

SYNCHRONOSS TECHNOLOGIES INC

Form 10-Q

August 06, 2010

**Table of Contents**

**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 June 30, 2010**

**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 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 ☒ 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 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, 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 ☐

Accelerated filer ☒

Non-accelerated filer ☐

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 ☒

Shares outstanding of the Registrant's common stock:

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Class  
Common stock, \$0.0001 par value

Outstanding at July 29, 2010  
31,367,545 shares

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**SYNCHRONOSS TECHNOLOGIES, INC.**  
**FORM 10-Q INDEX**

|   | PAGE NO. |
|---|----------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |          |
| <b><u>Item 1. Consolidated Financial Statements and Notes</u></b>   |          |
| <u>Consolidated Balance Sheets (unaudited)</u>  | 2        |
| <u>Consolidated Statements of Income (unaudited)</u>  | 3        |
| <u>Consolidated Statements of Cash Flows (unaudited)</u>  | 4        |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>   | 5        |
| <b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | 10       |
| <b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | 17       |
| <b><u>Item 4. Controls and Procedures</u></b>   | 18       |
| <b><u>PART II. OTHER INFORMATION</u></b>  |          |
| <b><u>Item 1. Legal Proceedings</u></b>   | 18       |
| <b><u>Item 1A. Risk Factors</u></b>   | 19       |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           | 19       |
| <b><u>Item 3. Defaults Upon Senior Securities</u></b>   | 19       |
| <b><u>Item 4. [Reserved]</u></b>  | 19       |
| <b><u>Item 5. Other Information</u></b>   | 19       |
| <b><u>Item 6. Exhibits</u></b>  | 19       |
| <b><u>SIGNATURES</u></b>  | 20       |
| <u>Exhibit 10.17</u>  |          |
| <u>Exhibit 10.18</u>  |          |
| <u>Exhibit 31.1</u>   |          |
| <u>Exhibit 31.2</u>   |          |
| <u>Exhibit 32.1</u>   |          |
| <u>Exhibit 32.2</u>   |          |

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(In thousands, except per share data)**

|  | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|--------------------------|------------------------------|
| <b>ASSETS</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents  | \$ 92,168                | \$ 89,924                    |
| Marketable securities  | 2,204                    | 2,558                        |
| Accounts receivable, net of allowance for doubtful accounts of \$390 and \$830 at June 30, 2010 and December 31, 2009, respectively  | 30,375                   | 25,939                       |
| Prepaid expenses and other assets  | 6,251                    | 4,069                        |
| Deferred tax assets  | 1,468                    | 1,462                        |
| Total current assets   | 132,466                  | 123,952                      |
| Marketable securities  | 7,909                    | 5,202                        |
| Property and equipment, net  | 25,690                   | 23,735                       |
| Goodwill   | 6,911                    | 6,911                        |
| Intangible assets, net   | 2,221                    | 2,727                        |
| Deferred tax assets  | 9,000                    | 8,992                        |
| Other assets   | 2,314                    | 1,040                        |
| Total assets   | \$ 186,511               | \$ 172,559                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                          |                              |
| Current liabilities:   |                          |                              |
| Accounts payable   | \$ 4,757                 | \$ 5,171                     |
| Accrued expenses   | 6,079                    | 7,350                        |
| Deferred revenues  | 4,023                    | 3,095                        |
| Total current liabilities  | 14,859                   | 15,616                       |
| Lease financing obligation - long-term   | 9,181                    | 9,150                        |
| Other liabilities  | 1,605                    | 1,329                        |
| Stockholders' equity:  |                          |                              |
| Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively                              |                          |                              |
| Common stock, \$0.0001 par value; 100,000 shares authorized, 33,366 and 33,104 shares issued; 31,366 and 31,104 outstanding at June 30, 2010 and December 31, 2009, respectively | 3                        | 3                            |
| Treasury stock, at cost (2,000 shares at June 30, 2010 and December 31, 2009)  | (23,713)                 | (23,713)                     |
| Additional paid-in capital   | 126,504                  | 117,797                      |
| Accumulated other comprehensive income (loss)  | 2                        | (7)                          |
| Retained earnings  | 58,070                   | 52,384                       |
| Total stockholders' equity   | 160,866                  | 146,464                      |

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 186,511 | \$ 172,559 |
|--|------------|------------|

See accompanying consolidated notes.

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
**(In thousands, except per share data)**

|   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2010</b>                            | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
| Net revenues                                | \$ 37,218                              | \$ 30,554   | \$ 72,281                            | \$ 60,107   |
| Costs and expenses:                         |  |             |                                      |             |
| Cost of services*                           | 19,013                                 | 15,190      | 36,655                               | 30,389      |
| Research and development                    | 4,907                                  | 3,000       | 9,191                                | 6,116       |
| Selling, general and administrative         | 6,368                                  | 5,588       | 12,845                               | 11,657      |
| Depreciation and amortization               | 1,857                                  | 2,270       | 3,852                                | 4,110       |
| Total costs and expenses                    | 32,145                                 | 26,048      | 62,543                               | 52,272      |
| Income from operations                      | 5,073                                  | 4,506       | 9,738                                | 7,835       |
| Interest income and other income            | 122                                    | 153         | 233                                  | 352         |
| Interest expense and other expense          | (293)                                  | (245)       | (567)                                | (296)       |
| Income before income tax expense            | 4,902                                  | 4,414       | 9,404                                | 7,891       |
| Income tax expense                          | (1,949)                                | (1,857)     | (3,718)                              | (3,229)     |
| Net income                                  | \$ 2,953                               | \$ 2,557    | \$ 5,686                             | \$ 4,662    |
| Net income per common share:                |  |             |                                      |             |
| Basic                                       | \$ 0.09                                | \$ 0.08     | \$ 0.18                              | \$ 0.15     |
| Diluted                                     | \$ 0.09                                | \$ 0.08     | \$ 0.18                              | \$ 0.15     |
| Weighted-average common shares outstanding: |  |             |                                      |             |
| Basic                                       | 31,206                                 | 30,769      | 31,124                               | 30,722      |
| Diluted                                     | 32,203                                 | 31,378      | 32,057                               | 31,289      |

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

See accompanying consolidated notes.

Table of Contents

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2010</b>                          | <b>2009</b> |
| <b>Operating activities:</b>  |                                      |             |
| Net income  | \$ 5,686                             | \$ 4,662    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |             |
| Depreciation and amortization expense   | 3,852                                | 4,110       |
| Loss on disposal of fixed assets  | 24                                   |             |
| Deferred income taxes   | (14)                                 | 112         |
| Non-cash interest on leased facility  | 456                                  | 226         |
| Stock-based compensation  | 5,584                                | 3,945       |
| Changes in operating assets and liabilities:                                      |                                      |             |
| Accounts receivable, net of allowance for doubtful accounts                       | (4,436)                              | (1,905)     |
| Prepaid expenses and other current assets   | (1,563)                              | (1,711)     |
| Other assets  | (1,274)                              | 150         |
| Accounts payable  | (414)                                | 3,778       |
| Accrued expenses  | (1,271)                              | (5,497)     |
| Tax benefit from the exercise of stock options                                    | (618)                                | (215)       |
| Other liabilities   | 276                                  | (77)        |
| Deferred revenues   | 928                                  | 1,418       |
| Net cash provided by operating activities   | 7,216                                | 8,996       |
| <b>Investing activities:</b>  |                                      |             |
| Purchases of fixed assets   | (5,319)                              | (9,324)     |
| Proceeds from the sale of fixed assets  | 1                                    |             |
| Purchases of marketable securities available for sale                             | (4,134)                              | (1,165)     |
| Maturity of marketable securities available for sale                              | 1,794                                | 1,542       |
| Net cash used in investing activities   | (7,658)                              | (8,947)     |
| <b>Financing activities:</b>  |                                      |             |
| Proceeds from the exercise of stock options                                       | 2,505                                | 733         |
| Excess tax benefit from the exercise of stock options                             | 618                                  | 215         |
| Payments on capital obligations   | (425)                                |             |
| Net cash provided by financing activities   | 2,698                                | 948         |
| Effect of exchange rate changes on cash   | (12)                                 |             |
| Net increase in cash and cash equivalents   | 2,244                                | 997         |
| Cash and cash equivalents at beginning of year                                    | 89,924                               | 72,203      |
| Cash and cash equivalents at end of period  | \$ 92,168                            | \$ 73,200   |



**Supplemental disclosures of cash flow information:**

|                            |    |       |    |       |
|----------------------------|----|-------|----|-------|
| Cash paid for income taxes | \$ | 4,460 | \$ | 4,327 |
|----------------------------|----|-------|----|-------|

**Supplemental disclosures of cash flow information:**

|   |    |  |    |       |
|---|----|--|----|-------|
| Non-cash increase in building and related lease liability | \$ |  | \$ | 2,123 |
|---|----|--|----|-------|

See accompanying consolidated notes.

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS    UNAUDITED (Continued)**  
**(in thousands, except per share data unless otherwise noted)**

The consolidated financial statements at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 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, 2009. 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 ) and Synchronoss Telecom India Private Ltd. 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, 2009 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 on-demand transaction management platforms that enable communications service providers (CSPs), cable operators/ multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, netbooks and mobile Internet devices, among others), e-Tailers/retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management and service provisioning from any channel (e.g., e-commerce, telesales, customer stores, 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. The Company's ConvergenceNow®, ConvergenceNow® Plus+ and InterconnectNow™ 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 its cloud-based solutions and technology to automate the process of activating customers while delivering additional communication services, including new service offerings and ongoing customer care. 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 quickly, reliably and cost-effectively by simplifying the processes associated with managing the customer experience for ordering and activating 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, 2009.

**3. Recent Accounting Pronouncements*****Impact of Recently Issued Accounting Standards***

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition* ( ASU 2010-17 ). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be

bifurcated. An arrangement may contain both substantive and non-substantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the early adoption option and because the Company currently does not have performance payment milestones in its contractual arrangements it does not expect that the adoption would have a material impact on the consolidated financial statements.

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS    UNAUDITED (Continued)**  
**(in thousands, except per share data unless otherwise noted)**

**4. Earnings per Common Share**

The Company calculates basic and diluted per share amounts based on net earnings for the periods presented. The Company uses the weighted average number of common shares outstanding during the period to calculate basic earnings per share. The weighted average number of common shares used in the Company's calculation of diluted per share amounts includes the dilutive effects of stock options and restricted stock awards based on the treasury stock method. 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 1,691 and 523 for the three months ended June 30, 2010 and 2009, respectively, and 1,526 and 1,217 for the six months ended June 30, 2010 and 2009, respectively.

|  | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|--|------------------------------------|-------------|----------------------------------|-------------|
|  | <b>2010</b>                        | <b>2009</b> | <b>2010</b>                      | <b>2009</b> |
| Numerator:   |                                    |             |                                  |             |
| Net income   | \$ 2,953                           | \$ 2,557    | \$ 5,686                         | \$ 4,662    |
| Denominator:                                       |                                    |             |                                  |             |
| Weighted average common shares outstanding basic   | 31,206                             | 30,769      | 31,124                           | 30,722      |
| Dilutive effect of:                                |                                    |             |                                  |             |
| Options and unvested restricted shares             | 997                                | 609         | 933                              | 567         |
| Weighted average common shares outstanding diluted | 32,203                             | 31,378      | 32,057                           | 31,289      |

**5. Comprehensive Income**

The components of comprehensive income are as follows:

|  | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|--|------------------------------------|-------------|----------------------------------|-------------|
|  | <b>2010</b>                        | <b>2009</b> | <b>2010</b>                      | <b>2009</b> |
| Net Income   | \$ 2,953                           | \$ 2,557    | \$ 5,686                         | \$ 4,662    |
| Translation adjustments                            | (56)                               | 114         | (2)                              | 53          |
| Unrealized gain (loss) on securities, (net of tax) | 13                                 | (8)         | 11                               | 34          |
| Total Other Comprehensive Income                   | \$ 2,910                           | \$ 2,663    | \$ 5,695                         | \$ 4,749    |

**6. Fair Value Measurements of Cash, Cash Equivalents and Marketable Securities**

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.

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS    UNAUDITED (Continued)**  
**(in thousands, except per share data unless otherwise noted)**

The following is a summary of cash, cash equivalents and marketable securities held by the Company and their related classifications under the fair value hierarchy.

|             | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-------------|--------------------------|------------------------------|
| Level 1 (A) | \$ 92,168                | \$ 89,924                    |
| Level 2 (B) | 10,113                   | 7,760                        |
| Total       | \$ 102,281               | \$ 97,684                    |

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

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

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 changes in valuation techniques or inputs occurred during the three months and six months ended June 30, 2010. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the three months and six months ended June 30, 2010.

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at June 30, 2010 were as follows:

|  | Aggregate<br>Fair Value | Aggregate Amount of<br>Unrealized<br>Gains | Losses |
|--|-------------------------|--|--------|
| Due in one year or less                  | \$ 2,204                | \$ 21                                      | \$     |
| Due after one year, less than five years | 7,909                   | 85   | (6)    |
|  | \$ 10,113               | \$ 106                                     | \$ (6) |

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, 2009 were as follows:

Aggregate Amount of

|  | Aggregate<br>Fair Value | Unrealized<br>Gains | Unrealized<br>Losses |
|--|-------------------------|---------------------|----------------------|
| Due in one year or less                  | \$ 2,558                | \$ 43               | \$                   |
| Due after one year, less than five years | 5,202                   | 48                  | (6)                  |
|  | \$ 7,760                | \$ 91               | \$ (6)               |

Unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) 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.

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS    UNAUDITED (Continued)**  
**(in thousands, except per share data unless otherwise noted)**

**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:

|                                     | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30</b> |             |
|-------------------------------------|------------------------------------|-------------|---------------------------------|-------------|
|                                     | <b>2010</b>                        | <b>2009</b> | <b>2010</b>                     | <b>2009</b> |
| Expected stock price volatility     | 62%                                | 62%         | 63%                             | 62%         |
| Risk-free interest rate             | 2.55%                              | 2.90%       | 2.58%                           | 2.93%       |
| Expected life of options (in years) | 4.90                               | 4.93        | 4.91                            | 4.93        |
| Expected dividend yield             | 0%                                 | 0%          | 0%                              | 0%          |

The weighted-average fair value (as of the date of grant) of the options granted was \$10.72 and \$6.23 per share for the three months ended June 30, 2010 and 2009, respectively, and \$10.40 and \$6.05 for the six months ended June 30, 2010 and 2009, respectively. During the three months ended June 30, 2010 and 2009, the Company recorded total pre-tax stock-based compensation expense of \$2.8 million (\$1.8 million after tax or \$0.06 per diluted share) and \$2.0 million (\$1.4 million after tax or \$0.04 per diluted share), respectively, which includes both intrinsic value for equity awards issued prior to 2006 and fair value for equity awards issued after January 1, 2006. During the six months ended June 30, 2010 and 2009, the Company recorded total pre-tax stock-based compensation expense of \$5.6 million (\$3.7 million after tax or \$0.12 per diluted share) and \$3.9 million (\$2.8 million after tax or \$0.09 per diluted share), respectively, which includes both intrinsic value for equity awards issued prior to 2006 and 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 June 30, 2010 was approximately \$20.8 million. That cost is expected to be recognized over a weighted-average period of approximately 2.84 years.

The following table summarizes information about stock options outstanding:

|                               | <b>Options Outstanding</b> |                  |                                 |       |  |
|-------------------------------|----------------------------|------------------|---------------------------------|-------|--|
|                               | <b>Shares Available</b>    | <b>Number of</b> | <b>Exercise Price per Share</b> |       | <b>Weighted-Average Exercise Price</b> |
|                               | <b>for Grant</b>           | <b>Shares</b>    | <b>Range</b>                    |       | <b>Price</b>                           |
| Balance at December 31, 2009  | 310                        | 4,623            | \$ 0.29                         | 38.62 | \$ 13.44                               |
| Options granted               | 686                        | 686              | \$ 15.89                        | 20.91 | \$ 20.13                               |
| Options exercised             |                            | (262)            | \$ 0.29                         | 17.90 | \$ 9.57                                |
| Options forfeited             | 17                         | (29)             | \$ 10.27                        | 35.85 | \$ 15.95                               |
| Expansion of pool in May 2010 | 3,000                      |                  |                                 |       |  |
| Balance at June 30, 2010      | 4,013                      | 5,018            | \$ 0.29                         | 38.62 | \$ 14.55                               |

A summary of the Company's non-vested restricted stock at June 30, 2010, and changes during the six months ended June 30, 2010, is presented below:

| <b>Non-Vested Restricted Stock</b> | <b>Number of Awards</b> |
|------------------------------------|-------------------------|
| Non-vested at January 1, 2010      | 114                     |



|                             |      |
|-----------------------------|------|
| Granted                     | 17   |
| Vested                      | (29) |
| Forfeited                   |      |
| Non-vested at June 30, 2010 | 102  |

**Table of Contents**

**SYNCHRONOSS TECHNOLOGIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS    UNAUDITED (Continued)**  
**(in thousands, except per share data unless otherwise noted)**

**8. Capital Transactions**

On February 1, 2010, the Company filed with the Securities and Exchange Commission a universal shelf registration statement on Form S-3. The registration statement covers the offer and sale of up to \$150 million of securities which may include debt securities, warrants, common stock and preferred stock. The registration statement was declared effective by the Securities and Exchange Commission on April 14, 2010. The Company has no immediate plans or current commitments to sell securities. The terms of any offering under its shelf registration statement will be determined at the time of the offering and disclosed in a prospectus supplement filed with the Securities and Exchange Commission.

**9. 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 the claims against all of the defendants without prejudice.

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey and the United States District Court for the District of New Jersey against certain of the Company's officers and directors, purportedly derivatively on behalf of the Company (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. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court's discretion. The plaintiffs in the Derivative Suits have agreed to stay their claims pending the court's decision in the Defendant's Motion to Dismiss in the Securities Laws Actions. The proceedings in the state court of New Jersey are currently subject to the stay order in that case, and in the U.S. District Court for the District of New Jersey Defendants' deadline to answer or otherwise respond is currently set for September 17, 2010. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the Derivative Suits at this time, and the Company can give no assurance that the claims in these complaints will not have a material adverse effect on its financial position or results of operations.

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.

**10. Subsequent Events Review**

The Company has evaluated all subsequent events and transactions through the filing date. On July 19, 2010 the Company acquired 100% of FusionOne, Inc. ("FusionOne") a leader in mobile content transfer and synchronization software. The Company paid approximately \$40 million at closing, comprised of approximately \$32 million in cash and issued approximately 400 thousand shares totaling \$8 million in stock, and potentially may make payments totaling up to \$35 million in cash and stock, based on achievements of certain financial targets for the period from July 1, 2010 through December 31, 2011. The acquisition of FusionOne accelerates the Company's overall connected device growth strategy and customer diversification efforts. The Company is currently evaluating the acquisition-date fair value and the acquisition-related costs.

On July 29, 2010, the Company's Board of Directors adopted the Synchronoss Technologies, Inc. 2010 New Hire Equity Incentive Plan. The Company's Board of Directors also granted options to purchase an aggregate of 410,000 shares of the Company's common stock and 20,000 shares of restricted common stock of the Company to certain employees of FusionOne in connection with the Company's acquisition of FusionOne.

**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, 2009. 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, should, continues, likely 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 platforms that enable communications service providers (CSPs), cable operators/ multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, netbooks and mobile Internet devices, among others), e-Tailers/retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management and service provisioning from any channel (e.g., e-commerce, telesales, customer stores, 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. Our ConvergenceNow®, ConvergenceNow® Plus+ and InterconnectNow™ 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 cloud-based solutions and technology to automate the process of activating customers while delivering additional communication services, including new service offerings and ongoing customer care. 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 quickly, reliably and cost-effectively by simplifying the processes associated with managing the customer experience for ordering and activating 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 Wireless 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 and Nokia. 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 June 30, 2010 and 2009, we derived approximately 79% and 81%, respectively, of our revenues from transactions processed. Most of the remainder of our revenues was generated by professional services.

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 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 June 30, 2010 and 2009, AT&T accounted for approximately 66% of our revenues. Our agreement with AT&T was renewed effective January 1, 2009 and runs through December of 2011. AT&T may renew this agreement for two additional one year periods. 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 organization. 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 June 30, 2010 were AT&T, Time Warner Cable, Level 3, Frontier Communications and Dell, which accounted for approximately 83% of our revenues, compared to 86% of our revenues from our five largest customers, AT&T, Time Warner Cable, Level 3, Vonage and Cablevision, for the three months ended June 30, 2009. 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 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 customer lists and technology acquired from Wisor in 2008.

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 (i.e., smartphone devices, netbooks, 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.



## **Table of Contents**

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 across direct and indirect commerce channels, business and consumer segments continue to grow along with our account presence with a number of Tier 1 cable MSO's and 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.

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, 2009, 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. 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.

Revenue Recognition and Deferred Revenue

Income Taxes

Goodwill and Impairment of Long-Lived Assets

Stock-Based Compensation

Allowance for Doubtful Accounts

There were no significant changes in our critical accounting policies and estimates during the three months ended June 30, 2010. 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, 2009 for a more complete discussion of our critical accounting policies and estimates.



**Table of Contents****Results of Operations*****Three months ended June 30, 2010 compared to the three months ended June 30, 2009***

The following table presents an overview of our results of operations for the three months ended June 30, 2010 and 2009.

|                                     | <b>Three Months Ended<br/>June 30,</b> |                | <b>Three Months Ended<br/>June 30,</b> |                | <b>Three Months<br/>Ended<br/>June 30,<br/>2010 vs 2009</b> |               |
|-------------------------------------|--|----------------|--|----------------|---|---------------|
|                                     | <b>2010</b>                            | <b>% of</b>    | <b>2009</b>                            | <b>% of</b>    | <b>\$</b>   | <b>%</b>      |
|                                     | <b>\$</b>                              | <b>Revenue</b> | <b>\$</b>                              | <b>Revenue</b> | <b>Change</b>   | <b>Change</b> |
|                                     |  |                | <b>(in thousands)</b>                  |                |   |               |
| Net revenue                         | \$ 37,218                              | 100.0%         | \$ 30,554                              | 100.0%         | \$ 6,664  | 21.8%         |
| Cost of services*                   | 19,013                                 | 51.1%          | 15,190                                 | 49.7%          | 3,823   | 25.2%         |
| Research and development            | 4,907                                  | 13.2%          | 3,000                                  | 9.8%           | 1,907   | 63.6%         |
| Selling, general and administrative | 6,368                                  | 17.1%          | 5,588                                  | 18.3%          | 780   | 14.0%         |
| Depreciation and amortization       | 1,857                                  | 5.0%           | 2,270                                  | 7.4%           | (413)   | (18)%         |
|                                     | 32,145                                 | 86.4%          | 26,048                                 | 85.3%          | 6,097   | 23.4%         |
| Income from operations              | \$ 5,073                               | 13.6%          | \$ 4,506                               | 14.7%          | \$ 567  | 12.6%         |

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

**Net Revenue.** Net revenues increased \$6.7 million to \$37.2 million for the three months ended June 30, 2010, compared to the three months ended June 30, 2009. This increase was due primarily to increased transaction volumes and expansion into new programs from our AT&T relationship. Net revenues related to AT&T increased \$4.4 million to \$24.5 million for the three months ended June 30, 2010 compared to the same period in 2009. AT&T represented 66% of our revenues for the three months ended June 30, 2010 and 2009. Net revenues outside of AT&T generated \$12.7 million of our revenues during the three months ended June 30, 2010 as compared to \$10.4 million during the three months ended June 30, 2009. Net revenues outside of AT&T represented 34% of our revenues during the three months ended June 30, 2010 and 2009. Transaction revenues recognized for the three months ended June 30, 2010 and 2009 represented 79% or \$29.4 million and 81% or \$24.6 million of net revenues, respectively. Professional service revenues increased as a percentage of sales to 19% or \$7.2 million for the three months ended June 30, 2010, compared to 18% or \$5.6 million for the previous three months ended June 30, 2009.

***Expense***

**Cost of Services.** Cost of services increased \$3.8 million to \$19.0 million for the three months ended June 30, 2010, compared to the same period in 2009, due primarily to an increase of \$1.5 million in personnel and related costs and an increase of \$341 thousand in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount. There was an increase of \$1.2 million for outside consultants related to growth in programs with existing customers. There was an increase of \$703 thousand in telecommunication and facility costs related to the increased capacity associated with our data facilities that included

increases related to the global deployment of our ConvergenceNow® Plus+ platform. Additionally there was an increase in travel costs of \$89 thousand related to our global and domestic expansion. Cost of services as a percentage of revenues increased to 51.1% for the three months ended June 30, 2010, as compared to 49.7% for the three months ended June 30, 2009.

**Research and Development.** Research and development expense increased \$1.9 million to \$4.9 million for the three months ended June 30, 2010, compared to the same period in 2009, due primarily to an increase of \$983 thousand in personnel and related costs and an increase of \$196 thousand in stock based compensation. The increase in personnel and related costs and stock-based compensation was due to increased headcount. In addition there was an increase of \$541 thousand in consulting costs related to the development of new technologies and an increase of \$215 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources. Research and development expense as a percentage of revenues increased to 13.2% for the three months ended June 30, 2010 as compared to 9.8% for the three months ended June 30, 2009.

**Table of Contents**

***Selling, General and Administrative.*** Selling, general and administrative expense increased \$780 thousand to \$6.4 million for the three months ended June 30, 2010, compared to the same period in 2009 due to an increase in personnel and related costs of \$316 thousand and stock-based compensation expense of \$251 thousand, consulting costs of \$333 thousand and marketing costs of \$132 thousand offset by a decrease in professional services of \$187 thousand and a decrease in telecommunication and facility costs of \$91 thousand. The increase in personnel and related and stock-based compensation costs was primarily due to an increase in headcount. The consulting and marketing costs increases relate to our expanded business development and marketing activities. Included in the increase of consulting costs were acquisition-related costs of \$314 thousand related to the activities prior to the July 19, 2010 acquisition of FusionOne. The decrease in professional services was primarily due to a reduction in legal fees and the decrease in telecommunication and facility costs was primarily due to a reduction in services. In addition there was an increase in our bad debt expense of \$43 thousand. Selling, general and administrative expense as a percentage of revenues decreased to 17.1% for the three months ended June 30, 2010, compared to 18.3% for the three months ended June 30, 2009. The decrease in percentage was a result of a higher revenue base as compared to the same period 2009.

***Depreciation and amortization.*** Depreciation and amortization expense decreased \$413 thousand to \$1.9 million for the three months ended June 30, 2010, compared to the same period in 2009, related to the disposition of certain assets and completion of the amortization over the useful lives offset by investments in the new facility. Depreciation and amortization expense as a percentage of revenues decreased to 5.0% for the three months ended June 30, 2010, as compared to 7.4% for the same period in 2009.

***Income from Operations.*** Income from operations increased \$567 thousand to \$5.1 million for the three months ended June 30, 2010, compared to the same period in 2009. This increase was due primarily to increased revenues from our AT&T relationship. Income from operations decreased as a percentage of revenues to 13.6% for the three months ended June 30, 2010, as compared to 14.7% for the three months ended June 30, 2009.

***Interest and other income.*** Interest and other income decreased \$31 thousand to \$122 thousand for the three months ended June 30, 2010, compared to the same period in 2009. Interest and other income decreased primarily due to lower effective interest rates on our investments.

***Interest and other expense.*** Interest expense and other expense increased \$48 thousand to \$293 thousand for the three months ended June 30, 2010, compared to the same period in 2009. Interest and other expense increased primarily due to currency fluctuations related to the settlement of our customer account sales. During three months ended June 30, 2010 and 2009 we recognized \$228 thousand and \$221 thousand of interest expense related to the facility lease.

***Income Tax.*** Our effective tax rate was approximately 39.8% and approximately 42.1% during the three months ended June 30, 2010 and 2009, 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 due to state income taxes offset by taxes in foreign jurisdictions where the tax rate is lower than the US federal statutory rate. During the three months ended June 30, 2010 and 2009, we recognized approximately \$1.9 million in related tax expense.

**Results of Operations*****Six months ended June 30, 2010 compared to the three months ended June 30, 2009***

The following table presents an overview of our results of operations for the six months ended June 30, 2010 and 2009.

| Six Months Ended<br>June 30,<br>2010 |  |    | Six Months Ended<br>June 30,<br>2009 |              |             |
|--------------------------------------|--|----|--------------------------------------|--------------|-------------|
| % of<br>Revenue                      |  |    | % of<br>Revenue                      |              |             |
| \$<br>(in<br>thousands)              |  | \$ |                                      | \$<br>Change | %<br>Change |

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|                                     |           |        |           |        |           |       |
|-------------------------------------|-----------|--------|-----------|--------|-----------|-------|
| Net revenue                         | \$ 72,281 | 100.0% | \$ 60,107 | 100.0% | \$ 12,174 | 20.3% |
| Cost of services*                   | 36,655    | 50.7%  | 30,389    | 50.6%  | 6,266     | 20.6% |
| Research and development            | 9,191     | 12.7%  | 6,116     | 10.2%  | 3,075     | 50.3% |
| Selling, general and administrative | 12,845    | 17.8%  | 11,657    | 19.4%  | 1,188     | 10.2% |
| Depreciation and amortization       | 3,852     | 5.3%   | 4,110     | 6.8%   | (258)     | (6)%  |
|                                     | 62,543    | 86.5%  | 52,272    | 87.0%  | 10,271    | 19.6% |
| Income from operations              | \$ 9,738  | 13.5%  | \$ 7,835  | 13.0%  | \$ 1,903  | 24.3% |

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

**Table of Contents**

**Net Revenue.** Net revenues increased \$12.2 million to \$72.3 million for the six months ended June 30, 2010, compared to the six months ended June 30, 2009. This increase was due primarily to increased transaction volumes and expansion into new programs from our AT&T relationship. Net revenues related to AT&T increased \$9.2 million to \$47.8 million for the six months ended June 30, 2010 compared to the same period in 2009. AT&T represented 66% and 64% of our revenues for the six months ended June 30, 2010 and 2009, respectively. Net revenues outside of AT&T generated \$24.5 million of our revenues during the six months ended June 30, 2010 as compared to \$21.5 million during the six months ended June 30, 2009. Net revenues outside of AT&T represented 34% and 36% of our revenues during the six months ended June 30, 2010 and 2009, respectively. Transaction revenues recognized for the six months ended June 30, 2010 and 2009 represented 80% or \$57.7 million and 84% or \$50.3 million of net revenues, respectively. Professional service revenues increased as a percentage of sales to 19% or \$13.6 million for the six months ended June 30, 2010, compared to 15% or \$9.3 million for the previous six months ended June 30, 2009. Professional services contributed to the increased sales volume as new programs begin to ramp and will continue to fluctuate until they are replaced with transactional volume.

***Expense***

**Cost of Services.** Cost of services increased \$6.3 million to \$36.7 million for the six months ended June 30, 2010, compared to the same period in 2009, due primarily to an increase of \$2.3 million in personnel and related costs and an increase of \$723 thousand in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount. There was an increase of \$1.9 million for outside consultants related to growth in programs with existing customers. There was an increase of \$1.1 million in telecommunication and facility costs related to the increased capacity associated with our data facilities that included increases related to the global deployment of our ConvergenceNow® Plus+ platform. Additionally there was an increase in travel costs of \$209 thousand related to our global and domestic expansion. Cost of services as a percentage of revenues increased to 50.7% for the six months ended June 30, 2010, as compared to 50.6% for the six months ended June 30 2009.

**Research and Development.** Research and development expense increased \$3.1 million to \$9.2 million for the six months ended June 30, 2010, compared to the same period in 2009, due primarily to an increase of \$1.3 million in personnel and related costs and an increase of \$418 thousand in stock based compensation. The increase in personnel and related costs and stock-based compensation was due to increased headcount. In addition there was an increase of \$962 thousand in consulting costs and professional services related to the development of new technologies and an increase of \$393 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources. Research and development expense as a percentage of revenues increased to 12.7% for the six months ended June 30, 2010 as compared to 10.2% for the six months ended June 30, 2009.

**Selling, General and Administrative.** Selling, general and administrative expense increased \$1.2 million to \$12.8 million for the six months ended June 30, 2010, compared to the same period in 2009 due to an increase in personnel and related costs of \$490 thousand and stock-based compensation expense of \$499 thousand, consulting costs of \$523 thousand and marketing costs of \$293 thousand offset by a decrease in professional services of \$529 thousand and a decrease in telecommunication and facility costs of \$130 thousand. The increase in personnel and related and stock-based compensation costs was primarily due to an increase in headcount. The consulting and marketing costs increases relate to our expanded business development and marketing activities. Included in the increase of consulting costs were acquisition-related costs of \$314 thousand related to the activities prior to the July 19, 2010 acquisition of FusionOne. The decrease in professional services relates to a reduction in legal fees and the decrease in telecommunication and facility costs was primarily due to a reduction in services. In addition there was an increase in our bad debt expense of \$93 thousand and a decrease of \$17 thousand in other costs. Selling, general and administrative expense as a percentage of revenues decreased to 17.8% for the six months ended June 30, 2010, compared to 19.4% for the six months ended June 30 2009. The decrease in percentage was a result of a higher revenue base as compared to the same period 2009.

**Depreciation and amortization.** Depreciation and amortization expense decreased \$258 thousand to \$3.9 million for the six months ended June 30, 2010, compared to the same period in 2009, related to the disposition of certain assets and completion of the amortization over the useful lives offset by investments in the new facility. Depreciation and

amortization expense as a percentage of revenues decreased to 5.3% for the six months ended June 30, 2010, as compared to 6.8% for the same period in 2009. The decrease in percentage was a result of a higher revenue base as compared to the same period 2009.

## **Table of Contents**

***Income from Operations.*** Income from operations increased \$1.9 million to \$9.7 million for the six months ended June 30, 2010, compared to the same period in 2009. This increase was due primarily to increased revenues from our AT&T relationship. Income from operations increased as a percentage of revenues to 13.5% for the six months ended June 30, 2010, as compared to 13% for the six months ended June 30, 2009.

***Interest and other income.*** Interest and other income decreased \$119 thousand to \$233 thousand for the six months ended June 30, 2010, compared to the same period in 2009. Interest and other income decreased primarily due to lower effective interest rates on our investments.

***Interest and other expense.*** Interest expense and other expense increased \$271 thousand to \$567 thousand for the six months ended June 30, 2010, compared to the same period in 2009. Interest and other expense increased primarily due to the lease financing obligation related to our Pennsylvania facility that began in April 2009. During six months ended June 30, 2010 and 2009 we recognized \$456 thousand and \$221 thousand of interest expense related to the facility lease.

***Income Tax.*** Our effective tax rate was approximately 39.5% and approximately 40.9% during the six months ended June 30, 2010 and 2009, 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 due to state income taxes offset by taxes in foreign jurisdictions where the rate is lower than the US federal statutory rate. During the six months ended June 30, 2010 and 2009, we recognized approximately \$3.7 million and \$3.2 million in related tax expense, respectively.

### **Liquidity and Capital Resources**

Our principal source of liquidity has been cash provided by operations. Our cash, cash equivalents and marketable securities balance was \$102 million at June 30, 2010, an increase of \$4.6 million as compared to the end of 2009. This increase was due to cash provided by operations and the exercise of stock options, offset by acquisitions of fixed assets associated with our facilities. 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. We anticipate that our cash will be sufficient to fund our July 2010 Acquisition of FusionOne, Inc. For further discussion refer to footnote 10 in the Notes to our Condensed Consolidated Financial Statements in this Quarterly Report for the six months ended June 30, 2010. 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 six months ended June 30, 2010 was \$7.2 million, as compared to \$9.0 million for the six months ended June 30, 2009. 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 decrease of \$1.8 million is primarily due to the increase in working capital and net income as compared to 2009. The cash provided by working capital included a \$1.7 million increase in our accounts payable and accrued expenses offset by a \$4.4 million increase in our accounts receivable balance as our collection of customer accounts only partially offset the increase of \$12.2 million in customer sales. Additionally net income increased to \$5.7 million, as compared to 2009.

***Cash flows from investing.*** Net cash used in investing activities for the six months ended June 30, 2010 was \$7.7 million, as compared to \$8.9 million for the six months June 30, 2009. The primary use of cash was \$4.1 million used to purchase marketable securities and \$5.3 million used to purchase property and equipment primarily related to our continued investments in our global information technology and business system infrastructure. The decrease in cash used in investing was due to the completion of our Pennsylvania data facility in June 2009.

***Cash flows from financing.*** Net cash provided by financing activities for the six months ended June 30, 2010 was \$2.7 million, as compared to \$948 thousand for the six months ended June 30, 2009. The increase was due to the increase in proceeds from the exercise of stock options and an increase in the tax benefit from the exercise of stock options, offset by payments on our capital obligation related to our data facility in the six months ended June 30, 2010.





**Table of Contents**

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 months ended June 30, 2010 and 2009.

**Impact of Recently Issued Accounting Standards**

In April 2010, the FASB issued ASU 2010-17, *Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition* (ASU 2010-17). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and non-substantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the early adoption option and because we currently do not have performance payment milestones in our contractual arrangements we do not expect that the adoption would have a material impact on the consolidated financial statements.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of June 30, 2010 and December 31, 2009.

**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, 2009, 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, 2009.

**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. 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 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 June 30, 2010. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2010, 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 our 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 complaints against all of the defendants without prejudice.

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey and the United States District Court for the District of New Jersey against certain of our officers and directors, purportedly derivatively on our behalf (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 are also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on our behalf. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court's discretion. We are in the process of evaluating the claims in the Derivative Suits. The plaintiffs in the Derivative Suits have agreed to stay their claims pending the court's decision in the Defendant's Motion to Dismiss in the Securities Laws Actions. The proceedings in the state court of New Jersey are currently subject to the stay order in that case, and in the U.S. District Court for the District of New Jersey Defendants' deadline to answer or otherwise respond is currently set for September 17, 2010. Due to the inherent uncertainties of litigation, we cannot predict the outcome of the Derivative Suits at this time, and we can give no assurance that the claims in these complaints will not have a material adverse effect on our financial position or results of operations.

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.

**Table of Contents****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, 2009, 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.

***Use of Proceeds***

On June 14, 2006, our Registration Statement on Form S-1 (File No. 333-132080) relating to the IPO was declared effective by the SEC. The managing underwriters of our IPO were Goldman, Sachs & Co., Deutsche Bank Securities Inc. and Thomas Weisel Partners LLC. On June 20, 2006, we closed the sale of 6,532,107 shares of common stock in our IPO for net proceeds to us of \$45.7 million. In July 2006, we sold an additional 959,908 shares of common stock upon the exercise of an over-allotment option granted to the underwriters for net proceeds to us of \$7.1 million. No offering expenses were paid directly or indirectly to any of our directors or officers or persons owning ten percent or more of any class of our equity securities or to any other affiliates. We have invested our net proceeds of the offering in money market funds pending their use to fund our expansion. Part of our current growth strategy is to further penetrate the North American markets and expand our customer base internationally. We anticipate that a portion of the proceeds of the offering will enable us to finance this expansion. In addition, we could use a portion of the proceeds of our IPO to make strategic investments in, or pursue acquisitions of, other businesses, products or technologies.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. Reserved****ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 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   |
| 10.17              | Employment Agreement Dated as of December 3, 2008 between the Company and Daniel Rizer   |
| 10.18              | Agreement and Plan of Merger dated as of July 6, 2010 among the Company, Echo Merger Sub, Inc., FusionOne Inc. and John Malloy |
| 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

\* 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**

August 5, 2010