SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2011-11-07** | Period of Report: **2011-09-30**
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TNS INC CIK:**1268671**| IRS No.: **364430020** | Fiscal Year End: **1231** Type: **10-Q** | Act: **34** | File No.: **001-32033** | Film No.: **111184277** SIC: **7389** Business services, nec	Mailing Address *11480 COMMERCE PARK DR.* *SUITE 600* *RESTON VA 20191-1406*	Business Address *11480 COMMERCE PARK DR.* *SUITE 600* *RESTON VA 20191-1406* *7034538300*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File Number: 001-32033

TNS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**36-4430020**
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

11480 Commerce Park Drive, Suite 600
Reston, VA 20191
(Address of principal executive offices)

(703) 453-8300
(Registrant' s telephone number, including area code)

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

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

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

Shares Outstanding as of October 1, 2011
24,384,455 Shares of Common Stock, $0.001 par value

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TNS, INC.

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PART I–FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

TNS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share and per share data)

	December 31, 2010	September 30, 2011
		(UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 56,689	$ 28,434
Accounts receivable, net of allowance for doubtful accounts of $3,977 and $3,773 respectively	86,988	95,689
Prepaid expenses	7,937	10,914
Deferred tax assets	220	225
Inventory	2,259	2,484
Other current assets	3,960	5,223
Total current assets	158,053	142,969
Property and equipment, net	135,418	135,804
Identifiable intangible assets, net	306,077	275,951
Goodwill	36,785	36,740
Deferred tax assets, net	2,932	1,347
Other assets	5,475	7,635
Total assets	$ 644,740	$ 600,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	$ 71,481	$ 72,146
Deferred revenue	12,061	11,870
Current portion of long-term debt, net of discount	18,488	13,249
Total current liabilities	102,030	97,265
Long-term debt, net of current portion and discount	385,136	356,760
Deferred tax liabilities	1,912	1,872
Contingent consideration	33,594	35,262
Other liabilities	6,787	6,532
Total liabilities	529,459	497,691
Stockholders' equity:		
Common stock, $0.001 par value; 130,000,000 shares authorized; 26,515,823 shares issued and 25,359,255 shares outstanding and 25,602,354 shares issued and 24,384,455 shares outstanding, respectively	27	26
Treasury stock, 1,156,568 shares and 1,217,899 shares, respectively	(21,523)	(20,768)
Additional paid-in capital	176,633	158,523
Accumulated deficit	(34,315)	(30,865)

Accumulated other comprehensive loss		(5,541)		(4,161)
Total stockholders' equity		115,281		102,755
Total liabilities and stockholders' equity	$	644,740	$	600,446

See accompanying notes to condensed consolidated financial statements (unaudited).

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TNS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(dollars in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Revenues	$ 130,577	$ 142,731	$ 387,820	$ 417,406
Operating expenses:				
Cost of network services, exclusive of the items shown separately below	65,071	69,746	193,142	206,810
Engineering and development	9,172	11,882	27,545	34,222
Selling, general, and administrative	22,504	26,984	71,270	78,006
Contingent consideration expense	–	918	–	1,668
Depreciation and amortization of property and equipment	11,462	10,912	35,231	33,838
Amortization of intangible assets	8,547	9,888	28,430	30,070
Total operating expenses	116,756	130,330	355,618	384,614
Operating income	13,821	12,401	32,202	32,792
Interest expense	(5,746)	(6,266)	(17,692)	(19,394)
Interest income	59	52	252	192
Other (expense) income, net	(2,615)	(150)	3,124	(1,471)
Income from continuing operations before income tax provision and equity in net loss of unconsolidated affiliate	5,519	6,037	17,886	12,119
Income tax provision	(987)	(3,901)	(5,763)	(7,278)
Equity in net loss of unconsolidated affiliate	(224)	–	(289)	–
Income from continuing operations	4,308	2,136	11,834	4,841
Loss from discontinued operations, net of income taxes	(287)	(538)	(212)	(1,391)
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Basic				
Continuing operations	0.16	0.08	0.45	0.19
Discontinued operations	(0.01)	(0.02)	(0.01)	(0.05)
Basic net income per common share	$ 0.15	$ 0.06	$ 0.44	$ 0.14
Diluted				
Continuing operations	0.16	0.08	0.44	0.19
Discontinued operations	(0.01)	(0.02)	(0.01)	(0.05)
Diluted net income per common share	$ 0.15	$ 0.06	$ 0.43	$ 0.14
Basic weighted average common shares outstanding	26,189,608	25,197,227	26,083,076	25,385,753

Diluted weighted average common shares outstanding	26,714,235	25,488,294	26,772,268	25,633,721

See accompanying notes to condensed consolidated financial statements (unaudited).

TNS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(dollars in thousands)

	Nine months ended September 30,	
	2010	**2011**
Cash flows from operating activities:		
Net income	$ 11,622	$ 3,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash items:		
Depreciation and amortization of property and equipment	35,231	33,838
Amortization of intangibles	28,430	30,070
Loss on disposal of property and equipment	160	–
Deferred income tax (benefit) provision	(4,021)	1,507
Amortization of deferred financing costs	1,472	1,535
Contingent consideration expense	–	1,668
Equity in net loss of unconsolidated affiliate	289	–
Stock compensation expense	4,987	4,170
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,845)	(8,683)
Prepaid expenses and other current assets	8,490	(4,466)
Other noncurrent assets	(867)	(2,989)
Accounts payable and accrued expenses	(11,824)	766
Deferred revenue	(435)	(194)
Other noncurrent liabilities	6,861	(301)
Net cash provided by operating activities:	78,550	60,371
Cash flows from investing activities:		
Purchases of property and equipment	(36,787)	(34,647)
Business combinations, net of cash acquired	(544)	(224)
Net cash used in investing activities:	(37,331)	(34,871)
Cash flows from financing activities:		
Repayments of long-term debt	(30,000)	(34,375)
Proceeds from stock option exercises, inclusive of tax benefit	1,908	287
Purchase of treasury stock	(3,432)	(21,813)
Net cash used in financing activities:	(31,524)	(55,901)
Effect of exchange rates on cash and cash equivalents	(1,704)	2,146
Net increase (decrease) in cash and cash equivalents	7,991	(28,255)
Cash and cash equivalents, beginning of period	32,480	56,689

Cash and cash equivalents, end of period	$	40,471	$	28,434
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	15,442	$	18,252
Cash paid for income taxes	$	4,024	$	4,208

See accompanying notes to condensed consolidated financial statements (unaudited).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Description of Business and Basis of Presentation

TNS, Inc. (TNS or the Company) is one of the leading global providers of data communications and interoperability solutions. TNS' s global secure network and innovative value added services enable transactions and the exchange of information to many of the world' s leading retailers, banks, payment processors, financial institutions and telecommunication firms.

Founded in 1990 in the United States, TNS has grown steadily and now provides services to customers in over 60 countries across the Americas, Europe and the Asia Pacific region, with our reach extending to many more. TNS has designed and implemented a global data network that supports a variety of widely accepted communication protocols and is designed to be scalable and accessible by multiple methods.

TNS reports its results by revenue generated in three industry verticals.

Payments

TNS' s Payments division delivers a broad portfolio of secure and resilient transaction delivery services as well as innovative value added solutions to many of the world' s leading banks, retailers, Independent Sales Organizations (ISOs), transaction processors and automated teller machine (ATM) deployers. TNS' Payment Card Industry Data Security Standard (PCI DSS) certified global backbone network and multi-channel payment gateways securely deliver billions of card present and card not present transactions each year from the Point-of-Sale (POS) to their destination. Protocol/message conversion, ATM and POS processing, payment encryption and file settlement form part of the comprehensive payment solutions that TNS provides around the world.

Telecommunication Services

TNS' s telecommunication services division provides innovative communications infrastructure services to fixed, mobile, broadband and VoIP operators around the world. TNS collaborates with customers, sharing expertise, resources and infrastructure to leverage rapidly evolving technologies. TNS' s suite of services includes the largest independent SS7 network in North America, intelligent database and registry services, identity and verification services and hosted roaming and clearing solutions that simplify the Company' s customers' operations, expand their reach and provide a foundation that helps them facilitate their profitability.

Financial Services

As one of the industry' s leading electronic connectivity solutions, TNS' Secure Trading Extranet brings together an extensive global financial community of interest and delivers mission-critical low latency connectivity solutions to some of the largest and most prominent financial organizations in the world. The private TNS Secure Trading Extranet ensures low latency to support direct market access, algorithmic trading and market data distribution. Organizations utilizing our network can benefit from a range of value added services, including co-location and hosting services, interoffice wide area network (WAN) solutions and connectivity to the Company' s large community of interest.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, required by GAAP, have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect adjustments (all of which are of a normal and recurring nature) that are necessary for the fair presentation of the periods presented. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for any subsequent interim period or for the fiscal year. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the Company' s annual report on Form 10-K filed with the SEC on March 16, 2011, which includes audited consolidated financial statements and the notes thereto for the year ended December 31, 2010.

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Capital Structure

During the nine months ended September 30, 2011, the Company issued 22,367 shares of common stock following the exercise of stock options and 270,626 shares of common stock following the vesting of restricted stock units, of which 80,578 shares were surrendered by employees to satisfy payroll tax withholding obligations and held by the Company as treasury shares. During the nine months ended September 30, 2010, the Company issued 129,421 shares of common stock following the exercise of stock options and 429,522 shares of common stock following the vesting of restricted stock units, of which 144,413 shares were surrendered by employees to satisfy payroll tax withholding obligations and held by the Company as treasury shares.

On September 1, 2010, the Company' s Board of Directors authorized a share repurchase program of up to $50 million of the Company' s common stock over the period ending March 31, 2012, subject to extension. The Company commenced repurchasing shares on October 1, 2010 and during the three month period ended December 31 2010 repurchased 1,050,247 shares for a total cost of $19.1 million. The Company repurchased 1,187,215 shares of its common stock during the three and nine month period ended September 30, 2011 for a total cost of $20.3 million. The Company' s November 2009 Credit Facility has been amended to authorize such repurchases (see Note 3).

The Company retired 1,206,462 and 205,497 treasury shares during the nine months ended September 30, 2011 and 2010, respectively.

Acquisitions

Cequint, Inc.

On September 8, 2010, the Company entered into the Agreement and Plan of Merger (the Merger Agreement) which provided for the merger of Cequint, Inc. (Cequint) with and into Thunder Acquisition Corp., a wholly owned subsidiary of the Company formed for the purpose of the acquisition. Cequint provides carrier grade caller ID products and enhanced services to U.S. mobile operators and has been integrated into the Company' s telecommunication services division. On October 1, 2010, the Company completed the merger in accordance with the terms and conditions of the Merger Agreement. The initial purchase price for the acquisition was $50.0 million consisting of $46.9 million in cash and $3.1 million in Company stock issued to certain management shareholders of Cequint. The stock consideration consisted of 178,823 shares at a fair value of $17.11 per share, which included restrictions on transfer that expire as follows: one third of total shares issued on the first anniversary of the date of acquisition; one third of total shares issued on the second anniversary of the date of acquisition; and one third of total shares issued on the third anniversary of the date of acquisition. The purchase price may be adjusted in the future by an additional $52.5 million in cash based upon the achievement of four specific profit-related milestones, during the period which commenced on June 1, 2011, and not to extend beyond May 31, 2014 (the Earn-Out Period), for a potential total purchase price of $102.5 million. In addition to the contingent consideration of up to $52.5 million, there are additional performance payments which may be payable to certain executives and key personnel, based on the achievement of the same four profit-related milestones of up to $10.0 million. To the extent the additional $10.0 million is payable, it will be recorded as compensation expense as described below.

The four profit-related milestones must be met for two consecutive months during the Earn-Out Period. These criteria are set out in the following table:

	Criteria	Shareholder Payment Contingent Consideration	Employee Performance Plan Compensation Expense	Total Potential Payouts
Milestone 1	(i) Monthly Gross Margin(1) greater than $2.5 million; (ii) Positive Net Income Contribution(2); and (iii) Name ID product successfully launched with a tier-one mobile operator	$ 12.6 million	$ 2.4 million	$ 15.0 million
Milestone 2	Monthly Gross Margin(1) greater than $5.0 million	$ 14.7 million	$ 2.8 million	$ 17.5 million
Milestone 3	Monthly Gross Margin(1) greater than $7.5 million	$ 12.6 million	$ 2.4 million	$ 15.0 million
Milestone 4	Monthly Gross Margin(1) greater than $10.0 million	$ 12.6 million	$ 2.4 million	$ 15.0 million
		$ 52.5 million	$ 10.0 million	$ 62.5 million

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(1) Defined in the Merger Agreement as revenues for such month (excluding any non-recurring revenues) less licensing, depreciation and other direct costs incurred in providing Cequint products and services

(2) Defined in the Merger Agreement as the Monthly Gross Margin for such month less any direct research and development (including capitalized research and development), sales, marketing, finance, operations and indirect costs (including costs allocated to Cequint) incurred in connection with Cequint' s products and services for such month.

(3) For further details in relation to the Agreement and Plan of Merger, please refer to the Form 8-K filed by the Company on September 14, 2010.

As of the acquisition date, the Company recorded a liability of $31.8 million representing the estimated fair value of the contingent purchase consideration of $52.5 million based on a probability weighted scenario approach to determine the likelihood and timing of the achievement of the relevant milestones. In calculating this liability, the Company applied a rate of probability to each scenario, as well as a risk-adjusted discount factor, to derive the estimated fair value of the consideration as of the acquisition date. This fair value is based on significant unobservable inputs, including management estimates and assumptions, and accordingly is classified as Level 3 within the fair value hierarchy prescribed by ASC Topic 820, Fair Value Measurements and Disclosures. This liability is re-measured each reporting period and changes in the fair market value are recorded under the contingent consideration expense item in the Company' s consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount periods and rates, as well as changes in the timing and likely achievement of the relevant milestones. Since the date of acquisition, the Company has recognized a $3.5 million increase in the fair value of the contingent consideration related primarily to the change in the discount period (accretion due to the passage of time).

The potential $10.0 million of performance payments are recognized in a systematic and rational manner over the Earn-Out Period to the extent it is probable the milestones will be met. These costs are treated as compensation expense and are included in operating expenses in the Company' s consolidated statement of operations. In June 2011, the Earn-Out period commenced and $0.5 million and $0.7 million of compensation expense has been included in selling, general, and administrative expense in the Company' s consolidated statement of operations during the three and nine months ended September 30, 2011.

The Company funded the acquisition of Cequint through a new $50 million term loan facility using the accordion feature of the November 2009 Credit Facility (see Note 3). The condensed consolidated statements of operations include the results of the Cequint acquisition from October 1, 2010. The acquisition of Cequint has been accounted for as a business combination under FASB ASC 805, Business Combinations.

The fair values of the assets acquired and liabilities assumed were determined using various valuation techniques, primarily based on significant inputs that are not observable in the market and therefore represent Level 3 measurements as defined in FASB ASC 820, Fair Value Measurements and Disclosures. Developed technology was valued using the relief from royalty method which values the subject technology by reference to the amount of royalty income that could be generated if the technology were licensed in an arm' s length transaction to a third party. Customer relationship intangibles were valued using the multi-period excess earnings method which is based on the operating profit from existing customer relationships, less applicable charges for the use of assets such as working capital, fixed assets, identified intangible assets and the assembled workforce. Covenants not to compete were valued using the comparison of economic income approach under which the projected cash flows of the business with the covenants in place are compared to the projected cash flows presuming the active competition of the individuals against the Company.

The allocation of the purchase price for Cequint has been finalized as of September 30, 2011. The purchase price allocation was adjusted by $1.8 million for additional deferred tax assets with a corresponding decrease in goodwill relating to net operating loss carryforwards and research and development tax credits upon filing Cequint' s final income tax return. This purchase accounting adjustment has been retrospectively applied to the consolidated balance sheet as of December 31, 2010.

The purchase price for Cequint was allocated as follows (in thousands):

	Preliminary allocation	Additional consideration paid	Measurement period adjustments	Final allocation
Purchase price allocation:				
Cash	$ 463	–	–	463
Accounts receivable	1,768	–	–	1,768
Prepaid expenses	257	–	–	257
Deferred tax asset	5,061	–	1,835	6,896
Property and Equipment	1,264	–	–	1,264
Goodwill	23,975	–	(1,835)	22,140
Identifiable intangible assets				

Developed technology	17,200	–	–	17,200
Customer relationships	48,600	–	–	48,600
Covenants not to compete	10,100	–	–	10,100
Total assets	108,688	–	–	108,688
Accounts payable, accrued expenses and other current liabilities	(1,471)	224	–	(1,247)
Deferred tax liability	(25,635)	–	–	(25,635)
Total purchase price	$ 81,582	224	–	81,806

Reconciliation of Cequint purchase price to cash consideration, as follows (in thousands):

Total purchase price	$ 81,806
Less non cash items:	
Company Stock issued	(3,060)
Contingent consideration	(31,800)
	46,946
Less cash received	(463)
Cash consideration	$ 46,483

The amounts allocated to property and equipment are being depreciated on a straight line basis over their weighted average estimated useful lives of 2 to 4 years. The intangible asset related to developed technology is being amortized on a straight line basis over 7 years, the intangible asset related to customer relationships is being amortized on a straight line basis over 17 years and the intangible asset related to covenants not to compete is being amortized on a straight line basis over 5 years. The intangible asset related to covenants not to compete is expected to be deductible for tax purposes. The intangible assets related to developed technology and customer relationships, and the goodwill, are not expected to be deductible for tax purposes.

The weighted average amortization period by each major class of assets and in total is as follows (in years):

	Weighted average amortization period
Developed technology	7
Customer relationships	17
Non competition agreements	5
Total weighted average amortization period	13.1

Unaudited pro forma results of operations assuming the Cequint acquisition had taken place at the beginning of the period are not provided because the historical operating results of Cequint were not significant and pro forma results would not be significantly different from reported results for the periods presented.

During the three and nine months ended September 30, 2011, Cequint contributed revenue of $2.9 million and $8.3 million, and a net loss of $4.3 million and $10.4 million, respectively. These amounts have been included in the Company' s consolidated statements of operations for the three and nine months ended September 30, 2011.

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Goodwill, intangible and other long-lived assets

The Company accounts for goodwill and intangible assets in accordance with FASB ASC 350, Intangibles−Goodwill and Other (ASC 350). Under this standard, goodwill and intangible assets deemed to have indefinite lives are not amortized and are subject to annual impairment tests. The Company has elected to perform the impairment test annually as of October 1 of each year. An interim goodwill impairment test is performed if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount. If facts and circumstances indicate goodwill may be impaired, the Company performs a recoverability evaluation based upon a determination of fair value.

In accordance with FASB ASC 360, Property, Plant and Equipment (ASC 360) and ASC 350, the Company reviews long-lived assets including property and equipment, capitalized software development costs and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of long-lived assets, the Company evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the assets. If the Company estimates that assets are impaired, the assets are written down to their fair value. For purposes of measuring and recognizing impairment of long-lived assets, the Company at the lowest level will assess whether separate cash flows can be attributed to the individual asset. The Company groups long-lived assets where separately identifiable cash flows are available. In the event that long-lived assets, including intangibles are abandoned or otherwise disposed of, the Company recognizes an impairment charge upon disposition. For the Company' s customer relationship intangible assets, the Company evaluates impairment upon the significant loss of revenue from a customer. The fair value measurement of a customer relationship intangible is primarily based on an income approach using significant inputs that are not observable in the market, therefore representing a Level 3 measurement as defined in FASB ASC 820, Fair Value Measurements and Disclosures. The income approach indicates value for a subject asset based on the present value of cash flows projected to be generated by the asset. Projected cash flow is discounted at a rate of return that reflects the relative risk of achieving the cash flow and the time value of money. No impairment or accelerated amortization charges were recorded during the three and nine months ended September 30, 2011. During the nine months ended September 30, 2010, the Company accelerated amortization on a portion of its customer relationship intangible asset by $1.9 million, from a carrying value of $2.8 million to a fair value of $0.9 million, due to declines in anticipated future cash flows.

During the three months ended June 30, 2010, the Company made a decision to phase out $6.2 million of surplus network monitoring assets that would no longer be required following the integration of the CSG and TNS networks. The Company recorded accelerated depreciation expense related to these assets of $0.7 million and $4.3 million during the nine months ended September 30, 2011 and 2010 respectively, and $1.1 million during the three months ended September 30, 2010. As of February 28, 2011, the net book value of these assets had been written down to zero.

The calculation of fair value in accordance with ASC 350 and 360 contains uncertainties due to judgment in estimates and assumptions, including projections of future income and cash flows, the identification of appropriate market multiples and the choice of an appropriate discount rate. The Company' s estimates of anticipated future income and cash flows used in determining fair value contain uncertainties due to uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions. Therefore, those estimates could be reduced significantly in the future due to changes in technologies, regulation, available financing, competition or other circumstances. As a result, the carrying amount of the Company' s long-lived assets could be reduced through impairment charges in the future. Additionally, changes in the timing of estimated future cash flows could result in a shortening of estimated useful lives for long-lived assets including intangibles.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. We consider the accounting policies related to revenue and related cost recognition, valuation of goodwill, other intangible assets and contingent consideration related to business combinations, stock based compensation and accounting for income taxes to be critical to the understanding of our results of operations. Critical accounting policies include the areas where we have made what we consider to be particularly subjective or complex judgments in making estimates and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an agreement exists, the terms are fixed and determinable, services are performed, and collection is probable. Cash received in advance of revenue recognition is recorded as deferred revenue.

Payments revenue is derived primarily from per transaction fees paid by the Company' s customers for the transmission of transaction data, through the Company' s network, between payment processors and POS or ATM terminals and monthly recurring fees for IP-based network and wireless gateway offerings. TSD revenue is derived primarily from fixed monthly fees for call signaling and network connectivity services and per message fees charged for wireless switch and transport network services, identity and verification services, registry services, database access, call validation and roaming and clearing services. FSD revenue is derived primarily from monthly recurring fees based on the number of customer connections to and through the Company' s network as well as dedicated bandwidth usage.

The Company considers the criteria established primarily by FASB ASC 605-45, "Reporting Revenue Gross as a Principal versus Net as an Agent," in determining whether revenue should be recognized on a gross versus a net basis. Factors considered in determining if gross or net basis recognition is appropriate include whether the Company is primarily responsible to the client for the services, has discretion on vendor selection, or bears credit risk. The revenues for which there are gross vs. net considerations include regulatory network charges levied on our customers. Regulatory network charges include messaging signaling unit charges related to the Company' s Signaling System No. 7 (SS7) network and Universal Service Fund charges applicable to interstate telecommunications services approved or imposed by the Federal Communications Commission. The Company believes that the indicators under ASC 605-45 support gross revenue presentation since the Company is the primary obligor in the arrangement and carries the underlying traffic over its data communications network and has sole discretion over whether to include such regulatory charges in the amounts invoiced to customers. Included in revenues and cost of network services for the three months ended September 30, 2010 and 2011, are $2.9 million and $3.0 million, respectively, related to these pass-through charges and cost of network services. Included in revenues and cost of network services for both the nine months ended September 30, 2010 and 2011 is $9.0 million related to these pass-through charges.

In certain of our international locations, the Company enters into revenue sharing arrangements with third parties related to data communications services it provides to the payment processing industry. Certain of the Company' s international payment processing customers elect to configure end-user POS terminals with a caller-paid number. In this type of POS terminal configuration, the end-user is responsible for paying a regulated charge for each call to its underlying telecommunications carrier with which it contracts directly. The telecommunications carrier collects the regulated charge from the end-user and bears the credit risk in the transaction. The telecommunications carrier then remits the charge to the Company, withholding a fee for the use of its network in delivering the call to the Company. The Company then will pass these charges through to the payment processor, withholding a portion of the amount as a fee. Based on the Company' s contractual arrangements with its payment processing customers, it has no obligation to remit cash until and unless the cash is remitted to the Company by the telecommunications carrier. The end-user looks to the telecommunications carrier for the provision of data communications access to the POS device and the payment processer for the processing of card-based payments. The Company believes that the indicators under ASC 605-45 support net revenue presentation since the telecommunications provider and payment processor, not the Company, are the primary obligors in the arrangement and the

Company does not bear the credit risk. For the three months ended September 30, 2010 and 2011, gross revenue was $18.1 million and $20.3 million, revenue share was $8.1 million and $9.2 million and net revenue recognized on the Company' s condensed consolidated financial statements was $10.0 million and $11.1 million, respectively. For the nine months ended September 30, 2010 and 2011, gross revenue was $52.2 million and $58.1 million, revenue share was $23.6 million and $26.1 million and net revenue recognized on the Company' s condensed consolidated financial statements was $28.6 million and $32.0 million, respectively.

Incentives granted to new customers or upon contract renewals are deferred and recognized ratably as a reduction of revenue over the contract period to the extent that the incentives are recoverable against the customer' s minimum purchase commitments under the contract. In addition, the Company receives installation fees related to the configuration of the customers' systems. Revenue from installation fees is deferred and recognized ratably over the customer' s contractual service period, generally three years. The Company performs periodic evaluations of its customer base and establishes allowances for estimated credit losses.

Cost of Network Services

Cost of network services is comprised primarily of telecommunications charges, which include data transmission and database access charges, leased digital capacity charges, circuit installation charges, activation charges and compensation paid to the providers of calling name and line information database records. The cost of data transmission is based on a contract or tariff rate per minute of usage in addition to a prescribed rate per transaction for certain vendors. The costs of database access, circuits, installation and activation charges are based on fixed fee contracts with local exchange carriers and interexchange carriers. The compensation charges paid to the providers of calling name and line information database records are based on a percentage of query revenue generated from the Company' s customers accessing those records. The cost of network services also includes salaries, equipment maintenance and other costs related to the ongoing operation of the Company' s data networks. These costs are expensed by the Company as incurred. The Company recognizes a liability for telecommunications charges based upon network services utilized at historical invoiced rates. Direct costs of installations are deferred and amortized over the customer' s contracted service period, generally three years.

Fair Value of Financial Instruments

The fair value of the Company' s long-term debt is based upon quoted market prices for the same and similar issues giving consideration to quality, interest rates, maturity and other characteristics. As of September 30, 2011, the Company believes the carrying amount of its long-term debt approximates its fair value since the variable interest rate of the debt approximates a market rate.

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Stock-Based Compensation

The Company accounts for stock-based compensation under FASB ASC 718, Compensation-Stock Compensation. FASB ASC 718 requires all stock-based compensation to employees be measured at fair value and expensed over the requisite service period and also requires an estimate of forfeitures when calculating compensation expense.

Stock-based compensation expense has been included in the following categories in the accompanying condensed consolidated financial statements of operations (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Cost of network services	$ 135	$ 186	$ 474	$ 493
Engineering and development	235	294	752	927

Selling, general and administrative		1,048		1,240		3,761		2,750
	$	1,418	$	1,720	$	4,987	$	4,170

As of September 30, 2011, there was a total of $13.7 million of unrecognized compensation cost related to stock-based awards, which is expected to be recognized over a weighted average period of approximately two years.

Time-Vested Awards

Time-vested awards are subject to a vesting period determined at the date of the grant, generally in equal installments over three or four years. The Company uses the Black Scholes option pricing model to determine the grant date fair value of any time-vested stock options. The Company uses the market price of the Company' s stock on the date of grant to determine the fair value of any time-vested restricted stock units. The Company recognizes compensation cost on these time-vested awards in equal installments over the vesting period.

During the three months ended September 30, 2011 the Company granted 626,889 stock options and 115,141 restricted stock units at a weighted average estimated fair value of $8.73 and $16.70, respectively. During the nine months ended September 30, 2011 the Company granted 626,889 stock options and 297,291 restricted stock units at a weighted average estimated fair value of $8.73 and $17.74, respectively. During the three months ended September 30, 2010 the Company granted 8,250 stock options and 39,250 restricted stock units at a weighted average estimated fair value of $9.08 and $19.48, respectively. During the nine months ended September 30, 2010, the Company granted 8,919 stock options and 239,761 restricted stock units at weighted average estimated fair values of $9.25 and $25.47, respectively. As of September 30, 2011, there was a total of $11.6 million of unrecognized compensation expense related to these awards, which is included in the $13.7 million total unrecognized compensation cost mentioned above.

Performance-Based Awards

Performance-based awards are generally tied to the Company' s performance against pre-established internal targets over a specified period of time. The Company uses the market price of the Company' s stock on the date of grant to determine the fair value of any performance-based restricted stock units. Performance-based awards are also subject to vesting requirements, and generally vest in installments over three or four years. Compensation cost is based on the expected payout level that will be achieved and is adjusted in subsequent periods as changes in the estimates occur until the performance criteria have been satisfied. The Company recognizes compensation cost on these performance based awards using an accelerated attribution method.

In April 2009, the Company made certain long-term performance-based stock compensation awards (the 2009 Equity Performance Awards). The 2009 Equity Performance Awards were granted under the Company' s 2004 Long Term Incentive Plan. Based upon the Company' s performance in 2009, the results of which were approved by the Company' s board of directors in February 2010, the plan participants earned 100% of the potential payout under the Company' s 2009 Equity Performance Awards. The total number of awards issued under the Company' s 2009 Equity Performance Awards was 311,500 restricted stock units which represented 100% of an employee' s target payout. The weighted average grant date fair value of restricted stock units granted was $16.85. As of September 30, 2011, there was a total of $0.2 million of unrecognized compensation expense related to these performance based awards which is included in the $13.7 million total unrecognized compensation cost mentioned above.

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In February 2010, the Company made certain long-term performance-based stock compensation awards (the 2010 Equity Performance Awards). The 2010 Equity Performance Awards were granted under the Company' s 2004 Long Term Incentive Plan. The total number of awards that would be issued under the Company' s 2010 Equity Performance Awards, assuming that the target payout level was achieved, would have been 235,086 restricted stock units. Based on the achievement levels, the Company awarded no restricted stock units. As of September 30 2011, there was no unrecognized compensation expense related to these performance based awards.

In July 2011, the Company made certain long-term performance-based stock compensation awards (the 2011 Equity Performance Awards). The 2011 Equity Performance Awards were granted under the Company' s 2004 Long Term Incentive Plan. The total number of awards that would be issued under the Company' s 2011 Equity Performance Awards, assuming that the target payout level was achieved, would be 129,537 restricted stock units. The weighted average grant date fair value of restricted stock units was $16.69. As of September 30 2011, there was a total of $1.9 million of unrecognized compensation expense related to these performance based awards which is included in the $13.7 million total unrecognized compensation cost mentioned above.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes. Under FASB ASC 740, deferred tax assets or liabilities are computed based upon the difference between financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The Company provides a valuation allowance on its net deferred tax assets when it is more likely than not that such assets will not be realized. Deferred income tax expense or benefits are based upon the changes in the underlying asset or liability from period to period.

During the three months ended June 30, 2011, the Company concluded that a portion of the undistributed earnings of certain select foreign subsidiaries would no longer be considered indefinitely reinvested. After comparing the forecasted excess earnings of its domestic and select foreign subsidiaries to the opportunities for reinvestment, the Company changed its indefinite reinvestment assertion with respect to the current and future earnings of its UK and Irish subsidiaries, as it no longer has specific plans for reinvestment of those earnings in the foreseeable future. As a result of this change, the Company recorded a deferred tax liability of $14.1 million during the nine months ended September 30, 2011. However, this change in assertion had no net impact on tax expense for the period, as the deferred tax liability was fully offset by a corresponding decrease to the Company' s U.S. valuation allowance.

The Company' s effective tax rate for the nine months ended September 30, 2010 and 2011 of 37.1% and 67.9%, respectively, differs from the U.S. federal statutory rate primarily due to the application of a valuation allowance against certain U.S. tax attributes, an increase of $1.8 million in the US valuation allowance on additional deferred tax assets recognized related to the Cequint acquisition, and profits of our international subsidiaries being taxed at rates different than the U.S. federal statutory rate.

With few exceptions, the Company remains subject to examination by U.S. Federal, state, local and foreign tax authorities for tax years 2003 through 2010.

2. Discontinued Operations

On August 31, 2011, the Company divested its ATM processing assets in Canada for a sale price of $1. Upon closing of the transaction, the Company recorded a loss on the sale of this business of $27,000. Management made the decision to divest this business in order to focus the Company' s resources more on its network services offerings in Canada and investments in its payment gateway initiatives. In accordance with FASB ASC 205 "Presentation of Financial Statements" the results of the ATM processing business in Canada are reported as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented.

The key components of loss from discontinued operations related to the ATM processing business in Canada were as follows ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011

Net Sales	$	669	$	470	$	4,200	$	1,780
Operating expenses		1,067		981		3,326		3,144
Loss/(income) before taxes		398		511		(874)		1,364
Income tax (benefit)/expense		(111)		–		1,086		–
Loss from discontinued operations		287		511		212		1,364
Loss on sale		–		27		–		27
Loss from discontinued operations, net of income taxes	$	287	$	538	$	212	$	1,391

3. Long-term Debt

Debt consists of the following (in thousands):

		December 31, 2010		September 30, 2011
Revolving credit facility	$	49,370	$	34,370
Term Loan		358,125		338,750
Total credit facility outstanding		407,495		373,120
Unamortized discount		(3,871)		(3,111)
		403,624		370,009
Less: Current portion, net of discount		(18,488)		(13,249)
Long-term portion	$	385,136	$	356,760

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November 2009 Credit Facility

On November 19, 2009 the Company entered into a new secured credit facility (the November 2009 Credit Facility) and refinanced the May 2009 Credit Facility primarily to take advantage of a more favorable interest rate environment. The November 2009 Credit Facility initially consisted of a senior secured term loan facility in an aggregate principal amount of $325 million (the "Term Facility") and a senior secured revolving credit facility in an aggregate principal amount of $75 million (the "Revolving Facility"). The November 2009 Credit Facility included the option to request additional Term Loan Commitment and Revolving Loan Commitment up to an aggregate amount of $100 million (the accordion feature) with the aggregate of any new Revolving Loan Commitment not exceeding $50 million.

On October 1, 2010 the Company entered into an amendment related to the November 2009 Credit Facility in connection with the closing of the acquisition of Cequint, Inc. (see Note 1). The amendment provided for a new term loan in an aggregate principal amount of $50 million (the "Incremental Term Loan"), an increase to the existing Revolving Facility by an aggregate principal amount of $25 million to a total of $100 million and amends certain debt covenants and restricted payments baskets including those related to share repurchases and acquisitions. The Incremental Term Loan was incurred to finance the purchase price for the acquisition, to pay fees, costs and expenses relating to the acquisition and for working capital purposes.

Payments on the Term Facility and Incremental Term Loan are due in quarterly installments over the term, with the remainder payable on November 18, 2015. Voluntary prepayments on the Term Facility and Incremental Term Loan are applied as directed by the Company. The outstanding balance on the Revolving Facility is due on November 18, 2014. In February 2011, the Company made voluntary repayments of $15 million on the Revolving Facility. In June 2011, the Company made voluntary prepayments of $10 million on the Term Loan. At September 30, 2011, borrowing availability under the Revolving Facility was $65.2 million.

The total scheduled remaining payments on the November 2009 Credit Facility, which includes the Incremental Term Loan and additional amounts borrowed from the Revolving Facility to date are as follows (in thousands):

2011	$	–
2012		18,125
2013		18,750
2014		53,120
2015		283,125
	$	373,120

Interest on the outstanding balances under the Revolving Facility is payable, at the Company' s option, at a rate equal to the higher of the prime rate announced by SunTrust Bank, the federal funds rate plus 50 basis points, or the one-month London Interbank Offered Rate ("LIBOR") rate plus 100 basis points (the "Base Rate"), in each case, plus a margin of 3.0% or at LIBOR, plus a margin of 4.0%. Interest on the outstanding balances under the Term Facility and Incremental Term Loan is payable, at the Company' s option, at the Base Rate plus a margin of 3.0%, or at LIBOR plus a margin of 4.0%. Additionally, in no event will the LIBOR rate be less than 2.0%. The applicable margins on the Revolving Facility, Term Facility and Incremental Term Loan are subject to step-downs based on the Company' s leverage ratio. The Revolving Facility is subject to an annual commitment fee in an amount equal to between 0.375% and 0.50% (based on the Company' s leverage ratio) per annum multiplied by the amount of funds available for borrowing under the Revolving Facility. Interest payments on the November 2009 Credit Facility are due biweekly, monthly, bimonthly or quarterly at the Company' s option. The terms of the November 2009 Credit Facility require the Company to make an annual prepayment in an amount that may range from 0% to 50% of the Company' s "excess cash flow" (as such term is defined in the Credit Agreement) depending on the Company' s Leverage Ratio for any fiscal year. Prepayments are also required to be made in other circumstances, including upon asset sales and sale-leaseback transaction in excess of $2 million. The Company is permitted to repay borrowings under the November 2009 Credit Facility at any time in whole or in part without premium or penalty.

The obligations under the November 2009 Credit Facility are unconditionally and irrevocably guaranteed, subject to certain exceptions, by the Company and each existing and future direct and indirect domestic subsidiary of the Company. In addition, the November 2009 Credit Facility is secured, subject to certain exceptions, by a first priority perfected security interest in substantially all of the present and future property and assets (real and personal) of the Company and a pledge of 100% of the Company' s capital stock of its respective domestic subsidiaries and 65% of the Company' s capital stock of its respective first-tier foreign subsidiaries.

The terms of the November 2009 Credit Facility require the Company to comply with financial and nonfinancial covenants, including maintaining a maximum specified leverage ratio at the end of each fiscal quarter and a minimum consolidated fixed charge coverage ratio and complying with specified annual limits on capital expenditures. As of September 30, 2011, the Company is required to maintain a leverage ratio of less than 3.25 to 1.0. The Company' s leverage ratio as of September 30, 2011 was 2.7 to 1.0. The maximum leverage ratio declines over the term of the November 2009 Credit Facility. Also the Company is required to maintain a consolidated fixed charge coverage ratio of not less than 1.2 to 1.0. The Company' s consolidated fixed charge coverage ratio as of September 30, 2011 was 1.8 to 1.0. The November 2009 Credit Facility also contains nonfinancial covenants that restrict some of the Company' s corporate activities, including its ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments, make capital expenditures and engage in specified transactions with affiliates. Effective October 1, 2010, the restricted payments covenant was amended to permit stock repurchases of up to $50 million until 18 months after this date, with such repurchases exempt from the minimum consolidated fixed charge coverage ratio covenant. Thereafter, stock repurchases are subject to a minimum required excess cash flow availability of $40 million and if the Company has a pro forma maximum leverage ratio of greater than 2.50 to 1.00, the Company is permitted to purchase shares at an amount equal to 50% of cumulative reported excess cash flow. If the Company has a pro forma maximum leverage ratio of 2.50 to 1.00 or greater but less than 3.00 to 1.00, the Company is permitted to purchase shares at an amount equal to the lesser of $30 million and 50% of cumulative reported excess cash flow, or if the Company has a pro forma maximum leverage ratio of 3.00 to 1.00 or greater, the Company is permitted to purchase shares at an amount equal to the lesser of $20 million and 50% of cumulative reported excess cash flow. Non compliance with any of the financial or nonfinancial covenants without cure or waiver would constitute an event of default under the November 2009 Credit Facility. An event of default resulting from a breach of a financial or nonfinancial covenant may result, at the option of the lenders, in an acceleration of the principal and interest outstanding, and a termination of the Revolving Facility. The November 2009 Credit Facility also contains other customary events of default (subject to specified grace periods), including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, breach of specified covenants, change in control and material inaccuracy of representations and warranties. The Company was in compliance with the financial and non-financial covenants of the November 2009 Credit Facility as of September 30, 2011.

In connection with the closing of the November 2009 Credit Facility, the Company incurred approximately $2.9 million in financing costs. In connection with the closing of the amendment to the November 2009 Credit Facility in October 2010, the Company incurred approximately $1.9 million in financing costs. These financing costs were deferred and are being amortized using the effective interest method over the remaining life of the November 2009 Credit Facility.

4. Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax effect are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Foreign currency translation adjustments	8,668	(3,844)	(1,192)	1,380
Total comprehensive income (loss)	$ 12,689	$ (2,246)	$ 10,430	$ 4,830

5. Net Income Per Common Share

FASB ASC 260, Earnings Per Share, requires the presentation of basic and diluted earnings per share. Basic earnings per common share is computed by dividing income attributable to common stockholders by the weighted average number of common shares outstanding for the period. The diluted earnings per common share data is computed using the weighted average number of common shares outstanding plus the dilutive effect of common stock equivalents, unless the common stock equivalents are anti-dilutive.

The treasury stock effect of options to purchase 1,192,988 shares of common stock that were outstanding as of September 30, 2011, were excluded from the computation of diluted net income per common share for the three and nine months ended September 30, 2011, as their effect would have been anti-dilutive. The treasury stock effect of options to purchase 603,971 and 272,967 shares of common stock that were outstanding as of September 30, 2010 were excluded from the computation of diluted net income per common share for the three and nine months ended September 30, 2010, as their effect would have been anti-dilutive.

The Company’ s basic and diluted earnings per common share are presented below (amounts in thousands except number of shares and per share amounts).

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011

Income from continuing operations	$ 4,308	$ 2,136	$ 11,834	$ 4,841
Loss from discontinued operations	(287)	(539)	(212)	(1,391)
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Weighted average common share calculation:				
Basic weighted average common shares outstanding	26,189,608	25,197,227	26,083,076	25,385,753
Treasury stock effect of outstanding options to purchase	135,137	137,906	263,700	133,861
Treasury stock effect of unvested restricted stock units	389,490	153,161	425,492	114,107
Diluted weighted average common shares outstanding	26,714,235	25,488,294	26,772,268	25,633,721
Net income per common share:				
Basic				
Continuing Operations	$ 0.16	$ 0.08	$ 0.45	$ 0.19
Discontinued Operations	(0.01)	(0.02)	(0.01)	(0.05)
Basic net income per common share	$ 0.15	$ 0.06	$ 0.44	$ 0.14
Diluted				
Continuing Operations	$ 0.16	$ 0.08	$ 0.44	$ 0.19
Discontinued Operations	(0.01)	(0.02)	(0.01)	(0.05)
Diluted net income per common share	$ 0.15	$ 0.06	$ 0.43	$ 0.14

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6. Segment Information

The Company' s management evaluates revenues for three business divisions: telecommunication services, payments and financial services. The Company operates as one reportable segment since the chief operating decision maker allocates resources based on the consolidated financial results.

Revenue for the Company' s three business divisions is presented below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Revenues:				
Telecommunication services	$ 64,652	$ 74,471	$ 194,375	$ 214,402
Payments	49,380	51,278	143,832	152,408
Financial services	16,545	16,982	49,613	50,596
Total revenues	$ 130,577	$ 142,731	$ 387,820	417,406

Management evaluates the Company' s performance on EBITDA before stock compensation expense. The Company defines EBITDA before stock compensation expense as net income before loss from discontinued operations, depreciation, amortization, stock compensation expense, interest expense, other income (expense), equity in net loss of unconsolidated affiliate, contingent consideration expense, milestone compensation expense and provision for income taxes. EBITDA before stock compensation expense is not a generally accepted accounting principle measure, but rather a measure employed by management to view operating results. The Company believes that this measure, viewed in addition to and not in lieu of the Company' s reported GAAP results, provides additional useful information to the investors regarding the Company' s performance and overall operating results exclusive of selected significant non-cash items. This metric is frequently requested by investors and is also an integral part of the Company' s internal reporting to measure the performance of senior management. The Company' s definition of EBITDA before stock compensation expense may not be comparable to similarly titled measures used by other entities.

EBITDA before stock compensation expense was approximately $35.2 million and $36.4 million, and $100.8 million and $103.2 million, for the three and nine months ended September 30, 2010 and 2011, respectively. Management evaluates performance before consideration of certain intercompany transactions. Accordingly, these transactions are not reflected in EBITDA. In addition, certain corporate expenses are reflected consistent with information reviewed by our chief operating decision maker.

EBITDA before stock compensation expense differs from net income reported in the condensed consolidated statements of operations as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
EBITDA before stock compensation expense	$ 35,248	$ 36,365	$ 100,850	$ 103,205
Reconciling items:				
Depreciation and amortization of property and equipment	(11,462)	(10,912)	(35,231)	(33,838)
Amortization of intangible assets	(8,547)	(9,888)	(28,430)	(30,070)
Stock compensation expense	(1,418)	(1,720)	(4,987)	(4,170)
Interest expense	(5,746)	(6,266)	(17,692)	(19,394)
Interest income and other income (expense), net	(2,556)	(98)	3,376	(1,279)
Milestone compensation expense	–	(526)	–	(667)
Contingent consideration expense	–	(918)	–	(1,668)
Equity in net loss of unconsolidated affiliate	(224)		(289)	
Provision for income taxes	(987)	(3,901)	(5,763)	(7,278)
Loss on discontinued operations	(287)	(538)	(212)	(1,391)
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450

Geographic Information

The Company sells its services through foreign subsidiaries in Australia, Austria, Bermuda, Canada, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Poland, Romania, Singapore, South Korea, Spain, Sweden, Thailand, Turkey and the United Kingdom. Information regarding revenues and long-lived tangible assets attributable to each geographic region is stated below.

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The Company' s revenues were generated in the following geographic regions (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Telecommunications Services Division				
North America	$ 64,652	$ 74,471	$ 194,375	$ 214,402
Payments Division				
North America	$ 16,478	$ 14,331	$ 49,951	$ 44,643

Europe		25,783		28,208		73,895		82,692
Asia-Pacific		7,119		8,739		19,986		25,073
	$	49,380	$	51,278	$	143,832	$	152,408
Financial Services Division								
North America	$	11,305	$	10,850	$	34,493	$	33,061
Europe		3,093		3,471		9,238		10,118
Asia-Pacific		2,147		2,661		5,882		7,417
	$	16,545	$	16,982	$	49,613	$	50,596
Total								
North America	$	92,435	$	99,652	$	278,819	$	292,106
Europe		28,876		31,679		83,133		92,810
Asia-Pacific		9,266		11,400		25,868		32,490
Total Revenues	$	130,577	$	142,731	$	387,820	$	417,406

The Company' s long-lived assets, including goodwill and intangible assets, were located as follows (in thousands):

		December 31, 2010		September 30, 2011
North America	$	440,536	$	408,065
Europe		19,343		17,612
Asia-Pacific		20,235		22,818
Total long lived assets	$	480,114	$	448,495

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Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of the financial condition and results of operations of TNS, Inc. in conjunction with the consolidated financial statements and the related notes included in our annual report on Form 10-K filed with the SEC on March 16, 2011 and available directly from the SEC at www.sec.gov and the condensed consolidated financial statements and the related notes of TNS, Inc., included elsewhere in this quarterly report.

There are statements made herein which may not address historical facts and, therefore, could be interpreted to be forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, forecasts and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in, or implied by, the forward-looking statements. The Company has attempted, whenever possible, to identify these forward-looking statements using words such as "may," "will," "should," "projects," "estimates," "expects," "plans," "intends," "anticipates," "believes," and variations of these words and similar expressions. Similarly, statements herein that describe the Company' s business strategy, prospects, opportunities, outlook, objectives, plans, intentions or goals are also forward-looking statements. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including: the Company' s reliance upon a small number of customers for a significant portion of its revenue; competitive factors such as pricing pressures; increases in the prices charged by telecommunication providers for services used by the Company; the Company' s ability to grow its business domestically and internationally by generating greater transaction volumes, longer than expected sales cycles, customer delays in migration, acquiring new customers or developing new service offerings; fluctuations in the Company' s quarterly results because of the seasonal nature of the business and other factors outside of the Company' s control, including fluctuations in foreign exchange rates and the continuing impact of the current economic conditions; the Company' s ability to identify, execute or effectively integrate acquisitions; uncertainties related to the updated international tax planning strategy implemented by the Company; the Company' s ability to adapt to changing technology; the Company' s ability to refinance its senior secured credit facility and its ability to borrow funds in amounts sufficient to enable it to service its debt or meet its working capital and capital expenditure requirements; additional costs related to compliance with any regulatory changes such as Securities and Exchange Commission (SEC) rule changes or other corporate governance issues; and other risk factors described in the Company' s annual report on Form 10-K filed with the SEC on March 16, 2011. In addition, the statements in this quarterly report are made as of the date of this filing. The Company expects that subsequent events or developments will cause its views to change. The Company undertakes no obligation to update any of the forward-looking statements made herein, whether as a result of new information, future events, changes in expectations or otherwise. These forward-looking statements should not be relied upon as representing the Company' s views as of any date subsequent to the date of this filing. The forward-looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A of the Securities Act and 21E of the Securities Exchange Act.

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Business Overview

We are an international data communications company which provides network managed connectivity, data communications and value added services to many of the world' s leading retailers, banks and payment processors. We are also a leading provider of secure data network services to the global financial services industry. We operate the largest unaffiliated Signaling System No. 7 network in the United States capable of providing services nationwide, and we utilize this network to provide call signaling and database access services to the domestic telecommunications industry. We also provide roaming and clearing services to both domestic and international mobile phone operators. Our data communications services enable secure and reliable transmission of time-sensitive, transaction-related information critical to our customers' operations. Our customers outsource their data communications requirements to us because of our substantial expertise, comprehensive customer support and cost-effective services. We provide services to customers in the United States and increasingly to international customers in over 60 countries, including Canada and Mexico and countries in Europe, Latin America and the Asia-Pacific region. We currently maintain operations and/or employees in 26 countries.

We provide services through our data network, which is designed specifically for transaction oriented applications. Our network supports a variety of widely accepted communications protocols and is designed to be scalable, interoperable and accessible by multiple methods, including dial-up, dedicated, wireless, fixed broadband and internet connections.

We generate revenues through three business divisions:

- ***Telecommunication services.*** Our telecommunication services division provides innovative communications infrastructure services to fixed, mobile, broadband and VoIP operators around the world. We collaborate with customers, sharing our expertise, resources and infrastructure to leverage rapidly evolving technologies. Our suite of services includes a reliable, nationwide SS7 network, intelligent database and registry services, identity and verification services, and hosted roaming and clearing solutions that simplify our customers' operations, expand their reach and provide a foundation that helps them increase their profitability.

- ***Payments.*** We deliver a broad portfolio of secure and resilient transaction delivery services as well as innovative value added solutions to many of the world' s top banks, retailers, ISOs, transaction processors and ATM deployers. Our PCI DSS certified global backbone network and range of payment gateways securely deliver billions of card present and card not present transactions each year from the Point-of-Sale (POS) to their destination. Protocol/message conversion, ATM and POS processing, payment encryption and file settlement form part of the comprehensive payment solutions that we provide around the world.

- ***Financial services.*** As one of the industry' s leading electronic connectivity solutions, our Secure Trading Extranet brings together an extensive global financial community of interest and delivers mission-critical low latency connectivity solutions to some of the largest and most prominent financial organizations in the world. Our private Secure Trading Extranet provides low latency to support Direct Market Access, algorithmic trading and market data distribution. Organizations utilizing our network can benefit from a range of value added services, including co-location and hosting services, interoffice WAN solutions and connectivity to our large community of interest.

Our most significant expense is cost of network services, which is comprised primarily of the following: telecommunications charges, including data transmission and database access, leased digital capacity charges, circuit installation charges and activation charges; salaries and other costs related to supporting our data platforms and systems; and compensation paid to providers of calling name and line information database records. The cost of data transmission is based on a contract, or in the United States potentially a tariff rate per minute of usage in addition to a prescribed rate per transaction for some vendors. The costs of database access, circuits, installation charges and activation charges are based on fixed fee contracts with local exchange carriers and interexchange carriers. The cost of accessing database records from external providers is based on a per query fee for the use of that data. The compensation charges paid to providers of calling name and line information database records are based on a percentage of query revenue generated from our customers accessing those records. Depreciation expense on our network equipment and amortization of developed technology is excluded from our cost of network services and is included in depreciation and amortization of property and equipment and amortization of intangible assets in our consolidated statements of operations.

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Our engineering and development expenses include salaries and other costs related to product development, engineering, hardware maintenance and materials. The majority of these costs are expensed as incurred, including costs related to the development of internal use software in the preliminary project, the post-implementation and operation stages. Development costs we incur during the software application development stage are capitalized and amortized over the estimated useful life of the developed software.

Our selling, general and administrative expenses include costs related to sales, marketing, administrative and management personnel, as well as external legal, accounting and consulting services.

Our contingent consideration expense includes the change in fair value of contingent consideration relating to the acquisition of Cequint (See Note 1).

Acquisition and Divestiture

On October 1, 2010, we completed the acquisition of Cequint, Inc. (Cequint) in accordance with the terms and conditions of the Agreement and Plan of Merger dated September 8, 2010 (see Note 1). The purchase price, following working capital adjustments, included an initial payment of $50.0 million, consisting of $46.9 million in cash and $3.1 million (178,823 shares) in TNS common stock issued to certain Cequint shareholders, and may be adjusted in the future for a potential additional $52.5 million in cash based upon the achievement of four specified profit milestones not to extend past May 31, 2014, for a potential total purchase price of $102.5 million. In addition to the contingent consideration of up to $52.5 million, there are additional performance payments which may be payable to certain executives and key personnel, based on the achievement of the same four profit-related milestones of up to $10.0 million. To the extent the additional $10.0 million is probable to be earned, it will be included in operating expenses in our condensed consolidated statements of operations. We funded the transaction through a new $50.0 million term loan facility using a portion of the accordion feature as part of our November 2009 Credit Facility (see Note 2). Cequint provides carrier grade caller identification products and enhanced services to top U.S.-based mobile operators. We have integrated Cequint into our telecommunication services division. This acquisition has been accounted for as a business combination under FASB ASC 805, Business Combinations. We have included its results since that date in our statement of operations for the three and nine months ended September 30, 2011. Therefore, our results for the three and nine months ended September 30, 2010 are not comparable.

On August 31, 2011, we divested our ATM processing assets in Canada for a sale price of $1. Upon closing of the transaction, we recorded a loss on the sale of this business of $27,000. Management made the decision to divest this business in order to focus our resources more on our network services offerings in Canada and investments in our payment gateway initiatives. In accordance with FASB ASC 205 "Presentation of Financial Statements" we have reported the results of our ATM processing business in Canada as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented. See Note 2 for additional information.

Share Repurchase Plan

On September 1, 2010 our Board of Directors approved a share repurchase plan authorizing the repurchase of a maximum of $50.0 million of our common stock over the period expiring March 31, 2012. We commenced repurchasing shares on October 1, 2010 and as of September 30, 2011 have repurchased 2,237,462 shares for a total of approximately $39.4 million.

Results of Operations

The following table sets forth, for the periods indicated selected statements of operations data (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Revenues	$ 130,577	$ 142,731	$ 387,820	$ 417,406
Operating expenses:				
Cost of network services, exclusive of the items shown separately below	65,071	69,746	193,142	206,810
Engineering and development	9,172	11,882	27,545	34,222
Selling, general, and administrative	22,504	26,984	71,270	78,006
Contingent consideration expense	–	918	–	1,668
Depreciation and amortization of property and equipment	11,462	10,912	35,231	33,838
Amortization of intangible assets	8,547	9,888	28,430	30,070
Total operating expenses	116,756	130,330	355,618	384,614
Operating income	13,821	12,401	32,202	32,792
Interest expense	(5,746)	(6,266)	(17,692)	(19,394)
Interest income	59	52	252	192
Other (expense) income, net	(2,615)	(150)	3,124	(1,471)
Income from continuing operations before income tax provision and equity in net loss of unconsolidated affiliate	5,519	6,037	17,886	12,119
Income tax provision	(987)	(3,901)	(5,763)	(7,278)
Equity in net loss of unconsolidated affiliate	(224)		(289)	
Income from continuing operations	4,308	2,136	11,834	4,841
Loss from discontinued operations	(287)	(538)	(212)	(1,391)
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450

Three months ended September 30, 2011 compared to the three months ended September 30, 2010

Revenues. Total revenues increased $12.1 million, or 9.3%, to $142.7 million for the three months ended September 30, 2011, from $130.6 million for the three months ended September 30, 2010. The positive effect of foreign exchange translation on a year-over-year basis was $3.4 million. Excluding the effect of foreign exchange rates, total revenues increased $8.7 million, or 6.7%, to $139.3 million for the three months ended September 30, 2011.

We generate revenues through three business divisions; the telecommunication services division (TSD), the payments division and the financial services division (FSD).

Telecommunication services division. Revenues from the telecommunication services division increased $9.8 million, or 15.2%, to $74.5 million for the three months ended September 30, 2011, from $64.7 million for the three months ended September 30, 2010. Included in the third quarter 2011 were revenues of $2.9 million from Cequint. Excluding the contribution from Cequint, revenues increased $6.9 million, or 10.7%, as follows:

- ***Identity and verification services*** revenue increased $3.9 million, or 14.1%, to $31.9 million due to $5.4 million from new caller name storage customer wins which was partially offset by the following: $0.4 million from the loss of caller name storage contracts; $0.4 million due to a loss by one of TNS' caller name wireline customers of a portion of its wholesale business in the third quarter of 2010; $0.4 million from lower volumes in our legacy fraud and validation services; and $0.3 million primarily due to price concessions on the renewal of certain customer contracts.

- ***Network services*** revenue increased $1.6 million, or 5.8%, to $28.6 million due to $2.0 million related to increased demand for signaling services from new and existing customers which was partially offset by a reduction of $0.4 million due to price concessions on the renewal of certain customer contracts.

- ***Registry services*** revenue decreased $1.2 million, or 17.4%, to $5.8 million due to the following: $0.7 million related to the expiry of a transition services agreement under which we were providing services to a customer through a platform acquired through the CSG acquisition; $0.4 million due to price concessions on the renewal of certain customer contracts; and $0.2 million from lower volumes in our toll-free number database service. These reductions were partially offset by an increase of $0.1 million from increased demand for our IP registry services.

- ***Roaming and clearing*** revenue increased $2.6 million, or 100.4%, to $5.2 million due to market share gains and increased demand for services from existing customers.

Future revenue growth in the telecommunication services division depends on a number of factors including the number of database access queries we transport, the number of call signaling routes our customers purchase, and the success of our new product offerings, such as roaming and clearing, which potentially may be offset by customers seeking pricing discounts due to industry consolidation or other reasons, as well as the successful integration of the business acquired through our purchase of Cequint (see Note 1).

Payments division. Revenue from the Payments Division increased $1.9 million, or 3.8%, to $51.3 million for the three months ended September 30, 2011 from $49.4 million for the three months ended September 30, 2010. The positive effect of foreign currency translation on a year-over-year basis was $3.0 million. Excluding the effect of foreign exchange rates, revenues decreased $1.2 million to $48.3 million as follows:

Network services decreased 5.0%, or $2.0 million, to $39.0 million, as follows:

- Europe: revenue increased 1.5%, or $0.3 million, due to $0.5 million in market share gains for dial services and increased demand for IP-based network services, primarily in Italy, Spain and Romania, and $0.1 million in the UK due to growth in demand for IP-based network services, partially offset by a $0.3 million decrease in dial-based network services in France and smaller markets.

- Asia Pacific: revenue was flat due to $0.2 million in increased demand for our IP-based network services, offset by $0.2 million relating to the loss by one customer of a significant portion of its dial business, as previously disclosed.

- North America: revenue decreased 15.3%, or $2.3 million, due to an expected decrease in dial business due to transaction volume declines of $1.8 million related to certain customers and from lower average transaction pricing of $0.5 million.

Payment gateway services increased 10.0%, or $0.6 million to $6.8 million, as follows**:**

- Europe: our payment gateway revenue in Europe is derived from card-holder present services provided through our UK subsidiary. This revenue remained flat on a year-over-year basis.

- Asia Pacific: revenue increased 11.7%, or $0.4 million, due to increased transaction volumes of $0.7 million from cardholder-not-present services partially offset by a decrease of $0.3 million in software development services.

- North America: revenue increased 14.5%, or $0.2 million, primarily due to growth in cardholder-not-present services which were launched in the third quarter of 2010.

Payment processing and other services increased 14.6%, or $0.3 million, to $2.5 million, as follows**:**

- Europe: revenue increased due to new customer wins and increased transaction volumes.

Future revenue growth in the payments division depends on a number of factors including the success of our IP-related network and payment gateway services, the success of our payments products in countries we have recently entered, the total number of dial-up transactions we transport and global economic conditions. Smaller merchants, which represent a large portion of the user base for our dial-up services, in our opinion have been more adversely impacted by recent global economic conditions than the larger merchants and may take longer to recover if and when the economy improves. We have continued to see a reduction in the growth rates or declines of our dial-up transaction volumes in many of the markets in which we operate, which we primarily attribute to the overall weakness of the global economy.

Financial services division. Revenues from the financial services division increased $0.5 million, or 2.6%, to $17.0 million for the three months ended September 30, 2011, from $16.5 million for the three months ended September 30, 2010. The positive effect of foreign exchange translation on a year-over-year basis was $0.4 million. Excluding the impact of foreign exchange rates, financial services revenue increased 0.6% or $0.1 million on a constant currency basis as follows:

Network services:

- Europe: revenue increased 4.6%, or $0.1 million, due to market share gains of $0.4 million which were offset by $0.3 million related to the loss of endpoints and market data access services in the UK.

- Asia Pacific: revenue increased 17.9%, or $0.5 million, due to the continued expansion of the number of customer endpoints connected to TNS' network.

- North America: revenue decreased 4.0%, or $0.5 million, due to $2.2 million from the loss of endpoints and market data access services believed to be attributable to negative economic factors impacting the financial services industry, which was partially offset by $1.2 million in additional new endpoints and $0.5 million in sales of bandwidth-based services marketed primarily to participants in the foreign exchange community.

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Future revenue growth in the financial services division depends on a number of factors including the number of connections to and through our network as well as the success of our new product offerings. We have continued to see a decline in demand for legacy low latency exchange data connectivity for the major global exchanges in the U.S. and no longer generate significant revenue from these services in North America.

Cost of network services. Cost of network services increased $4.6 million, or 7.1%, to $69.7 million for the three months ended September 30, 2011, from $65.1 million for the three months ended September 30, 2010. On a constant dollar basis, cost of network services would have increased $3.4 million to $68.5 million. This was due to the following increases: $1.3 million in personnel and systems costs primarily to support our IP registry, roaming and clearing and payment gateway platforms; $1.0 million due to higher volumes in our telecommunications services division, primarily related to increased demand for our identity and verification services; $0.9 million from the inclusion of Cequint; $0.4 million in our financial services division due primarily to increased connectivity costs in North America and to a lesser extent increases to support revenue growth in Europe and Asia Pacific; and a $1.0 million increase in North American dial access rates in our payments division, which was offset by a $1.0 million decrease in transaction volumes.

Future cost of network services depends on a number of factors including total transaction and query volumes, the relative growth and contribution to total transaction volume of each of our customers, the success of our new service offerings, the timing and extent of our network expansion and the timing and extent of any network cost increases or reductions.

Gross profit. Gross profit represented 51.1% of total revenues for the three months ended September 30, 2011, compared to 50.1% for the three months ended September 30, 2010. On a constant dollar basis, gross margins for the three months ended September 30, 2011 represented 50.8% of total revenues. This increase was due primarily to margin increases in TSD, driven by leverage of call and data volume across a common platform, and to a lesser extent due to cost synergies derived from the CSG network integration, and the inclusion of Cequint revenue, which carries higher gross margin. This was partially offset by declines in the North American Payments dial business due primarily to higher dial access costs and to a lesser extent lower average transaction pricing, margin declines in FSD due to a reduction in trading connections between endpoints, and investments in personnel and systems to support our payment gateway offerings.

Engineering and development expense. Engineering and development expense increased $2.7 million, or 29.4%, to $11.9 million for the three months ended September 30, 2011, from $9.2 million for the three months ended September 30, 2010. On a constant dollar basis, engineering and development expense increased $2.3 million, or 25.3%, to $11.5 million, and represented 8.2% and 7.0 % of revenues for the three months ended September 30, 2011 and 2010, respectively. The increase in engineering and development costs was primarily due to the following: $2.7 million in costs resulting from our acquisition of Cequint; $1.5 million in additional headcount related costs; $0.4 million in performance cash compensation; and $0.2 million in system maintenance costs to support our payment gateway, verification and IP registry services. This was partially offset by an increase in capitalized software development costs, which are offset against engineering and development costs, of $2.3 million due to incremental investments in our growth initiatives, which include Cequint.

Selling, general and administrative expense. Selling, general and administrative expenses increased $4.5 million, or 20.0%, to $27.0 million for the three months ended September 30, 2011, from $22.5 million for the three months ended September 30, 2010. On a constant dollar basis and excluding $0.7 million of Cequint acquisition costs for the three months ended September 30, 2010, selling, general and administrative expenses would have increased $4.2 million, or 18.7%, to $26.0 million and represented 18.7% and 17.2% of revenues for the three months ended September 30, 2011 and 2010, respectively. This was due to the following increases: $1.9 million in costs resulting from the inclusion of Cequint; $1.3 million in performance cash compensation; $0.5 million in headcount and related costs required to support our growth initiatives; and $0.2 million related to stock compensation.

Contingent consideration expense. Contingent consideration expense of $0.9 million for the three months ended September 30, 2011, represents the change in the fair value of the liability recorded for the additional consideration which may be payable in relation to the acquisition of Cequint, Inc. See Note 1 to the financial statements for further details regarding the Cequint contingent consideration. This liability will be re-measured each reporting period and changes in the fair value will be recorded through this line item in our condensed consolidated statement of operations.

Depreciation and amortization of property and equipment. Depreciation and amortization of property and equipment decreased $0.6 million, or 5.2%, to $10.9 million for the three months ended September 30, 2011, from $11.5 million for the three months ended September 30, 2010. On a constant dollar basis, depreciation and amortization of property and equipment decreased $0.8 million to $10.7 million and represented 7.8% and 8.8% of revenue for the three months ended September 30, 2011 and 2010, respectively. Included in depreciation expense for the three months ended September 30, 2010 was an accelerated depreciation charge of $1.1 million related to the phasing out of $6.2 million of surplus network assets and software as a result of the integration of the CSG and TNS networks. Excluding the accelerated charges, depreciation and amortization of property and equipment increased $0.3 million due to capital expenditure investments in our growth initiatives, including Cequint.

Amortization of intangible assets. Amortization of intangible assets increased $1.4 million, or 16.5%, to $9.9 million for the three months ended September 30, 2011, from $8.5 million for the three months ended September 30, 2010. Included in amortization of intangible assets for the three months ended September 30, 2011 was $1.8 million related to the acquisition of Cequint. Excluding the impact of Cequint, amortization of intangible assets decreased by $0.4 million primarily due to certain intangible assets reaching the end of their economic useful lives.

Interest expense. Interest expense increased $0.6 million to $6.3 million for the three months ended September 30, 2011, from $5.7 million for the three months ended September 30, 2010. Amortization of deferred financing fees and original issue discount for the three months ended September 30, 2011 and 2010 was $0.5 million and $0.4 million, respectively. Excluding these charges, cash interest expense increased $0.5 million to $5.8 million, primarily due to the impact of increased borrowing levels as a result of our acquisition of Cequint on October 1, 2010, partially offset by debt repayments.

Other (expense) income, net. Other (expense) income was a loss of $0.2 million for the three months ended September 30, 2011 compared to a loss of $2.6 million for the three months ended September 30, 2010. Included in other income (expense) was a loss of approximately $0.2 million and $2.7 million for the three months ended September 30, 2011 and 2010, respectively, related to foreign currency revaluation. These revaluation amounts were due to fluctuations in the value of the U.S. dollar, principally against the Euro and Australian dollar.

Income tax provision. For the three months ended September 30, 2011, our income tax provision was approximately $3.9 million compared to $0.9 million for the three months ended September 30, 2010. Our effective tax rate was 71.0% and 17.2% for the three months ended September 30, 2011 and 2010, respectively. Our effective tax rate differs from the U.S. federal statutory rate primarily due to the application of a valuation allowance against certain U.S. tax attributes, an increase of $1.8 million in the US valuation allowance on additional deferred tax assets recognized related to the Cequint acquisition, and profits of our international subsidiaries being taxed at rates different than the U.S. federal statutory rate.

Nine months ended September 30, 2011 compared to the nine months ended September 30, 2010

Revenues. Total revenues increased $29.6 million, or 7.6%, to $417.4 million for the nine months ended September 30, 2011, from $387.8 million for the nine months ended September 30, 2010. The positive effect of foreign exchange translation on a year-over-year basis was $9.2 million. Excluding the effect of foreign exchange rates, total revenues increased $20.4 million, or 5.2%, to $408.2 million for the nine months ended September 30, 2011.

We generate revenues through three business divisions; the telecommunication services division (TSD), the payments division and the financial services division (FSD).

Telecommunication services division. Revenues from the telecommunication services division increased $20.0 million, or 10.3%, to $214.4 million for the nine months ended September 30, 2011, from $194.4 million for the nine months ended September 30, 2010. Included in the nine months ended September 30, 2011 were revenues of $8.3 million from Cequint, Inc. excluding the contribution from Cequint, revenues increased 6.0%, or $11.7 million, as follows:

- ***Identity and verification services*** revenue increased $4.0 million, or 4.7%, to $89.5 million due to $9.7 million from new caller name storage customer wins which was partially offset by the following decreases: $2.7 million from the loss of caller name storage contracts primarily in the second quarter of 2010; $1.4 million due to a loss by one of TNS' caller name wireline customers of a portion of its wholesale business in the third quarter of 2010; $0.7 million primarily due to price concessions on the renewal of certain customer contracts; $0.7 million from lower volumes in our fraud and validation service; and a further $0.2 million in revenue from fraud and validation services due to the loss of a customer which became a competitor following the acquisition of the CSG business.

- ***Network services*** revenue increased $3.3 million, or 4.1%, to $83.6 million due to $6.3 million related to increased demand for signaling services from new and existing customers, which was partially offset by a reduction of $3.0 million primarily due to price concessions on the renewal of certain customer contracts.

- ***Registry services*** revenue decreased $2.1 million, or 10.0%, to $18.7 million due to $1.4 million related to the expiry of a transition services agreement acquired through the CSG acquisition; $0.9 million related to price concessions on the renewal of certain customer contracts; and $0.4 million from lower volumes in toll-free database services. This was partially offset by an increase of $0.6 million due to higher demand for our IP registry services.

- ***Roaming and clearing*** revenue increased $6.5 million, or 83.1%, to $14.3 million due to market share gains and increased demand for services from existing customers.

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Payments division. Revenue from the Payments Division increased $8.6 million, or 6.0%, to $152.4 million for the nine months ended September 30, 2011 from $143.8 million for the nine months ended September 30, 2010. The positive effect of foreign currency translation on a year-over-year basis was $8.3 million. Excluding the effect of foreign exchange rates, revenues increased $0.3 million, or 0.2 %, to $144.1 million as follows:

Network services decreased 2.1%, or $2.5 million, to $117.0 million, as follows:

- Europe: revenue increased 5.1%, or $3.2 million, due to $2.1 million in market share gains for dial services and increased demand for IP-based network services, primarily in Italy, Spain and Romania, and $1.5 million in the UK due to growth in demand for IP-based network services, partially offset by a $0.4 million decrease in dial-based network services in France and smaller markets

- Asia Pacific: revenue decreased 1.0%, or $0.1 million, due to a decrease of $1.1 million relating to the loss by one customer of a significant portion of its wholesale dial-up network services, beginning in the second quarter of 2010 partially offset by an increase of $1.0 million due to increased demand for our IP-based network services.

- North America: revenue decreased 12.1%, or $5.6 million, due to an expected decrease in dial business due to transaction volume declines of $3.1 million related to certain customers and from lower average transaction pricing of $2.5 million as previously disclosed. We have recently seen an increase in the competitive environment for our dial-up network services in the United States and as a result in 2011 it is likely our revenue per transaction will decrease and depending upon the number of dial-up transactions we transport our dial-up revenues may continue to decrease. We currently estimate the impact of these pricing concessions to reduce our annual U.S. dial-up revenues by $3 million − $4 million in 2011.

Payment gateway services increased 12.9%, or $2.2 million, to $19.3 million, as follows:

- Europe: our payment gateway revenue in Europe is derived from card-holder present services provided through our UK subsidiary. This revenue remained flat on a year-over-year basis.

- Asia Pacific: revenue increased $1.8 million, or 19.7%, due to increased transaction volumes of $2.4 million from our cardholder-not-present services partially offset by a decrease of $0.6 million in development revenue.

- North America: revenue increased $0.4 million, or 10.3%, due primarily to the launch of our North American cardholder-not present platform in the third quarter of 2010.

Payment processing and other services increased 9.6%, or $0.7 million to $7.8 million, as follows:

- Europe: revenue, which is derived from our payment processing business in the UK, increased $1.1 million, or 15.9%, primarily due to increased transaction volumes.

- North America: revenue decreased $0.4 million due to our ATM software product which we ceased selling, as previously disclosed.

Financial services division. Revenues from the financial services division increased $1.0 million, or 2.0%, to $50.6 million for the nine months ended September 30, 2011, from $49.6 million for the nine months ended September 30, 2010. The positive effect of foreign exchange translation on a year-over-year basis was $0.9 million. Excluding the impact of foreign exchange rates, financial services revenue increased $0.1 million, or 0.2%, to $49.7 million as follows:

Network services:

- Europe: revenue increased $0.3 million, or 3.5%, due to market share gains of $1.0 million which were partially offset by $0.7 million related to the loss of endpoints and market data access services in the UK.

- Asia Pacific: revenue increased $1.3 million, or 21.5%, due to the continued expansion of the number of customer endpoints connected to our network.

- North America: revenue decreased $1.5 million, or 4.2%, due to $7.0 million of loss of endpoints and market data access services which we believe is attributable to negative economic factors impacting the financial services industry, which was partially offset by $4.1 million of growth in new endpoints and $1.4 million in sales of bandwidth-based services primarily to participants in the foreign exchange community.

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Cost of network services. Cost of network services increased $13.7 million, or 7.1%, to $206.8 million for the nine months ended September 30, 2011, from $193.1 million for the nine months ended September 30, 2010. On a constant dollar basis, cost of network services would have increased $10.4 million, or 5.4%, to $203.5 million. This was due to the following increases: $2.4 million in our payments division due to $3.0 million in dial access rates in North America partially offset by $1.5 million due to reduced transaction volumes and $0.9 million to support our payments revenue growth in Europe and Asia Pacific; $2.1 million from the inclusion of Cequint; $1.8 million due to higher volumes in our telecommunications services division, primarily related to increased demand for our identity and verification services; $1.1 million in our financial services division due primarily to increased connectivity costs in North America and to a lesser extent increases to support revenue growth in Europe and Asia Pacific; and $3.0 million in shared network, payroll and overhead expense primarily to support our IP registry, roaming and clearing and payment gateway platforms.

Gross profit. Gross profit represented 50.5% of total revenues for the nine months ended September 30, 2011, compared to 50.2% for the nine months ended September 30, 2010. On a constant dollar basis, gross margins for the nine months ended September 30, 2011 decreased to 50.1%. This decrease was due primarily to declines in the North American Payments dial business margin due to increased access costs and lower average pricing, margin declines in FSD due to a reduction in trading connections between endpoints, and investments in personnel and systems to support our payment gateway offerings. This was partially offset by margin increases in TSD, driven by leverage of call and data volume across a common platform, and to a lesser extent due to cost synergies derived from the CSG network integration, and the inclusion of Cequint revenue, which carries higher gross margin.

Engineering and development expense. Engineering and development expense increased $6.7 million, or 24.2%, to $34.2 million for the nine months ended September 30, 2011, from $27.5 million for the nine months ended September 30, 2010. On a constant dollar basis, engineering and development expense increased $5.7 million, or 20.8% to $33.0 million, and represented 8.0% and 7.1% of revenues for the nine months ended September 30, 2011 and 2010, respectively. The increase in engineering and development costs was primarily due to the following: $7.0 million in costs resulting from the inclusion of Cequint; $2.9 million in additional headcount and related costs; $1.6 million in system maintenance costs to support our support our payment gateway, verification and IP registry services; and $0.8 million in performance cash compensation. This was partially offset by an increase in capitalized software development costs, which are offset against engineering and development costs, of $6.6 million due to incremental investments in our growth initiatives, which include Cequint.

Selling, general and administrative expense. Selling, general and administrative expenses increased $6.7 million, or 9.4%, to $78.0 million for the nine months ended September 30, 2011, from $71.3 million for the nine months ended September 30, 2010. On a constant dollar basis, selling, general and administrative expenses would have increased $4.4 million, or 6.2%, to $75.7 million and represented 18.6% and 18.4% of revenues for the nine months ended September 30, 2011 and 2010, respectively. This was due to the following increases: $4.4 million in costs resulting from the inclusion of Cequint and $2.5 million in performance cash compensation. These increases were partially offset by the following decreases: $1.0 million in stock compensation due primarily to a decrease in performance related stock compensation; $0.9 million in headcount and other cost synergies related to the integration of CSG; and $0.4 million in severance charges related to restructuring activities in North America.

Contingent consideration expense. Contingent consideration expense of $1.7 million for the nine months ended September 30, 2011, represents the change in the fair value of the liability recorded for the additional consideration which may be payable in relation to the acquisition of Cequint, Inc. See Note 1 for further details regarding the Cequint contingent consideration. This liability is re-measured each reporting period and changes in the fair value will be recorded through this line item in our condensed consolidated statement of operations.

Depreciation and amortization of property and equipment. Depreciation and amortization of property and equipment decreased $1.4 million, or 4.0%, to $33.8 million for the nine months ended September 30, 2011, from $35.2 million for the nine months ended September 30, 2010. On a constant dollar basis, depreciation and amortization of property and equipment decreased $1.8 million to $33.4 million and represented 8.2% and 9.1% of revenue for the nine months ended September 30, 2011 and 2010, respectively. Included in depreciation and amortization of property and equipment is an accelerated depreciation charge of $0.7 million and $4.3 million recorded in the nine months ended September 30, 2011, and 2010, respectively. These accelerated depreciation charges relate to the phasing out of $6.2 million of surplus network assets and software as a result of the integration of the CSG and TNS networks. Excluding the accelerated charges, depreciation and amortization of property and equipment increased $1.8 million due to capital expenditures to support our growth initiatives, including Cequint.

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Amortization of intangible assets. Amortization of intangible assets increased $1.7 million, or 5.8%, to $30.1 million for the nine months ended September 30, 2011, from $28.4 million for the nine months ended September 30, 2010. Included in amortization of intangible assets for the nine months ended September 30, 2011 was $5.5 million related to the acquisition of Cequint. Included in amortization for the nine months ended September 30, 2010, was $2.0 million related to the impairment of certain customer relationship intangible assets. Excluding these items, amortization of intangible assets decreased by $1.8 million primarily due to certain intangible assets reaching the end of their economic useful lives.

Interest expense. Interest expense increased $1.7 million to $19.4 million for the nine months ended September 30, 2011, from $17.7 million for the nine months ended September 30, 2010. Amortization of deferred financing fees and original issue discount for the nine months ended September 30, 2011 and 2010 was $1.5 million in both periods. Cash interest expense increased primarily due to the impact of increased borrowing levels as a result of our acquisition of Cequint on October 1, 2010 partially offset by debt repayments.

Other (expense) income, net. Other (expense) income was a loss of $1.3 million for the nine months ended September 30, 2011 compared to a gain of $3.4 million for the nine months ended September 30, 2010. Included in other income (expense) was a loss of approximately $1.7 million compared to a gain of $2.7 million for the nine months ended September 30, 2011 and 2010, respectively, related to foreign currency revaluation. These revaluation amounts were due to fluctuations in the value of the U.S. dollar, principally against the Euro and Australian dollar.

Income tax provision. For the nine months ended September 30, 2011, our income tax provision was approximately $7.3 million compared to $6.8 million for the nine months ended September 30, 2010. Our effective tax rate was 67.9% and 37.1% for the nine months ended September 30, 2011 and 2010, respectively. Our effective tax rate differs from the U.S. federal statutory rate primarily due to the application of a valuation allowance against certain U.S. tax attributes, an increase of $1.8 million in the US valuation allowance on additional deferred tax assets recognized related to the Cequint acquisition, and profits of our international subsidiaries being taxed at rates different than the U.S. federal statutory rate.

Additional Information

Non-GAAP Measures

To supplement our consolidated financial statements presented on a GAAP basis, we disclose certain non-GAAP measures, including EBITDA before stock compensation expense, adjusted net income and adjusted net income per share. These non-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States. Reconciliations of each of these non-GAAP measures to the corresponding GAAP measure are included on page 20 in this 10-Q.

EBITDA before stock compensation expense is determined by adding the following items to Net Income, the closest GAAP financial measure: equity in net loss of unconsolidated affiliate, loss from discontinued operations, income tax provision, other income (expense), interest expense, depreciation and amortization of property and equipment, amortization of intangibles, contingent consideration expense, milestone compensation expense and stock compensation expense.

Adjusted net income is determined by adding the following items to Net Income, the closest GAAP financial measure: provision for income taxes, loss from discontinued operations, certain non-cash items, including amortization of intangible assets, stock compensation expense, the change in fair value of contingent consideration, milestone compensation expense and the amortization of debt issuance costs, and the result is tax effected at an assumed long-term tax rate of 20%, which excludes the effect of our net operating losses. The assumed long-term tax rate of 20% takes into consideration the following primary factors: the income generated outside of the U.S. which is taxed at substantially lower rates than U.S. statutory rates; the cash benefit of our tax-deductible amortization of intangible assets and tax-deductible goodwill; and the cash benefit of tax-deductible stock compensation expense.

We believe that the disclosure of EBITDA before stock compensation expense and adjusted net income and related per-share amounts are useful to investors as these non-GAAP measures form the basis of how our management team reviews and considers our operating results. We also rely on adjusted net income as the primary measure of our earnings exclusive of certain non-cash charges. By disclosing these non-GAAP measures, we believe that we create for investors a greater understanding of, and an enhanced level of transparency into, the means by which our management team operates our company. We also believe these measures can assist investors in comparing our performance to that of other companies on a consistent basis exclusive of selected significant non-cash items.

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EBITDA before stock compensation expense, adjusted net income and adjusted net income per share have limitations as analytical tools, and you should not rely upon them or consider them in isolation or as a substitute for GAAP measures, such as net income and other consolidated income or other cash flows statement data prepared in accordance with GAAP. In addition, these non-GAAP measures may not be comparable to other similarly titled measures of other companies. Because of these limitations, EBITDA before stock compensation expense should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. Adjusted net income and adjusted net income per share also should not be considered as a replacement for, or a measure that should be used or analyzed in lieu of, net income or net income per share. We attempt to compensate for these limitations by relying primarily upon our GAAP results and using EBITDA before stock compensation expense, adjusted net income and adjusted net income per share as supplemental information only.

All references to the effect of foreign currency exchange rates on a constant dollar basis were determined by applying the prior year foreign currency rates to the current year results.

Adjusted net income (a non-GAAP measure) decreased $1.8 million to $40.2 million for the nine months ended September 30, 2011 compared to $42.0 million for the same period in 2010. Adjusted net income per common share (a non-GAAP measure) was $1.57 per share for the nine months ended September 30, 2011 compared to $1.57 per share for the same period in 2010. Included in other income (expense), net in our consolidated statements of operations are a pre-tax loss of $0.2 million, or $0.01 per share, and $1.7 million, or $0.05 per share, for the three and nine months ended September 30, 2011 compared to a pre-tax loss of $2.7 million, or $0.08 per share, and a pre-tax gain of $2.7 million, or $0.08 per share, for the same periods in 2010 related to the revaluation of certain foreign currency denominated assets and liabilities. Also included in depreciation expense for the three and nine month period ended September 30, 2010 were accelerated depreciation charges related to the phasing out of surples network assets and software resulting from the integration of the CSG and TNS networks of $1.1 million, or $0.03 per share, and $4.3 million, or $0.13 per share, respectively. In addition there were $0.7 million, or $0.02 per share, in accelerated depreciation charges related to these assets recorded during the nine month period ended September 30, 2011. EBITDA before stock compensation expense (a non-GAAP measure) increased $2.4 million to $103.2 million for the nine months ended September 30, 2011 from $100.8 million for the same period in 2010.

Adjusted net income and related per share amounts, EBITDA before stock compensation expense and revenue comparisons at constant exchange rates are not measures prepared in accordance with U.S. GAAP. See ***Additional Information*** for an explanation of management' s use of these non-GAAP measures. The following is a reconciliation of our results of operations prepared in accordance with U.S. GAAP to those adjusted results considered by management:

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2011**	**2010**	**2011**
EBITDA before stock compensation expense:				
Net income (GAAP)	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Add back the following items:				
Loss on discontinued operations	287	538	212	1,391
Equity in net loss of unconsolidated affiliate	224	–	289	–
Provision for income taxes	987	3,901	5,763	7,278
Other (income) expense, net	2,615	150	(3,124)	1,471
Interest income	(59)	(52)	(252)	(192)
Interest expense	5,746	6,266	17,692	19,394
Depreciation and amortization of property and equipment	11,462	10,912	35,231	33,838
Amortization of intangible assets	8,547	9,888	28,430	30,070
Contingent consideration (income) expense	–	918	–	1,668
Earnout milestone compensation	–	526	–	667
Stock compensation expense	1,418	1,720	4,987	4,170
EBITDA before stock compensation expense	$ 35,248	$ 36,365	$ 100,850	$ 103,205
Adjusted Net Income:				
Net income (GAAP)	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Add back the following items:				
Loss on discontinued operations	287	538	212	1,391
Provision for income taxes	987	3,901	5,763	7,278
Amortization of intangible assets	8,547	9,888	28,430	30,070
Contingent consideration expense	–	918	–	1,668
Earnout milestone compensation	–	526	–	667
Other debt related costs	409	457	1,472	1,535
Stock compensation expense	1,418	1,720	4,987	4,170

Adjusted Net Income before income taxes		15,669		19,546		52,486		50,229
Income tax provision at 20%		(3,134)		(3,909)		(10,497)		(10,046)
Adjusted Net Income	$	12,535	$	15,637	$	41,989	$	40,183
Diluted weighted average common shares outstanding		26,714,235		25,488,294		26,772,268		25,633,721
Adjusted Net Income per common share	$	0.47	$	0.61	$	1.57	$	1.57

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Critical Accounting Policies and Estimates

We base the discussion and analysis of our financial condition and results of operations upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We discuss the most critical estimates in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 16, 2011.

Liquidity and Capital Resources

Our primary liquidity and capital resource needs are to finance the costs of our operations, to make capital expenditures and to service our debt. Based upon our current level of operations, we expect that our cash flow from operations, together with the amounts we are able to borrow under our amended November 2009 Credit Facility, will be adequate to meet our anticipated needs for the foreseeable future. The covenants in our amended November 2009 Credit Facility do not, and are not reasonably likely to, limit our ability to pursue strategic acquisitions as part of our growth strategy to a material extent. To the extent that we are not able to fund a strategic acquisition through cash flow from operations or additional amounts that we are able to borrow under our November 2009 Credit Facility, we would need to undertake additional debt or equity financing.

Our operations provided us cash of $60.4 million for the nine months ended September 30, 2011, which was attributable to net income of $3.5 million, depreciation, amortization and other non-cash charges of $72.8 million and an increase in working capital of $15.9 million. The increase in working capital relates primarily to the reversal of the $10.5 million working capital decrease from the fourth quarter of 2010, during the nine months ended September 30, 2011, and to a lesser extent from delays in collections in the third quarter of 2011 which reversed early in the fourth quarter of 2011. Our operations provided us cash of $78.6 million for the nine months ended September 30, 2010, which was attributable to net income of $11.6 million, depreciation, amortization and other non-cash charges of $66.6 million and a decrease in working capital of $0.4 million.

We used cash of $34.9 million and $37.4 million in investing activities for the nine months ended September 30, 2011, and 2010, respectively. Capital expenditures were $34.7 million and $36.8 million for the nine months ended September 30, 2011 and 2010, respectively. Our capital expenditures in 2011 are focused on our growth initiatives, including Cequint, our cardholder - not - present gateway, verification services, IP registry and roaming and clearing services. Our capital expenditures in 2010 were focused on the integration of the CSG and TNS networks, integration of CSG back office functions and the stabalization and enhancement of the platforms and systems acquired through the CSG acquisition.

We used cash of $55.9 million for financing activities for the nine months ended September 30, 2011. This consisted primarily of $34.4 million voluntary payments on the November 2009 Credit Facility. In addition, $20.3 million was used to repurchase stock as part of the Company' s authorized share repurchase program (See Note 1) as well as $1.5 million to repurchase stock to satisfy employee tax withholding requirements on the vesting of restricted stock units, and we received $0.3 million from the exercise of employee stock options. We used cash of $31.5 million for financing activities for the nine months ended September 30, 2010. This consisted primarily of a $30.0 million voluntary payment on the November 2009 Credit Facility. In addition, $3.4 million was used to repurchase stock to satisfy employee tax withholding requirements on the vesting of restricted stock units and we received $1.9 million from the exercise of employee stock options.

Seasonality

Credit card and debit card transactions account for a major percentage of the transaction volume processed by the customers of our payments division. The volume of these transactions on our networks generally is greater in the third and fourth quarter vacation and holiday seasons than during the rest of the year. Consequently, revenues and earnings from credit card and debit card transactions in the first and second quarter generally are lower than revenues and earnings from credit card and debit card transactions in the third and fourth quarters of the immediately preceding year. We expect that our operating results in the foreseeable future will be significantly affected by seasonal trends in the credit card and debit card transaction market.

Call volumes from business users account for a major percentage of the database access volume of our identity and verification and registry services in our telecommunications services division. As a result, we generally see higher database access volumes on business days as opposed to weekends and holidays. The volume of these database access volumes is generally greater in the second and third quarters than during the rest of the year. In addition, the levels of roaming and clearing traffic processed by our mobile operator customers is generally greater in the second and third quarter vacation and travel seasons than during the rest of the year. We expect that our operating results in the foreseeable future will be significantly affected by seasonal trends in the telecommunications industry.

Effects of Inflation

Our monetary assets, consisting primarily of cash and receivables, and our non-monetary assets, consisting primarily of intangible assets and goodwill, are not affected significantly by inflation. However, the rate of inflation affects our expenses, such as those for employee compensation and costs of network services, which may not be recoverable in the price of services offered by us.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rates

Our principal exposure to market risk relates to changes in interest rates. As of September 30, 2011, we had $373.1 million outstanding under our November 2009 Credit Facility with interest rates tied to changes in the lender' s base rate or the LIBOR rate. Interest on outstanding balances under the November 2009 Credit Facility is payable, at the Company' s option, at the base rate plus a margin of 3%, or at LIBOR plus a margin of 4%. Additionally, in no event will the base rate be less than 3.0% or the LIBOR rate be less than 2.0%. At September 30, 2011 the one-month LIBOR rate was 0.24%. Based upon the outstanding borrowings on September 30, 2011 and assuming repayment of the Term Loan in accordance with scheduled maturities, each 1.0% increase or decrease in these rates, once the LIBOR rate exceeds the 2.0% minimum, could affect our annual interest expense by $3.7 million.

As of September 30, 2011, we did not hold derivative financial or commodity instruments and all of our cash and cash equivalents were held in money market or commercial accounts.

Foreign currency risk

Our earnings are affected by fluctuations in the value of the U.S. dollar as compared with foreign currencies, predominately the Euro, the British Pound and the Australian dollar due to our operations in Europe and Australia.

We primarily enter into arrangements with our customers in the currency of the markets we operate in. As a result, our reported results are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, predominantly the British Pound, the Euro and the Australian dollar. The following table shows the currency composition of our revenues for the three months ended September 30, 2011 and 2010 and the weighted average exchange rates used to translate our local currency results to the U.S. dollar:

	2011			2010		
	% of Revenue	% of operating expenses	Weighted Average Exchange Rates	% of Revenue	% of operating expenses	Weighted Average Exchange Rates
British Pound	12%	9%	1.61	12%	10%	1.55
Euro	9%	8%	1.42	10%	6%	1.29
Australian Dollar	6%	7%	1.05	6%	5%	0.90

A $0.01 change in exchange rates for each of the major foreign currencies we operate in would have the following annual impact on:

- Revenue: British Pound, $0.4 million, Euro, $0.4 million and Australian Dollar $0.3 million; and

- Total operating expenses: British Pound, $0.3 million, Euro, $0.2 million and Australian Dollar $0.3 million

We provide services to customers in the United States and increasingly to international customers in over 60 countries including Canada and Mexico and countries in Europe, Latin America and the Asia-Pacific region. We currently maintain operations and/or employees in 28 countries. We provide services in these countries using networks deployed in each country. We manage foreign exchange risk through the structure of our business. In the substantial majority of our transactions, we receive payments denominated in the U.S. dollar, British Pound, Euro or Australian dollar. Therefore, we do not rely on international currency markets to obtain and pay illiquid currencies. The foreign currency exposure that does exist is limited by the fact that the majority of transactions are paid according to our standard payment terms, which are generally short-term in nature. Our policy is not to speculate in foreign currencies, and we promptly buy and sell foreign currencies as necessary to cover our net payables and receivables, denominated in foreign currencies. However, in December 2009 our subsidiary in Ireland entered into a $25.8 million loan agreement with our subsidiary in Bermuda to provide it with the ability of making loans and working capital funding to our subsidiaries. This loan is denominated in U.S. dollars and therefore fluctuations in the euro to the U.S. dollar exchange rate were recorded as revaluation gains or losses in our income statement prior to January 1, 2011. Beginning January 1, 2011, we no longer intend to settle this specific loan amount for the foreseeable future, and as such in accordance with ASC 830, Foreign Currency Matters, from this date, fluctuations in the euro to the U.S. dollar exchange rates are recorded to other comprehensive income in our balance sheet. For the three and nine months ended September 30, 2011, we recorded a loss on foreign currency revaluation of approximately $0.2 million and $1.7 million, respectively. This is primarily due to the revaluation of a U.S. dollar denominated loan balance between our subsidiaries in Ireland and Australia. This loan relates to amounts advanced by our subsidiary in Ireland to fund our card-not-present development activities in Australia. For the three and nine months ended September 30, 2010, we recorded a loss on foreign currency revaluation of $2.7 million and a gain on foreign currency revaluation of 2.8 million, respectively, which is included in other income (expense) in the accompanying condensed consolidated statements of operations.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company' s reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC' s rules and forms, and that such information is accumulated and communicated to the Company' s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Evaluation

We carried out an evaluation, under the supervision, and with the participation, of the Company' s management, including the Company' s Chief Executive Officer and the Company' s Chief Financial Officer, of the effectiveness of the Company' s disclosure controls and procedures as of September 30, 2011. Based on the foregoing, the Company' s Chief Executive Officer and principal financial officer concluded that the Company' s disclosure controls and procedures were effective as of September 30, 2011 at the reasonable assurance level.

Changes in Internal Controls

There have been no changes during the most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II–OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

(31.1) Certification–Chief Executive Officer

(31.2) Certification–Chief Financial Officer

(32.1) Written Statement of Chief Executive Officer and Chief Financial Officer

(101) The following materials from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 formatted in eXtensible Business Reporting Language ("XBRL"): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) notes to these consolidated financial statements, tagged as blocks of text

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SIGNATURES

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

TNS, Inc.
(Registrant)

Date: November 7, 2011	By:	/s/ HENRY H. GRAHAM, JR.
		Henry H. Graham, Jr. *Chief Executive Officer*
Date: November 7, 2011	By:	/s/ DENNIS L. RANDOLPH, JR.
		Dennis L. Randolph, Jr. *Executive Vice President, Chief Financial Officer & Treasurer*

Exhibit 31.1

CERTIFICATION

I, Henry H. Graham, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of TNS, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financing reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

    c. Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonable likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

DATE: November 7, 2011

/s/ HENRY H. GRAHAM, JR.

Henry H. Graham, Jr.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Dennis L. Randolph, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of TNS, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’ s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15f and 15d-15f) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financing reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   c. Evaluated the effectiveness of the registrant’ s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant’ s internal control over financial reporting that occurred during the registrant’ s most recent fiscal quarter (the registrant’ s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant’ s internal control over financial reporting; and

5. The registrant’ s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’ s auditors and the audit committee of registrant’ s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’ s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

DATE: November 7, 2011

/s/ DENNIS L. RANDOLPH, JR.

Dennis L. Randolph, Jr.
Executive Vice President, Chief Financial Officer & Treasurer

Exhibit 32.1

WRITTEN STATEMENT
OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The undersigned hereby certify that the Form 10-Q for the quarter ended September 30, 2011 filed by TNS, Inc. with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: November 7, 2011

/s/ HENRY H. GRAHAM, JR.

Henry H. Graham, Jr.
Chief Executive Officer

Dated: November 7, 2011

/s/ DENNIS L. RANDOLPH, JR.

Dennis L. Randolph, Jr.
Executive Vice President, Chief Financial Officer and Treasurer

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (USD $) In Thousands, except Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Revenues	$ 142,731	$ 130,577	$ 417,406	$ 387,820
Operating expenses:				
Cost of network services, exclusive of the items shown separately below	69,746	65,071	206,810	193,142
Engineering and development	11,882	9,172	34,222	27,545
Selling, general, and administrative	26,984	22,504	78,006	71,270
Contingent consideration expense	918		1,668	
Depreciation and amortization of property and equipment	10,912	11,462	33,838	35,231
Amortization of intangible assets	9,888	8,547	30,070	28,430
Total operating expenses	130,330	116,756	384,614	355,618
Operating income	12,401	13,821	32,792	32,202
Interest expense	(6,266)	(5,746)	(19,394)	(17,692)
Interest income	52	59	192	252
Other (expense) income, net	(150)	(2,615)	(1,471)	3,124
Income from continuing operations before income tax provision and equity in net loss of unconsolidated affiliate	6,037	5,519	12,119	17,886
Income tax provision	(3,901)	(987)	(7,278)	(5,763)
Equity in net loss of unconsolidated affiliate		(224)		(289)
Income from continuing operations	2,136	4,308	4,841	11,834
Loss from discontinued operations, net of income taxes	(538)	(287)	(1,391)	(212)
Net income	$ 1,598	$ 4,021	$ 3,450	$ 11,622
Basic				
Continuing operations (in dollars per share)	$ 0.08	$ 0.16	$ 0.19	$ 0.45
Discontinued operations (in dollars per share)	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)
Basic net income per common share (in dollars per share)	$ 0.06	$ 0.15	$ 0.14	$ 0.44
Diluted				
Continuing operations (in dollars per share)	$ 0.08	$ 0.16	$ 0.19	$ 0.44
Discontinued operations (in dollars per share)	$ (0.02)	$ (0.01)	$ (0.05)	$ (0.01)
Diluted net income per common share (in dollars per share)	$ 0.06	$ 0.15	$ 0.14	$ 0.43
Basic weighted average common shares outstanding (in shares)	25,197,227	26,189,608	25,385,753	26,083,076
Diluted weighted average common shares outstanding (in shares)	25,488,294	26,714,235	25,633,721	26,772,268

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $) In Thousands	9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Cash flows from operating activities:		
Net income	$ 3,450	$ 11,622
Non-cash items:		
Depreciation and amortization of property and equipment	33,838	35,231
Amortization of intangibles	30,070	28,430
Loss on disposal of property and equipment		160
Deferred income tax (benefit) provision	1,507	(4,021)
Amortization of deferred financing costs	1,535	1,472
Contingent consideration expense	1,668	
Equity in net loss of unconsolidated affiliate		289
Stock compensation expense	4,170	4,987
Changes in operating assets and liabilities:		
Accounts receivable, net	(8,683)	(1,845)
Prepaid expenses and other current assets	(4,466)	8,490
Other noncurrent assets	(2,989)	(867)
Accounts payable and accrued expenses	766	(11,824)
Deferred revenue	(194)	(435)
Other noncurrent liabilities	(301)	6,861
Net cash provided by operating activities:	60,371	78,550
Cash flows from investing activities:		
Purchases of property and equipment	(34,647)	(36,787)
Business combinations, net of cash acquired	(224)	(544)
Net cash used in investing activities:	(34,871)	(37,331)
Cash flows from financing activities:		
Repayments of long-term debt	(34,375)	(30,000)
Proceeds from stock option exercises, inclusive of tax benefit	287	1,908
Purchase of treasury stock	(21,813)	(3,432)
Net cash used in financing activities:	(55,901)	(31,524)
Effect of exchange rates on cash and cash equivalents	2,146	(1,704)
Net increase (decrease) in cash and cash equivalents	(28,255)	7,991
Cash and cash equivalents, beginning of period	56,689	32,480
Cash and cash equivalents, end of period	28,434	40,471
Supplemental disclosures of cash flow information:		
Cash paid for interest	18,252	15,442
Cash paid for income taxes	$ 4,208	$ 4,024

CONDENSED CONSOLIDATED BALANCE SHEETS (USD $) In Thousands	Sep. 30, 2011	Dec. 31, 2010
Current assets:		
Cash and cash equivalents	$ 28,434	$ 56,689
Accounts receivable, net of allowance for doubtful accounts of $3,977 and $3,773 respectively	95,689	86,988
Prepaid expenses	10,914	7,937
Deferred tax assets	225	220
Inventory	2,484	2,259
Other current assets	5,223	3,960
Total current assets	142,969	158,053
Property and equipment, net	135,804	135,418
Identifiable intangible assets, net	275,951	306,077
Goodwill	36,740	36,785
Deferred tax assets, net	1,347	2,932
Other assets	7,635	5,475
Total assets	600,446	644,740
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	72,146	71,481
Deferred revenue	11,870	12,061
Current portion of long-term debt, net of discount	13,249	18,488
Total current liabilities	97,265	102,030
Long-term debt, net of current portion and discount	356,760	385,136
Deferred tax liabilities	1,872	1,912
Contingent consideration	35,262	33,594
Other liabilities	6,532	6,787
Total liabilities	497,691	529,459
Stockholders' equity:		
Common stock, $0.001 par value; 130,000,000 shares authorized; 26,515,823 shares issued and 25,359,255 shares outstanding and 25,602,354 shares issued and 24,384,455 shares outstanding, respectively	26	27
Treasury stock, 1,156,568 shares and 1,217,899 shares, respectively	(20,768)	(21,523)
Additional paid-in capital	158,523	176,633
Accumulated deficit	(30,865)	(34,315)
Accumulated other comprehensive loss	(4,161)	(5,541)
Total stockholders' equity	102,755	115,281
Total liabilities and stockholders' equity	$ 600,446	$ 644,740

Comprehensive Income (Loss)	9 Months Ended Sep. 30, 2011
Comprehensive Income (Loss)	
Comprehensive Income (Loss)	4. Comprehensive Income (Loss)

4. Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax effect are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Foreign currency translation adjustments	8,668	(3,844)	(1,192)	1,380
Total comprehensive income (loss)	$ 12,689	$ (2,246)	$ 10,430	$ 4,830

Discontinued Operations

9 Months Ended
Sep. 30, 2011

Discontinued Operations

Discontinued Operations

2. Discontinued Operations

On August 31, 2011, the Company divested its ATM processing assets in Canada for a sale price of $1. Upon closing of the transaction, the Company recorded a loss on the sale of this business of $27,000. Management made the decision to divest this business in order to focus the Company' s resources more on its network services offerings in Canada and investments in its payment gateway initiatives. In accordance with FASB ASC 205 "Presentation of Financial Statements" the results of the ATM processing business in Canada are reported as discontinued operations in the accompanying condensed consolidated statements of operations for all periods presented.

The key components of loss from discontinued operations related to the ATM processing business in Canada were as follows ($ in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Net Sales	$ 669	$ 470	$ 4,200	$ 1,780
Operating expenses	1,067	981	3,326	3,144
Loss/(income) before taxes	398	511	(874)	1,364
Income tax (benefit)/expense	(111)	–	1,086	–
Loss from discontinued operations	287	511	212	1,364
Loss on sale	–	27	–	27
Loss from discontinued operations, net of income taxes	$ 287	$ 538	$ 212	$ 1,391

Net Income Per Common Share

9 Months Ended Sep. 30, 2011

Net Income Per Common Share

Net Income Per Common Share

5. Net Income Per Common Share

FASB ASC 260, Earnings Per Share, requires the presentation of basic and diluted earnings per share. Basic earnings per common share is computed by dividing income attributable to common stockholders by the weighted average number of common shares outstanding for the period. The diluted earnings per common share data is computed using the weighted average number of common shares outstanding plus the dilutive effect of common stock equivalents, unless the common stock equivalents are anti-dilutive.

The treasury stock effect of options to purchase 1,192,988 shares of common stock that were outstanding as of September 30, 2011, were excluded from the computation of diluted net income per common share for the three and nine months ended September 30, 2011, as their effect would have been anti-dilutive. The treasury stock effect of options to purchase 603,971 and 272,967 shares of common stock that were outstanding as of September 30, 2010 were excluded from the computation of diluted net income per common share for the three and nine months ended September 30, 2010, as their effect would have been anti-dilutive.

The Company' s basic and diluted earnings per common share are presented below (amounts in thousands except number of shares and per share amounts).

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Income from continuing operations	$ 4,308	$ 2,136	$ 11,834	$ 4,841
Loss from discontinued operations	(287)	(539)	(212)	(1,391)
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450
Weighted average common share calculation:				
Basic weighted average common shares outstanding	26,189,608	25,197,227	26,083,076	25,385,753
Treasury stock effect of outstanding options to purchase	135,137	137,906	263,700	133,861
Treasury stock effect of unvested restricted stock units	389,490	153,161	425,492	114,107
Diluted weighted average common shares outstanding	26,714,235	25,488,294	26,772,268	25,633,721
Net income per common share:				
Basic				
Continuing Operations	$ 0.16	$ 0.08	$ 0.45	$ 0.19
Discontinued Operations	(0.01)	(0.02)	(0.01)	(0.05)
Basic net income per common share	$ 0.15	$ 0.06	$ 0.44	$ 0.14
Diluted				
Continuing Operations	$ 0.16	$ 0.08	$ 0.44	$ 0.19
Discontinued Operations	(0.01)	(0.02)	(0.01)	(0.05)
Diluted net income per common share	$ 0.15	$ 0.06	$ 0.43	$ 0.14

Segment Information

9 Months Ended Sep. 30, 2011

Segment Information

Segment Information

6. Segment Information

The Company' s management evaluates revenues for three business divisions: telecommunication services, payments and financial services. The Company operates as one reportable segment since the chief operating decision maker allocates resources based on the consolidated financial results.

Revenue for the Company' s three business divisions is presented below (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Revenues:				
Telecommunication services	$ 64,652	$ 74,471	$ 194,375	$ 214,402
Payments	49,380	51,278	143,832	152,408
Financial services	16,545	16,982	49,613	50,596
Total revenues	$ 130,577	$ 142,731	$ 387,820	417,406

Management evaluates the Company' s performance on EBITDA before stock compensation expense. The Company defines EBITDA before stock compensation expense as net income before loss from discontinued operations, depreciation, amortization, stock compensation expense, interest expense, other income (expense), equity in net loss of unconsolidated affiliate, contingent consideration expense, milestone compensation expense and provision for income taxes. EBITDA before stock compensation expense is not a generally accepted accounting principle measure, but rather a measure employed by management to view operating results. The Company believes that this measure, viewed in addition to and not in lieu of the Company' s reported GAAP results, provides additional useful information to the investors regarding the Company' s performance and overall operating results exclusive of selected significant non-cash items. This metric is frequently requested by investors and is also an integral part of the Company' s internal reporting to measure the performance of senior management. The Company' s definition of EBITDA before stock compensation expense may not be comparable to similarly titled measures used by other entities.

EBITDA before stock compensation expense was approximately $35.2 million and $36.4 million, and $100.8 million and $103.2 million, for the three and nine months ended September 30, 2010 and 2011, respectively. Management evaluates performance before consideration of certain intercompany transactions. Accordingly, these transactions are not reflected in EBITDA. In addition, certain corporate expenses are reflected consistent with information reviewed by our chief operating decision maker.

EBITDA before stock compensation expense differs from net income reported in the condensed consolidated statements of operations as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
EBITDA before stock compensation expense	$ 35,248	$ 36,365	$ 100,850	$ 103,205
Reconciling items:				
Depreciation and amortization of property and equipment	(11,462)	(10,912)	(35,231)	(33,838)
Amortization of intangible assets	(8,547)	(9,888)	(28,430)	(30,070)
Stock compensation expense	(1,418)	(1,720)	(4,987)	(4,170)

Interest expense	(5,746)	(6,266)	(17,692)	(19,394)
Interest income and other income (expense), net	(2,556)	(98)	3,376	(1,279)
Milestone compensation expense	–	(526)	–	(667)
Contingent consideration expense	–	(918)	–	(1,668)
Equity in net loss of unconsolidated affiliate	(224)		(289)	
Provision for income taxes	(987)	(3,901)	(5,763)	(7,278)
Loss on discontinued operations	(287)	(538)	(212)	(1,391)
Net income	$ 4,021	$ 1,598	$ 11,622	$ 3,450

Geographic Information

The Company sells its services through foreign subsidiaries in Australia, Austria, Bermuda, Canada, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Poland, Romania, Singapore, South Korea, Spain, Sweden, Thailand, Turkey and the United Kingdom. Information regarding revenues and long-lived tangible assets attributable to each geographic region is stated below.

The Company' s revenues were generated in the following geographic regions (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Telecommunications Services Division				
North America	$ 64,652	$ 74,471	$ 194,375	$ 214,402
Payments Division				
North America	$ 16,478	$ 14,331	$ 49,951	$ 44,643
Europe	25,783	28,208	73,895	82,692
Asia-Pacific	7,119	8,739	19,986	25,073
	$ 49,380	$ 51,278	$ 143,832	$ 152,408
Financial Services Division				
North America	$ 11,305	$ 10,850	$ 34,493	$ 33,061
Europe	3,093	3,471	9,238	10,118
Asia-Pacific	2,147	2,661	5,882	7,417
	$ 16,545	$ 16,982	$ 49,613	$ 50,596
Total				
North America	$ 92,435	$ 99,652	$ 278,819	$ 292,106
Europe	28,876	31,679	83,133	92,810
Asia-Pacific	9,266	11,400	25,868	32,490
Total Revenues	$ 130,577	$ 142,731	$ 387,820	$ 417,406

The Company' s long-lived assets, including goodwill and intangible assets, were located as follows (in thousands):

	December 31, 2010	September 30, 2011
North America	$ 440,536	$ 408,065
Europe	19,343	17,612
Asia-Pacific	20,235	22,818
Total long lived assets	$ 480,114	$ 448,495

Document and Entity Information	9 Months Ended	
	Sep. 30, 2011	Oct. 01, 2011
Document and Entity Information		
Entity Registrant Name	TNS INC	
Entity Central Index Key	0001268671	
Document Type	10-Q	
Document Period End Date	Sep. 30, 2011	
Amendment Flag	false	
Current Fiscal Year End Date	--12-31	
Entity Current Reporting Status	Yes	
Entity Filer Category	Accelerated Filer	
Entity Common Stock, Shares Outstanding		24,384,455
Document Fiscal Year Focus	2011	
Document Fiscal Period Focus	Q3	

Description of Business and Basis of Presentation

9 Months Ended Sep. 30, 2011

Description of Business and Basis of Presentation

Description of Business and Basis of Presentation

1. Description of Business and Basis of Presentation

TNS, Inc. (TNS or the Company) is one of the leading global providers of data communications and interoperability solutions. TNS' s global secure network and innovative value added services enable transactions and the exchange of information to many of the world' s leading retailers, banks, payment processors, financial institutions and telecommunication firms.

Founded in 1990 in the United States, TNS has grown steadily and now provides services to customers in over 60 countries across the Americas, Europe and the Asia Pacific region, with our reach extending to many more. TNS has designed and implemented a global data network that supports a variety of widely accepted communication protocols and is designed to be scalable and accessible by multiple methods.

TNS reports its results by revenue generated in three industry verticals.

Payments

TNS' s Payments division delivers a broad portfolio of secure and resilient transaction delivery services as well as innovative value added solutions to many of the world' s leading banks, retailers, Independent Sales Organizations (ISOs), transaction processors and automated teller machine (ATM) deployers. TNS' Payment Card Industry Data Security Standard (PCI DSS) certified global backbone network and multi-channel payment gateways securely deliver billions of card present and card not present transactions each year from the Point-of-Sale (POS) to their destination. Protocol/message conversion, ATM and POS processing, payment encryption and file settlement form part of the comprehensive payment solutions that TNS provides around the world.

Telecommunication Services

TNS' s telecommunication services division provides innovative communications infrastructure services to fixed, mobile, broadband and VoIP operators around the world. TNS collaborates with customers, sharing expertise, resources and infrastructure to leverage rapidly evolving technologies. TNS' s suite of services includes the largest independent SS7 network in North America, intelligent database and registry services, identity and verification services and hosted roaming and clearing solutions that simplify the Company' s customers' operations, expand their reach and provide a foundation that helps them facilitate their profitability.

Financial Services

As one of the industry' s leading electronic connectivity solutions, TNS' Secure Trading Extranet brings together an extensive global financial community of interest and delivers mission-critical low latency connectivity solutions to some of the largest and most prominent financial organizations in the world. The private TNS Secure Trading Extranet ensures low latency to support direct market access, algorithmic trading and market data distribution. Organizations utilizing our network can benefit from a range of value added services, including co-location and hosting services, interoffice wide area network (WAN) solutions and connectivity to the Company' s large community of interest.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in the annual financial statements, required by GAAP, have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect adjustments (all of which are of a normal and recurring nature) that are necessary for the fair presentation of the periods presented. The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for any subsequent interim period or for the fiscal year. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the Company' s annual report on Form 10-K filed with the SEC on March 16, 2011, which includes audited consolidated financial statements and the notes thereto for the year ended December 31, 2010.

Capital Structure

During the nine months ended September 30, 2011, the Company issued 22,367 shares of common stock following the exercise of stock options and 270,626 shares of common stock following the vesting of restricted stock units, of which 80,578 shares were surrendered by employees to satisfy payroll tax withholding obligations and held by the Company as treasury shares. During the nine months ended September 30, 2010, the Company issued 129,421 shares of common stock following the exercise of stock options and 429,522 shares of common stock following the vesting of restricted stock units, of which 144,413 shares were surrendered by employees to satisfy payroll tax withholding obligations and held by the Company as treasury shares.

On September 1, 2010, the Company' s Board of Directors authorized a share repurchase program of up to $50 million of the Company' s common stock over the period ending March 31, 2012, subject to extension. The Company commenced repurchasing shares on October 1, 2010 and during the three month period ended December 31 2010 repurchased 1,050,247 shares for a total cost of $19.1 million. The Company repurchased 1,187,215 shares of its common stock during the three and nine month period ended September 30, 2011 for a total cost of $20.3 million. The Company' s November 2009 Credit Facility has been amended to authorize such repurchases (see Note 3).

The Company retired 1,206,462 and 205,497 treasury shares during the nine months ended September 30, 2011 and 2010, respectively.

Acquisitions

Cequint, Inc.

On September 8, 2010, the Company entered into the Agreement and Plan of Merger (the Merger Agreement) which provided for the merger of Cequint, Inc. (Cequint) with and into Thunder Acquisition Corp., a wholly owned subsidiary of the Company formed for the purpose of the acquisition. Cequint provides carrier grade caller ID products and enhanced services to U.S. mobile operators and has been integrated into the Company' s telecommunication services division. On October 1, 2010, the Company completed the merger in accordance with the terms and conditions of the Merger Agreement. The initial purchase price for the acquisition was $50.0 million consisting of $46.9 million in cash and $3.1 million in Company stock issued to certain management shareholders of Cequint. The stock consideration consisted of 178,823 shares at a fair value of $17.11 per share, which included restrictions on transfer that expire as follows: one third of total shares issued on the first anniversary of the date of acquisition; one third of total shares issued on the second anniversary of the date of acquisition; and one third of total shares issued on the third anniversary of the date of acquisition. The purchase price may be adjusted in the future by an additional $52.5 million in cash based upon the achievement of four specific profit-related milestones, during the period which commenced on June 1, 2011, and not to extend beyond May 31, 2014 (the Earn-Out Period), for a potential total purchase price of $102.5 million. In addition to the contingent consideration of up to $52.5 million, there are additional performance payments which may be payable to certain executives and key personnel, based on the achievement of the same four profit-related milestones of up to $10.0 million. To the extent the additional $10.0 million is payable, it will be recorded as compensation expense as described below.

The four profit-related milestones must be met for two consecutive months during the Earn-Out Period. These criteria are set out in the following table:

	Criteria	Shareholder Payment Contingent Consideration	Employee Performance Plan Compensation Expense	Total Potential Payouts
Milestone 1	(i) Monthly Gross Margin(1) greater than $2.5 million; (ii) Positive Net Income Contribution(2); and (iii) Name ID product successfully launched with a tier-one mobile operator	$12.6 million	$ 2.4 million	$15.0 million
Milestone 2	Monthly Gross Margin(1) greater than $5.0 million	$14.7 million	$ 2.8 million	$17.5 million
Milestone 3	Monthly Gross Margin(1) greater than $7.5 million	$12.6 million	$ 2.4 million	$15.0 million
Milestone 4	Monthly Gross Margin(1) greater than $10.0 million	$12.6 million	$ 2.4 million	$15.0 million
		$52.5 million	$ 10.0 million	$62.5 million

(1) Defined in the Merger Agreement as revenues for such month (excluding any non-recurring revenues) less licensing, depreciation and other direct costs incurred in providing Cequint products and services

(2) Defined in the Merger Agreement as the Monthly Gross Margin for such month less any direct research and development (including capitalized research and development), sales, marketing, finance, operations and indirect costs (including costs allocated to Cequint) incurred in connection with Cequint' s products and services for such month.

(3) For further details in relation to the Agreement and Plan of Merger, please refer to the Form 8-K filed by the Company on September 14, 2010.

As of the acquisition date, the Company recorded a liability of $31.8 million representing the estimated fair value of the contingent purchase consideration of $52.5 million based on a probability weighted scenario approach to determine the likelihood and timing of the achievement of the relevant milestones. In calculating this liability, the Company applied a rate of probability to each scenario, as well as a risk-adjusted discount factor, to derive the estimated fair value of the consideration as of the acquisition date. This fair value is based on significant unobservable inputs, including management estimates and assumptions, and accordingly is classified as Level 3 within the fair value hierarchy prescribed by ASC Topic 820, Fair Value Measurements and Disclosures. This liability is re-measured each reporting period and changes in the fair market value are recorded under the contingent consideration expense item in the Company' s consolidated statements of operations. Increases or decreases in the fair value of the contingent consideration liability can result from changes in discount periods and rates, as well as changes in the timing and likely achievement of the relevant milestones. Since the date of acquisition, the Company has recognized a $3.5 million increase in the fair value of the contingent consideration related primarily to the change in the discount period (accretion due to the passage of time).

The potential $10.0 million of performance payments are recognized in a systematic and rational manner over the Earn-Out Period to the extent it is probable the milestones will be met. These costs are treated as compensation expense and are included in operating expenses in the Company' s consolidated statement of operations. In June 2011, the Earn-Out period commenced and $0.5 million and $0.7 million of compensation expense has been included in selling, general, and administrative expense in the Company' s consolidated statement of operations during the three and nine months ended September 30, 2011.

The Company funded the acquisition of Cequint through a new $50 million term loan facility using the accordion feature of the November 2009 Credit Facility (see Note 3). The condensed consolidated statements of operations include the results of the Cequint acquisition from October 1, 2010. The acquisition of Cequint has been accounted for as a business combination under FASB ASC 805, Business Combinations.

The fair values of the assets acquired and liabilities assumed were determined using various valuation techniques, primarily based on significant inputs that are not observable in the market and therefore represent Level 3 measurements as defined in FASB ASC 820, Fair Value Measurements and Disclosures. Developed technology was valued using the relief from royalty method which values the subject technology by reference to the amount of royalty income that could be generated if the technology were licensed in an arm' s length transaction to a third party. Customer relationship intangibles were valued using the multi-period excess earnings method which is based on the operating profit from existing customer relationships, less applicable charges for the use of assets such as working capital, fixed assets, identified intangible assets and the assembled workforce. Covenants not to compete were valued using the comparison of economic income approach under which the projected cash flows of the business with the covenants in place are compared to the projected cash flows presuming the active competition of the individuals against the Company.

The allocation of the purchase price for Cequint has been finalized as of September 30, 2011. The purchase price allocation was adjusted by $1.8 million for additional deferred tax assets with a corresponding decrease in goodwill relating to net operating loss carryforwards and research and development tax credits upon filing Cequint' s final income tax return. This purchase accounting adjustment has been retrospectively applied to the consolidated balance sheet as of December 31, 2010.

The purchase price for Cequint was allocated as follows (in thousands):

	Preliminary allocation	Additional consideration paid	Measurement period adjustments	Final allocation
Purchase price allocation:				
Cash	$ 463	−	−	463
Accounts receivable	1,768	−	−	1,768
Prepaid expenses	257	−	−	257
Deferred tax asset	5,061	−	1,835	6,896
Property and Equipment	1,264	−	−	1,264
Goodwill	23,975	−	(1,835)	22,140
Identifiable intangible assets				
Developed technology	17,200	−	−	17,200
Customer relationships	48,600	−	−	48,600

Covenants not to compete	10,100	–	–	10,100
Total assets	108,688	–	–	108,688
Accounts payable, accrued expenses and other current liabilities	(1,471)	224	–	(1,247)
Deferred tax liability	(25,635)	–	–	(25,635)
Total purchase price	$ 81,582	224	–	81,806

Reconciliation of Cequint purchase price to cash consideration, as follows (in thousands):

Total purchase price	$ 81,806
Less non cash items:	
Company Stock issued	(3,060)
Contingent consideration	(31,800)
	46,946
Less cash received	(463)
Cash consideration	$ 46,483

The amounts allocated to property and equipment are being depreciated on a straight line basis over their weighted average estimated useful lives of 2 to 4 years. The intangible asset related to developed technology is being amortized on a straight line basis over 7 years, the intangible asset related to customer relationships is being amortized on a straight line basis over 17 years and the intangible asset related to covenants not to compete is being amortized on a straight line basis over 5 years. The intangible asset related to covenants not to compete is expected to be deductible for tax purposes. The intangible assets related to developed technology and customer relationships, and the goodwill, are not expected to be deductible for tax purposes.

The weighted average amortization period by each major class of assets and in total is as follows (in years):

	Weighted average amortization period
Developed technology	7
Customer relationships	17
Non competition agreements	5
Total weighted average amortization period	13.1

Unaudited pro forma results of operations assuming the Cequint acquisition had taken place at the beginning of the period are not provided because the historical operating results of Cequint were not significant and pro forma results would not be significantly different from reported results for the periods presented.

During the three and nine months ended September 30, 2011, Cequint contributed revenue of $2.9 million and $8.3 million, and a net loss of $4.3 million and $10.4 million, respectively. These amounts have been included in the Company' s consolidated statements of operations for the three and nine months ended September 30, 2011.

Goodwill, intangible and other long-lived assets

The Company accounts for goodwill and intangible assets in accordance with FASB ASC 350, Intangibles–Goodwill and Other (ASC 350). Under this standard, goodwill and intangible assets deemed to have indefinite lives are not amortized and are subject to annual impairment tests. The Company has elected to perform the impairment test annually as of October 1 of each year. An interim goodwill impairment test is performed if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount. If facts and circumstances indicate goodwill may be impaired, the Company performs a recoverability evaluation based upon a determination of fair value.

In accordance with FASB ASC 360, Property, Plant and Equipment (ASC 360) and ASC 350, the Company reviews long-lived assets including property and equipment, capitalized software development costs and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of long-lived assets, the Company evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the assets. If the Company estimates that assets are impaired, the assets are written down to their fair value. For purposes of measuring and recognizing impairment of long-lived assets, the Company at the lowest level will assess whether separate cash flows can be attributed to the individual asset. The Company groups long-lived assets where separately identifiable cash flows are available. In the event that long-lived assets, including intangibles are abandoned or otherwise disposed of, the Company recognizes an impairment charge upon disposition. For the Company' s customer relationship intangible assets, the Company evaluates impairment upon the significant loss of revenue from a customer. The fair value measurement of a customer relationship intangible is primarily based on an income approach using significant inputs that are not observable in the market, therefore representing a Level 3 measurement as defined in FASB ASC 820, Fair Value Measurements and Disclosures. The income approach indicates value for a subject asset based on the present value of cash flows projected to be generated by the asset. Projected cash flow is discounted at a rate of return that reflects the relative risk of achieving the cash flow and the time value of money. No impairment or accelerated amortization charges were recorded during the three and nine months ended September 30, 2011. During the nine months ended September 30, 2010, the Company accelerated amortization on a portion of its customer relationship intangible asset by $1.9 million, from a carrying value of $2.8 million to a fair value of $0.9 million, due to declines in anticipated future cash flows.

During the three months ended June 30, 2010, the Company made a decision to phase out $6.2 million of surplus network monitoring assets that would no longer be required following the integration of the CSG and TNS networks. The Company recorded accelerated depreciation expense related to these assets of $0.7 million and $4.3 million during the nine months ended September 30, 2011 and 2010 respectively, and $1.1 million during the three months ended September 30, 2010. As of February 28, 2011, the net book value of these assets had been written down to zero.

The calculation of fair value in accordance with ASC 350 and 360 contains uncertainties due to judgment in estimates and assumptions, including projections of future income and cash flows, the identification of appropriate market multiples and the choice of an appropriate discount rate. The Company' s estimates of anticipated future income and cash flows used in determining fair value contain uncertainties due to uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions. Therefore, those estimates could be reduced significantly in the future due to changes in technologies, regulation, available financing, competition or other circumstances. As a result, the carrying amount of the Company' s long-lived assets could be reduced through impairment charges in the future. Additionally, changes in the timing of estimated future cash flows could result in a shortening of estimated useful lives for long-lived assets including intangibles.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. We consider the accounting policies related to revenue and related cost recognition, valuation of goodwill, other intangible assets and contingent consideration related to business combinations, stock based compensation and accounting for income taxes to be critical to the understanding of our results of operations. Critical accounting policies include the areas where we have made what we consider to be particularly subjective or complex judgments in making estimates and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with U.S.

generally accepted accounting principles. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an agreement exists, the terms are fixed and determinable, services are performed, and collection is probable. Cash received in advance of revenue recognition is recorded as deferred revenue.

Payments revenue is derived primarily from per transaction fees paid by the Company' s customers for the transmission of transaction data, through the Company' s network, between payment processors and POS or ATM terminals and monthly recurring fees for IP-based network and wireless gateway offerings. TSD revenue is derived primarily from fixed monthly fees for call signaling and network connectivity services and per message fees charged for wireless switch and transport network services, identity and verification services, registry services, database access, call validation and roaming and clearing services. FSD revenue is derived primarily from monthly recurring fees based on the number of customer connections to and through the Company' s network as well as dedicated bandwidth usage.

The Company considers the criteria established primarily by FASB ASC 605-45, "Reporting Revenue Gross as a Principal versus Net as an Agent," in determining whether revenue should be recognized on a gross versus a net basis. Factors considered in determining if gross or net basis recognition is appropriate include whether the Company is primarily responsible to the client for the services, has discretion on vendor selection, or bears credit risk. The revenues for which there are gross vs. net considerations include regulatory network charges levied on our customers. Regulatory network charges include messaging signaling unit charges related to the Company' s Signaling System No. 7 (SS7) network and Universal Service Fund charges applicable to interstate telecommunications services approved or imposed by the Federal Communications Commission. The Company believes that the indicators under ASC 605-45 support gross revenue presentation since the Company is the primary obligor in the arrangement and carries the underlying traffic over its data communications network and has sole discretion over whether to include such regulatory charges in the amounts invoiced to customers. Included in revenues and cost of network services for the three months ended September 30, 2010 and 2011, are $2.9 million and $3.0 million, respectively, related to these pass-through charges and cost of network services. Included in revenues and cost of network services for both the nine months ended September 30, 2010 and 2011 is $9.0 million related to these pass-through charges.

In certain of our international locations, the Company enters into revenue sharing arrangements with third parties related to data communications services it provides to the payment processing industry. Certain of the Company' s international payment processing customers elect to configure end-user POS terminals with a caller-paid number. In this type of POS terminal configuration, the end-user is responsible for paying a regulated charge for each call to its underlying telecommunications carrier with which it contracts directly. The telecommunications carrier collects the regulated charge from the end-user and bears the credit risk in the transaction. The telecommunications carrier then remits the charge to the Company, withholding a fee for the use of its network in delivering the call to the Company. The Company then will pass these charges through to the payment processor, withholding a portion of the amount as a fee. Based on the Company' s contractual arrangements with its payment processing customers, it has no obligation to remit cash until and unless the cash is remitted to the Company by the telecommunications carrier. The end-user looks to the telecommunications carrier for the provision of data communications access to the POS device and the payment processer for the processing of card-based payments. The Company believes that the indicators under ASC 605-45 support net revenue presentation since the telecommunications provider and payment processor, not the Company, are the primary obligors in the arrangement and the Company does not bear the credit risk. For the three months ended September 30, 2010 and 2011, gross revenue was $18.1 million and $20.3 million, revenue share was $8.1 million and $9.2 million and net revenue recognized on the Company' s condensed consolidated financial statements was $10.0 million and $11.1 million, respectively. For the nine months ended September 30, 2010 and 2011, gross revenue was $52.2 million and $58.1 million, revenue share was $23.6 million and $26.1 million and net revenue recognized on the Company' s condensed consolidated financial statements was $28.6 million and $32.0 million, respectively.

Incentives granted to new customers or upon contract renewals are deferred and recognized ratably as a reduction of revenue over the contract period to the extent that the incentives are recoverable against the customer' s minimum purchase commitments under the contract. In addition, the Company receives installation fees related to the configuration of the customers' systems. Revenue from installation fees is deferred and recognized ratably over the customer' s contractual service period, generally three years. The Company performs periodic evaluations of its customer base and establishes allowances for estimated credit losses.

Cost of Network Services

Cost of network services is comprised primarily of telecommunications charges, which include data transmission and database access charges, leased digital capacity charges, circuit installation charges, activation charges and compensation paid to the providers of calling name and line information database records. The cost of data transmission is based on a contract or tariff rate per minute of usage in addition to a prescribed rate per transaction for certain vendors. The costs of database access, circuits, installation and activation charges are based on fixed fee contracts with local exchange carriers and interexchange carriers. The compensation charges paid to the providers of calling name and line information database records are based on a percentage of query revenue generated from the Company' s customers accessing those records. The cost of network services also includes salaries, equipment maintenance and other costs related to the ongoing operation of the Company' s data networks. These costs are expensed by the Company as incurred. The Company recognizes a liability for telecommunications charges based upon network services utilized at historical invoiced rates. Direct costs of installations are deferred and amortized over the customer' s contracted service period, generally three years.

Fair Value of Financial Instruments

The fair value of the Company' s long-term debt is based upon quoted market prices for the same and similar issues giving consideration to quality, interest rates, maturity and other characteristics. As of September 30, 2011, the Company believes the carrying amount of its long-term debt approximates its fair value since the variable interest rate of the debt approximates a market rate.

Stock-Based Compensation

The Company accounts for stock-based compensation under FASB ASC 718, Compensation-Stock Compensation. FASB ASC 718 requires all stock-based compensation to employees be measured at fair value and expensed over the requisite service period and also requires an estimate of forfeitures when calculating compensation expense.

Stock-based compensation expense has been included in the following categories in the accompanying condensed consolidated financial statements of operations (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
Cost of network services	$ 135	$ 186	$ 474	$ 493
Engineering and development	235	294	752	927
Selling, general and administrative	1,048	1,240	3,761	2,750
	$ 1,418	$ 1,720	$ 4,987	$ 4,170

As of September 30, 2011, there was a total of $13.7 million of unrecognized compensation cost related to stock-based awards, which is expected to be recognized over a weighted average period of approximately two years.

Time-Vested Awards

Time-vested awards are subject to a vesting period determined at the date of the grant, generally in equal installments over three or four years. The Company uses the Black Scholes option pricing model to determine the grant date fair value of any time-vested stock options. The Company uses the market price of the Company' s stock on the date of grant to determine the fair value of any time-vested restricted stock units. The Company recognizes compensation cost on these time-vested awards in equal installments over the vesting period.

During the three months ended September 30, 2011 the Company granted 626,889 stock options and 115,141 restricted stock units at a weighted average estimated fair value of $8.73 and $16.70, respectively. During the nine months ended September 30, 2011 the Company granted 626,889 stock options and 297,291 restricted stock units at a weighted average estimated fair value of $8.73 and $17.74, respectively. During the three months ended September 30, 2010 the Company granted 8,250 stock options and 39,250 restricted stock units at a weighted average estimated fair value of $9.08 and $19.48, respectively. During the nine months ended September 30, 2010, the Company granted 8,919 stock options and 239,761 restricted stock units at weighted average estimated fair values of $9.25 and $25.47, respectively. As of September 30, 2011, there was a total of $11.6 million of unrecognized compensation expense related to these awards, which is included in the $13.7 million total unrecognized compensation cost mentioned above.

Performance-Based Awards

Performance-based awards are generally tied to the Company' s performance against pre-established internal targets over a specified period of time. The Company uses the market price of the Company' s stock on the date of grant to determine the fair value of any performance-based restricted stock units. Performance-based awards are also subject to vesting requirements, and generally vest in installments over three or four years. Compensation cost is based on the expected payout level that will be achieved and is adjusted in subsequent periods as changes in the estimates occur until the performance criteria have been satisfied. The Company recognizes compensation cost on these performance based awards using an accelerated attribution method.

In April 2009, the Company made certain long-term performance-based stock compensation awards (the 2009 Equity Performance Awards). The 2009 Equity Performance Awards were granted under the Company' s 2004 Long Term Incentive Plan. Based upon the Company' s performance in 2009, the results of which were approved by the Company' s board of directors in February 2010, the plan participants earned 100% of the potential payout under the Company' s 2009 Equity Performance Awards. The total number of awards issued under the Company' s 2009 Equity Performance Awards was 311,500 restricted stock units which represented 100% of an employee' s target payout. The weighted average grant date fair value of restricted stock units granted was $16.85. As of September 30, 2011, there was a total of $0.2 million of unrecognized compensation expense related to these performance based awards which is included in the $13.7 million total unrecognized compensation cost mentioned above.

In February 2010, the Company made certain long-term performance-based stock compensation awards (the 2010 Equity Performance Awards). The 2010 Equity Performance Awards were granted under the Company' s 2004 Long Term Incentive Plan. The total number of awards that would be issued under the Company' s 2010 Equity Performance Awards, assuming that the target payout level was achieved, would have been 235,086 restricted stock units. Based on the achievement levels, the Company awarded no restricted stock units. As of September 30

2011, there was no unrecognized compensation expense related to these performance based awards.

In July 2011, the Company made certain long-term performance-based stock compensation awards (the 2011 Equity Performance Awards). The 2011 Equity Performance Awards were granted under the Company' s 2004 Long Term Incentive Plan. The total number of awards that would be issued under the Company' s 2011 Equity Performance Awards, assuming that the target payout level was achieved, would be 129,537 restricted stock units. The weighted average grant date fair value of restricted stock units was $16.69. As of September 30 2011, there was a total of $1.9 million of unrecognized compensation expense related to these performance based awards which is included in the $13.7 million total unrecognized compensation cost mentioned above.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes. Under FASB ASC 740, deferred tax assets or liabilities are computed based upon the difference between financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The Company provides a valuation allowance on its net deferred tax assets when it is more likely than not that such assets will not be realized. Deferred income tax expense or benefits are based upon the changes in the underlying asset or liability from period to period.

During the three months ended June 30, 2011, the Company concluded that a portion of the undistributed earnings of certain select foreign subsidiaries would no longer be considered indefinitely reinvested. After comparing the forecasted excess earnings of its domestic and select foreign subsidiaries to the opportunities for reinvestment, the Company changed its indefinite reinvestment assertion with respect to the current and future earnings of its UK and Irish subsidiaries, as it no longer has specific plans for reinvestment of those earnings in the foreseeable future. As a result of this change, the Company recorded a deferred tax liability of $14.1 million during the nine months ended September 30, 2011. However, this change in assertion had no net impact on tax expense for the period, as the deferred tax liability was fully offset by a corresponding decrease to the Company' s U.S. valuation allowance.

The Company' s effective tax rate for the nine months ended September 30, 2010 and 2011 of 37.1% and 67.9%, respectively, differs from the U.S. federal statutory rate primarily due to the application of a valuation allowance against certain U.S. tax attributes, an increase of $1.8 million in the US valuation allowance on additional deferred tax assets recognized related to the Cequint acquisition, and profits of our international subsidiaries being taxed at rates different than the U.S. federal statutory rate.

With few exceptions, the Company remains subject to examination by U.S. Federal, state, local and foreign tax authorities for tax years 2003 through 2010.

Long-term Debt

9 Months Ended Sep. 30, 2011

Long-term Debt

Long-term Debt

3. Long-term Debt

Debt consists of the following (in thousands):

	December 31, 2010	September 30, 2011
Revolving credit facility	$ 49,370	$ 34,370
Term Loan	358,125	338,750
Total credit facility outstanding	407,495	373,120
Unamortized discount	(3,871)	(3,111)
	403,624	370,009
Less: Current portion, net of discount	(18,488)	(13,249)
Long-term portion	$ 385,136	$ 356,760

November 2009 Credit Facility

On November 19, 2009 the Company entered into a new secured credit facility (the November 2009 Credit Facility) and refinanced the May 2009 Credit Facility primarily to take advantage of a more favorable interest rate environment. The November 2009 Credit Facility initially consisted of a senior secured term loan facility in an aggregate principal amount of $325 million (the “Term Facility”) and a senior secured revolving credit facility in an aggregate principal amount of $75 million (the “Revolving Facility”). The November 2009 Credit Facility included the option to request additional Term Loan Commitment and Revolving Loan Commitment up to an aggregate amount of $100 million (the accordion feature) with the aggregate of any new Revolving Loan Commitment not exceeding $50 million.

On October 1, 2010 the Company entered into an amendment related to the November 2009 Credit Facility in connection with the closing of the acquisition of Cequint, Inc. (see Note 1). The amendment provided for a new term loan in an aggregate principal amount of $50 million (the “Incremental Term Loan”), an increase to the existing Revolving Facility by an aggregate principal amount of $25 million to a total of $100 million and amends certain debt covenants and restricted payments baskets including those related to share repurchases and acquisitions. The Incremental Term Loan was incurred to finance the purchase price for the acquisition, to pay fees, costs and expenses relating to the acquisition and for working capital purposes.

Payments on the Term Facility and Incremental Term Loan are due in quarterly installments over the term, with the remainder payable on November 18, 2015. Voluntary prepayments on the Term Facility and Incremental Term Loan are applied as directed by the Company. The outstanding balance on the Revolving Facility is due on November 18, 2014. In February 2011, the Company made voluntary repayments of $15 million on the Revolving Facility. In June 2011, the Company made voluntary prepayments of $10 million on the Term Loan. At September 30, 2011, borrowing availability under the Revolving Facility was $65.2 million.

The total scheduled remaining payments on the November 2009 Credit Facility, which includes the Incremental Term Loan and additional amounts borrowed from the Revolving Facility to date are as follows (in thousands):

2011	$ –
2012	18,125
2013	18,750
2014	53,120
2015	283,125
	$ 373,120

Interest on the outstanding balances under the Revolving Facility is payable, at the Company' s option, at a rate equal to the higher of the prime rate announced by SunTrust Bank, the federal funds rate plus 50 basis points, or the one-month London Interbank Offered Rate ("LIBOR") rate plus 100 basis points (the "Base Rate"), in each case, plus a margin of 3.0% or at LIBOR, plus a margin of 4.0%. Interest on the outstanding balances under the Term Facility and Incremental Term Loan is payable, at the Company' s option, at the Base Rate plus a margin of 3.0%, or at LIBOR plus a margin of 4.0%. Additionally, in no event will the LIBOR rate be less than 2.0%. The applicable margins on the Revolving Facility, Term Facility and Incremental Term Loan are subject to step-downs based on the Company' s leverage ratio. The Revolving Facility is subject to an annual commitment fee in an amount equal to between 0.375% and 0.50% (based on the Company' s leverage ratio) per annum multiplied by the amount of funds available for borrowing under the Revolving Facility. Interest payments on the November 2009 Credit Facility are due biweekly, monthly, bimonthly or quarterly at the Company' s option. The terms of the November 2009 Credit Facility require the Company to make an annual prepayment in an amount that may range from 0% to 50% of the Company' s "excess cash flow" (as such term is defined in the Credit Agreement) depending on the Company' s Leverage Ratio for any fiscal year. Prepayments are also required to be made in other circumstances, including upon asset sales and sale-leaseback transaction in excess of $2 million. The Company is permitted to repay borrowings under the November 2009 Credit Facility at any time in whole or in part without premium or penalty.

The obligations under the November 2009 Credit Facility are unconditionally and irrevocably guaranteed, subject to certain exceptions, by the Company and each existing and future direct and indirect domestic subsidiary of the Company. In addition, the November 2009 Credit Facility is secured, subject to certain exceptions, by a first priority perfected security interest in substantially all of the present and future property and assets (real and personal) of the Company and a pledge of 100% of the Company' s capital stock of its respective domestic subsidiaries and 65% of the Company' s capital stock of its respective first-tier foreign subsidiaries.

The terms of the November 2009 Credit Facility require the Company to comply with financial and nonfinancial covenants, including maintaining a maximum specified leverage ratio at the end of each fiscal quarter and a minimum consolidated fixed charge coverage ratio and complying with specified annual limits on capital expenditures. As of September 30, 2011, the Company is required to maintain a leverage ratio of less than 3.25 to 1.0. The Company' s leverage ratio as of September 30, 2011 was 2.7 to 1.0. The maximum leverage ratio declines over the term of the November 2009 Credit Facility. Also the Company is required to maintain a consolidated fixed charge coverage ratio of not less than 1.2 to 1.0. The Company' s consolidated fixed charge coverage ratio as of September 30, 2011 was 1.8 to 1.0. The November 2009 Credit Facility also contains nonfinancial covenants that restrict some of the Company' s corporate activities, including its ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments, make capital expenditures and engage in specified transactions with affiliates. Effective October 1, 2010, the restricted payments covenant was amended to permit stock repurchases of up to $50 million until 18 months after this date, with such repurchases exempt from the minimum consolidated fixed charge coverage ratio covenant. Thereafter, stock repurchases are subject to a minimum required excess cash flow availability of $40 million and if the Company has a pro forma maximum leverage ratio of greater than 2.50 to 1.00, the Company is permitted to purchase shares at an amount equal to 50% of cumulative reported excess cash flow. If the Company has a pro forma maximum leverage ratio of 2.50 to 1.00 or greater but less than 3.00 to 1.00, the Company is permitted to purchase shares at an amount equal to the lesser of $30 million and 50% of cumulative reported excess cash flow, or if the

Company has a pro forma maximum leverage ratio of 3.00 to 1.00 or greater, the Company is permitted to purchase shares at an amount equal to the lesser of $20 million and 50% of cumulative reported excess cash flow. Non compliance with any of the financial or nonfinancial covenants without cure or waiver would constitute an event of default under the November 2009 Credit Facility. An event of default resulting from a breach of a financial or nonfinancial covenant may result, at the option of the lenders, in an acceleration of the principal and interest outstanding, and a termination of the Revolving Facility. The November 2009 Credit Facility also contains other customary events of default (subject to specified grace periods), including defaults based on events of bankruptcy and insolvency, nonpayment of principal, interest or fees when due, breach of specified covenants, change in control and material inaccuracy of representations and warranties. The Company was in compliance with the financial and non-financial covenants of the November 2009 Credit Facility as of September 30, 2011.

In connection with the closing of the November 2009 Credit Facility, the Company incurred approximately $2.9 million in financing costs. In connection with the closing of the amendment to the November 2009 Credit Facility in October 2010, the Company incurred approximately $1.9 million in financing costs. These financing costs were deferred and are being amortized using the effective interest method over the remaining life of the November 2009 Credit Facility.

CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD $) In Thousands, except Share data	Sep. 30, 2011	Dec. 31, 2010
CONDENSED CONSOLIDATED BALANCE SHEETS		
Accounts receivable, allowance for doubtful accounts (in dollars)	$ 3,773	$ 3,977
Common stock, par value (in dollars per share)	$ 0.001	$ 0.001
Common stock, shares authorized	130,000,000	130,000,000
Common stock, shares issued	25,602,354	26,515,823
Common stock, shares outstanding	24,384,455	25,359,255
Treasury stock, shares	1,217,899	1,156,568