these two specific customer migrations and a continued competitive pricing environment.

Number Portability Services revenues decreased $22.1 million to $28.8 million for the year ended December 31, 2006 from $50.8 million for 2005. The decrease in revenues was primarily due to lower port center activity related to the Sprint migration. During the fourth quarter of 2004, we received notice from Sprint of its intention to move number portability error resolution services provided by us to its own internal platforms effective May 24, 2005. We continued to provide limited number portability error resolution services to Sprint until December 31, 2005. In April 2005, we signed a transitional support services agreement with Sprint to assist in its migration of the number portability error resolution services to its internal platforms. We accelerated the amortization of deferred Sprint implementation fees and the associated deferred Sprint implementation costs to fully amortize these ratably over the year ended December 31, 2005. We also amortized the transition fee over the 2005 fiscal year. After 2005, we no longer received revenues from Sprint for these services. We expect to continue providing Sprint with number portability services other than number portability error resolution services. The Sprint migration reduced total 2006 revenues by $19.3 million, excluding the effect of any new or expanded services. We expect number portability services revenues to decrease approximately 10.0% in 2007. This decrease is attributable to contract renewals concluded in late 2006 and early 2007, offset in part by expected revenue from new customers.

Call Processing Services revenues increased $0.7 million to $29.3 million for the year ended December 31, 2006 from $28.6 million for 2005. The increase in revenues was attributable to increased international roaming volumes driven by increased demand for our signaling solutions services, offset in part by a reduction of our traditional call processing solution. We expect call processing services revenues to decrease approximately 10.0% in 2007. This expected decrease is due to the continued migration of customers off the fraud prevention services that are near the end of their service life cycle.

Enterprise Solutions Services revenues decreased $3.7 million to $7.3 million for the year ended December 31, 2006 from $11.0 million for 2005. The decrease in revenues was primarily due to a lower number of subscribers on our enterprise wireless data management platform. We expect a revenue decline of approximately the same amount in 2007.

Off-Network Database Queries revenues decreased $2.6 million to $8.2 million for the year ended December 31, 2006 from $10.8 million for 2005. The decrease in revenues was primarily driven by customers moving to direct access and billing arrangements with third-party intelligent network database providers. We pass these off-network database query fees onto our customers, with little or no margin, based upon the charges we receive from the third-party database providers. We expect this decline to continue.

Expenses

Cost of operations increased $5.5 million to $134.6 million for the year ended December 31, 2006 from $129.2 million for 2005. The increase was primarily due to operational costs associated with our acquisition of ITHL, partially offset by a decrease in operational costs related to our number porting services primarily due to the Sprint migration and decreases in our off-network database queries services.

Sales and marketing expenses increased $2.1 million to $25.4 million for the year ended December 31, 2006 from $23.3 million for 2005. The increase is primarily due to sales and marketing expenses related to our acquisition of ITHL, higher employee-related costs for international expansion and increased trade show expenses.

General and administrative expenses increased $9.1 million to $58.5 million for the year ended December 31, 2006 from $49.4 million for 2005. This increase was primarily due to $5.3 million related solely to the relocation of our corporate headquarters, including $1.3 million associated with the early lease termination of our former corporate headquarters, $1.7 million related to higher product development expenses, $0.4 million in costs associated with our litigation settlements, expenses associated with our acquisition of ITHL and expenses associated with operating as a public company.

Depreciation and amortization expenses decreased $5.6 million to $41.2 million for the year ended December 31, 2006 from $46.8 million for 2005. The decrease was primarily due to lower amortization of intangible assets associated with the Verizon Revenue Guarantee agreement which expired in December 2005 and lower amortization expense related to a certain intangible asset associated with the IOS North America customer base, offset in part by additional amortization of intangible assets from our acquisition of ITHL. Included in our depreciation and amortization expenses for the year ended December 31, 2006 and 2005 is approximately $17.8 million and $24.4 million, respectively, in amortization related to intangible assets recorded in purchase accounting due to our February 2002 acquisition from Verizon, our December 2003 acquisition of Syniverse Holdings Limited (formerly Softwright Holdings, LTD), our September 2004 acquisition of IOS North America and our June 2006 acquisition of ITHL.

Restructuring expense was $1.0 million and $0.1 million for the years ended December 31, 2006 and 2005, respectively. In February 2006, we completed a restructuring plan in our marketing group resulting in the termination of eight employees. As a result, we incurred $0.3 million in severance related costs. In August 2006, we completed a restructuring plan in our operations and marketing groups, resulting in the termination of thirty employees. As a result, we incurred $0.7 million in severance related costs.

Other

Interest income decreased $0.1 million to $1.8 million for the year ended December 31, 2006 from $1.9 million for 2005 primarily due to interest income earned on lower average cash balances.

Interest expense decreased $7.3 million to $27.3 million for the year ended December 31, 2006 from $34.6 million for 2005. The decrease was primarily a result of our recapitalization occurring in the first quarter of

2005 in connection with our initial public offering, which lowered our average outstanding debt balance and interest rate, and the refinancing of our remaining 12 3/4% senior subordinated notes due 2009 in the third quarter of 2005.

Loss on extinguishment of debt was \$0.9 million and \$42.8 million for the years ended December 31, 2006 and 2005, respectively. In February 2006, we redeemed all outstanding 12 3/4% senior subordinated notes due 2009 resulting in a prepayment premium of \$0.9 million. In February 2005, we recognized \$23.8 million on the early extinguishment of debt related to our previous senior credit facility and the repurchase of \$85.8 million of our 12 3/4% senior subordinated notes due 2009. The loss included a non-cash write-off of \$6.0 million of unamortized deferred financing costs and \$5.4 million of unamortized debt discount relating to the previous senior credit facility and the repurchased portion of the 12 3/4% senior subordinated notes due 2009, as well as a \$12.4 million cash charge related to the prepayment premium on the repurchased portion of the 12 ¾% senior subordinated notes due 2009. In August 2005, we recognized \$19.0 million on the early extinguishment of debt related to the tender of \$144.8 million of our 12 3/4% senior subordinated notes due 2009. The loss includes a non-cash write-off of \$2.6 million of unamortized deferred financing costs and \$1.6 million of unamortized debt discount, as well as a \$14.3 million cash charge related to the prepayment premium and \$0.5 million of other costs.

Other, net decreased \$1.1 million to \$0.3 million for the year ended December 31, 2006 from \$1.4 million for 2005, and is comprised of non-operating revenues and gains from the sale of marketable securities.

Provision for income taxes was \$9.0 million for the year ended December 31, 2005. *Benefit from income taxes* was \$39.6 million for the year ended December 31, 2006. During the year ended December 31, 2006, we reversed a significant portion of our net deferred tax asset valuation allowance. The valuation allowance, originally established in 2003, and adjusted annually thereafter, was recorded because the realization of those deferred tax assets did not meet the more-likely-than-not criteria under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). Based upon an evaluation of our most recent seven quarters of profitability and our expectations of continued net income, a tax benefit for the deferred tax assets was recognized in the fourth quarter as we determined that we have met the more-likely-than not criteria related to those deferred tax assets. The benefit reduced our estimated annual effective tax rate to approximately (78.9)%. As of December 31, 2006, based upon our judgment, we will continue to maintain a valuation allowance for certain other deferred tax assets primarily associated with foreign and state net operating loss carry-forwards and capital loss carry forwards.

Preferred stock dividends were \$4.2 million for the year ended December 31, 2005. The undeclared and unpaid preferred dividends relate to the 10% preferred yield on Syniverse Inc.'s class A cumulative redeemable convertible preferred stock issued on February 14, 2002. On February 15, 2005, we redeemed 124,876 shares of our class A cumulative redeemable convertible preferred stock, including accrued and unpaid dividends, at a liquidation value of \$176.5 million with proceeds received from our initial public offering. On March 28, 2005, pursuant to the terms of our second amended and restated certificate of incorporation, all of our outstanding shares of class A cumulative redeemable convertible preferred stock were converted into 10,209,598 shares of our common stock based upon the liquidation value (plus accrued and unpaid dividends) of the class A cumulative redeemable convertible preferred stock using the initial public offering price of \$16 per share. We had no shares of class A cumulative redeemable preferred stock outstanding as of December 31, 2006.

Comparison of 2005 and 2004

The following table presents an overview of our results of operations for the years ended December 31, 2005 and 2004:

	Year Ended December 31, 2004	% of Revenues	Year Ended December 31, 2005	% of Revenues	2005 vs. 2004 $	$ Change %
			(dollars in thousands)			
Revenues:						
Technology Interoperability Services	$ 81,077	24.4%	$108,429	31.7%	$ 27,352	33.7%
Network Services	130,408	39.2%	132,120	38.7%	1,712	1.3%
Number Porting Services	48,478	14.6%	50,836	14.9%	2,358	4.9%
Call Processing Services	34,569	10.4%	28,619	8.4%	(5,950)	(17.2)%
Enterprise Solutions	14,122	4.3%	11,026	3.2%	(3,096)	(21.9)%
Revenues excluding Off-Network Data Base Query Fees	308,654	92.9%	331,030	96.9%	22,376	7.2%
Off-Network Database Query Fees	23,749	7.1%	10,761	3.1%	(12,988)	(54.7)%
Total revenues	332,403	100.0%	341,791	100.0%	9,388	2.8%
Costs and expenses:						
Cost of operations	138,484	41.7%	129,190	37.8%	(9,294)	(6.7)%
Sales and marketing	20,244	6.1%	23,344	6.8%	3,100	15.3%
General and administrative	41,774	12.6%	49,396	14.5%	7,622	18.2%
Depreciation and amortization	41,972	12.6%	46,815	13.7%	4,843	11.5%
Restructuring	289	0.1%	143	0.0%	(146)	(50.5)%
Impairment losses on intangible assets	14,056	4.2%	—	0.0%	(14,056)	(100.0)%
	256,819	77.3%	248,888	72.8%	(7,931)	(3.1)%
Operating income	75,584	22.7%	92,903	27.2%	17,319	22.9%
Other income (expense), net:						
Interest income	1,148	0.3%	1,957	0.6%	809	70.5%
Interest expense	(52,928)	(15.9)%	(34,647)	(10.2)%	18,281	(34.5)%
Loss on extinguishment of debt	—	0.0%	(42,804)	(12.5)%	(42,804)	100.0%
Other, net	(12)	(0.0)%	1,436	0.4%	1,448	12,066.7%
	(51,792)	(15.6)%	(74,058)	(21.7)%	(22,266)	43.0%
Income before provision for income taxes	23,792	7.1%	18,845	5.5%	(4,947)	(20.8)%
Provision for income taxes	8,729	2.6%	9,041	2.6%	312	3.6%
Net income	15,063	4.5%	9,804	2.9%	(5,259)	(34.9)%
Preferred stock dividends	(31,564)	(9.5)%	(4,195)	(1.2)%	27,369	(86.7)%
Net income (loss) attributable to common stockholders	$ (16,501)	(5.0)%	$ 5,609	1.8%	$ 22,110	134.0%

Revenues

Total revenues increased $9.4 million to $341.8 million for the year ended December 31, 2005 from $332.4 million for 2004. Excluding Off-Network Database Query Fees, total revenues increased $22.4 million for the year ended December 31, 2005. The increase in revenues was primarily due to organic volume growth in Technology Interoperability Services, the addition of IOS North America results, growth in Network Services and Number Porting Services revenues offset in part by decreases in Call Processing Services and Enterprise Solutions Services revenues.

During the fourth quarter of 2004, we renewed our contract with Verizon Wireless. Consistent with our overall pricing strategy, the terms of the new contract reflect lower pricing that will, in the near term, reduce our revenues from this customer. The impact was approximately $5.0 million for the year ended December 31, 2005 as compared to the same period in 2004. Over an extended time period, we believe these decreases will likely be offset in part by higher transaction volumes as well as additional service offerings to Verizon Wireless.

Technology Interoperability Services revenues increased $27.4 million to $108.4 million for the year ended December 31, 2005 from $81.1 million for 2004. The increase in revenues was primarily due to organic volume growth in our wireless clearinghouse services and the acquisition of IOS North America, partially offset by a decline in per-transaction fees pursuant to our volume-based pricing strategy for certain services and a competitive pricing environment.

Network Services revenues increased $1.7 million to $132.1 million for the year ended December 31, 2005 from $130.4 million for 2004. The increase in revenues was primarily due to volume growth in our GSM transport and intelligent network database services, partially offset by a decline in per-transaction fees pursuant to our volume-based pricing strategy for certain of our services and a competitive pricing environment. In addition, two of our SS7 customers announced that they intended to replace our SS7 network solution. This replacement has resulted in the reduction of 2006 network services revenues by $6.3 million.

Number Portability Services revenues increased $2.4 million to $50.8 million for the year ended December 31, 2005 from $48.5 million for 2004. The increase in revenues was primarily due to higher porting activity. During the fourth quarter of 2004, we received notice from Sprint of its intention to move number portability error resolution services provided by us to its own internal platforms effective May 24, 2005. However, we continued to provide limited number portability error resolution services to Sprint until December 31, 2005. In April 2005, we signed a transitional support services agreement with Sprint to assist in their migration of the number portability error resolution services to their internal platforms. We have accelerated the amortization of deferred Sprint implementation fees and the associated deferred Sprint implementation costs to fully amortize these over the year ended December 31, 2005. We also amortized the transition fee over the 2005 fiscal year. Based on this new agreement, the 2005 number portability revenues from Sprint were relatively comparable to 2004 revenues, however, we will no longer have any revenues from Sprint for these services in future years. This decrease in revenues will be partially offset by decreased costs associated with providing these services. We expect to continue providing Sprint with number portability services other than number portability error resolution services. The Sprint migration reduced total 2006 revenues by $19.3 million, excluding the effect of any new or expanded services.

Call Processing Services revenues decreased $6.0 million to $28.6 million for the year ended December 31, 2005 from $34.6 million for 2004. The decline in call processing revenues was attributable to technology developments that have resulted in traditional call processing functionality being incorporated into more cost-effective SS7 network solutions. This has resulted in customers increasingly moving from our call processing solution to our SS7 network, a competitor's SS7 network, in-house SS7 networks and/or direct connections with roaming partners. We expect this decline to continue.

Enterprise Solutions Services revenues decreased $3.1 million to $11.0 million for the year ended December 31, 2005 from $14.1 million for 2004. The decrease in revenues was primarily due to lower subscribers on our enterprise wireless data management platform. We expect this decline to continue.

Off-Network Database Queries revenues decreased $13.0 million to $10.8 million for the year ended December 31, 2005 from $23.7 million for 2004. The decrease in revenues was primarily driven by customers moving to direct access and billing arrangements with third-party intelligent network database providers. We pass off-network database query fees onto our customers, with little or no margin, based upon the charges we receive from the third-party database providers. We expect this decline to continue.

Expenses

Cost of operations decreased $9.3 million to $129.2 million for the year ended December 31, 2005 from $138.5 million for 2004. The decrease was primarily due to a reduction in our off-network database queries services and decreased operational costs related to our number porting services due to the Sprint migration, partially offset by increases in data processing costs.

Sales and marketing expenses increased $3.1 million to $23.3 million for the year ended December 31, 2005 from $20.2 million for 2004. The increase was primarily due to higher employee expenses related to our international expansion.

General and administrative expenses increased $6.9 million to $48.9 million for the year ended December 31, 2005 from $41.9 million for 2004. The increase was primarily due to higher product development expenses related to the integration of IOS North America, the relocation of our corporate headquarters, higher expenses associated with operating as a public company, and $1.2 million in costs associated with potential acquisitions that were not consummated.

Depreciation and amortization expenses increased $4.8 million to $46.8 million for the year ended December 31, 2005 from $42.0 million for 2004. The increase was primarily due to higher depreciation and amortization expenses incurred in connection with our continuing capital expenditures related to our SS7 network and the intangible assets established as a part of purchase accounting for the IOS North America acquisition. Included in our depreciation and amortization expenses for the years ended December 31, 2005 and 2004 is approximately $24.4 million and $22.7 million, respectively, in amortization related to intangible assets recorded in purchase accounting due to our February 2002 acquisition from Verizon, our December 2003 acquisition of Syniverse Holdings Limited and our September 2004 acquisition of IOS North America.

Restructuring expenses decreased $0.1 million to $0.2 million for the year ended December 31, 2005 from $0.3 million for 2004. In September 2005, we formulated a restructuring plan to eliminate redundant positions at our Syniverse Holdings Limited subsidiary. As a result, we incurred $0.2 million in severance related costs in September 2005. In April 2004, we completed a restructuring plan in connection with our acquisition of Syniverse Holdings Limited resulting in the termination of ten employees. As a result, we incurred $0.3 million in severance related costs in April 2004.

Other

Interest income increased $0.8 million to $2.0 million for the year ended December 31, 2005 from $1.1 million for 2004. The increase was primarily attributable to interest income earned from higher cash balances.

Interest expense decreased $18.3 million to $34.6 million for the year ended December 31, 2005 from $52.9 million for 2004. The decrease was primarily a result of our recapitalization occurring in the first quarter of 2005 in connection with our initial public offering, which lowered our average outstanding debt balance and interest rate, and the refinancing of our remaining 12 3/4% senior subordinated notes due 2009 in the third quarter of 2005.

Loss on extinguishment of debt was $42.8 million for the year ended December 31, 2005. In February 2005, we recognized $23.8 million on the early extinguishment of debt related to our previous senior credit facility and the tender of $85.6 million of our 12 3/4% senior subordinated notes due 2009. The loss includes a non-cash write-off of $6.0 million of unamortized deferred financing costs and $5.4 million of unamortized debt discount relating to the previous senior credit facility and the tendered portion of the 12¾% senior subordinated notes due 2009, as well as a $12.4 million cash charge related to the prepayment premium on the tendered portion of the 12¾% senior subordinated notes due 2009. In August 2005, we recognized $19.0 million on the early extinguishment of debt related to the tender of $144.8 million of our 12¾% senior subordinated notes due 2009. The loss includes a non-cash write-off of $2.6 million of unamortized deferred financing costs and $1.6 million of unamortized debt discount, as well as a $14.3 million cash charge related to the prepayment premium and $0.5 million of other costs.

Other, net was $1.4 million for the year ended December 31, 2005. The gain is the result of the sale of marketable securities in the fourth quarter of 2005.

Provision for income taxes increased $0.3 million to $9.0 million for the year ended December 31, 2005 from $8.7 million for 2004. Our provision primarily represents the increase in deferred tax liabilities related to goodwill. Primarily as a result of our impairment loss in the fourth quarter of 2003, we concluded that it was appropriate to establish a full valuation allowance against our net deferred tax assets, excluding deferred tax liabilities related to goodwill. We expect to continually evaluate this allowance and will reduce it as the utilization of these NOLs becomes more likely than not. The deferred tax assets arise primarily from federal net operating losses, which expire between 2006 and 2025. These losses relate primarily to Brience's operations in periods prior to February 14, 2002. In addition, because we do not amortize goodwill for financial reporting purposes and cannot predict if or when this deferred tax liability will be payable, we are unable to consider these goodwill-related deferred tax liabilities at December 31, 2005 in this analysis of our valuation allowance.

Preferred stock dividends were $4.2 million for the year ended December 31, 2005 and $31.6 million for the year ended December 31, 2004. The undeclared and unpaid preferred dividends relate to the 10% preferred yield on Syniverse Inc.'s class A cumulative redeemable convertible preferred stock issued on February 14, 2002. The 2004 amounts are recorded as a part of the class A redeemable preferred stock balance. On February 15, 2005, we redeemed 124,876 shares of our class A cumulative redeemable convertible preferred stock including accrued and unpaid dividends at a liquidation value of $176.5 million with proceeds received from our initial public offering. On March 28, 2005, pursuant to the terms of our second amended and restated certificate of incorporation, all of our outstanding shares of class A cumulative redeemable convertible preferred stock were converted into 10,209,598 shares of our common stock based upon the liquidation value (plus accrued and unpaid dividends) of the class A cumulative redeemable convertible preferred stock using the initial public offering price of $16 per share. We had no shares of class A cumulative redeemable preferred stock outstanding as of December 31, 2005.

Selected Quarterly Results of Operations

The following table sets forth selected unaudited statement of income data for the eight quarters ended December 31, 2006, both in dollar amounts and as a percentage of total revenues. This data should be read in conjunction with the audited financial statements for the years ended December 31, 2005 and 2006 and related notes included elsewhere herein. 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.

	Quarter Ended							
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Revenues:								
Technology Interoperability Services	$ 23,199	$27,201	$ 30,662	$27,368	$25,837	$30,798	$42,996	$ 39,024
Network Services	32,232	33,415	35,227	31,246	31,493	31,549	31,911	29,879
Number Porting Services	11,669	12,607	13,300	13,260	6,730	7,220	7,682	7,134
Call Processing Services	6,403	7,322	7,158	7,735	7,191	7,288	7,596	7,240
Enterprise Solutions	3,082	2,927	2,517	2,500	2,130	2,084	1,792	1,283
Revenues (excluding Off-Network Database Query Fees)	76,585	83,472	88,864	82,109	73,381	78,939	91,977	84,560
Off-Network Database Query Fees	2,834	3,403	3,015	1,509	2,036	3,255	1,590	1,281
Total revenues	79,419	86,875	91,879	83,618	75,417	82,194	93,567	85,841
Costs and expenses:								
Cost of operations	32,426	34,446	31,603	30,715	31,206	33,545	35,196	34,694
Sales and marketing	5,662	5,812	6,227	5,643	5,493	6,871	6,297	6,785
General and administrative	10,154	12,380	13,649	13,213	17,311	13,673	13,566	13,958
Depreciation and amortization	11,885	12,190	11,246	11,494	9,981	9,868	10,685	10,638
Restructuring	—	—	143	—	338	—	668	—
	60,127	64,828	62,868	61,065	64,329	63,957	66,412	66,075
Operating income	19,292	22,047	29,011	22,553	11,088	18,237	27,155	19,766
Other income (expense), net:								
Interest income	339	398	587	633	634	445	327	418
Interest expense	(10,504)	(8,590)	(8,492)	(7,061)	(6,742)	(6,707)	(7,018)	(6,861)
Loss on extinguishment of debt	(23,788)	—	(19,016)	—	(924)	—	—	—
Other, net	—	—	(6)	1,442	119	211	57	(55)
	(33,953)	(8,192)	(26,927)	(4,986)	(6,913)	(6,051)	(6,634)	(6,498)
Income (loss) before provision for (benefit from) income taxes	(14,661)	13,855	2,084	17,567	4,175	12,186	20,521	13,268
Provision for (benefit from) income taxes	2,291	2,077	2,379	2,294	625	2,699	2,939	(45,837)
Net income (loss)	(16,952)	11,778	(295)	15,273	3,550	9,487	17,582	59,105
Preferred stock dividends	(4,195)	—	—	—	—	—	—	—
Net income (loss) attributable to common stockholders	$(21,147)	$11,778	$ (295)	$15,273	$ 3,550	$ 9,487	$17,582	$ 59,105
Net income (loss) per common share:								
Basic	$ (0.43)	$ 0.18	$ (0.00)	$ 0.23	$ 0.05	$ 0.14	$ 0.26	$ 0.88
Diluted	$ (0.43)	$ 0.18	$ (0.00)	$ 0.23	$ 0.05	$ 0.14	$ 0.26	$ 0.88

	Percentage of Total Revenues for the Quarter Ended							
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Revenues:								
Technology Interoperability Services	29.2%	31.3%	33.4%	32.7%	34.3%	37.5%	46.0%	45.5%
Network Services	40.6%	38.5%	38.3%	37.4%	41.8%	38.4%	34.1%	34.8%
Number Porting Services	14.7%	14.5%	14.5%	15.8%	8.9%	8.8%	8.2%	8.3%
Call Processing Services	8.1%	8.4%	7.8%	9.3%	9.5%	8.9%	8.1%	8.4%
Enterprise Solutions	3.8%	3.4%	2.7%	3.0%	2.8%	2.5%	1.9%	1.5%
Revenues (excluding Off-Network Database Query Fees)	96.4%	96.1%	96.7%	98.2%	97.3%	96.0%	98.3%	98.5%
Off-Network Database Query Fees	3.6%	3.9%	3.3%	1.8%	2.7%	4.0%	1.7%	1.5%
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:								
Cost of operations	40.8%	39.7%	34.4%	36.7%	41.4%	40.8%	37.6%	40.4%
Sales and marketing	7.1%	6.7%	6.8%	6.7%	7.3%	8.4%	6.7%	7.9%
General and administrative	12.8%	14.3%	14.9%	15.8%	23.0%	16.6%	14.5%	16.3%
Depreciation and amortization	15.0%	14.0%	12.2%	13.7%	13.2%	12.0%	11.4%	12.4%
Restructuring	0.0%	0.0%	0.2%	0.0%	0.4%	0.0%	0.7%	0.0%
	75.7%	74.6%	68.4%	73.0%	85.3%	77.8%	71.0%	77.0%
Operating income	24.3%	25.4%	31.6%	27.0%	14.7%	22.2%	29.0%	23.0%
Other income (expense), net:								
Interest income	0.4%	0.6%	0.6%	0.8%	0.8%	0.5%	0.3%	0.5%
Interest expense	(13.2)%	(9.9)%	(9.2)%	(8.4)%	(8.9)%	(8.2)%	(7.5)%	(8.0)%
Loss on extinguishment of debt	(30.0)%	0.0%	(20.7)%	0.0%	(1.2)%	0.0%	0.0%	0.0%
Other, net	0.0%	0.0%	(0.0)%	1.7%	0.2%	0.3%	0.1%	(0.1)%
	(42.8)%	(9.3)%	(29.3)%	(6.0)%	(9.2)%	(7.4)%	(7.1)%	(7.6)%
Income (loss) before provision for (benefit from) income taxes	(18.5)%	19.7%	2.3%	21.0%	5.5%	14.8%	21.9%	15.5%
Provision for (benefit from) income taxes	2.9%	2.4%	2.6%	2.7%	0.8%	3.3%	3.1%	(53.4)%
Net income (loss)	(21.4)%	17.3%	(0.3)%	18.3%	4.7%	11.5%	18.8%	68.9%
Preferred stock dividends	(5.3)%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income (loss) attributable to common stockholders	(26.7)%	3.3%	(0.3)%	18.3%	4.7%	11.5%	18.8%	68.9%

Liquidity and Capital Resources

Cash Flow Information

During the year ended December 31, 2006, our operations generated $97.8 million of cash as compared to $110.6 million for 2005. The decrease was primarily attributable to lower income before income taxes adjusted for non-cash items and lower cash collections. Cash and cash equivalents were $26.7 million at December 31, 2006 as compared to $49.3 million at December 31, 2005. This decrease was primarily due to the payment of approximately $43.9 million, net of acquired cash, for the acquisition of ITHL, the payment of $41.8 million of principal on our senior credit facility and the early redemption of the remaining $14.5 million aggregate principal amount of our 12¾% senior subordinated notes due 2009. Our working capital decreased $6.6 million to $49.2

million at December 31, 2006 from $55.9 million at December 31, 2005. The decrease in working capital was primarily due to lower net cash from operations and higher accrued liabilities, offset in part by lower current maturities of long-term debt.

Capital expenditures for property and equipment, including capitalized software costs, decreased to $19.9 million for the year ended December 31, 2006 from $34.0 million for year ended December 31, 2005. For fiscal 2004, we incurred approximately $22.2 million for capital expenditures primarily for investment in our SS7 network. For fiscal 2005, we incurred approximately $34.0 million for capital expenditures, primarily for investment in our network, capitalized software development and capital expenditures of approximately $10.0 million associated with our lease of new office space. For fiscal 2006, we incurred approximately $19.9 million for capital expenditures, primarily for investment in our network, capitalized expenditures associated with the move to our new corporate headquarters and capitalized software development. We expect total capital expenditures in 2007 to be approximately $22.0 million.

In February 2005, we entered into a lease agreement for approximately 199,000 square feet of new office space for our headquarters in Tampa, Florida. The lease term is eleven years commencing on November 1, 2005 with lease payments beginning one year following the commencement date. In connection with this lease, through December 31, 2005, we incurred incremental operating expenses related solely to this move of $2.9 million and capital costs related solely to the facility build out of approximately $10.0 million. In 2006, we incurred $5.3 million in move related expenses, which included duplicative lease payments and a $1.3 million charge related to the early termination of our lease on our former corporate headquarters. Additionally in 2006, we incurred and capitalized $3.8 million of costs related to the move to our new corporate headquarters.

On February 1, 2006, we redeemed the remaining $14.5 million in aggregate principal amount of our outstanding 12¾% senior subordinated notes due 2009 at a premium of $0.9 million.

Our principal sources of liquidity are cash flows generated from operations and borrowings under our new senior credit facility. Our principal uses of cash are to meet debt service requirements, finance our capital expenditures, make acquisitions and provide working capital. We expect that cash available from operations combined with the availability of $42.0 million under our revolving line of credit will be sufficient to fund our operations, debt service and capital expenditures for the foreseeable future.

Debt and Credit Facilities

New Senior Credit Facility

On February 15, 2005, we entered into a $282.0 million credit agreement with Lehman Brothers Inc., as lead arranger and book manager, LaSalle Bank National Association, as syndication agent, and Lehman Commercial Paper, as administrative agent (the "Credit Agreement"). The Credit Agreement provides for a term loan of $240.0 million and a revolving credit line of $42.0 million. The obligations under the Credit Agreement are unconditionally guaranteed by Syniverse Holdings Inc. and the U.S. domestic subsidiaries of Syniverse Technologies, Inc. (the "Guarantors").

Borrowings under the new senior credit facility bear interest at a floating rate, which can be either a base rate, or at our option, a LIBOR rate, plus an applicable margin, which is presently 1.50% for the revolving loans and 1.75% for the term debt. As of December 31, 2006, the applicable interest rate was 7.37% based on the LIBOR option. The term loan facility requires regularly scheduled quarterly payments of principal and interest, and the entire amount of the term loan facility will mature on February 15, 2012. The full amount borrowed under the revolving credit line will mature on February 15, 2011.

As of December 31, 2006, we had an aggregate face amount of $136.6 million of outstanding indebtedness under our new senior credit facility representing the term note B facility and $42.0 million available under the revolving credit facility. No amounts were drawn under the revolving facility as of December 31, 2006.

The obligations under the Credit Agreement are unconditionally guaranteed by the Guarantors, and are secured by a security interest in substantially all of the tangible and intangible assets of Syniverse Technologies, Inc. ("Syniverse") and the Guarantors. The obligation under the Credit Agreement is also secured by a pledge of the capital stock of Syniverse and its direct and indirect U.S. subsidiaries.

The Credit Agreement contains covenants that will limit our ability and that of our guarantors to, among other things, incur or guarantee additional indebtedness, create liens, pay dividends on or repurchase stock, make certain types of investments, restrict dividends or other payments from Syniverse's subsidiaries, enter into transactions with affiliates, sell assets or merge with other companies. The Credit Agreement also requires compliance with several financial covenants, including a maximum ratio of total indebtedness to EBITDA and a minimum ratio of EBITDA to interest expense.

We used the $240.0 million of borrowings under the new senior credit facility in combination with the net proceeds from our IPO to repay our previous senior credit facility, to pay related transaction fees and expenses and to effect a tender offer for $85.8 million of our 12¾% senior subordinated notes due 2009.

Previous Senior Credit Facility

In February 2002, we entered into our previous senior credit facility, which provided for aggregate borrowings of up to $328.3 million. The facility was comprised of a revolving credit facility of up to $35.0 million in revolving credit loans and letters of credit with the funds available for general corporate purposes including working capital, capital expenditures, acquisitions and a term B loan facility of $293.3 million in term loans. The revolving line of credit and the term note each bore interest at variable rates based on, at our option, LIBOR or the greater of the Prime Rate and the weighted average of the rates on overnight federal funds transactions plus 0.5%.

On September 25, 2003, we amended our previous senior credit facility to: (i) increase the maximum consolidated leverage and consolidated senior debt ratios; (ii) reduce the minimum consolidated interest coverage ratios beginning with the third and fourth fiscal quarters of 2003 and the four fiscal quarters of 2004, 2005 and beyond; and (iii) reduce the minimum consolidated fixed charge coverage ratio. In addition, the amendment increased the permitted level of capital expenditures for fiscal years 2004 and 2005 and clarified that the operations of Syniverse Brience for periods prior to its acquisition would not be included in the covenant calculation.

On March 11, 2004, we further amended our previous senior credit facility to: (i) provide for the incurrence under the senior credit facility of new additional tranche B term loans, which refinanced, in full, all remaining outstanding tranche B term loans and (ii) reduce the percentage of excess cash flow which must be applied to prepay the loans to 75%. The applicable margin with respect to additional tranche B term loans was reduced to 2.5% for base rate loans and 3.5% for eurodollar loans.

On September 30, 2004, we further amended our previous senior credit facility to: (i) provide for the incurrence of new tranche B term loans, which refinanced, in full, all remaining outstanding tranche B term loans; (ii) increase the amount available under the senior credit facility by $44.5 million with borrowings of $44.5 million to fund a portion of the acquisition of the wireless clearinghouse business of IOS North America; (iii) amend various financial and other covenants; and (iv) extend the quarterly installment payment obligations of the tranche B term loans from a period ending December 31, 2006 to a period ending September 30, 2010. The applicable margin with respect to new tranche B term loans was reduced to 2.0% for base rate loans and 3.0% for eurodollar loans.

As of December 31, 2004, we had an aggregate face amount of $220.1 million of outstanding indebtedness under our previous senior credit facility representing the term B note facility, which bore interest at a variable weighted average rate of 5.4% and had a final maturity of September 30, 2010. As of December 31, 2004, there was $35.0 million available under the revolving credit facility, which had a final maturity of December 31, 2006.

On February 15, 2005, we refinanced our previous senior credit facility with a new $282.0 million senior credit facility, which contains more favorable terms with respect to, among other things, interest rates and covenants.

12¾% Senior Subordinated Notes Due 2009

On February 25, 2005, we tendered for approximately $85.8 million in aggregate principal amount of our 12¾% senior subordinated notes due 2009 reducing the aggregate principal amount outstanding to $159.3 million at that time. In connection with the tender offer, we paid a premium of $12.3 million, related fees of $0.1 million and accrued interest of $0.7 million. In addition to the prepayment premium of $12.3 million, the associated unamortized debt discount of $1.1 million and deferred finance costs of $1.8 million were recognized as loss on extinguishment of debt in the first quarter of 2005.

On August 24, 2005, we tendered for approximately $144.8 million in aggregate principal amount of our 12¾% senior subordinated notes due 2009, reducing the aggregate principal amount outstanding to $14.5 million as of September 30, 2005. In connection with the tender offer, we paid a premium of $14.3 million, related fees of $0.5 million and accrued interest of $1.2 million. In addition to the prepayment premium of $14.3 million, the associated unamortized debt discount of $1.6 million and deferred finance costs of $2.7 million were recognized as loss on extinguishment of debt in the third quarter of 2005.

On February 1, 2006, we repurchased the remaining $14.5 million in aggregate principal amount of outstanding 12¾% senior subordinated notes due 2009 at a premium of $0.9 million.

7¾% Senior Subordinated Notes Due 2013

On August 24, 2005, we completed a private offering of $175.0 million in aggregate principal amount of our 7¾% senior subordinated notes due 2013. Interest on the notes accrues at the rate of 7¾% per annum and is payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2006. The net proceeds were used to repurchase $144.8 million of our outstanding 12¾% senior subordinated notes due 2009, and to pay the related prepayment premium and costs of debt issuance. The remaining funds were held for the redemption of the $14.5 million of 12¾% senior subordinated notes due 2009, not tendered in August 2005, plus expected payment of related premium of approximately $0.9 million.

The indenture governing our 7¾% senior subordinated notes due 2013 contains certain covenants that among other things, limit our ability to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of our subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates. As of December 31, 2006, we believe we are in compliance with all of the covenants contained in the indenture governing our senior subordinated notes.

On December 8, 2005, we completed an offer to exchange up to $175.0 million principal amount of our Series B 7¾% senior subordinated notes due 2013 for any and all outstanding 7¾% senior subordinated notes due 2013 (the "Old Notes"). All of the $175.0 million in aggregate principal amount of the Old Notes were validly tendered for exchange and have been accepted by us. The new notes have substantially identical terms of the original notes, except that the new notes have been registered under the Securities Act of 1933, as amended.

Effect of Inflation

Inflation generally affects us by increasing our cost of labor, equipment and new materials. We do not believe that inflation has had any material effect on our results of operations during the years ended December 31, 2006 and 2005.

Non-GAAP Financial Measures

EBITDA

We determine EBITDA by adding net interest expense, income taxes, depreciation and amortization to net income (loss). Reconciliations of both net income (loss) and cash flows from operations to EBITDA are presented in the financial tables contained herein.

We rely on EBITDA as a primary measure to review and assess the operating performance of our company and our management team in connection with our executive compensation and bonus plans. We also use EBITDA to compare our current operating results with corresponding periods and with the operating results of other companies in our industry. We believe that it is useful to investors to provide disclosures of our operating results on the same basis as that used by our management. We also believe that it can assist investors in comparing our performance to that of other companies on a consistent basis without regard to depreciation, amortization, interest or taxes, which do not directly affect our operating performance. In addition, we also utilize EBITDA as an assessment of our liquidity and our ability to meet our debt service obligations and satisfy our debt covenants, which are partially based on EBITDA. EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for net income, cash flows from operating activities and other consolidated income or cash flows statement data prepared in accordance with accounting principles generally accepted in the United States. Some of these limitations are:

- EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements;
- EBITDA does not reflect income taxes or the cash requirements for any tax payments; and
- Other companies in our industry may calculate EBITDA differently than we do, thereby limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business or as a measure of performance in compliance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA only supplementally. See our consolidated statements of operations and our consolidated statements of cash flows included in our financial statements included elsewhere in this report.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses. We consider an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations or financial condition. We have identified the following critical accounting policies that affect the more significant estimates and judgments.

Revenue Recognition

We derive revenues from six categories: Technology Interoperability Services, Network Services, Number Portability Services, Call Processing Services, Enterprise Solutions and Off-Network Database Queries. The revenue recognition policy for each of these areas is described under "Revenues" above.

Due to our billing cycles, which for some of our products lag as much as 40 days after the calendar 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 service, because actual information is not available immediately. Based on a retrospective review of our actual billings compared to our estimates, our estimates have been reasonable. Historically, our estimates have approximated our actual subsequently billed revenue. Unanticipated changes in volume and pricing trends or material changes in contracted service could adversely affect our estimates of unbilled revenue. This estimate is critical to our financial statements because it impacts revenue and amounts recorded as accounts receivable on our balance sheet. As of December 31, 2006, our estimated unbilled revenues were $7.7 million. A 10% change in our estimate would result in either an increase or decrease in revenues and accounts receivable of approximately $0.8 million.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to pay their invoices to us in full. We regularly review the adequacy of our accounts receivable allowance after considering the size of the accounts receivable balance, each customer's expected ability to pay and our collection history with each customer. A portion of this analysis is dependent on our ability to gather reliable information about our customers' specific circumstances. As part of our analysis, we review significant invoices that are past due to determine if an allowance is necessary based on the risk category using the factors described above. Based on the circumstances, we place each customer into a risk category and assign reserve percentages between 5% and 100%. Our estimates of allowances for doubtful accounts have tracked well with our actual experience of customers who are unable to pay their invoices in full. However, uncollectible accounts that are not identified or properly assessed in our review could have a significant impact on our bad debt provision. In addition, if our customers' financial condition or the economy in general deteriorates, we may need to increase these allowances for doubtful accounts. Excluding all risk categories that are reserved at 100%, a 10% change in each one of our risk categories would cause our allowance for doubtful accounts as of December 31, 2006 and our bad debt expense for the year then ended to change by $0.09 million. Because we perform our analysis and establish reserves on a customer-by-customer basis, we generally do not record a general reserve. However, if we were to apply a general reserve of 1% to our unreserved accounts receivable balance, it would increase our allowance for doubtful accounts as of December 31, 2006 and our bad debt expense for the year then ended by approximately $0.5 million.

Allowance for Credit Memos

We maintain a general reserve based on our historical credit memo activity. In addition, we establish credit memo reserves resulting from specific customer matters. This allowance is recorded as a direct reduction of accounts receivable and revenues. Since our allowances for credit memos are derived in large part from specific customer matters, our estimates have tracked well with our actual credit memo experience. If our billing errors or discrepancies are not resolved satisfactorily or our customers' disputes over billing are not resolved satisfactorily, increases to the allowance would be required. Recently, we have resolved some of these customer matters more favorably than originally estimated but we cannot provide any assurance this will continue. As of December 31, 2006, our allowance for credit memos totaled $3.2 million. If our allowance for credit memos, including identified specific customer matters, changed by 10%, our allowance for credit memos and revenues would change by approximately $0.3 million.