SYNCHRONOSS TECHNOLOGIES INC
Form 10-Q
November 04, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to

Commission file number 000-52049

SYNCHRONOSS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**06-1594540** (I.R.S. Employer Identification No.)
750 Route 202 South, Suite 600 **Bridgewater, New Jersey** (Address of principal executive offices)	**08807** (Zip Code)

(866) 620-3940

(Registrant s telephone number, including area code)

(Former name, former address, and former fiscal year, if changed since last report)

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 requirements for the past 90 days. Yes x No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller Reporting Company o

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

Shares outstanding of the Registrant s common stock:

Class	Outstanding at October 26, 2011
Common stock, $0.0001 par value	38,154,517

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

FORM 10-Q INDEX

		PAGE NO.
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Consolidated Financial Statements and Notes	
	Consolidated Balance Sheets (unaudited)	2
	Consolidated Statements of Income (unaudited)	3
	Consolidated Statements of Cash Flows (unaudited)	4
	Notes to Consolidated Financial Statements (unaudited)	5
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4.	Controls and Procedures	21
PART II.	OTHER INFORMATION	21
Item 1.	Legal Proceedings	21
Item 1A.	Risk Factors	22
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3.	Defaults Upon Senior Securities	22
Item 4.	[Reserved]	22
Item 5.	Other Information	22
Item 6.	Exhibits	22
SIGNATURES		24

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 148,611	$ 180,367
Marketable securities	18,145	1,766
Accounts receivable, net of allowance for doubtful accounts of $310 and $558 at September 30, 2011 and December 31, 2010, respectively	45,488	34,940
Prepaid expenses and other assets	12,566	8,606
Deferred tax assets	3,330	3,272
Total current assets	228,140	228,951
Marketable securities	22,862	7,502
Property and equipment, net	35,599	32,622
Goodwill	29,717	19,063
Intangible assets, net	31,629	33,231
Deferred tax assets	19,295	16,432
Other assets	2,228	2,598
Total assets	$ 369,470	$ 340,399
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,360	$ 7,013
Accrued expenses	16,120	12,999
Deferred revenues	10,457	5,143
Contingent consideration obligation	5,434	
Total current liabilities	38,371	25,155
Lease financing obligation - long-term	9,235	9,205
Contingent consideration obligation - long-term		16,915
Other liabilities	821	1,101
Stockholders equity:		
Preferred stock, $0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at September 30, 2011 and December 31 2010		
Common stock, $0.0001 par value; 100,000 shares authorized, 40,772 and 38,863 shares issued; 38,103 and 36,863 outstanding at September 30, 2011 and December 31, 2010, respectively	4	4
Treasury stock, at cost (2,669 and 2,000 shares at September 30, 2011 and December 31, 2010, respectively)	(43,712)	(23,713)
Additional paid-in capital	301,924	255,656
Accumulated other comprehensive loss	(349)	(182)
Retained earnings	63,176	56,258
Total stockholders equity	321,043	288,023
Total liabilities and stockholders equity	$ 369,470	$ 340,399

See accompanying consolidated notes.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net revenues	$ 59,238	$ 44,456	$ 166,933	$ 116,738
Costs and expenses:				
Cost of services*	27,781	22,983	78,270	59,638
Research and development	10,879	7,569	31,037	16,760
Selling, general and administrative	11,118	10,465	31,913	23,310
Net change in contingent consideration obligation	480	(1,968)	3,311	(1,968)
Depreciation and amortization	3,949	2,606	11,029	6,459
Total costs and expenses	54,207	41,655	155,560	104,199
Income from operations	5,031	2,801	11,373	12,539
Interest and other income	432	706	914	940
Interest expense	(441)	(342)	(975)	(909)
Income before income tax expense	5,022	3,165	11,312	12,570
Income tax expense	(1,447)	(1,024)	(4,394)	(4,742)
Net income	$ 3,575	$ 2,141	$ 6,918	$ 7,828
Net income per common share:				
Basic	$ 0.10	$ 0.05	$ 0.22	$ 0.23
Diluted	$ 0.09	$ 0.05	$ 0.22	$ 0.23
Weighted-average common shares outstanding:				
Basic	37,573	31,586	37,285	31,276
Diluted	38,647	32,480	38,610	32,196

* Cost of services excludes depreciation and amortization which is shown separately.
See notes to financial statements footnote 3.

See accompanying consolidated notes.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2011	**2010**
Operating activities:		
Net income	$ 6,918	$ 7,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,029	6,459
Loss on disposal of fixed assets		31
Proceeds from insurance claim		(418)
Amortization of bond premium	326	
Deferred income taxes	(2,920)	818
Non-cash interest on leased facility	688	684
Stock-based compensation	16,173	8,763
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(10,291)	(12,604)
Prepaid expenses and other current assets	3,376	(1,780)
Other assets	(26)	(1,695)
Accounts payable	(698)	1,248
Accrued expenses	2,973	888
Contingent consideration obligation	2,640	(1,913)
Excess tax benefit from the exercise of stock options	(7,335)	(755)
Other liabilities	(281)	(285)
Lease obligation		3
Deferred revenues	5,314	2,451
Net cash provided by operating activities	27,886	9,723
Investing activities:		
Purchases of fixed assets	(12,042)	(7,310)
Proceeds from insurance claim		418
Purchases of marketable securities available-for-sale	(35,757)	(4,296)
Maturities of marketable securities available-for-sale	3,670	2,659
Business acquired, net of cash	(7,913)	(30,779)
Net cash used in investing activities	(52,042)	(39,308)
Financing activities:		
Proceeds from the exercise of stock options	14,163	2,663
Payments on contingent consideration	(8,286)	
Excess tax benefit from the exercise of stock option	7,335	755
Repurchase of common stock	(19,999)	
Repayments of capital obligations	(721)	(684)
Net cash (used in) provided by financing activities	(7,508)	2,734
Effect of exchange rate changes on cash	(92)	43
Net decrease in cash and cash equivalents	(31,756)	(26,808)
Cash and cash equivalents at beginning of year	180,367	89,924
Cash and cash equivalents at end of period	$ 148,611	$ 63,116

Supplemental disclosures of cash flow information:				
Cash paid for income taxes	$	3,559	$	5,053
Supplemental disclosures of non-cash investing and financing activities:				
Issuance of common stock in connection with settlement of contingent consideration	$	8,597	$	
Issuance of common stock in connection with the acquisition				7,316

See accompanying consolidated notes.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED

(in thousands, except per share data unless otherwise noted)

The consolidated financial statements as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements and should be read in conjunction with the financial statements and notes in the Annual Report of Synchronoss Technologies, Inc. incorporated by reference in the Company s annual report on Form 10-K for the year ended December 31, 2010. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Synchronoss Technologies UK Ltd., Synchronoss Technologies Ireland, Ltd., Wisor Telecom Corporation (Wisor), Synchronoss Telecom India Private Ltd., FusionOne, Inc., FusionOne Esti Ou, Synchronoss Technologies Germany GmbH, and Sapience Knowledge Systems, Inc. All significant intercompany balances and transactions are eliminated in consolidation. The Company has no unconsolidated subsidiaries or investments accounted for under the equity method. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

1. Description of Business

Synchronoss Technologies, Inc. (the Company or Synchronoss) is a leading provider of transaction management, cloud enablement and mobile connectivity solutions that enable a simple, seamless, on-demand channel for communications service providers (CSPs) and their customers. Synchronoss ensures that CSPs, cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and connected mobile devices, among others), e-Tailers/retailers and other customers accelerate and monetize their go-to-market strategies for connected devices and services. This includes automating subscriber activation, order management and service provisioning from any channel (e.g., e-commerce, telesales, enterprise, indirect and other retail outlets, etc.) to any communication service (e.g., wireless(2G, 3G, 4G), high speed access, local access, IPTV, cable, satellite TV, etc.) across any connected device type and content transfer. The Company s ConvergenceNow®, ConvergenceNow® Plus+TM and InterconnectNowTM platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and back-office infrastructure-related systems and processes. The Company s customers rely on the Company s solutions and technology to automate the process of activation, connectivity and content management for their customers devices while delivering additional communication services. Synchronoss has designed its platforms to be flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels, including e-commerce, telesales, customer stores, indirect, and other retail outlets, etc., allowing the Company to meet the rapidly changing and converging services and connected devices offered by its customers. The Company enables its customers to acquire, retain and service subscribers as well as enable new and profitable revenue streams quickly, reliably and cost-effectively by simplifying the processes associated with managing the customer experience for connecting, activating and synchronizing connected devices and services through the use of its platforms.

2. Basis of Presentation

For further information about the Company s basis of presentation or its significant accounting policies, refer to the financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2010.

Impact of Recently Issue Accounting Standards

In May 2011, the FASB issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and IFRS. Consequently, the amendments change some fair value measurement principles and disclosure requirements. The implementation of

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

this amended accounting guidance is not expected to have a material impact on the Company s consolidated financial statements or disclosures.

In June 2011, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The implementation of this amended accounting guidance is not expected to have a material impact on the Company s consolidated financial statements or disclosures. Therefore, the Company has elected not to early adopt.

In September 2011, the FASB issued amendments to simplify how entities test goodwill for impairment. These amendments, effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, (early adoption is permitted), permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The implementation of this amended accounting guidance is not expected to have a material impact on the Company s consolidated financial statements or disclosures. Therefore, the Company has elected not to early adopt.

3. Earnings per Common Share

The Company calculates basic and diluted per share amounts based on net earnings adjusted for the effects to earnings that would result if contingently issuable shares related to contingent consideration settleable in the Company s stock were reported as equity for the periods presented. To calculate basic earnings per share the Company uses the weighted average number of common shares outstanding during the period adjusted for the weighted average number of contingently issuable shares. The weighted average numbers of shares contingently issuable are calculated as if they were outstanding as of the last day of the period. The diluted earnings per share calculation is based on the weighted average number of shares of common stock outstanding adjusted for the number of additional shares that would have been outstanding had all potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, non-vested share awards and contingently issuable shares related to contingent consideration settleable in stock. The dilutive effects of stock options and restricted stock awards are based on the treasury stock method. The dilutive effects of the contingent consideration settleable in stock are calculated as if the contingently issuable shares were outstanding as of the beginning of the period. The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income attributable to common stockholders per common share. Stock options that are anti-dilutive and excluded from the following table totaled 1,003 and 2,281 for the three months ended September 30, 2011 and 2010, respectively and 775 and 1,769 for the nine months ended September 30, 2011 and 2010, respectively.

	Three Months Ended September 30,	Nine Months Ended September 30,

	2011	2010	2011	2010
Numerator:				
Net income attributable to common stockholders	$ 3,575	$ 2,141	$ 6,918	$ 7,828
Income effect for equity mark-to-market on contingent consideration obligation, net of tax		(591)	1,466	(544)
Net income applicable to shares of common stock for earnings per share	$ 3,575	$ 1,550	$ 8,384	$ 7,284
Denominator:				
Weighted average common shares outstanding basic	37,573	31,586	37,285	31,276
Dilutive effect of:				
Net issuable common share equivalents	7	30	6	10
Options and unvested restricted shares	1,067	864	1,319	910
Weighted average common shares outstanding diluted	38,647	32,480	38,610	32,196

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

4. Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 3,575	$ 2,141	$ 6,918	$ 7,828
Translation adjustments	(239)	66	(51)	64
Unrealized (loss) gain on securities, (net of tax)	(119)	23	(116)	34
Total Other Comprehensive Income	$ 3,217	$ 2,230	$ 6,751	$ 7,926

5. Fair Value Measurements of Assets and Liabilities

The Company classifies marketable securities as available-for-sale. The fair value hierarchy established in the guidance adopted by the Company prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 Observable inputs quoted prices in active markets for identical assets and liabilities;

- Level 2 Observable inputs other than the quoted prices in active markets for identical assets and liabilities includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and

- Level 3 Unobservable inputs includes amounts derived from valuation models where one or more significant inputs are unobservable and require us to develop relevant assumptions.

The following is a summary of assets and liabilities held by the Company and their related classifications under the fair value hierarchy.

	September 30, 2011	December 31, 2010
Level 1 (A)	$ 148,611	$ 180,367
Level 2 (B)	41,007	9,268
Level 3 (C)	(5,434)	(16,915)
Total	$ 184,184	$ 172,720

(A) Level 1 assets include money market funds which are classified as cash equivalents.

(B) Level 2 assets include certificates of deposit and municipal bonds which are classified as marketable securities.

(C) Level 3 liabilities include the contingent consideration obligation.

The Company utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. The Company s marketable securities investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the three months and nine months ended September 30, 2011.

The aggregate fair value of available-for-sale securities and aggregate amount of unrealized gains and losses for available for sale securities at September 30, 2011 were as follows:

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

	Aggregate Fair Value	Aggregate Amount of Unrealized Gains	Aggregate Amount of Unrealized Losses
Due in one year or less	$ 18,145	$ 54	$ (15)
Due after one year, less than five years	22,862	84	(33)
	$ 41,007	$ 138	$ (48)

The aggregate fair value of available-for-sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 31, 2010 were as follows:

	Aggregate Fair Value	Aggregate Amount of Unrealized Gains	Aggregate Amount of Unrealized Losses
Due in one year or less	$ 1,766	$ 26	$
Due after one year, less than five years	7,502	93	(7)
	$ 9,268	$ 119	$ (7)

Unrealized gains and losses are reported as a component of accumulated other comprehensive income in stockholders equity. The cost of securities sold is based on specific identification method. No available-for-sale securities have been in a continuous unrealized loss position for twelve months or longer.

The Company determined the fair value of the contingent consideration obligation based on a probability-weighted income approach derived from quarterly revenue estimates and a probability assessment with respect to the likelihood of achieving the various performance criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. No changes in valuation techniques occurred during the three months and nine months ended September 30, 2011. The compensation due to the employees is recognized over the service period through the remainder of the year ending December 31, 2011. On April 29, 2011 the Company executed a settlement and amendment agreement with the FusionOne equity holders, including existing employees, which includes a determination of the aggregate Earn-out amount and the Earn-out payment dates. As a result of this agreement the Company paid approximately $10.6 million in cash and issued approximately 267 thousand shares of stock (valued at the closing market price at the date of settlement) during the nine months ended September 30, 2011. The Company will pay approximately $2.8 million and issue 60 thousand shares of stock after the employee service period is completed. The decrease in the contingent consideration obligation was offset by the addition of the contingent consideration for the Sapience Knowledge Systems, Inc. (SKS) Earn-out.

The changes in fair value of the Company s Level 3 contingent consideration obligation during the nine months ended September 30, 2011 were as follows:

		Level 3
Balance at December 31, 2010	$	16,915
Fair value adjustment to contingent consideration included in net income		3,311
FusionOne Earn-out payment		(19,212)
Earn-out compensation due to employees		1,907
Addition of SKS Earn-out		2,763
SKS Earn-Out payment		(250)
Balance at September 30, 2011	$	5,434

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

6. Acquisition

SKS

On March 16, 2011 the Company acquired 100% of the capital stock of SKS for cash consideration of $5.8 million. The Company made an initial cash payment of $2.9 million in March 2011 and the second cash installment in May 2011. Additionally, the Company potentially may make payments (SKS Earn-Out) totaling up to $3.0 million with additional payments for certain product milestones and operational efficiencies achieved.

The Company accounted for this business combination by applying the acquisition method, and accordingly, the preliminary estimated purchase price was allocated to the tangible assets acquired and liabilities assumed based upon their fair values at the acquisition date. The excess of the purchase price over the net tangible assets and liabilities, $8.5 million, was recorded as goodwill which is not tax deductible. The results of SKS s operations have been included in the consolidated financial statements since the acquisition date. The Company is in the process of finalizing the purchase allocation and the value of contingent consideration, thus the provisional measures of contingent consideration, deferred income taxes and goodwill are subject to change. The Company expects the purchase price allocation will be finalized in 2011.

The Company believes that SKS will help to accelerate its time to market with its new mobility management solution for the benefit of both enterprises and consumers by enhancing the Company s technological expertise, eliminating redundancies, reducing costs and streamlining faster product introductions.

Strumsoft

On June 29, 2011 the Company acquired certain assets and workforce from Strumsoft, Inc. for the total purchase price of $2.0 million. The Company believes that the assets and workforce acquired from Strumsoft will help to expand the Company s expertise and development in the back office management systems of the Company s customers.

The Company accounted for this business combination by applying the acquisition method, and accordingly, the preliminary estimated purchase price was allocated to the tangible assets acquired and liabilities assumed based upon their fair values at the acquisition date. The excess of the

purchase price over the net tangible assets and liabilities, approximately $2.0 million was recorded as goodwill, which is tax deductible. The Company is in the process of finalizing the purchase allocation, thus the provisional measures of deferred income taxes and goodwill are subject to change. The Company expects the purchase price allocation will be finalized in 2011.

7. Stockholders Equity

Stock Options

The Company uses the Black-Scholes option pricing model for determining the estimated fair value for stock-based awards. The weighted-average assumptions used in the Black-Scholes option pricing model are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Expected stock price volatility	69%	62%	69%	62%
Risk-free interest rate	1.46%	2.44%	1.68%	2.52%
Expected life of options (in years)	5.15	4.87	5.09	4.89
Expected dividend yield	0%	0%	0%	0%

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

The weighted-average fair value (as of the date of grant) of the options was $19.17 and $9.57 per share for the three months ended September 30, 2011 and 2010, respectively, and $17.87 and $10.07 per share for the nine months ended September 30, 2011 and 2010, respectively. During the three months ended September 30, 2011 and 2010, the Company recorded total pre-tax stock-based compensation expense of $6.1 million ($3.9 million after tax or $0.10 per diluted share) and $3.2 million ($2.3 million after tax or $0.07 per diluted share), respectively, which includes the fair value for equity awards issued after January 1, 2006. During the nine months ended September 30, 2011 and 2010, the Company recorded total pre-tax stock-based compensation expense of $16.2 million ($10.8 million after tax or $0.28 per diluted share) and $8.8 million ($6.0 million after tax or $0.19 per diluted share), respectively, which includes fair value for equity awards issued after January 1, 2006. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of September 30, 2011 was approximately $31.0 million. That cost is expected to be recognized over a weighted-average period of approximately 2.76 years.

The following table summarizes information about shares available for grant and stock options outstanding:

	Shares Available for Grant	Number of Shares	Options Outstanding Option Exercise Price per Share Range	Weighted-Average Exercise Price
Balance at December 31, 2010	1,217	5,561	$ 0.29 - 38.62	$ 16.36
Options granted	(151)	151	$ 26.83 - 30.41	$ 29.13
Options exercised		(1,197)	$ 0.29 - 28.59	$ 11.83
Options forfeited	238	(413)	$ 8.99 - 38.62	$ 20.17
Net restricted stock granted and forfeited	(315)		$	$
Expansion of pool	3,000		$	$
Balance at September 30, 2011	3,989	4,102	$ 0.29 - 38.62	$ 17.77

A summary of the Company s non-vested restricted stock at September 30, 2011, and changes during the nine months ended September 30, 2011, is presented below:

Non-Vested Restricted Stock	Number of Awards
Non-vested at December 31, 2010	187
Granted	478
Vested	(112)
Forfeited	(10)
Non-vested at September 30, 2011	543

Treasury Stock

On May 2, 2011, the Company s board of directors authorized a stock repurchase program to purchase up to $20 million of the Company s outstanding common stock. The duration of the repurchase program is twelve months. Under the program, the Company may purchase shares of its common stock in the open market, through block trades or otherwise at prices deemed appropriate by the Company. The timing and amount of repurchase transactions under the program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. As of September 30, 2011, the Company completed the stock repurchase program and a total of 669 thousand shares have been repurchased for an aggregate purchase price of $20.0 million. The Company classifies common stock repurchased as treasury stock on its balance sheet.

8. Legal Matters

On September 5, 2008, September 18, 2008, and September 23, 2008, three complaints were filed against the Company and certain of its officers and directors in the United States District Court for the District of New Jersey purportedly on behalf of a class of shareholders who purchased the Company s common stock between February 4, 2008 and June 9, 2008 (the Securities Law Actions). The complaints were consolidated and an amended complaint was filed by the plaintiffs on March 13, 2009. The plaintiffs in each complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They alleged that certain of the Company s public disclosures regarding its financial prospects during the proposed class period were false and/or misleading. The principal allegation set forth in each complaint was that the Company issued misleading statements concerning its business prospects relating to the activation of Apple Inc. s iPhone product. On April 7, 2010, the Court granted the Company s Motion to Dismiss all of

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS UNAUDITED (Continued)

(in thousands, except per share data unless otherwise noted)

the claims against all of the defendants without prejudice. On August 9, 2010, the parties filed a notice of voluntary dismissal with prejudice, noting that the plaintiff was dismissing the case without receiving payment of any kind.

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey (the State Derivative Suit) and the United States District Court for the District of New Jersey (the Federal Derivative Suit) against certain of the Company s officers and directors, purportedly derivatively on behalf of the Company (collectively, the Derivative Suits). The Complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations in connection with the disclosures that also are the subject of the Securities Law Actions described above. The Company is also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on the Company s behalf. On October 20, 2010, the parties to the Federal Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety and with prejudice as to the named plaintiff. On November 17, 2010, the parties to the State Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety with prejudice as to the named plaintiff.

On January 4, 2011, the Company filed a complaint in the United States District Court for the District of Wisconsin (Civ Act. No. 11-CV-02) against Dashwire, Inc. (Dashwire), claiming that Dashwire has infringed, and continues to infringe, several of the Company s patents. The Company filed an Amended Complaint against Dashwire on April 22, 2011. As a result of these claims, Dashwire filed a complaint against the Company in the same court asserting that the Company is infringing two of the Dashwire patents which it recently acquired from Intellectual Venture Partners. On July 29, 2011, the Company and Dashwire entered into a patent license and settlement agreement whereby Dashwire will take a limited license to specific Synchronoss cloud management patents. Under the agreement, Synchronoss will receive a lump-sum payment and future royalties from Dashwire. In accordance with the terms of the patent license and settlement agreement the parties dismissed the above complaints.

Except for the above claims, the Company is not currently subject to any legal proceedings that could have a material adverse effect on its operations; however, it may from time to time become a party to various legal proceedings arising in the ordinary course of its business.

9. Subsequent Events

The Company has evaluated all subsequent events and transactions through the filing date.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the information set forth in our consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q and in our annual report Form 10-K for the year ended December 31, 2010. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as believes, expects, anticipates, intends, plans, should, continues, or similar expressions, indicate a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. We caution investors not to place substantial reliance on the forward-looking statements included in this report. These statements speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments. All numbers are expressed in thousands unless otherwise stated.

Overview

We are a leading provider of on-demand transaction management, cloud enablement and mobile connectivity solutions that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and connected mobile devices, among others), e-Tailers/retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices and services. This includes automating subscriber activation, order management, service provisioning and connectivity and content management from any channel (e.g., e-commerce, telesales, enterprise, indirect and other retail outlets, etc.) to any communication service (e.g., wireless(2G, 3G, 4G), high speed access, local access, IPTV, cable, satellite TV, etc.) across any connected device type and content transfer. Our ConvergenceNow®, ConvergenceNow® Plus+TM and InterconnectNowTM platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and back-office infrastructure-related systems and processes. Our customers rely on our solutions and technology to automate the process of activation, connectivity and content management for their customers devices while delivering additional communication services. Our platforms are designed to be flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels allowing us to meet the rapidly changing and converging services and connected devices offered by our customers. We enable our customers to acquire, retain and service subscribers as well as enable new and profitable revenue streams quickly, reliably and cost-effectively by simplifying the processes associated with managing the customer experience for connecting, activating and synchronizing connected devices and services through the use of our platforms.

Our industry-leading customers include Tier 1 service providers such as AT&T Inc., Verizon and Vodafone, Tier 1 cable operators/MSOs like Cablevision, Charter Communications, Comcast, and Time Warner Cable and large OEMs/e-Tailers such as Apple, Dell, Nokia, and Panasonic. These customers utilize our platforms, technology and services to service both consumer and business customers, including over 300 of the Fortune 500 companies.

Revenues

We generate a substantial portion of our revenues on a per-transaction basis, most of which is derived from contracts that extend up to 60 months from execution. For the three months ended September 30, 2011 and 2010, we derived approximately 75% and 79%, respectively, of our revenues from transactions processed and subscription arrangements. The remainder of our revenues was generated by professional services and software licenses.

Historically, our revenues have been directly impacted by the number of transactions processed. In recent years, the fourth quarter has had the highest volume of transactions processed due to increased consumer activation and associated service activity during the holiday season. The future success of our business depends on the continued growth of consumer and business transactions and, as such, the volume of transactions that we process could fluctuate on a quarterly basis. See Current Trends Affecting Our Results of Operations for certain matters regarding future results of operations.

Table of Contents

We currently derive a significant portion of our revenues from one customer, AT&T. For the three months ended September 30, 2011, AT&T accounted for approximately 50% of our revenues compared to 62% for the three months ended September 30, 2010. Our agreement with AT&T was amended in 2011 to provide that it auto-renews for twelve month periods from January 1 of each year unless either party provides written notice at least sixty (60) days prior to the end of each calendar year of its intent to terminate. Thus, the agreement currently runs through December of 2012. This agreement defines the work activities, transaction pricing, forecasting process, service level agreements and remedies associated with certain services performed by us for AT&T s ecommerce organizations. The agreement provides for AT&T to pay us (i) a monthly hosting fee, (ii) a fee based on the number of transactions processed through our technology platform, (iii) a fee based on manual processing services and (iv) for professional services rendered by us. A copy of this agreement has been previously filed with the Securities & Exchange Commission.

Our five largest customers, for the three months ending September 30, 2011 were AT&T, Level 3, Time Warner Cable, Verizon and Vodafone, which accounted for approximately 85% of our revenues, compared to 84% of our revenues from our five largest customers, AT&T, Frontier, Level 3, Time Warner Cable, and Verizon, for the three months ended September 30, 2010. See Risk Factors for certain matters bearing risks on our future results of operations.

Costs and Expenses

Our costs and expenses consist of cost of services, research and development, selling, general and administrative, depreciation and amortization, change in contingent consideration and interest and other expense.

Cost of services includes all direct materials, direct labor, cost of facilities and those indirect costs related to revenues such as indirect labor, materials and supplies. Our primary cost of services is related to our information technology and systems department, including network costs, data center maintenance, database management and data processing costs, as well as personnel costs associated with service implementation, customer deployment and customer care. Also included in cost of services are costs associated with our exception handling centers and the maintenance of those centers. Currently, we utilize a combination of employees and third-party providers to process transactions through these centers.

Research and development costs are expensed as incurred unless they meet GAAP criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Research and development expense consists primarily of costs related to personnel, including salaries and other personnel-related expenses, consulting fees and the cost of facilities, computer and support services used in service technology development. We also expense costs relating to developing modifications and minor enhancements of our existing technology and services.

Selling, general and administrative expense consists of personnel costs including salaries, sales commissions, sales operations and other personnel-related expense, travel and related expense, trade shows, costs of communications equipment and support services, facilities costs, consulting fees and costs of marketing programs, such as internet and print. General and administrative expense consists primarily of salaries and other personnel-related expense for our executive, administrative, legal, finance and human resources functions, facilities, professional services fees, certain audit, tax and bad debt expense.

Depreciation and amortization relates to our property and equipment and includes our network infrastructure and facilities. Amortization relates to the trademarks, customer lists and technology acquired from Wisor in 2008 and from FusionOne in 2010.

Net change in contingent consideration obligation consists of the changes to the fair value estimate of the acquisition related obligations to the former equity holders. The estimate is based on the weighted probability of achieving of certain financial targets and milestones.

Interest and other expense consist of interest on our lease financing obligations and other non-operating expenses.

Current Trends Affecting Our Results of Operations

Our on-demand business model enables delivery of our proprietary solutions over the Web as a service and has been driven by market trends such as various forms of order provisioning, local number portability, the implementation of new technologies, subscriber growth, competitive churn, network changes, growth of the emerging device market (e.g., smartphone devices, netbooks, tablets,

Table of Contents

etc.) and consolidations in the industry. In particular, the emergence of order provisioning of e-commerce transactions for smartphone devices, wireless, VoIP, LNP, and other communication services surrounding the convergence of bundled services has increased the need for our services and we believe will continue to be a source of growth for us.

To support the growth driven by the favorable industry trends mentioned above, we continue to look for opportunities to improve our operating efficiencies, such as the utilization of offshore technical and non-technical resources for our exception handling center management. We believe that these opportunities will continue to provide future benefits and position us to support revenue growth. In addition, we anticipate further automation of the transactions generated by our more mature customers and additional transaction types. Our cost of services can fluctuate from period to period based upon the level of automation and the on-boarding of new transaction types.

We continue to advance our plans for the expansion of our platform footprint with international carriers to support connected devices and multiple networks through our focus on transaction management. Our initiatives with AT&T and other CSP s continue to grow along with our account presence with connected device OEM s. We are also exploring additional opportunities through merger and acquisition activities to support our customer, product and geographic diversification strategies.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these consolidated financial statements in accordance with GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during a fiscal period. The Securities and Exchange Commission (SEC) considers an accounting policy to be critical if it is important to a company s financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. We have discussed the selection and development of the critical accounting policies with the audit committee of our board of directors, and the audit committee has reviewed our related disclosures in this Form 10-Q. Although we believe that our judgments and estimates are appropriate, correct and reasonable under the circumstances, actual results may differ from those estimates. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See Risk Factors for certain matters bearing risks on our future results of operations.

We believe that of our significant accounting policies, which are described in Note 2 in our Annual Report on Form 10-K for the year ended December 31, 2010, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations:

- Revenue Recognition and Deferred Revenue
- Income Taxes
- Goodwill and Impairment of Long-Lived Assets
- Stock-Based Compensation

- Allowance for Doubtful Accounts
- Business Combinations

There were no significant changes in our critical accounting policies and estimates discussed in our Form 10-K during the three and nine months ended September 30, 2011. Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010 for a more complete discussion of our critical accounting policies and estimates.

Table of Contents

Results of Operations

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

The following table presents an overview of our results of operations for the three months ended September 30, 2011 and 2010.

	Three Months Ended September 30,				Three Months Ended September 30, 2011 vs 2010	
	2011		2010			
	$	% of Revenue	$	% of Revenue	$ Change	% Change
	(in thousands)					
Net revenue	$ 59,238	100.0%	$ 44,456	100.0%	$ 14,782	33.3%
Cost of services*	27,781	46.9%	22,983	51.7%	4,798	20.9%
Research and development	10,879	18.4%	7,569	17.0%	3,310	43.7%
Selling, general and administrative	11,118	18.8%	10,465	23.5%	653	6.2%
Net change in contingent consideration obligation	480	0.8%	(1,968)	(4.4)%	2,448	-124.4%
Depreciation and amortization	3,949	6.7%	2,606	5.9%	1,343	51.5%
	54,207	91.5%	41,655	93.7%	12,552	30.1%
Income from operations	$ 5,031	8.5%	$ 2,801	6.3%	$ 2,230	79.6%

* Cost of services excludes depreciation and amortization which is shown separately.

Net Revenue. Net revenues increased $14.8 million to $59.2 million for the three months ended September 30, 2011, compared to the same period in 2010. This increase was due primarily to increased transaction volumes from and expansion into new programs with AT&T and other large non-AT&T customers such as Time Warner Cable, Verizon, and Vodafone. Transaction and subscription revenues recognized for the three months ended September 30, 2011 and 2010 represented 75% or $44.7 million and 79% or $35.0 million of net revenues, respectively. Net revenues related to AT&T increased $2.2 million to $29.5 million for the three months ended September 30, 2011 compared to the same period in 2010. AT&T represented 50% of our revenues for the three months ended September 30, 2011, compared to 62% for the three months ended September 30, 2010. Net revenues outside of AT&T generated $29.7 million of our revenues during the three months ended September 30, 2011 as compared to $17.1 million during the three months ended September 30, 2010. Net revenues outside of AT&T represented 50% and 38% of our revenues during the three months ended September 30, 2011 and 2010, respectively. Professional service revenues as a percentage of sales were 23% or $13.3 million for the three months ended September 30, 2011, compared to 16% or $6.9 million for the previous three months ended September 30, 2010. The increase in professional services revenue is primarily due to the expansion of services due to new projects with existing customers. License revenues decreased $1.3 million to $1.3 million or 2% of net revenues for the three months ended September 30, 2011 as compared to the same period in 2010.

Expense

Cost of Services. Cost of services increased $4.8 million to $27.8 million for the three months ended September 30, 2011, compared to the same period in 2010, due primarily to an increase of $2.5 million in our personnel and related costs and $359 thousand in our stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. There was an increase of $1.3 million for outside consultants related to growth in existing and new programs with our customers. In addition, there was an increase of $672 thousand in telecommunication and facility costs related to the increased call volume and capacity associated with our new Arizona and existing data facilities. Cost of services as a percentage of revenues decreased to 46.9% for the three months ended September 30, 2011, as compared to 51.7% for the three months ended September 30, 2010.

Research and Development. Research and development expense increased $3.3 million to $10.9 million for the three months ended September 30, 2011, compared to the same period in 2010, due to headcount increases. Personnel and related costs increased $2.2 million and stock-based compensation increased $657 thousand. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. In addition there was an increase of $535 thousand in professional services augmenting our staff related to the development of new technologies and software solutions. Research and

Table of Contents

development expense as a percentage of revenues increased to 18.4% for the three months ended September 30, 2011 as compared to 17.0% for the three months ended September 30, 2010.

Selling, General and Administrative. Selling, general and administrative expense increased $653 thousand to $11.1 million for the three months ended September 30, 2011, compared to the same period in 2010 primarily due to increased headcount. Personnel and related costs increased by $700 thousand and stock-based compensation expense increased $1.9 million. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of $434 thousand related to the vesting of the FusionOne employee Earn-out during the quarter ended September 30, 2011. Additionally, we had an increase of $168 thousand in professional fees associated with increased legal activity related to the FusionOne Earn-out settlement and patent related services, and an increase of $127 thousand related to our expanded marketing efforts offset by a decrease of $2.4 million in acquisition related costs related to the acquisition of FusionOne in the quarter ended September 30, 2010. Selling, general and administrative expense as a percentage of revenues decreased to 18.8% for the three months ended September 30, 2011, compared to 23.5% for the three months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense increased $1.3 million to $3.9 million for the three months ended September 30, 2011, compared to the same period in 2010, primarily related to the amortization of our newly acquired intangible assets of FusionOne and the continued expansion of our platforms. This increase was offset by the completion of the depreciation of certain assets which, for accounting purposes, have reached the end of their respective lives. Depreciation and amortization expense as a percentage of revenues increased to 6.7% for the three months ended September 30, 2011, as compared to 5.9% for the same period in 2010.

Net change in contingent consideration obligation. The fair value change in the contingent consideration liability related to the SKS Earn-out resulted in additional expense of $480 thousand for the three months ended September 30, 2011. The increase in the fair value of the contingent consideration obligation related to the SKS Earn-out is primarily due to changes to the forecasted operational efficiencies and the weighted probability of achieving product milestones as compared to a decrease in the fair value of the contingent consideration obligation related to the FusionOne Earn-out in the three months ended September 20, 2010 that resulted in a benefit to expense for that period.

Income from Operations. Income from operations increased $2.2 million to $5.0 million for the three months ended September 30, 2011, compared to the same period in 2010. This increase was due primarily to increased revenues that resulted from increased transaction volumes and expansion into new programs with our largest customers. Income from operations as a percentage of revenues increased to 8.5% for the three months ended September 30, 2011, as compared to 6.3% for the three months ended September 30, 2010.

Interest and other income. Interest and other income decreased $274 thousand to $432 thousand for the three months ended September 30, 2011, compared to the same period in 2010. Interest and other income decreased primarily due to the lack of insurance claims received in 2011. This decrease was offset by an increase in interest income due to increases in investments in interest bearing securities.

Interest and other expense. Interest expense and other expense increased $99 thousand to $441 thousand for the three months ended September 30, 2011, compared to the same period in 2010. Interest and other expense increased primarily due to an increase in currency fluctuations related to the settlement of our customer account sales.

Income Tax. During the three months ended September 30, 2011 and 2010, we recognized approximately $1.4 million and $1.0 million, respectively, in related tax expense. Our effective tax rate was approximately 28.8% and approximately 32.4% during the three months ended September 30, 2011 and 2010, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. Our effective tax rate is lower than our US federal statutory rate primarily due to increased profits in foreign jurisdictions, which have lower tax rates than the US, and the discrete impact of the disqualifying dispositions of incentive stock options.

Table of Contents

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

The following table presents an overview of our results of operations for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,				Nine Months Ended September 30, 2011 vs 2010	
	2011		2010			
	$	% of Revenue	$	% of Revenue	$ Change	% Change
	(in thousands)					
Net revenue	$ 166,933	100.0%	$ 116,738	100.0%	$ 50,195	43.0%
Cost of services*	78,270	46.9%	59,638	51.1%	18,632	31.2%
Research and development	31,037	18.6%	16,760	14.4%	14,277	85.2%
Selling, general and administrative	31,913	19.1%	23,310	20.0%	8,603	36.9%
Net change in contingent consideration obligation	3,311	2.0%	(1,968)	(1.7)%	5,279	-268.2%
Depreciation and amortization	11,029	6.6%	6,459	5.5%	4,570	70.8%
	155,560	93.2%	104,199	89.3%	51,361	49.3%
Income from operations	$ 11,373	6.8%	$ 12,539	10.7%	$ (1,166)	(9.3)%

* Cost of services excludes depreciation and amortization which is shown separately.

Net Revenue. Net revenues increased $50.2 million to $166.9 million for the nine months ended September 30, 2011, compared to the same period in 2010. This increase was due primarily to increased transaction volumes from and expansion into new programs with AT&T and other large non-AT&T customers such as Time Warner Cable, Verizon, and Vodafone. Transaction and subscription revenues recognized for the nine months ended September 30, 2011 and 2010 represented 78% or $129.6 million and 80% or $93.2 million of net revenues, respectively. Net revenues related to AT&T increased $9.1 million to $84.2 million for the nine months ended September 30, 2011 compared to the same period in 2010. AT&T represented 50% of our revenues for the nine months ended September 30, 2011, compared to 64% for the nine months ended September 30, 2010. Net revenues outside of AT&T generated $82.7 million of our revenues during the nine months ended September 30, 2011 as compared to $41.6 million during the nine months ended September 30, 2010. Net revenues outside of AT&T represented 50% and 36% of our revenues during the nine months ended September 30, 2011 and 2010, respectively. Professional service revenues as a percentage of sales were 21% or $35.7 million for the nine months ended September 30, 2011, compared to 18% or $20.5 million for the nine months ended September 30, 2010. The increase in professional services revenue is primarily due to the expansion of services due to new projects with new customers. License revenues decreased $1.4 million to $1.6 million or 1% of net revenues for the nine months ended September 30, 2011 as compared to the same period in 2010.

Expense

Cost of Services. Cost of services increased $18.6 million to $78.3 million for the nine months ended September 30, 2011, compared to the same period in 2010, due primarily to an increase of $8.5 million for outside consultants related to growth in existing and new programs with our customers. There was an increase of $6.9 million in our personnel and related costs and an increase of $839 thousand in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a

result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. In addition, there was an increase of $2.3 million in telecommunication and facility costs related to the increased call volume and capacity associated with our new Arizona and existing data facilities. Cost of services as a percentage of revenues decreased to 46.9% for the nine months ended September 30, 2011, as compared to 51.1% for the nine months ended September 30, 2010.

Research and Development. Research and development expense increased $14.3 million to $31.0 million for the nine months ended September 30, 2011, compared to the same period in 2010, due to headcount increases. Personnel and related costs increased $8.1 million and stock-based compensation increased $1.7 million. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair

Table of Contents

value of our stock awards which was due to the increase of our stock price. Also included in the increase in personnel and related costs and in stock-based compensation costs was $759 thousand related to the fair value adjustments and vesting of the FusionOne employee Earn-out in the nine months ended September 30, 2011. In addition there was an increase of $299 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources, an increase of $4.0 million in professional services augmenting our staff related to the development of new technologies and software solutions, and $211 thousand in acquisition related costs. Research and development expense as a percentage of revenues increased to 18.6% for the nine months ended September 30, 2011 as compared to 14.4% for the nine months ended September 30, 2010.

Selling, General and Administrative. Selling, general and administrative expense increased $8.6 million to $31.9 million for the nine months ended September 30, 2011, compared to the same period in 2010 primarily due to increased headcount. Personnel and related costs increased by $5.1 million and stock-based compensation expense increased $4.9 million. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount as a result of our continued global expansion and the increase in the fair value of our stock awards which was due to the increase of our stock price. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of $2.1 million related to the fair value adjustments and vesting of the FusionOne employee Earn-out during the nine months ended September 30, 2011. Additionally, we had an increase of $791 thousand in professional fees associated with increased legal activity related to the FusionOne Earn-out settlement and patent related services, an increase of $224 thousand for outside consultants related to our expanded marketing efforts, an increase of $262 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources, and an increase of $375 thousand of operating expenses related to our continued global expansion. Offsetting the increases was a decrease of $2.5 million in acquisition related costs due to the FusionOne acquisition in the quarter ended September 30, 2010 and a decrease in bad debt expense of $475 thousand due to increased collections from non-Tier 1 customers. Selling, general and administrative expense as a percentage of revenues decreased to 19.1% for the nine months ended September 30, 2011, compared to 20.0% for the nine months ended September 30, 2010.

Depreciation and amortization. Depreciation and amortization expense increased $4.6 million to $11.0 million for the nine months ended September 30, 2011, compared to the same period in 2010, primarily related to the amortization of our newly acquired intangible assets of FusionOne and the continued expansion of our platforms. This increase was offset by the completion of the depreciation of certain assets which, for accounting purposes, have reached the end of their respective lives. Depreciation and amortization expense as a percentage of revenues increased to 6.6% for the nine months ended September 30, 2011, as compared to 5.5% for the same period in 2010.

Net change in contingent consideration obligation. The fair value change in the contingent consideration liability related to the equity holders Earn-out resulted in additional expense of $3.3 million for the nine months ended September 30, 2011. The increase in the fair value of the contingent consideration obligation related to the FusionOne Earn-out is primarily due to the changes in our stock price, FusionOne business achieving quarterly targets and updates to the weighted probability of achieving certain future quarterly targets before the settlement in the second quarter. The increase in the estimate of the fair value of the contingent consideration obligation related to the SKS Earn-out is primarily due to changes to the forecasted operational efficiencies and the weighted probability of achieving product milestones.

Income from Operations. Income from operations decreased $1.2 million to $11.4 million for the nine months ended September 30, 2011, compared to the same period in 2010. This decrease was due primarily to the change in contingent consideration obligation and increased investments in our research and development staff and related costs. Income from operations as a percentage of revenues decreased to 6.8% for the nine months ended September 30, 2011, as compared to 10.7% for the nine months ended September 30, 2010.

Interest and other income. Interest and other income decreased $26 thousand to $914 thousand for the nine months ended September 30, 2011, compared to the same period in 2010. Interest and other income decreased primarily due to the lack of insurance claims received in 2011. This decrease was offset by an increase in interest income due to increases in investments in interest bearing securities.

Interest and other expense. Interest expense and other expense increased $66 thousand to $975 thousand for the nine months ended September 30, 2011, compared to the same period in 2010. Interest and other expense increased primarily due to an increase in currency fluctuations related to the settlement of our customer account sales.

Table of Contents

Income Tax. During the nine months ended September 30, 2011 and 2010, we recognized approximately $4.4 million and $4.7 million, respectively, in related tax expense. Our effective tax rate was approximately 38.8% and approximately 37.7% during the nine months ended September 30, 2011 and 2010, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. Our effective tax rate is higher than our US federal statutory rate primarily due to the unfavorable tax impact of the fair market value adjustment for the contingent consideration obligation related to the FusionOne Earn-out for the FusionOne equity holders offset by increased profits in foreign jurisdictions, which have lower tax rates than the US, and the discrete impact of the disqualifying dispositions of incentive stock options.

Liquidity and Capital Resources

Our principal source of liquidity has been cash provided by capital market activities and operations. Our cash, cash equivalents and marketable securities balance was $189.6 million at September 30, 2011 and December 31, 2010. During the nine months ended September 30, 2011, cash generated from operations and by the exercise of stock options was offset by payments of the FusionOne Earn-out, repurchase of stock, capital expenditures and acquisition-related activity. We anticipate that our principal uses of cash in the future will be to fund the expansion of our business through both organic growth as well as possible acquisition activities and the expansion of our customer base internationally. Uses of cash will also include facility expansion, capital expenditures and working capital.

Discussion of Cash Flows

Cash flows from operations. Net cash provided by operating activities for the nine months ended September 30, 2011 was $27.9 million, as compared to $9.7 million cash provided for the nine months ended September 30, 2010. Our primary uses of cash from operating activities are for personnel related expenditures and outside consultants. We also make cash payments related to taxes and leased facilities. The increase in net cash provided by operating activities for the nine months ended September 30, 2011 of $18.2 million as compared to the same period in 2010 is primarily due to changes in working capital which included a $2.9 million increase in deferred revenues, a $2.3 million increase to net accounts receivable, a $5.2 million increase in prepaid expenses and other current assets, a $4.6 million increase in contingent consideration obligations related to the FusionOne and SKS Earn-outs offset by a $6.6 million decrease in the tax benefit from the exercise of stock options and a $910 thousand decrease in net income.

Cash flows from investing. Net cash used in investing activities for the nine months ended September 30, 2011 was $52.0 million, as compared to $39.3 million for the nine months ended September 30, 2010. The primary uses of cash in 2011 were $35.8 million used in the purchase of marketable securities and $12.0 million used to purchase property and equipment primarily related to new facilities in Arizona and our continued investments in our global information technology and business system infrastructure. Additionally, $5.8 million of cash was used in the acquisition of Sapience Knowledge Systems, Inc. and $2.0 million was used in the acquisition of certain assets and workforce from Strumsoft, Inc.

Cash flows from financing. Net cash used in financing activities for the nine months ended September 30, 2011 was $7.5 million, as compared to cash provided by financing activities of $2.7 million for the nine months ended September 30, 2010. The increase in cash used was due to the $8.3 million in payments related to Earn-out for the FusionOne equity holders, $20.0 million used to repurchase our common stock and $721 thousand in payments on our capital obligation related to our data facility in the nine months ended September 30, 2011, offset by $14.2 million in proceeds from the exercise of stock options and a $7.3 million tax benefit from the exercise of stock options.

We believe that our existing cash and cash equivalents, and cash generated from our existing operations will be sufficient to fund our operations for the next twelve months.

Effect of Inflation

Although inflation generally affects us by increasing our cost of labor and equipment, we do not believe that inflation has had any material effect on our results of operations for the three and nine months ended September 30, 2011 and 2010.

Table of Contents

Impact of Recently Issue Accounting Standards

In May 2011, the FASB issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and IFRS. Consequently, the amendments change some fair value measurement principles and disclosure requirements. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial statements or disclosures.

In June 2011, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial statements or disclosures. Therefore, we have elected not to early adopt.

In September 2011, the FASB issued amendments to simplify how entities test goodwill for impairment. These amendments, effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, (early adoption is permitted), permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The implementation of this amended accounting guidance is not expected to have a material impact on our consolidated financial statements or disclosures. Therefore, we have elected not to early adopt.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2011 and December 31, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. We believe our exposure associated with these market risks has not changed materially since December 31, 2010.

Foreign Currency Exchange Risk

We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, and Indian Rupee. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses.

We do not hold any derivative instruments and do not engage in any hedging activities. Although our reporting currency is the U.S. dollar, we may conduct business and incur costs in the local currencies of other countries in which we may operate, make sales and buy materials and services. As a result, we are subject to currency translation risk. Further, changes in exchange rates between foreign currencies and the U.S. dollar could affect our future net sales and cost of sales and could result in exchange losses.

We cannot accurately predict future exchange rates or the overall impact of future exchange rate fluctuations on our business, results of operations and financial condition. To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase and hedging activities may be considered if deemed appropriate.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2011. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2011, the end of the period covered by this quarterly report, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in internal controls over financial reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that was conducted during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 5, 2008, September 18, 2008, and September 23, 2008, three complaints were filed against us and certain of our officers and directors in the United States District Court for the District of New Jersey purportedly on behalf of a class of shareholders who purchased our common stock between February 4, 2008 and June 9, 2008 (the Securities Law Actions). The complaints were consolidated and an amended complaint was filed by the plaintiffs on March 13, 2009. The plaintiffs in each complaint asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They alleged that certain of our public disclosures regarding our financial prospects during the proposed class period were false and/or misleading. The principal allegation set forth in each complaint was that we issued misleading statements concerning its business prospects relating to the activation of Apple Inc. s iPhone product. On April 7, 2010, the Court granted our Motion to Dismiss all of the claims against all of the defendants without prejudice. On August 9, 2010, the parties filed a notice of voluntary dismissal with prejudice, noting that the plaintiff was dismissing the case without receiving payment of any kind.

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey (the State Derivative Suit) and the United States District Court for the District of New Jersey (the Federal Derivative Suit) against certain of our officers and directors, purportedly derivatively on our behalf (collectively, the Derivative Suits). The Complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations in connection with the disclosures that also are the subject of the Securities Law Actions

described above. We were also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on our behalf. On October 20, 2010, the parties to the Federal Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety and with prejudice as to the named plaintiff. On November 17, 2010, the parties to the State Derivative Suit filed a notice of voluntary dismissal, dismissing the case in its entirety with prejudice as to the named plaintiff.

On January 4, 2011, we filed a complaint in the United States District Court for the District of Wisconsin (Civ Act. No. 11-CV-02) against Dashwire, Inc. (Dashwire), claiming that Dashwire has infringed, and continues to infringe, several of our patents. We filed an Amended Complaint against Dashwire on April 22, 2011. As a result of these claims, Dashwire filed a complaint against us in the same court asserting that we are infringing two of the Dashwire patents which it recently acquired from Intellectual Venture Partners. On July 29, 2011, Synchronoss and Dashwire entered into a patent license and settlement agreement whereby Dashwire will take a limited license to specific Synchronoss cloud management patents. Under the agreement, we will receive a lump-sum payment and future royalties from Dashwire. In accordance with the terms of the patent license and settlement agreement the parties dismissed the above complaints.

Table of Contents

Except for the above claims, we are not currently subject to any legal proceedings that could have a material adverse effect on our operations; however, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. Reserved

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description

3.2*	Restated Certificate of Incorporation of the Company
3.4*	Amended and Restated Bylaws of the Company
4.2*	Form of Company s Common Stock certificate
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document

Table of Contents

101.PRE	XBRL Presentation Linkbase Document

* Incorporated herein by reference to the exhibit of the same number in the Company s Registration Statement on Form S-1 (Commission File No. 333-132080).

Table of Contents

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.

Synchronoss Technologies, Inc.

/s/ Stephen G. Waldis
Stephen G. Waldis
Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal executive officer)

/s/ Lawrence R. Irving
Lawrence R. Irving
Executive Vice President, Chief Financial Officer
and Treasurer

November 4, 2011