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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 3, 2010

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 000-52041

GOLFSMITH INTERNATIONAL HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**16-1634847**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
11000 N. IH-35, Austin, Texas	**78753 3195**
(Address of Principal Executive Offices)	(zip code)

Registrant s Telephone Number, Including Area Code: **(512) 837-8810**

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: **Not Applicable**

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes oNo o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class of Common Stock	**Outstanding at July 29, 2010**
$.001 par value	15,797,246 Shares

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GOLFSMITH INTERNATIONAL HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JULY 3, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Golfsmith International Holdings, Inc.

Condensed Consolidated Balance Sheets

	July 3, 2010 (unaudited)	July 4, 2009 (unaudited)	January 2, 2010
ASSETS			
Current assets:			
Cash	$ 2,751,813	$ 5,634,633	$ 696,198
Receivables, net of allowances of $214,525, $197,268 and $220,733 at July 3, 2010, July 4, 2009 and January 2, 2010, respectively	2,419,267	2,028,259	1,949,411
Inventories	95,266,285	93,096,713	77,991,098
Prepaid expenses and other current assets	10,835,373	13,072,353	6,997,093
Total current assets	111,272,738	113,831,958	87,633,800
Property and equipment, net	59,314,113	57,596,176	56,475,787
Intangible assets, net	25,748,557	25,980,053	25,945,699
Other long-term assets	1,178,731	1,176,787	1,076,592
Total assets	**$ 197,514,139**	**$ 198,584,974**	**$ 171,131,878**
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 68,410,774	$ 66,595,934	$ 34,631,842
Accrued expenses and other current liabilities	18,069,391	16,580,847	19,491,865
Total current liabilities	86,480,165	83,176,781	54,123,707
Deferred rent liabilities	13,981,037	15,020,545	13,412,548
Long-term debt	27,576,000	27,967,000	36,000,000
Total liabilities	128,037,202	126,164,326	103,536,255
Stockholders Equity:			
Common stock $.001 par value; 25,000,000 shares authorized at July 3, 2010, and 100,000,000 shares authorized at each July 4, 2009 and January 2, 2010; and 15,797,246 shares issued and outstanding at July 3, 2010, 15,777,185 shares issued and outstanding at each July 4, 2009 and January 2, 2010	15,798	15,778	15,778
Preferred stock $.001 par value; 10,000,000 shares authorized at July 3, 2010, July 4, 2009 and January 2, 2010; no shares issued and outstanding			
Deferred stock units $.001 par value; 454,998 shares outstanding at July 3, 2010, 314,998 shares outstanding at each July 4, 2009 and January 2, 2010	455	315	315
Additional paid-in capital	124,757,311	123,640,366	124,042,392
Accumulated other comprehensive loss	(353,923)	(126,564)	(153,609)

Accumulated deficit		(54,942,704)		(51,109,247)		(56,309,253)
Total stockholders equity		69,476,937		72,420,648		67,595,623
Total liabilities and stockholders equity	**$**	**197,514,139**	**$**	**198,584,974**	**$**	**171,131,878**

See accompanying notes to unaudited condensed consolidated financial statements

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Golfsmith International Holdings, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net revenues	$ 118,046,216	$ 114,796,870	$ 185,694,755	$ 183,589,774
Cost of products sold	76,718,948	74,719,386	121,603,003	120,741,824
Gross profit	41,327,268	40,077,484	64,091,752	62,847,950
Selling, general and administrative	33,781,308	31,780,003	61,634,234	59,880,859
Store pre-opening / closing expenses	207,928	45,312	457,666	110,611
Total operating expenses	33,989,236	31,825,315	62,091,900	59,991,470
Operating income	7,338,032	8,252,169	1,999,852	2,856,480
Interest expense, net	(281,374)	(314,723)	(449,305)	(791,863)
Other income (expense), net	(2,294)	(10,387)	24,546	46,363
Income before income taxes	7,054,364	7,927,059	1,575,093	2,110,980
Income tax expense	(858,833)	(1,145,355)	(208,544)	(455,589)
Net income	$ 6,195,531	$ 6,781,704	$ 1,366,549	$ 1,655,391
Net income per common share - basic	$ 0.38	$ 0.42	$ 0.08	$ 0.10
Net income per common share - diluted	$ 0.36	$ 0.42	$ 0.08	$ 0.10
Basic weighted average common shares outstanding	16,190,670	16,061,194	16,140,885	16,046,689
Diluted weighted average common shares outstanding	17,151,010	16,126,393	16,887,495	16,046,890

See accompanying notes to unaudited condensed consolidated financial statements

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Golfsmith International Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	July 3, 2010	**July 4, 2009**
Operating Activities		
Net income	$ 1,366,549	$ 1,655,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,912,231	4,681,356
Provision for bad debt expense	108,192	76,114
Amortization of intangible assets	197,142	188,845
Amortization of debt issue costs and debt discount	82,080	82,079
Stock-based compensation	672,765	394,637
Change in operating assets and liabilities:		
Accounts receivable	(616,107)	(398,399)
Inventories	(15,996,189)	(4,408,697)
Prepaids and other current assets	(3,819,613)	(3,682,044)
Other assets	(184,219)	(107,448)
Accounts payable	32,311,091	33,690,054
Accrued expenses and other current liabilities	(1,430,218)	(2,754,231)
Deferred rent	800,667	2,810,759
Net cash provided by operating activities	18,404,371	32,228,416
Investing Activities		
Purchases of property and equipment	(7,943,369)	(5,553,159)
Net cash used in investing activities	(7,943,369)	(5,553,159)
Financing Activities		
Principal payments on line of credit	(49,283,062)	(77,883,249)
Proceeds from line of credit	40,859,062	54,142,026
Proceeds from exercise of stock options	42,312	
Net cash used in financing activities	(8,381,688)	(23,741,223)
Effect of exchange rate changes on cash	(23,699)	45,590
Change in cash	2,055,615	2,979,624
Cash, beginning of period	696,198	2,655,009
Cash, end of period	$ 2,751,813	$ 5,634,633
Supplemental cash flow information:		
Interest payments	$ 512,918	$ 1,163,106
Income tax payments	$ 209,575	$ 261,043

See accompanying notes to unaudited condensed consolidated financial statements

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GOLFSMITH HOLDINGS INTERNATIONAL, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Basis of Presentation and Principles of Consolidation

Golfsmith International Holdings, Inc. (the Company) is a multi-channel, specialty retailer of golf and tennis equipment and related apparel and accessories. The Company offers golf and tennis equipment from top national brands as well as its own proprietary brands. In addition, the Company provides clubmaking services, including the sale of individual club components for customers to build clubs, custom fitting and repair services. The Company markets its products through retail stores and through its direct-to-consumer channels, which include its Internet site and catalogs.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary Golfsmith International, Inc. (Golfsmith) and Golfsmith s subsidiaries. The Company has no operations nor does it have any assets or liabilities other than its investment in Golfsmith. Accordingly, these unaudited condensed consolidated financial statements represent the operations of Golfsmith and its subsidiaries. All inter-company account balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. As information in this report relates to interim financial information, certain footnote disclosures required by GAAP for complete audited financial statements have been condensed or omitted. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments consisting of normal and recurring accruals considered necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the periods presented. Operating results for the three- and six-month periods ended July 3, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2011. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto for the year ended January 2, 2010, included in the Company s Annual Report on Form 10-K filed with the SEC on February 25, 2010.

Revenue Subject to Seasonal Variations

The Company s business is seasonal and its sales leading up to and during the warm weather golf season and the December holiday gift-giving season have historically contributed a significantly higher percentage of the Company s annual net revenues and annual net operating income than in other periods in its fiscal year.

Fiscal Year

The Company s fiscal year ends on the Saturday closest to December 31. The three-month periods ended July 3, 2010 and July 4, 2009 both consisted of 13 weeks. The six-month periods ended July 3, 2010 and July 4, 2009 both consisted of 26 weeks.

Foreign Currency Translation

The financial statements of the Company s international operations are translated into U.S. dollars using period-end exchange rates for assets and liabilities, historical exchange rates for stockholders equity, and average exchange rates during the period for revenues and expenses. Cumulative translation gains and losses are excluded from results of operations and recorded as a separate component of accumulated other comprehensive income (loss). Gains and losses resulting from the revaluation of long-term intercompany receivable and payable balances are recorded in accumulated other comprehensive income. Gains and losses resulting from transactions denominated in foreign currencies are included in other income (expense) in the audited consolidated statements of operations and were not material for the periods presented.

Comprehensive Income (Loss)

Comprehensive income (loss) is computed as net income (loss) plus certain other items that are recorded directly to stockholders equity. In addition to net income (loss), the components of comprehensive income (loss) also include foreign currency translation adjustments. There were no material changes to comprehensive income (loss) during the three- and six-month periods ended July 3, 2010 and July 4, 2009.

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Fair Value of Financial Instruments

The carrying amounts of the Company s cash, accounts receivable and accounts payable approximate fair values due to their short-term nature. The carrying value of the Company s credit facility at July 3, 2010 approximates fair value based on rates available for similar debt available to comparable companies in the marketplace.

Reclassifications

Reclassification from pre-opening expenses to selling, general and administrative expense in the amount of $0.1 million for the three months ended July 4, 2009 and $0.4 million for the six months ended July 4, 2009, related to relocation expenses incurred in the first half of fiscal 2009 for two stores that, after relocation, continued to meet the criteria of a comparable store. The effect of this reclassification is not material and did not affect the Company s reported net income or cash flows.

Recent Accounting Pronouncements

In December 2009, the FASB issued additional authoritative guidance requiring new disclosures related to fair value measurements. The new guidance requires entities to separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. The guidance also requires entities to present separately information about purchases, sales, issuances, and settlements within Level 3 fair value measurements. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements within Level 3 fair value measurements. Those disclosures will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the guidance did not have an impact on the Company s consolidated results of operations or financial position.

In February 2010, the FASB amended the authoritative guidance it issued in May 2009 on subsequent events. The original guidance required SEC filers to evaluate subsequent events through the date of financial statement issuance and to disclose the date through which subsequent events have been evaluated. The guidance was amended so that SEC filers are no longer required to disclose the date through which subsequent events have been evaluated. The new guidance was effective immediately upon issuance of the amendment which was in February 2010. The adoption of the guidance did not have an impact on the Company s consolidated results of operations or financial position.

In June 2009, the FASB issued guidance which amends previously issued guidance on variable interest entities. This new guidance prescribes a qualitative model for identifying whether a company has a controlling financial interest in a variable interest entity, or VIE, and eliminates the quantitative model previously prescribed. The new model identifies two primary characteristics of a controlling financial interest: (1) provides a company with the power to direct significant activities of the VIE; and (2) obligates a company to absorb losses of and/or provides rights to receive benefits from the VIE. The new guidance requires a company to reassess on an ongoing basis whether it holds a controlling financial interest in a VIE. A company that holds a controlling financial interest is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. This statement is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The adoption of the guidance did not have a material impact on the Company s consolidated results of operations or financial position.

In October 2009, the FASB issued guidance on revenue recognition that provides clarification on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. An entity is required to allocate revenue in an arrangement using estimated selling prices of deliverables in the absence of vendor-specific objective evidence or third-party evidence of selling price. These amendments also eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. These amendments significantly expand the disclosure requirements for multiple-deliverable revenue arrangements. These provisions are to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. The adoption of the guidance will not have a material impact on the Company s consolidated results of operations or financial position.

2. Basic and Diluted Net Income Per Common Share

The calculation for basic net income per share of common stock is based on the weighted average number of shares of common stock outstanding, including outstanding deferred common stock units (DSUs). Diluted net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding, including outstanding DSUs, adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include outstanding stock options.

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The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net income	$ 6,195,531	$ 6,781,704	$ 1,366,549	$ 1,655,391
Basic:				
Weighted-average shares of common stock outstanding	15,787,005	15,777,185	15,782,041	15,777,185
Weighted-average shares of deferred common stock units outstanding	403,665	284,009	358,844	269,504
Shares used in computing basic net income per common share	16,190,670	16,061,194	16,140,885	16,046,689
Effect of dilutive securities:				
Stock options	960,340	65,199	746,610	201
Shares used in computing diluted net income per common share	17,151,010	16,126,393	16,887,495	16,046,890
Basic net income per common share	$ 0.38	$ 0.42	$ 0.08	$ 0.10
Diluted net income per common share	$ 0.36	$ 0.42	$ 0.08	$ 0.10

On May 4, 2010, the Company s stockholders approved an amendment to the Company s Second Amended and Restated Certificate of Incorporation to decrease the number of authorized shares of common stock from 100 million to 25 million. This change resulted in total authorized shares of capital stock of 35 million (25 million shares of common stock and 10 million shares of preferred stock) as set forth in Article IV of the Second Amended and Restated Certificate of Incorporation, as amended. This amendment relating to the change in authorized shares was filed with the Delaware Secretary of State on May 5, 2010.

Non-Employee Director Compensation Plan

On May 4, 2010, the Company s Board of Directors approved an amendment to the Non-Employee Director Compensation Plan providing changes in the annual retainer and annual grant of DSU s. The complete details of the amendment is included as Exhibit 10.24 to this Quarterly Report on Form 10-Q.

3. Income Taxes

In fiscal 2010, the Company s tax provision is based on actual operating results for the six months ended July 3, 2010 due to the relative proximity to breakeven of the Company s expected annual results before taxes and the sensitivity to the Company s estimated annual effective tax rate. For the three-month periods ended July 3, 2010 and July 4, 2009, the Company s provision for income taxes reflects an effective tax rate of approximately 12.2% and 14.4%, respectively. For the six-month periods ended July 3, 2010 and July 4, 2009, the Company s provision for income taxes reflects an effective tax rate of approximately 13.2% and 21.6%, respectively. For both the three- and six-month periods ended July 3, 2010 and July 4, 2009, the Company s effective tax rate was lower than the U.S. federal statutory rate primarily due to changes to its valuation allowances. Due to the utilization of deferred tax assets relating to net operating losses, the Company does not anticipate paying a material amount of U.S. federal income taxes in fiscal 2010, however, the Company s actual results of operations could accelerate or defer the utilization of its deferred tax assets.

In the three-month periods ended July 3, 2010 and July 4, 2009, the Company recorded approximately $0.9 million and $1.1 million of income tax expense, respectively, on pre-tax income of approximately $7.1 million and $7.9 million, respectively. In the six-month periods ended July 3, 2010 and July 4, 2009, the Company recorded approximately $0.2 million and $0.5 million of income tax expense, respectively, on pre-tax income of approximately $1.6 million and $2.1 million, respectively.

The Company had $0.09 million in unrecognized tax benefits as of July 3, 2010 and expects to recognize the entire amount in the next six months due to closing of open tax years. Unrecognized income tax benefits relate to the uncertainty regarding deductions taken on returns that have not been examined by the applicable tax authorities. The tax years 2006 through 2009 remain open to examination by the major taxing jurisdictions to which the Company is subject.

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4. Debt

Second Amendment to Amended and Restated Credit Facility

Subsequent to the end of the quarter, on July 9, 2010, the Company s Amended and Restated Credit Agreement (the Credit Agreement) of Golfsmith International Holdings, Inc. (Holdings), the Company as guarantor, and its subsidiaries, originally entered into on June 20, 2006, and as subsequently amended on September 26, 2007, was amended by entering into the Second Amendment to Amended and Restated Credit Agreement (the Second Amendment) by and among Golfsmith International, L.P., Golfsmith NU, L.L.C., and Golfsmith USA, L.L.C., as Borrowers, the Company and the subsidiaries of the Company identified therein, as Credit Parties and General Electric Capital Corporation, as Administrative Agent (the Agent) and Lender. The term of the Credit Agreement has, pursuant to the Second Amendment, amongst other things, been extended 48 months from the effective date of the Second Amendment. As of the effective date of the Second Amendment, interest on loans outstanding under the Credit Facility will be based on LIBOR plus 2.5%-3.0% per annum. The Second Amendment was filed as Exhibit 10.1 to Golfsmith International Holdings, Inc. s Form 8-K filed on July 12, 2010.

Credit Facility

As of July 3, 2010, the Company had a credit facility by and among Golfsmith International, L.P., Golfsmith NU, L.L.C., and Golfsmith USA, L.L.C., as borrowers (the Borrowers), the Company and the other subsidiaries of the Company identified therein as credit parties (the Credit Parties), General Electric Capital Corporation, as Administrative Agent, Swing Line Lender and L/C Issuer (the Administrative Agent), GE Capital Markets, Inc., as Sole Lead Arranger and Bookrunner, and the financial institutions from time to time parties thereto (the Credit Facility). On an ongoing basis, loans incurred under the Credit Facility will be used for working capital and capital expenditures of the Borrowers and their subsidiaries (the Loans). As of July 3, 2010, the Credit Facility consisted of a $90.0 million asset-based revolving credit facility (the Revolver), including a $5.0 million letter of credit sub facility and a $10.0 million swing line sub facility.

Interest Rate and Fees. As of July 3, 2010, loans outstanding under the Credit Facility bore interest per annum, at the Company s election, at a rate equal to either (1) LIBOR plus two percent (2.0%), or (2) the Base Rate, which is equal to the higher of (i) the Federal Funds Rate plus 50 basis points and (ii) the publicly quoted rate as published by *The Wall Street Journal* on corporate loans posted by at least 75% of the nation s largest 30 banks. As of July 3, 2010, the Company paid annual fees ranging from 0.25% to 0.35% of the unused portion of its Credit Facility, depending on the balance of its outstanding borrowings.

Covenants and Events of Default. As of July 3, 2010, the Credit Facility contained customary affirmative covenants regarding, among other things, the delivery of financial and other information to the lenders, maintenance of records, compliance with law, maintenance of property and insurance and conduct of the Company s existing business. The Credit Facility also contained certain customary negative covenants that limit the ability of the Credit Parties to, among other things, create liens, make investments, enter into transactions with affiliates, incur debt, acquire or dispose of assets, including merging with another entity, enter into sale-leaseback transactions and make certain restricted payments. The foregoing restrictions are subject to certain customary exceptions for facilities of this type. The Credit Facility includes events of default (and related remedies, including acceleration of the Loans made thereunder) usual for a facility of this type, including payment default, covenant default (including breaches of the covenants described above), cross-default to other indebtedness, material inaccuracy of representations and warranties, bankruptcy and involuntary proceedings, change of control and judgment default. Many of the defaults are subject to certain materiality thresholds and grace periods usual for a facility of this type. As of July 3, 2010, July 4, 2009 and December 31, 2009, the Company was in compliance with all applicable covenants.

Borrowing Capacity. Available amounts under the Credit Facility are calculated against a borrowing base. The Administrative Agent has the right to establish, modify or eliminate reserves against eligible inventory and receivables from time to time in its reasonable credit judgment. As of July 3, 2010, the borrowing base was limited to (i) 85% of the net amount of eligible receivables, as defined in the Credit Facility, plus (ii) the lesser of (x) 70% of the value of eligible inventory or (y) up to 90% of the net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) $17,500,000 or (y) 70% of the fair market value of eligible real estate, and minus (iv) any reserves except to the extent already deducted there from. At July 3, 2010, the Company had $27.6 million of outstanding borrowings under the Credit Facility and $44.5 million of borrowing availability after giving effect to all reserves. At July 4, 2009, the Company had $28.0 million of outstanding borrowings under the Amended and Restated Credit Facility and $41.7 million of borrowing availability after giving effect to all reserves. At January 2, 2010, the Company had $36.0 million of outstanding borrowings under the Credit Facility and $17.8 million of borrowing availability after giving effect to all reserves. During the three months ended July 3, 2010 and July 4, 2009, the weighted average interest rate on the Company s outstanding borrowings was 2.43% and 2.54%, respectively. During the six months ended July 3, 2010 and July 4, 2009, the weighted average interest rate on the Company s outstanding borrowings was 2.38% and 2.84%, respectively.

Guarantees and Collateral. As of July 3, 2010, borrowings under the Credit Facility were jointly and severally guaranteed by the Credit Parties, and were secured by a security interest granted in favor of the Administrative Agent, for itself and for the benefit of the

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lenders, in all of the personal and owned real property of the Credit Parties, including a lien on all of the equity securities of the Borrowers and each of the Borrower s current and future domestic subsidiaries.

The Company has no operations, assets or liabilities other than its investment in its wholly-owned subsidiary Golfsmith, and its liability under the Credit Facility. Golfsmith and its domestic subsidiaries comprise all of the Company s assets, liabilities and operations, including its liabilities under the Credit Facility. There are no restrictions in the Credit Facility on the transfer of funds between the Company, Golfsmith and any of Golfsmith s domestic subsidiaries.

5. Intangible Assets

Identifiable intangible assets consisted of the following as of each of the periods presented:

		July 3, 2010		July 4, 2009		January 2, 2010
Amortizable intangible assets:						
Customer database - gross carrying amount	$	3,454,205	$	3,399,205	$	3,454,205
Customer database - accumulated amortization		(2,935,899)		(2,549,403)		(2,738,757)
Total amortizable intangible assets	$	518,306	$	849,802	$	715,448
Indefinite-lived intangible assets:						
Patents	$	100,000	$		$	100,000
Trade names		11,158,000		11,158,000		11,158,000
Trademarks		13,972,251		13,972,251		13,972,251
Total indefinite-lived intangible assets	$	25,230,251	$	25,130,251	$	25,230,251
Intangibles assets, net	$	25,748,557	$	25,980,053	$	25,945,699

Amortization expense related to the Company s customer database was approximately $0.1 million in each of the three-month periods ended July 3, 2010 and July 4, 2009, and was approximately $0.2 million in each of the six-month periods ended July 3, 2010 and July 4, 2009. Amortization expense is recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations. The Company s customer database is being amortized over the estimated useful life of 9 years.

Future estimated amortization expense related to the Company s customer database is as follows:

Remaining 2010	$	207,792
2011		310,514
Total	$	518,306

6. Commitments and Contingencies

Lease Commitments

The Company leases all but one of its store locations under operating leases that provide for annual payments that, in some cases, increase over the life of the lease. The operating leases expire at various times through June 2022. The aggregate of the minimum annual payments is expensed on a straight-line basis over the term of the related lease without consideration of renewal option periods, rent holidays and escalating rents. In addition, the Company has entered into certain sublease agreements with third parties to sublease retail space previously occupied by the Company. The sublease terms end at various times through June 2019. Rent expense, net of sublease rental income, was $5.8 million and $5.3 million for the three-month periods ended July 3, 2010 and July 4, 2009, respectively, and was $11.5 million and $10.8 million for the six-month periods ended July 3, 2010 and July 4, 2009, respectively. Sublease rental income recorded as a reduction to rent expense was $0.2 million and $0.3million for the three-month periods ended July 3, 2010 and July 4, 2009, respectively and was $0.5 million and $0.6 million for the six-month periods ended July 3, 2010 and July 4, 2009, respectively.

The Company previously entered into a guarantee agreement in conjunction with assigning one of its leases to a subtenant. The guarantee provides that the Company will assume responsibility for rental payments in the event the subtenant defaults. The amounts

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of future rental payments as of July 3, 2010 are $0.2 million for 2010, $0.3 million for 2011 and $0.2 million for 2012. The Company believes the probability of loss on this guarantee is remote, and therefore it has not recorded an accrual related to the guarantee of these payments.

Legal Proceedings

On October 23, 2009, David O Flynn, on behalf of himself and all others similarly situated, filed a putative class action lawsuit in the California Superior Court in Orange County against the Company asserting violations of applicable wage and hour and unfair competition laws , seeking monetary damages and injunctive relief. The Company plans to vigorously defend all allegations. It is not possible to estimate the amount of loss or range of possible loss, if any, that might result from an adverse resolution of this matter.

The Company is involved in various other legal proceedings arising in the ordinary course of conducting business. The Company believes that the ultimate outcome of such matters, individually or in the aggregate, will not have a material adverse impact on its financial position or results of operations. The Company believes the amounts reserved in its consolidated financial statements are adequate in consideration of the probable and estimable liabilities.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, project, intend and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of future store openings, store retrofits and capital expenditures, the likelihood of our success in expanding our business, financing plans, working capital needs and sources of liquidity.

Forward-looking statements are not guarantees of performance. These statements are based on management s beliefs and assumptions, which in turn are based in part on currently available information and in part on management s estimates and projections of future events and conditions. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the introduction of new product offerings, store opening costs, our ability to lease new sites on a timely basis, expected pricing levels, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve risks and uncertainties, which could cause actual results that differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict.

We believe our forward-looking statements are based on reasonable assumptions; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Other than as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports and our other filings with the SEC.

Overview

We are one of the nation s largest specialty retailers of golf and tennis equipment, apparel, footwear and accessories. We operate as an integrated multi-channel retailer, offering our customers the convenience of shopping in our retail locations across the nation and through our direct-to-consumer channels, which include both our website, *www.golfsmith.com*, and our direct mail catalogs. As of July 3, 2010, we operated 77 retail stores in 21 states and 31markets. We were founded in 1967 as a golf clubmaking company offering custom-made clubs, clubmaking components and club repair services. In 1972 we opened our first retail store, in 1975 we mailed our first general golf products catalog, and in 1997 we launched our Internet site designed to expand our direct-to-consumer business. During the quarter ended July 3, 2010 we opened three new stores in Overland Park, Kansas, Brea, California and Brookfield, Wisconsin.

As a specialty retailer, we are affected by changes in consumer confidence and economic conditions that impact our customers. The demand for our products is affected by the financial health of our customers, which may be adversely influenced by macroeconomic factors such as unemployment, fuel and energy costs, weakness in the housing market, declines in securities markets and unavailability of consumer credit. During the current economic downturn, the demand for our products has been adversely impacted,

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as reflected in our results of operations for the last two years. In response to the lower demand, beginning in fiscal 2008 and continuing into fiscal 2010, we have taken significant steps to reduce our cost structure and introduce increased operational efficiencies. We expect the reduced cost structure and operational efficiencies to result in improved operating performance in future periods.

In addition to future new store openings, a major part of our strategy continues to be enhancing the non-clubmaking and Internet portions of our direct-to-consumer channel. We also anticipate continuing to develop a number of our existing proprietary brands in the future, as we continue our efforts to grow our proprietary brand revenue.

Fiscal Year

Our fiscal year ends on the Saturday closest to December 31 and consists of either 52 weeks or 53 weeks. Each quarter of each fiscal year generally consists of 13 weeks. The three-month periods ended July 3, 2010 and July 4, 2009 each consisted of 13 weeks. The six-month periods ended July 3, 2010 and July 4, 2009 each consisted of 26 weeks.

Results of Operations

The following table presents our unaudited condensed consolidated statements of operations and the related percentage of total net revenues for the three- and six-month periods ended July 3, 2010 and July 4, 2009:

	Three Months Ended				Six Months Ended			
	July 3, 2010		July 4, 2009		July 3, 2010		July 4, 2009	
Net revenues (1)	$ 118,046,216	100.0%	$ 114,796,870	100.0%	$ 185,694,755	100.0%	$ 183,589,774	100.0%
Cost of products sold (2)	76,718,948	65.0%	74,719,386	65.1%	121,603,003	65.5%	120,741,824	65.8%
Gross profit	41,327,268	35.0%	40,077,484	34.9%	64,091,752	34.5%	62,847,950	34.2%
Selling, general and administrative	33,781,308	28.6%	31,780,003	27.7%	61,634,234	33.2%	59,880,859	32.6%
Store pre-opening / closing expenses (3)	207,928	0.2%	45,312	0.0%	457,666	0.2%	110,611	0.1%
Total operating expenses	33,989,236	28.8%	31,825,315	27.7%	62,091,900	33.4%	59,991,470	32.7%
Operating income	7,338,032	6.2%	8,252,169	7.2%	1,999,852	1.1%	2,856,480	1.6%
Interest expense, net	(281,374)	-0.2%	(314,723)	-0.3%	(449,305)	-0.2%	(791,863)	-0.4%
Other income (expense), net	(2,294)	0.0%	(10,387)	0.0%	24,546	0.0%	46,363	0.0%
Income before income taxes	7,054,364	6.0%	7,927,059	6.9%	1,575,093	0.8%	2,110,980	1.1%
Income tax expense	(858,833)	-0.7%	(1,145,355)	-1.0%	(208,544)	-0.1%	(455,589)	-0.2%
Net income	$ 6,195,531	5.2%	$ 6,781,704	5.9%	$ 1,366,549	0.7%	$ 1,655,391	0.9%

(1) Revenues consist of merchandise sales, net of expected returns, from our stores and our direct-to-consumer channels, as well as gift card breakage.

(2) Cost of products sold includes inbound freight, vendor discounts and rebates, as well as cooperative promotional vendor income that does not pertain to incremental direct advertising costs. It also includes salary and facility expenses, such as depreciation associated with our distribution and fulfillment center in Austin, Texas.

(3) Store pre-opening expenses consist primarily of rent, marketing, payroll and recruiting costs related to the opening of new retail stores that are incurred prior to a new store opening. Store closing expenses include future net lease obligations, to the extent not covered by future subrental income, and payroll expenses and other charges associated with a store that has been closed.

The following table presents consolidated net revenues by channel and comparable store sales percentage changes for the three- and six-month periods ended July 3, 2010 and July 4, 2009:

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	Three Months Ended				Six Months Ended			
	July 3, 2010	July 4, 2009	$ Change	% Change	July 3, 2010	July 4, 2009	$ Change	% Change
Comparable stores (1)	$ 94,148,547	$ 94,499,465	$ (350,918)	-0.4%	$ 147,143,914	$ 148,036,734	$ (892,820)	-0.6%
Non-comparable stores	4,933,352	$ 1,189,775	3,743,577	314.6%	7,286,652	$ 2,543,029	4,743,623	186.5%
Total stores (2)	99,081,899	95,689,240	3,392,659	3.5%	154,430,566	150,579,763	3,850,803	2.6%
Direct-to-consumer	16,694,005	$ 16,747,998	(53,993)	-0.3%	27,262,080	$ 28,960,498	(1,698,418)	-5.9%
International distributors and other (3)	2,270,312	$ 2,359,632	(89,320)	-3.8%	4,002,109	$ 4,049,513	(47,404)	-1.2%
Net revenues	$ 118,046,216	$ 114,796,870	$ 3,249,346	2.8%	$ 185,694,755	$ 183,589,774	$ 2,104,981	1.1%

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(1) We consider sales by a new store to be comparable commencing in the fourteenth month after the store was opened or acquired. We consider sales by a relocated store to be comparable if the relocated store is expected to serve a comparable customer base and there is not more than a 30-day period during which neither the original store nor the relocated store is closed for business. We consider sales by retail stores with modified layouts to be comparable. We consider sales by stores that are closed to be comparable in the period leading up to closure if they meet the qualifications of a comparable store and do not meet the qualifications to be classified as discontinued operations.

(2) Included in total stores net revenues related to sales transacted online and either picked up by the customer at our stores or shipped to the customer from one of our retail stores is, $5.7 million and $5.3 million for the three months ended July 3, 2010 and July 4, 2009, respectively, and $9.9 million and $8.9 million for the six months ended July 3, 2010 and July 4, 2009, respectively.

(3) Consists of sales made through our international distributors, through our distribution and fulfillment center near London, England and gift card breakage revenue.

Three Months ended July 3, 2010 compared to Three Months ended July 4, 2009

Net Revenues. Net revenues increased 2.8% to $118.0 million for the three months ended July 3, 2010 from $114.8 million for the three months ended July 4, 2009. The increase was primarily due to $3.7 million of revenue from new stores partially offset by a decrease of 0.4% in comparable store sales as well as a decrease of 0.3% in sales from our direct-to-consumer channel during the three months ended July 3, 2010 as compared to the three months ended July 4, 2009.

Gross Profit. Consolidated gross profit, as a percentage of net revenues, increased to 35.0% for the three months ended July 3, 2010 from 34.9% for the three months ended July 4, 2009. The increase in gross profit, as a percentage of net revenues, of 0.1%, was due to an increase of 0.4 %, as a percentage of net revenues, relating to significantly lower markdowns resulting from better managed inventory levels along with better buying strategies during the quarter. This increase was partially offset by a decrease of 0.3%, as a percentage of net revenues, in vendor allowances which were shifted to offset direct advertising costs this year.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 6.3% to $33.8 million for the three months ended July 3, 2010 from $31.8 million for the three months ended July 4, 2009. As a percentage of net revenues, selling, general and administrative expense increased to 28.6% for the three months ended July 3, 2010 from 27.7% for the three months ended July 4, 2009. The increase in selling, general and administrative expense, as a percentage of net revenues, of 0.9% primarily relates to the opening of three new stores in the three-month period ended July 3, 2010 as well as an increase in advertising expenses, partially offset by increased vendor allowances.

Store pre-opening / closing expenses. Store pre-opening / closing expenses consists of costs incurred for the opening of three new stores in Overland Park, Kansas, Brea, California and Brookfield, Wisconsin. Store pre-opening / closing expenses in the three months ended July 4, 2009 includes costs related to the relocation of our Troy, Michigan and The Woodlands Center, Texas stores in April and May 2009, respectively.

Interest expense, net. Interest expense, net consists primarily of interest expense incurred on borrowings under our Credit Facility. For each of the three months ended July 3, 2010 and July 4, 2009, net interest expense was $0.3 million. As a percentage of net revenues, interest expense decreased to 0.2% as compared to 0.3% for the three months ended July 4, 2009. The decrease in interest expense is primarily due to a decrease in both interest rates and average balance outstanding under our Credit Facility.

Other income (expense), net. There were minimal changes in other income (expense), net during the three months ended July 3, 2010 as compared to the three months ended July 4, 2009. Included in other income (expense), net are realized foreign currency exchange rate gains/losses, gains from the sale of assets and other miscellaneous income.

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Income tax expense. During the three-month periods ended July 3, 2010 and July 4, 2009, we recorded approximately $0.9 million and $1.1 million of income tax expense on pre-tax income of approximately $7.1 million and $7.9 million, respectively. The income tax expense for the periods differed from the amount which would have been recorded using the U.S. statutory tax rate of 34% due to a change in our valuation allowances. See Note 3 of the notes to Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q for further discussion.

Six Months Ended July 3, 2010 compared to Six Months Ended July 4, 2009

Net Revenues. Net revenues increased 1.1% to $185.7 million for the six months ended July 3, 2010 compared to $183.6 million for the six months ended July 4, 2009. The increase was primarily due to a $4.7 million increase in new store revenues partially offset by a decrease of $1.7 million from our direct-to-consumer channel and a $0.9 million decrease in comparable store revenues during the six months ended July 3, 2010 as compared to the six months ended July 4, 2009.

In addition to the conditions discussed above, we believe our sales were impacted by colder and wetter weather conditions in the continental United States in the first quarter of fiscal 2010. Additionally, we believe that golf rounds played in the United States, a leading indicator of golf participation tracked by Golf Datatech L.L.C., affects potential sales of our products. Golf rounds played in the five months ended May 2010 decreased 3.0% compared to an increase of 1.6% during the same period in fiscal 2009.

Our net revenues continue to be negatively impacted by general economic conditions as well as a decrease in consumer confidence. The challenging economic climate is evidenced in our business by a highly competitive retail selling environment and decreasing retail store traffic. We anticipate that these conditions will continue to exist in the foreseeable future. However, in an effort to drive consumer demand, we offered value-based promotions from many of the top manufacturers this year, which positively contributed to our net revenues.

We believe that general economic conditions have historically adversely affected our direct-to-consumer channel business. However, in fiscal 2010 we improved our inventory in-stock levels and product assortment and as a result experienced an improvement in sequential sales trends in our direct-to-consumer channel.

Gross Profit. Consolidated gross profit, as a percentage of net revenues, increased to 34.5% for the six months ended July 3, 2010 from 34.2% for the six months ended July 4, 2009. The increase in gross profit, as a percentage of net revenues, of 0.3%, was due to (1) an increase of 0.3%, as a percentage of net revenues, relating to significantly lower markdowns resulting from better managed inventory levels along with better buying strategies throughout the year, (2) an increase of 0.2%, as a percentage of net revenues, due to a decrease in shrink expense resulting from improvements in the current year physical inventory results, (3) an increase of 0.1%, as a percentage of net revenues, in excess and obsolete inventory reserves in the prior year resulting from price repositioning of used clubs, and (4) an increase of 0.1%, as a percentage of net revenues, due to the renegotiation of freight contracts and lower distribution center expenses. These increases were partially offset by a decrease of 0.4%, as a percentage of net revenues, in vendor allowances which were shifted to offset direct advertising costs this year.

Selling, general and administrative. Selling, general and administrative expense increased 2.9% to $61.6 million for the six months ended July 3, 2010 from $59.9 million for the six months ended July 4, 2009. As a percentage of net revenues, selling, general and administrative expense increased to 33.2% for the six months ended July 3, 2010 from 32.6% for the six months ended July 4, 2009. The increase in selling, general and administrative expense, as a percentage of net revenues, of 0.6% primarily relates to the opening of three new stores in the current year as well as an increase in advertising expenses. These increases were partially offset by increased vendor allowances in the current year and a one-time charge relating to severance to our former Chief Financial Officer recorded in the prior year.

Store pre-opening / closing expenses. Store pre-opening / closing expenses increased to $0.5 million for the six months ended July 3, 2010 as compared to $0.1 million for the six months ended July 4, 2009. The increase in store pre-opening / closing expenses for the six months ended July 3, 2010 was due to costs incurred for store openings in Overland Park, Kansas, Brea, California and Brookfield, Wisconsin. Store pre-opening / closing expenses in the six months ended July 4, 2009 includes costs related to the relocation of our Troy, Michigan and The Woodlands Center, Texas stores in April and May 2009, respectively. There were minimal costs incurred related to the closing of our store in Atlanta, Georgia in June 2009.

Interest expense, net. Interest expense, net consists primarily of interest expense incurred on borrowings under our Credit Facility. For the six months ended July 3, 2010, net interest expense decreased by 43.1% to $0.5 million as compared to $0.8 million for the six months ended July 4, 2009. As a percentage of net revenues, interest expense decreased to 0.2% for the six months ended July 3, 2010 as compared to 0.4% for the six months ended July 4, 2009. The decrease in net interest expense is due to a decrease in both interest rates and the average balance outstanding under our Credit Facility.

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Other income (expense), net. There were minimal changes in other income (expense), net during the six months ended July 3, 2010 as compared to the six months ended July 4, 2009. Included in other income (expense), net are realized foreign currency exchange rate gains/losses, gains from the sale of assets, and other miscellaneous income.

Income tax expense. During the six-month periods ended July 3, 2010 and July 4, 2009, we recorded approximately $0.2 million and $0.5 million of income tax expense, respectively, on pre-tax income of approximately $1.6 million and $2.1 million, respectively. The tax expense for the periods differed from the amount which would have been recorded using the U.S. statutory tax rate of 34% due to a change in our valuation allowances. See Note 3 to our unaudited condensed consolidated financial statement for further discussion of the methods used to compute our tax provision in each fiscal year.

Liquidity and Capital Resources

As of July 3, 2010, our primary sources of liquidity consisted of cash totaling $3.0 million and $44.5 million of available borrowings under our Credit Facility which is more fully described in Note 4 of the Notes to Condensed Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q. As of July 3, 2010, we had outstanding debt obligations under our Credit Facility of $27.6 million.

Historically, cash flows generated from operations and our borrowing capacity under our Credit Facility have allowed us to meet our cash requirements, including capital expenditures and working capital needs. In addition, future cash outflows related to new store openings, advertising, store retrofits, and other expenditures have been adjusted and may need to be further adjusted accordingly from time to time in the future. For the remainder of fiscal 2010, we anticipate incurring approximately $2.6 million in capital expenditures, excluding tenant improvement allowances, related primarily to our new store openings, various store remodels and investments in our information technology infrastructure. However, our capital expenditures will depend on our ability to generate sufficient cash flows from operations as well as available borrowings under our credit facility.

If cash generated from operations and available borrowings under our Credit Facility are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or arrange additional debt financing. If cash from operations and cash available under our Credit Facility are not sufficient to meet our needs, we cannot assure you that we will be able to obtain additional financing in sufficient amounts and/or on acceptable terms in the near future.

Cash Flows

	Six Months Ended	
	July 3, 2010	**July 4, 2009**
Net cash provided by operating activities	$ 18,404,371	$ 32,228,416
Net cash used in investing activities	(7,943,369)	(5,553,159)
Net cash used in financing activities	(8,381,688)	(23,741,223)
Effect of exchange rate changes on cash	(23,699)	45,590

Change in cash	$	2,055,615	$	2,979,624

Operating Activities

Our cash flows from operations are seasonal. Operating activities provided $18.4 million of cash for the six months ended July 3, 2010 and provided $32.2 million of cash for the six months ended July 4, 2009. The decrease in cash provided by operating activities during the six months ended July 3, 2010, as compared to the six months ended July 4, 2009 is due to increased inventory stock purchases in the current year quarter as a result of three new store openings as well as the timing of other working capital activities.

Investing Activities

Cash used in investing activities primarily relates to building out new stores, remodeling or relocating existing stores, purchasing information technology as well as capital expenditures for our distribution facilities and corporate headquarters. Investing activities used $7.9 million of cash for the six months ended July 3, 2010 and $5.6 million of cash for the six months ended July 4, 2009. Cash used during the current year relates to three new store openings and several store remodels. Cash used during the prior year six-month period relates to the build out of one new store and the relocation of two of our existing stores.

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Financing Activities

Financing activities used $8.4 million of cash for the six months ended July 3, 2010 and used $23.7 million of cash for the six months ended July 4, 2009. Cash used in financing activities primarily relates to net principal payments under our Credit Facility.

Indebtedness

As of July 3, 2010, we had approximately $27.6 million in aggregate indebtedness outstanding and $44.5 million in available borrowings under our Credit Facility, after giving effect to all reserves. At July 4, 2009, the Company had $28.0 million of borrowings outstanding under the Credit Facility and $41.7 million in available borrowings under our Amended and Restated Credit Facility, after giving effect to all reserves. As of January 2, 2010, we had $36.0 million of outstanding borrowings under our Credit Facility and $17.8 million of borrowing availability after giving effect to all reserves.

Our Credit Facility contains customary affirmative covenants regarding, among other things, the delivery of financial and other information to the lenders, maintenance of records, compliance with law, maintenance of property and insurance and conduct of our existing business. The Credit Facility also contains certain customary negative covenants that limit the ability of the Credit Parties (as defined in Note 4 of the notes to our Unaudited Condensed Consolidated Financial Statements) to, among other things, create liens, make investments, enter into transactions with affiliates, incur debt, acquire or dispose of assets, including merging with another entity, enter into sale-leaseback transactions, and make certain restricted payments. As of July 3, 2010, we were in compliance with all applicable covenants. See Note 4 of the notes to our Unaudited Condensed Consolidated Financial Statements for further discussion of the terms of our Credit Facility.

Subsequent to the end of the quarter, on July 9, 2010, the existing Amended and Restated Credit Agreement of Golfsmith International Holdings, Inc., originally entered into on June 20, 2006, and as subsequently amended on September 26, 2007, was amended by entering into the Second Amendment to Amended and Restated Credit Agreement (the Second Amendment). The term of the Credit Agreement has, pursuant to the Second Amendment, been extended to 48 months from the date of the Second Amendment. As of the effective date of the Second Amendment, interest on loans outstanding under the Credit Facility will be based on LIBOR plus 2.5%-3.0% per annum. The complete text of the Second amendment was filed as Exhibit 10.1 to Golfsmith International Holdings, Inc. s Form 8-K filed on July 12, 2010 and is included as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Borrowings under our Credit Facility typically increase as working capital requirements increase in anticipation of peak selling periods in late spring and in advance of the December holiday gift-giving season, and then decline following these periods. In the event sales results are less than anticipated and our working capital requirements remain constant, the amount available under our Credit Facility may not be adequate to satisfy our needs. If this were to occur, we may not succeed in obtaining additional financing in sufficient amounts, if at all, and/or on acceptable terms.

Off-Balance Sheet Arrangements

As of July 3, 2010, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in Note 1 of our Audited Consolidated Financial Statements in our Annual Report on Form 10-K filed with the SEC on February 25, 2010. Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations. In applying these critical accounting policies, our management uses its judgment to determine the appropriate assumptions to be used in making certain estimates. Those estimates are based on our historical experience, the terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. These estimates are subject to an inherent degree of uncertainty. We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. Our critical accounting policies have not changed significantly since the filing of our Annual Report.

Recent Accounting Pronouncements

In December 2009, the FASB issued additional authoritative guidance requiring new disclosures related to fair value measurements. The new guidance requires entities to separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. The guidance also requires entities to present separately information about purchases, sales, issuances, and settlements within Level 3 fair value measurements. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements within Level 3 fair value measurements. Those disclosures will be effective for fiscal years beginning after December 15,

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2010, and for interim periods within those fiscal years. The adoption of the guidance did not have an impact on our consolidated results of operations or financial position.

In February 2010, the FASB amended the authoritative guidance it issued in May 2009 on subsequent events. The original guidance required SEC filers to evaluate subsequent events through the date of financial statement issuance and to disclose the date through which subsequent events have been evaluated. The guidance was amended so that SEC filers are no longer required to disclose the date through which subsequent events have been evaluated. The new guidance was effective immediately upon issuance of the amendment which was in February 2010. The adoption of the guidance did not have an impact on our consolidated results of operations or financial position.

In June 2009, the FASB issued guidance which amends previously issued guidance on variable interest entities. This new guidance prescribes a qualitative model for identifying whether a company has a controlling financial interest in a variable interest entity, or VIE, and eliminates the quantitative model previously prescribed. The new model identifies two primary characteristics of a controlling financial interest: (1) provides a company with the power to direct significant activities of the VIE; and (2) obligates a company to absorb losses of and/or provides rights to receive benefits from the VIE. The new guidance requires a company to reassess on an ongoing basis whether it holds a controlling financial interest in a VIE. A company that holds a controlling financial interest is deemed to be the primary beneficiary of the VIE and is required to consolidate the VIE. This statement is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The adoption of the guidance did not have a material impact on our consolidated results of operations or financial position.

In October 2009, the FASB issued guidance on revenue recognition that provides clarification on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. An entity is required to allocate revenue in an arrangement using estimated selling prices of deliverables in the absence of vendor-specific objective evidence or third-party evidence of selling price. These amendments also eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method. These amendments significantly expand the disclosure requirements for multiple-deliverable revenue arrangements. These provisions are to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. The adoption of the guidance will not have a material impact on our consolidated results of operations or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Item 10 of Regulation S-K, we are not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of 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 the end of the period covered by this report. Based upon, and as of the date of this evaluation, the chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the quarter ended July 3, 2010, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 23, 2009, David O Flynn, on behalf of himself and all others similarly situated, filed a putative class action lawsuit in the California Superior Court in Orange County against the Company asserting violations of applicable wage and hour and unfair competition laws , seeking monetary damages and injunctive relief. The Company plans to vigorously defend all allegations. It is not possible to estimate the amount of loss or range of possible loss, if any, that might result from an adverse resolution of this matter.

We are involved in various other legal proceedings arising in the ordinary course of conducting business. We are not aware of any such lawsuits, the ultimate outcome of which, individually or in the aggregate, would have a material adverse impact on our financial position or results of operations.

ITEM 1A. RISK FACTORS

As a smaller reporting company as defined by Item 10 of Regulation S-K, we are not required to provide the information required by this item.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. [RESERVED]

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	Certificate of Amendment to its Second Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to Golfsmith International Holdings, Inc. s Form 8-K filed on May 6, 2010, and incorporated herein by reference).
10.24	Amendment to Non-Employee Director Compensation Plan, (Filed herewith).
10.1	Second Amendment to Amended and Restated Credit Agreement, (filed as Exhibit 10.1 to Golfsmith International Holdings, Inc. s Form 8-K filed on July 12, 2010, and incorporated herein by reference).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Martin E. Hanaka (Filed herewith).
31.2	Rule 13a-14(a)/15d-14(a) Certification of Sue E. Gove (Filed herewith).
32.1	Certification of Martin E. Hanaka Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
32.2	Certification of Sue E. Gove Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

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SIGNATURES

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

GOLFSMITH INTERNATIONAL HOLDINGS, INC.

By: /s/ Martin E. Hanaka
Martin E. Hanaka
Chairman and Chief Executive Officer
(Principal Executive Officer and Authorized Signatory)
Date: July 29, 2010

By: /s/ Sue E. Gove
Sue E. Gove
Executive Vice President, Chief Operating Officer and Chief Financial Officer
(Principal Financial and Accounting Officer and Authorized Signatory)
Date: July 29, 2010

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Net decrease in cash and cash equivalents	(20,553)	18,851	65,119
Cash and cash equivalents at beginning of year	92,756	73,905	8,786
Cash and cash equivalents at end of period	$ 72,203	$ 92,756	$ 73,905
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 58	$ 37	$ 100
Cash paid for income taxes	7,823	13,439	3,902
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of redeemable convertible preferred stock	$	$	$ 34,937
Non-cash increase in construction-in-progress and related lease liability	$ 6,685	$	$

See accompanying consolidated notes.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

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) and equipment manufacturers with embedded connectivity (i.e., handsets, mobile internet devices, laptops, cameras, etc.) (EMECs) and other customers to automate subscriber activation, order management and service provisioning from any channel (e.g., e-commerce, telesales, customer stores and other retail outlets, etc.) to any communication service (e.g., wireless, high speed access, local access, IPTV, cable satellite TV, etc.) across any device type. The Company conducts its business operations primarily in the United States of America, with some aspects of its operations being outsourced to entities located in India and Canada. The Company s ConvergenceNow® platforms (including ConvergenceNow® Plus+ and InterconnectNow™) provide end-to-end seamless integrations between customer-facing channels/applications, communication services, devices and back-office infrastructure-related systems and processes. The Company s customers rely on its Web-based solutions and technology to automate the process of activating customers while delivering additional communications 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 and other retail outlets, allowing the Company to meet the rapidly changing and converging services offered to its customers. By simplifying the processes associated with managing the Company s customers subscribers experience for ordering and activating services through the automation and integration of disparate systems, Synchronoss enables its customers to acquire, retain, and service subscribers quickly, reliably and cost-effectively.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition and Deferred Revenue

The Company provides services principally on a transaction fee basis or, at times, on a fixed fee basis and recognizes the revenues as the services are performed or delivered as described below:

Transaction Service Arrangements: Transaction revenues consist of revenues derived from the processing of transactions through the Company s service platforms and represent approximately 83%, 85% and 85% of net revenues during the years ended December 31, 2008, 2007 and 2006, respectively. Transaction service arrangements include services such as processing equipment orders, new account set-up, number port requests, credit checks and inventory management.

Transaction revenues are principally based on a contractual price per transaction and are recognized based on the number of transactions processed during each reporting period. Revenues are recorded based on the total number of transactions processed at the applicable price established in the relevant contract. The total amount of revenues recognized is based primarily on the volume of transactions.

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Many of our contracts guarantee minimum volume transactions from the customer. In these instances, if the customer s total transaction volume for the period is less than the contractual amount, we record revenues at the minimum guaranteed amount. At times, transaction revenues may also include billings to customers that reimburse the Company based on the number of individuals dedicated to processing transactions. Set-up fees for transactional service arrangements are deferred and recognized on a straight-line basis over the life of the contract since these amounts would not have been paid by the customer without the related transactional service arrangement. Revenues are presented net of discounts, which are volume level driven, or credits, which are performance driven, and are determined in the period in which the volume thresholds are met or the services are provided.

Professional Service Arrangements: Professional services represented approximately 16%, 14% and 13% of net revenues for the years ended December 31, 2008, 2007 and 2006, respectively. Professional services include process and workflow consulting services and development services. Professional services, when sold with transactional service arrangements, are accounted for separately when the professional services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of the professional services. When accounted for separately, professional service revenues are recognized on a monthly basis, as services are performed and all other elements of revenue recognition have been satisfied.

In addition, in determining whether professional service revenues can be accounted for separately from transaction service revenues, the Company considers the following factors for each professional services agreement: availability of the professional services from other vendors, whether objective and reliable evidence of fair value exists for these services and the undelivered transaction revenues, the nature of the professional services, the timing of when the professional contract was signed in comparison to the transaction service start date and the contractual independence of the transactional service from the professional services.

If a professional service arrangement does not qualify for separate accounting, the Company would recognize the professional service revenues ratably over the remaining term of the transaction contract. For the years ended December 31, 2008, 2007 and 2006, all professional services have been accounted for separately.

Subscription Service Arrangements: Subscription service arrangements which are generally based upon fixed fees represent approximately 1%, 1% and 2% of net revenues for the years ended December 31, 2008, 2007 and 2006, respectively, and relate principally to the Company s enterprise portal management services. The Company records revenues on a straight-line basis over the life of the contract for its subscription service contracts.

Deferred Revenue: Deferred revenues represent billings to customers for services in advance of the performance of services, with revenues recognized as the services are rendered, and also includes the fair value of deferred revenues recorded as a result of the Wisor acquisition.

Service Level Standards

Pursuant to certain contracts, the Company is subject to service level standards and to corresponding penalties for failure to meet those standards. All performance-related penalties are reflected as a corresponding reduction of the Company s revenues. These penalties, if applicable, are recorded in the month incurred and were insignificant for the years ended December 31, 2008, 2007 and 2006, respectively.

Concentration of Credit Risk

The Company s financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains its cash and cash equivalents in bank accounts, which, at times, exceed federally insured limits. The Company deposits its excess cash in high-quality financial instruments, primarily money market funds and certificates of deposit in denominations below $100 with various financial institutions. The Company has not recognized any losses in such accounts. The Company believes it is not exposed to significant credit risk on cash, cash equivalents and marketable

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

securities. Concentration of credit risk with respect to accounts receivable is limited because of the creditworthiness of the Company s major customers.

The Company s top five customers accounted for 89%, 95% and 95% of net revenues for 2008, 2007 and 2006, respectively. The Company s top five customers accounted for 83% and 95% of accounts receivable at December 31, 2008 and 2007, respectively. The Company is the primary provider of e-commerce transaction management solutions to the eCommerce channel of AT&T Inc. (AT&T), the Company s largest customer, under an agreement which was recently renewed and runs through December of 2011. For the year ended December 31, 2008, AT&T accounted for approximately 67% of the Company s revenues, compared to 76% for the fiscal year ended December 31, 2007. The loss of AT&T would have a material negative impact on the Company. The Company believes that if AT&T terminated its relationship with Synchronoss Technologies, AT&T would encounter substantial costs in replacing Synchronoss transaction management solution.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Due to their short-term nature, the carrying amounts reported in the financial statements approximate the fair value for cash and cash equivalents, accounts receivable and accounts payable.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less at the date of acquisition to be cash equivalents.

Marketable Securities

Marketable securities consist of fixed income investments with a maturity of greater than three months. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, these investments are classified as available-for-sale and are reported at fair value on the Company s balance sheet. The Company classifies its securities with maturity dates of 12 months or more as long term. Unrealized holding gains and losses are reported within accumulated other comprehensive loss as a separate component of stockholders equity. If a decline in the fair value of a marketable security below the Company s cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value as a new cost basis and the amount of the write-down is included in earnings as an impairment charge. No other than temporary impairment charges have been recorded in any of the periods presented herein.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due to the Company from normal business activities. The Company maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. The Company estimates uncollectible amounts based upon historical bad debts, current customer receivable balances, the age of customer receivable balances, the customer s financial condition and current economic trends.

Property and Equipment

Property and equipment and leasehold improvements are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years, or the lesser of the related initial term of the lease or useful life for leasehold improvements. Expenditures for routine maintenance and repairs are charged against operations. Major replacements, improvements and additions are capitalized.

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired, as well as other definite-lived intangible assets. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized, but reviewed annually for impairment or upon the occurrence of events or changes in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, a review of long-lived assets for impairment is performed when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to the asset s carrying amount. If the undiscounted future cash flows are less than the carrying amount of the asset, the Company records an impairment loss equal to the amount by which the asset s carrying amount exceeds its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. There were no impairment charges recognized during the years ended December 31, 2008, 2007 and 2006.

Cost of Services

Cost of services includes all direct materials, direct labor and those indirect costs related to revenues such as indirect labor, materials and supplies and facilities cost, exclusive of depreciation expense.

Research and Development

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. No costs were deferred during the years ended December 31, 2008 and 2007. 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. The Company also expenses costs relating to developing modifications and minor enhancements of its existing technology and services.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred income tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse or be utilized. The realization of deferred tax assets is contingent upon the generation of future taxable income. A valuation allowance is recorded if it is more likely than not that a portion or all of a deferred tax asset will not be realized.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) to create a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007, as required and determined that the adoption of FIN 48 did not have a material impact on our financial position and results of operations. As of December 31, 2008, and 2007 Synchronoss had total unrecognized tax benefits of $893 and $678 which includes $68 and $29 for interest related to uncertain positions, respectively. Components of the reserve are classified as either current or long-term in the consolidated balance

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sheet based on when the Company expects each of the items to be settled. Accordingly, the Company recorded a long-term liability of $825 on the balance sheet at December 31, 2008 that would reduce the effective tax rate if recognized. Synchronoss records interest and penalties accrued in relation to uncertain income tax positions as a component of interest expense. The Company did not accrue for interest or penalties as of December 31, 2006 or any period prior to 2006. Tax returns for all years 2000 and thereafter are subject to future examination by tax authorities.

In 2008, the net increase in the reserve for unrecognized tax benefits was $176 and the net increase for interest expense was $38. The Company expects that the amount of unrecognized tax benefits will change during fiscal year 2009; however, Synchronoss does not expect the change to have a significant impact on the Company s results of operations or financial position.

While Synchronoss believes it has identified all reasonably identified exposures and that the reserve the Company has established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause Synchronoss to either materially increase or reduce the carrying amount of its tax reserve.

Foreign Currency

Assets and liabilities of consolidated foreign subsidiaries, whose functional currency is the local currency are translated to U.S. dollars at year end exchange rates. Revenue and expense items are translated to U.S. dollars at the average rates of exchange prevailing during the fiscal year. The adjustment resulting from translating the financial statements of such foreign subsidiaries to U.S. dollars is reflected as a cumulative translation adjustment and reported as a component of other comprehensive income.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains or losses, which are reflected within other income (expense) in the consolidated statements of operations and were not significant for 2008.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, requires components of other comprehensive income, including unrealized gains on losses on available-for-sale securities, to be included as part of total comprehensive income. Comprehensive income is comprised of net income, translation adjustments and unrealized gains on available-for-sale securities. The components of comprehensive income are included in the statements of stockholders equity (deficiency).

Basic and Diluted Net Income Attributable to Common Stockholders per Common Share

The Company calculates net income per share in accordance with SFAS No. 128, *Earnings Per Share.* The Company determined that its Series A redeemable convertible preferred stock represented a participating security prior to the IPO. Because the Series A redeemable preferred convertible stock participated equally with common stock in dividends and unallocated income, the Company calculated basic earnings per share when the Company reports net income using the if-converted method, which in the Company s circumstances, is equivalent to the two class approach required by EITF 03-6, *Participating Securities and the Two Class Method under FASB Statement No. 128.*

In connection with the Company s IPO, all of the Company s Series A and Series 1 redeemable convertible preferred stock was automatically converted into common stock. Since the Series A redeemable convertible preferred stock participated in dividend rights on a one-for-one basis with common stockholders, the security was included in the denominator of basic earnings per share for the period such preferred stock was outstanding. The

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s Series 1 redeemable convertible preferred stock was included in the denominator of diluted earnings per share for the period it was outstanding.

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 508, 509, and 280 for the years ended December 31, 2008, 2007 and 2006 respectively.

	Year Ended December 31,		
	2008	**2007**	**2006**
Numerator:			
Net income attributable to common stockholders	$ 11,880	$ 23,756	$ 10,142
Denominator:			
Weighted average common shares outstanding	31,619	32,215	21,869
Conversion of Series A redeemable convertible preferred stock			5,379
Weighted average common shares outstanding basic	31,619	32,215	27,248
Dilutive effect of:			
Options, restricted shares and warrants	568	1,160	1,016
Conversion of Series 1 convertible preferred stock into common stock			932
Weighted average common shares outstanding diluted	32,187	33,375	29,196

Stock-Based Compensation

As of December 31, 2008, the Company maintains two stock-based compensation plans. Prior to January 1, 2006, the Company was applying the disclosure only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Compensation cost is recognized for all share-based payments granted subsequent to January 1, 2006 and is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Under SFAS 123(R), an equity instrument is not considered to be issued until the instrument vests. As a result, compensation cost is recognized over the requisite service period with an offsetting credit to additional paid-in capital. Compensation expense also includes the amortization on a straight-line basis over the remaining vesting period of the intrinsic values of the stock options granted prior to 2006 calculated in accordance with *Accounting for Stock Issued to Employees* (APB 25).

Prior to the adoption of SFAS 123(R), the Company presented its unamortized portion of deferred compensation cost for non-vested stock options in the statement of changes in shareholders deficiency with a corresponding credit to additional paid-in capital. The Company classifies benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing cash inflow with a corresponding operating cash outflow. For the year ended December 31, 2008, the Company included $1.4 million of excess tax benefits as a financing cash inflow.

Impact of Recently Issued Accounting Standards

In September 2006, the FASB issued Statement 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. Statement 157 also expands financial statement disclosures about fair value measurements. On February 6, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 Effective Date of Statement No. 157 which delays the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We have elected

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a partial deferral of Statement 157 under the provisions of FSP FAS 157-2 related to the measurement of fair value used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. We adopted SFAS No. 157 on January 1, 2008.

Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the inputs to be used to estimate fair value. The three levels of inputs used are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company does not currently have any Level 3 financial assets.

In accordance with SFAS 157, the following table represents the fair value hierarchy for the Company s financial assets:

	Level 1	Level 2	Total
Money Market Funds(1)	$ 72,203	$	$ 72,203
Certificates of Deposit(2)		6,560	6,560
Total	$ 72,203	$ 6,560	$ 78,763

(1) Money market funds are classified as cash equivalents.

(2) Certificates of deposit are classified as marketable securities.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This statement improves comparability by eliminating that diversity. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this statement is the same as that of the related Statement 141 (revised 2007). As there are no non-controlling interest holders in any of our subsidiaries, this will not have an impact on the Company s financial position, results of operations or cash flows.

In December 2007, the Securities and Exchange Commission (*SEC*) issued Staff Accounting Bulletin No. 110 (*SAB 110*). SAB 110 amends and replaces Question 6 of Section D.2 of Topic 14, *Share-Based Payment*. SAB 110 expresses the views of the staff regarding the use of the simplified method in developing an estimate of expected term of plain vanilla share options in accordance with FASB Statement No. 123(R), *Share Based Payment.* The use of the simplified method was scheduled to expire on December 31, 2007. SAB 110 extends the use of the simplified method for plain vanilla awards in certain situations. The Company currently uses the simplified method to estimate the expected term for share option grants as it does not have enough historical experience to provide a reasonable estimate due to the limited period the Company s equity shares have

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

been publicly traded. The Company will continue to use the simplified method until it has enough historical experience to provide a reasonable estimate of expected term in accordance with SAB 110.

In December 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141(R), *Business Combinations*, or SFAS No. 141(R), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. As SFAS No. 141(R) is adopted solely on a prospective basis, there will be no impact on our consolidated financial statements related to the Company s acquisition of Wisor Telecom Corporation (Wisor) discussed further below.

Segment Information

The Company currently operates in one business segment providing critical technology services to the communications industry. The Company is not organized by market and is managed and operated as one business. A single management team reports to the chief operating decision maker who comprehensively manages the entire business. The Company does not operate any material separate lines of business or separate business entities with respect to its services. Accordingly, the Company does not accumulate discrete financial information with respect to separate service lines and does not have separately reportable segments as defined by SFAS No. 131*, Disclosure About Segments of an Enterprise and Related Information.*

3. Acquisition

Wisor Telecom Corporation

In September 2008, the Company acquired Wisor for approximately $17.6 million including acquisition costs of approximately $527. At December 31, 2008 the Company has approximately $704 reserved for restructuring liabilities pursuant to EITF 95-3 with respect to consolidating facilities and payment of severance. The acquisition of Wisor, a provider of software products, software based host services and professional services to telecommunication service providers, expands the Company s products and services. The acquisition was accounted for as a purchase business combination in accordance with SFAS No. 141 and the results of operations of Wisor have been included in the accompanying consolidated statement of operations since the date of acquisition. The purchase price has been allocated as follows:

		At September 10, 2008
Net assets acquired	$	1,543
Deferred tax assets		6,110
Intangible assets		4,049
Goodwill		6,862

Total assets acquired		18,564
Restructuring liabilities		763
Long-term liabilities		14
Total liabilities assumed		777
Total net assets acquired	$	17,787

Definite-lived intangible assets consist of customer relationships and acquired technology. The Company is amortizing the value of the customer relationships on a straight-line basis over an estimated useful life of 4 years.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has currently not identified any material pre-acquisition contingencies where a liability is probable and the amount of the liability can be reasonably estimated. If information becomes available prior to the end of the purchase price allocation period which would indicate that such a liability is probable and the amount can be reasonably estimated, such items will be included in the purchase price allocation.

The change in the carrying amount of goodwill for the year ended December 31, 2008 is as follows:

Balance at December 31, 2007	$	
Acquisition		6,862
Balance at December 31, 2008	$	6,862

Goodwill associated with the acquisition of Wisor is not tax deductible.

Intangible assets consist of the following (in thousands):

		December 31, 2008
Intangible assets:		
Customer lists and relationships	$	3,249
Accumulated amortization		(376)
Customer lists and relationships, net		2,873
Acquired technology		800
Accumulated amortization		(93)
Acquired technology, net		707
Intangible assets, net	$	3,580

Amortization expense related to intangible assets, which is included in depreciation and amortization expense, was approximately $469 for the year ended December 31, 2008.

The Company estimates the aggregate amortization expense to be approximately $976 for 2009 through 2011, $652 for 2012 and $0 for 2013.

The change in restructuring liabilities for the year ended December 31, 2008 is as follows:

Balance at December 31, 2007	$	
Restructuring liabilities		763
Less: payments		(59)
Balance at December 31, 2008	$	704

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Marketable Securities

The following is a summary of available-for-sale securities held by the Company at December 31, 2008 and 2007.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008				
Certificates of deposit	$ 6,506	$ 54	$	$ 6,560
Government bonds				
	$ 6,506	$ 54	$	$ 6,560
December 31, 2007				
Certificates of deposit	$ 1,871	$ 2	$ (2)	$ 1,871
Government bonds	1,224	6		1,230
	$ 3,095	$ 8	$ (2)	$ 3,101

The net unrealized gain net of tax was $32 and $4 as of December 31, 2008 and 2007, respectively.

The Company s available-for-sale securities have the following maturities:

	December 31, 2008	2007
Due in one year or less	$ 2,277	$ 1,891
Due after one year, less than five years	4,283	1,210
	$ 6,560	$ 3,101

Unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss) in stockholders equity. For the years ended December 31, 2008 and 2007, realized gains and losses were insignificant. The cost of securities sold is based on specific identification method.

5. Property and Equipment

Property and equipment consist of the following:

	December 31, 2008	December 31, 2007
Computer hardware	$ 16,918	$ 15,821
Computer software	11,994	8,542
Construction in-progress	8,232	
Furniture and fixtures	513	608
Leasehold improvements	2,218	2,106
	39,875	27,077
Less: Accumulated depreciation	(22,595)	(16,610)
	$ 17,280	$ 10,467

Depreciation expense was approximately $6.2 million and $5.2 million for 2008 and 2007, respectively. For accounting purposes only, the Company is the deemed owner of a leased facility currently recorded in construction in progress; see Note 12 of the Company s Notes to Consolidated Financial Statements for further explanation of the accounting treatment.

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2008	December 31, 2007
Accrued compensation and benefits	$ 2,610	$ 4,632
Accrued third-party processing fees	3,835	3,255
Restructuring liabilities	704	
Accrued other	1,373	1,608
Accrued income tax payable	118	
	$ 8,640	$ 9,495

7. Capital Structure

As of December 31, 2008, the Company s authorized capital stock was 110,000 shares of stock with a par value of $0.0001, of which 100,000 shares were designated common stock and 10,000 shares were designated preferred stock.

Common Stock

Each holder of common stock is entitled to vote on all matters and is entitled to one vote for each share held. Dividends on common stock will be paid when, as and if declared by the Company s board of directors. No dividends have ever been declared or paid by the Company. On June 20, 2006, all 13,549 outstanding shares of the Company s Series 1 and Series A convertible preferred stock were converted into shares of common stock on a one-for-one basis. As of December 31, 2008, there were 32,878 shares of common stock issued, 5,097 shares of common stock reserved for issuance under the Company s 2000 Stock Plan (the 2000 Plan) and 4,000 shares of common stock reserved for issuance under the Company s 2006 Equity Incentive Plan (the 2006 Plan).

Preferred Stock

All of the Company s Series 1 and Series A convertible preferred stock converted into common stock on a one-for-one basis as a result of the IPO. There are no shares of preferred stock outstanding as of December 31, 2008 or 2007. The board of directors is authorized to issue preferred shares and has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of preferred stock.

Registration Rights

Holders of shares of common stock which were issued upon conversion of the Company s Series A preferred stock are entitled to have their shares registered under the Securities Act of 1933, as amended (the Securities Act). Under the terms of an agreement between the Company and the holders of these registrable securities, if the Company proposes to register any of its securities under the Securities Act, either for its own account or for the account of others, these stockholders are entitled to notice of such registration and are entitled to include their shares in such registration.

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands,)		
Accumulated Other Comprehensive Income (Loss)			
Translation adjustments	$ 30	$	$
Unrealized gain (loss) on securities, (net of tax)	36	4	(6)
	$ 66	$ 4	$ (6)

9. Stock Plans

As of December 31, 2008, the Company maintains two stock incentive plans, the 2000 Plan and the 2006 Plan. Under the 2000 Plan, the Company has the ability to provide employees, outside directors and consultants an opportunity to acquire a proprietary interest in the success of the Company or to increase such interest by receiving options or purchasing shares of the Company s stock at a price not less than the fair market value at the date of grant for incentive stock options and a price not less than 30% of the fair market value at the date of grant for non-qualified options. In April 2006, the Company s board of directors adopted the 2006 Plan. The 2006 Plan became effective upon the IPO.

Under the 2006 Plan, the Company may grant to its employees, outside directors and consultants awards in the form of incentive stock options, non-qualified stock options, shares of restricted stock and stock units or stock appreciation rights. During 2008, the Company s shareholders approved an increase in the number of shares issuable under the 2006 Plan from 2,000 to 4,000 plus any shares that remain available for issuance under the 2000 Plan. During the year ended December 31, 2008, options to purchase 1,420 shares of common stock were granted under the 2006 Plan. Under the 2000 Plan, options may be exercised in whole or in part for 100% of the shares subject to vesting at any time after the date of grant. Options under the 2000 Plan generally vest 25% on the first year anniversary of the date of grant plus an additional 1/48 for each month thereafter. As of December 31, 2008, there were 1,654 shares available for grant or award under the Company s Plans.

The Company s board of directors administers the 2000 Plan and the 2006 Plan and is responsible for determining the individuals to be granted options or shares, the number of options or shares each individual will receive, the price per share and the exercise period of each option. In establishing its estimates of fair value of the Company s common stock prior to the completion of the IPO, the Company considered the guidance set forth in the American Institute of Certified Public Accountants Practice Aid, *Valuation prior to being a public company of Privately-Held-Company Equity Securities Issued as Compensation*, and performed a retrospective determination of the fair value of its common stock for the year ended December 31, 2006, utilizing a combination of valuation methods described elsewhere in our prospectus dated June 15, 2006.

The Company utilizes the Black-Scholes option pricing model for determining the estimated fair value for stock option awards. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on a blended weighted-average of historical information of similar public entities for which historical information was available. The Company will continue to use this approach using other similar public entity volatility information until our historical volatility is relevant to measure expected volatility for future option grants. The average expected life was determined using the SEC shortcut approach as described in Staff Accounting Bulletin (SAB) 110, which is the mid-point between the vesting date and the end of the contractual term. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The Company has never declared or paid cash dividends on our common or preferred equity and does not anticipate paying any cash

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

dividends in the foreseeable future. Forfeitures are estimated based on voluntary termination behavior, as well as a historical analysis of actual option forfeitures. The weighted-average assumptions used in the Black-Scholes option pricing model are as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Expected stock price volatility	64%	59%	45%
Risk-free interest rate	3.81%	4.63%	4.72%
Expected life of options (in years)	5.2	5.9	6.2
Expected dividend yield	0%	0%	0%

The weighted-average fair value (as of the date of grant) of the options granted during the year ended December 31, 2008, 2007 and 2006 was $8.42, $12.52 and $4.71, respectively. During the year ended December 31, 2008, the Company recorded total pre-tax stock-based compensation expense of $7.1 million ($4.9 million after tax or $0.15 per diluted share), 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 December 31, 2008 was approximately $14.0 million. That cost is expected to be recognized over a weighted-average period of approximately 2.9 years.

Stock Options

The following table summarizes information about stock options outstanding.

		Options Outstanding		
	Shares Available for Grant	Number of Shares	Option Exercise Price per Share Range	Weighted-Average Exercise Price
Balance at December 31, 2005	981	1,079	$ 0.29 - 10.00	$ 1.40
Increase in options available for grant	2,614			
Options granted	(1,791)	1,791	$ 6.95 - 12.68	$ 9.27
Options exercised		(324)	$ 0.29 - 6.19	$ 0.34
Options and restricted stock forfeited	359	(359)	$ 0.29 - 10.00	$ 5.89
Net restricted stock purchased, granted and forfeited	(367)			
Balance at December 31, 2006	1,796	2,187	$ 0.29 - 12.68	$ 7.62
Options granted	(1,059)	1,059	$ 14.00 - 42.77	$ 28.06

Options exercised		(342)	$	0.29 - 14.00	$	4.60
Options forfeited	73	(73)	$	0.29 - 38.62	$	12.40
Net restricted stock purchased, granted and forfeited	(56)					
Balance at December 31, 2007	754	2,831	$	0.29 - 42.77	$	15.51
Increase in options available for grant	2,000					
Options granted	(1,420)	1,420	$	6.04 - 35.62	$	11.40
Options exercised		(161)	$	0.29 - 15.44	$	4.96
Options forfeited	407	(407)	$	0.29 - 42.77	$	22.93
Net Restricted stock granted and forfeited	(87)					
Balance at December 31, 2008	1,654	3,683	$	0.29 - 38.62	$	13.60
Expected to vest at December 31, 2008		1,307	$	1.84 - 38.62	$	14.29
Vested and exercisable at December 31, 2008		1,385				

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the Company s non-vested restricted stock at December 31, 2008, and changes during the year ended December 31, 2008, is presented below:

Non-Vested Restricted Stock	Number of Awards
Non-vested at January 1, 2008	180
Granted	106
Vested	(74)
Forfeited	(19)
Non-vested at December 31, 2008	193

As of December 31, 2008 and 2007, the weighted average remaining contractual life of outstanding options was approximately 7.1 and 8.3 years, respectively. Options vested as of December 31, 2008 have an aggregate intrinsic value of approximately $2.9 million. Options outstanding as of December 31, 2008 have an aggregate intrinsic value of approximately $5.2 million. The total intrinsic value (the excess of the market price over the exercise price) for stock options exercised in 2008 was approximately $2.4 million, and $8.9 million for 2007 and insignificant for 2006. The amount of cash received from the exercise of stock options was approximately $0.8 million in 2008. For the years ended December 31, 2008 and 2007, the total fair value of vested options was approximately $9.4 million and $2.5 million, respectively.

The following table summarizes stock options outstanding and exercisable at December 31, 2008:

	Outstanding			Exercisable	
Range of Exercise Price	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Number of Options	Weighted Average Exercise Price
$ 0.29 - $ 5.50	164	$ 1.06	5.7	157	1.02
5.51 - 11.00	2,028	8.91	7.1	721	8.71
11.01 - 16.50	747	12.88	7.2	231	13.41
16.51 - 22.00	28	19.51	7.2	7	17.90
22.01 - 27.50	282	23.99	8.3	114	23.96
27.51 - 34.00	109	28.00	7.3	69	27.96
34.01 - 38.62	325	36.45	6.5	86	36.49
	3,683			1,385	

10. 401(k) Plan

The Company has a 401(k) plan (the Plan) covering all eligible employees. The Plan allows for a discretionary employer match. In 2007, the Company elected to increase its match as a percentage of employee contributions. The Company incurred and expensed $531, $503 and $90 for the years ended December 31, 2008, 2007 and 2006, respectively, in Plan match contributions.

As part of the Wisor acquisition, the Company acquired the existing Wisor 401(k) plan. However, no Plan match contributions were made in 2008. Plan match contributions are expected to be made in 2009 once Wisor s 401(k) plan assets have been rolled over to the Company s 401(k) plan.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Income Taxes

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company s deferred tax assets are as follows:

	December 31, 2008	December 31, 2007
Deferred tax assets:		
Accrued liabilities	263	69
Deferred revenue	118	
Bad debts reserve	81	178
State net operating loss carry forwards	1,240	618
Depreciation and amortization	902	801
Deferred compensation	2,251	1,079
Federal net operating loss carry forwards	8,171	
Deferred rent	258	
Other	19	
Total deferred tax assets	$ 13,303	$ 2,745
Deferred tax liabilities:		
Intangible assets	(1,662)	
Other	(185)	
Total deferred tax liabilities	(1,847)	
Valuation allowance	(1,886)	
Net Deferred Income Tax Assets	$ 9,570	$ 2,745

The following table indicates where net deferred income taxes have been classified in the Balance Sheet:

	December 31, 2008	December 31, 2007
Current deferred tax assets	$ 1,242	$ 247
Less: Valuation allowance	(177)	
Net current deferred tax assets	1,065	247
Non-current deferred tax assets	10,214	2,498
Less: Valuation allowance	(1,709)	

Net non-current deferred tax assets	8,505	2,498
Net Deferred Tax Assets	$ 9,570	$ 2,745

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding accrued interest) is as follows:

	December 31, 2008	December 31, 2007
Unrecognized tax benefit (beginning balance)	$ 649	$
Additions in unrecognized tax benefits as a result of tax positions taken during prior year (excludes accrued interest)	3	
Additions for tax positions of current period (excludes accrued interest)	173	649
Unrecognized tax benefits (ending balance)	$ 825	$ 649

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. The liability for accrued interest on its unrecognized tax benefits is $68 and $29 at December 31, 2008 and 2007, respectively.

At December 31, 2008, the Company had approximately $23.9 million of federal net operating losses and $14.8 million of state net operating losses, which were the result of the Wisor Telecom acquisition. These net operating loss carry forwards will begin to expire in 2012 and are subject to certain limitations under Internal Revenue Code Section 382 due to the change in ownership. The Company performed a Section 382 study and determined that certain net operating losses will expire prior to utilization of the carry forwards due to the annual Section 382 limitation. The Company has established a partial valuation allowance of $1.9 (tax effected) million against a portion of the federal net operating loss carry forwards and a full valuation of the state net operating carry forwards, as the Company believes that it is not more likely than not that the benefits will not be realized prior to expiration. The Company also has approximately $6.5 million of other state net operating losses that will begin to expire in 2021.

The Company s wholly owned subsidiary, Wisor Telecom India, Pvt. Ltd., received a tax holiday in Bangalore, India, which ends in 2009. The tax holiday applies to income generated related to its development of computer software. The aggregate amounts from the holiday and the effects to EPS are deemed immaterial.

The Company is currently subject to ongoing tax audits by the State of New Jersey for tax years ending December 31, 2004 through December 31, 2007. The Company believes that the results of the current or any prospective audits will not have a material effect on its financial position or results of operations.

The Company has elected under APB 23 to permanently reinvest earnings and profits related to its foreign subsidiaries, accordingly, no provision has been recorded for U.S. income taxes that might result from the repatriation of these earnings. The undistributed earnings of its foreign subsidiaries are approximately $2.0 million.

A reconciliation of the statutory tax rates and the effective tax rates for the years ended December 31, 2008, 2007 and 2006 are as follows:

	Year Ended December 31,		
	2008	**2007**	**2006**
Statutory rate	35%	35%	35%
State taxes, net of federal benefit	5%	4%	6%
Permanent adjustments	3%	1%	1%
Research and development credit	(1)%	(3)%	0%
Other	(1)%	0%	0%
Net	41%	37%	42%

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income tax (expense) benefit consisted of the following components:

	Year Ended December 31,		
	2008	**2007**	**2006**
Current:			
Federal	$ (7,758)	$ (12,431)	$ (2,957)
State	(1,376)	(2,347)	(1,664)
Foreign	(3)		
Deferred:			
Federal	771	901	(2,624)
State	(58)	(111)	(65)
Income tax (expense)	$ (8,424)	$ (13,988)	$ (7,310)

12. Commitments and Contingencies

Leases

The Company leases office space, automobiles and office equipment under non-cancellable lease agreements, which expire through October 2019. Aggregate annual future minimum lease payments under these non-cancellable leases are as follows at December 31, 2008:

Period ended December 31:	
2009	2,154
2010	2,469
2011	2,337
2012	1,724
2013 and thereafter	9,708
	$ 18,392

Rent expense for the years ended December 31, 2008, 2007 and 2006 was $2,128, $1,945 and $1,522, respectively.

In May 2008, the Company entered into an agreement to lease space for its Pennsylvania offices and data center in a newly constructed facility. The lease has a term of 10 years and 5 months with an option to extend the term of the lease for two consecutive five year periods. In August 2008, the Company amended its lease whereby the Company agreed to reimburse the landlord for certain leasehold improvements the Company had requested. These improvements were under construction at December 31, 2008. Since the tenant improvements, under the lease amendment, are considered structural in nature and the Company is primarily responsible for reimbursement to the landlord for the cost of these improvements, for accounting purposes, under Emerging Issues Task Force Issue No. 97-10 The Effect of Lessee Involvement in Asset Construction (EITF 97-10), the Company is considered to be the owner of the construction project. In accordance with EITF 97-10, the Company recorded assets on its balance sheet for all of the costs paid by the lessor to construct the Pennsylvania facility through December 31, 2008, along with corresponding financing liabilities for amounts equal to these lessor-paid construction costs through December 31, 2008. These amounts did not impact the Company s cash flows.

13. Related Parties

Omniglobe International, L.L.C.

Omniglobe International, L.L.C., (Omniglobe) a Delaware limited liability company with operations in India, provides data entry services relating to the Company s exception handling management. The Company pays

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Omniglobe an hourly rate for each hour worked by each of its data entry agents. As of December 31, 2008 and 2007, the Company has a service agreement with Omniglobe. Services provided include data entry and related services as well as development and testing services. The current agreement may be terminated by either party without cause with 30 or 60 days written notice prior to the end of the term. Unless terminated, the agreement will automatically renew in nine month increments. As of December 31, 2008, the Company fulfilled the overall minimum contractual commitment. The Company does not intend to terminate its arrangement with Omniglobe.

On March 12, 2004, certain of the Company s executive officers and their family members acquired indirect equity interests in Omniglobe by purchasing an ownership interest in Rumson Hitters, L.L.C., a Delaware limited liability company, as follows:

Name	Position with Synchronoss	Equity Interest in Omniglobe	Purchase Price of Interest in Rumson Hitters, L.L.C.	Proceeds Received from Interest in Rumson Hitters, L.L.C.
Stephen G. Waldis	Chairman of the Board of Directors, President and Chief Executive Officer	12.23%	$ 95,000	$ 95,000
Lawrence R. Irving	Executive Vice President, Chief Financial Officer and Treasurer	2.58%	$ 20,000	$ 20,000
David E. Berry	Former Vice President and Chief Technology Officer	2.58%	$ 20,000	$ 20,000
Robert Garcia	Executive Vice President and Chief Operating Officer	1.29%	$ 10,000	$ 10,000

On June 20, 2006, members of Rumson Hitters repurchased, at the original purchase price, the equity interests in Rumson Hitters held by each of the Company s employees and their family members, such that no employee of the Company or family member of such employee had any interest in Rumson Hitters or Omniglobe after June 20, 2006. Neither the Company nor any of its employees provided any of the funds to be used by members of Rumson Hitters in repurchasing such equity interests. Since June 20, 2006, Omniglobe is no longer a related party.

From March 12, 2004 through June 12, 2006, Omniglobe has paid an aggregate of $1,300 in distributions to all of its interest holders, including Rumson Hitters. In turn, during this period, Rumson Hitters has paid an aggregate of $700 in distributions to its interest holders, including approximately $154 in distributions to Stephen G. Waldis and his family members, approximately $32 in distributions to Lawrence R. Irving, approximately $32 in distributions to David E. Berry and his family members and approximately $16 in distributions to Robert Garcia.

During the period in which the Company s employees and their family members owned equity interests in Rumson Hitters, fees paid for services rendered related to these agreements for 2006 were $3.7 million through June 20, 2006 when Omniglobe was no longer a related party, and $8.0 million for the year ended December 31, 2005. Since June 20, 2006, Omniglobe is no longer a related party.

14. 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 plaintiffs in each complaint assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They allege 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 is that the Company issued misleading statements concerning its business prospects relating to the activation of Apple Inc. s iPhone product. The plaintiffs seek compensatory

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

damages, costs, fees, and other relief within the Court s discretion. The Company believes that the claims described above are without merit, and it intends to defend against all of the claims vigorously. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the actions at this time, and it can give no assurance that these claims will not have a material adverse effect on the Company s financial position or results of operations.

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 Company is in the process of evaluating the claims in the Derivative Suits. 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 the Company s 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, the Company may from time to time become a party to various legal proceedings arising in the ordinary course of its business.

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

Not applicable.

ITEM 9A. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of the Company s management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its 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 December 31, 2008. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective as of December 31, 2008, to ensure that information required to be disclosed by the Company in the reports that it files or submits 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 the Company s management, including its Chief Executive Officer, as appropriate to allow timely decision making regarding required disclosures.

Management s Annual Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company s principal executive and principal financial officers and effected by the Company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

To assist management, the Company has established procedures to verify and monitor its internal controls. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of its internal control over financial reporting as of December 31, 2008. In making this assessment, the Company s management used the criteria set forth by the

Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.*

Based on the Company s assessment, management concluded that, as of December 31, 2008, its internal control over financial reporting was effective.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, its independent registered public accounting firm, as stated in their report which is included in Item 9 of this Annual Report on Form 10-K.

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Changes in Internal Control over Financial Reporting

There were no changes in the Company s 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, the Company s internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The Company s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company s operations have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Synchronoss Technologies, Inc.

We have audited Synchronoss Technologies Inc. s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Synchronoss Technologies Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management s Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Synchronoss Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Synchronoss Technologies, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity (deficiency), and cash flows for each of the three years in the period ended December 31, 2008 of Synchronoss Technologies, Inc. and our report dated March 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey
March 12, 2009

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ITEM 9B. *OTHER INFORMATION*

None.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

(a) Identification of Directors. Information concerning the directors of Synchronoss is set forth under the heading Election of Directors in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

(b) Audit Committee Financial Expert. Information concerning Synchronoss audit committee financial expert is set forth under the heading Audit Committee in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

(c) Identification of the Audit Committee. Information concerning the audit committee of Synchronoss is set forth under the heading Audit Committee in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

(d) Section 16(a) Beneficial Ownership Reporting Compliance. Information concerning compliance with beneficial ownership reporting requirements is set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

(e) Code of Ethics. Information concerning the Synchronoss Code of Business Conduct is set forth under the caption Code of Business Conduct in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference. The Code of Business Conduct can also be found on our Website, www.synchronoss.com.

ITEM 11. *EXECUTIVE COMPENSATION*

Information concerning executive compensation is set forth under the headings Compensation of Executive Officers in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Information concerning shares of Synchronoss equity securities beneficially owned by certain beneficial owners and by management is set forth under the heading Equity Security Ownership of Certain Beneficial Owners and Management in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

Information concerning certain relationships and related transactions is set forth under the heading Certain Related Party Transactions in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

Information concerning fees and services of the Company s principal accountants is set forth under the heading Report of the Audit Committee and Independent Registered Public Accounting Firm s Fees in the Synchronoss Proxy Statement for the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a)(1) Financial Statements:

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Consolidated Statements of Operations	42
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(a)(2) Schedule for the years ended December 31, 2008, 2007, 2006:

II Valuation and Qualifying Accounts

All other Schedules have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(3) Exhibits:

Exhibit No.	Description
3.1*	Amended and Restated Certificate of Incorporation of the Registrant.
3.2*	Amended and Restated Bylaws of the Registrant
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2*	Amended and Restated Investors Rights Agreement, dated December 22, 2000, by and among the Registrant, certain stockholders and the investors listed on the signature pages thereto.
4.3*	Amendment No. 1 to Synchronoss Technologies, Inc. Amended and Restated Investors Rights Agreement, dated April 27, 2001, by and among the Registrant, certain stockholders and the investors listed on the signature pages thereto.
4.4*	Registration Rights Agreement, dated November 13, 2000, by and among the Registrant and the investors listed on the signature pages thereto.
4.5*	Amendment No. 1 to Synchronoss Technologies, Inc. Registration Rights Agreement, dated May 21, 2001, by and among the Registrant, certain stockholders listed on the signature pages thereto and Silicon Valley Bank.
10.1*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.
10.2*	Synchronoss Technologies, Inc. 2000 Stock Plan and forms of agreements thereunder.
10.3*	Amendment No. 1 to Synchronoss Technologies, Inc. 2000 Stock Plan.
10.4*	2006 Equity Incentive Plan and forms of agreements thereunder.
10.5*	Lease Agreement between the Registrant and BTCT Associates, L.L.C. for the premises located at 750 Route 202 South, Bridgewater, New Jersey, dated as of May 11, 2004.
10.6*	

	First Amendment dated December 23, 2003 to the Lease Agreement between the Registrant and BTCT Associates, L.L.C. for the premises located at 750 Route 202 South, Bridgewater, New Jersey, dated as of May 11, 2004.
10.7**	Second Amendment dated August 21, 2006 to the Lease Agreement between the Registrant and BTCT Associates, L.L.C. for the premises located at 750 Route 202 South, Bridgewater, New Jersey, dated as of May 11, 2004.
10.8	Lease Agreement between the Registrant and Triple Net Investments XXV, L.P. for the premises located at Lehigh Valley Industrial Park VII, Bethlehem, Pennsylvania, dated as of May 16, 2008, as amended.
10.10*	Loan & Security Agreement between the Registrant and Silicon Valley Bank, dated as of May 21, 2001.

Exhibit No.	Description
10.11*	Cingular Master Services Agreement, effective September 1, 2005 by and between the Registrant and Cingular Wireless LLC.
10.12	Employment Agreement dated as of December 30, 2008 between the Registrant and Stephen G. Waldis.
10.13	Employment Agreement dated as of December 30, 2008 between the Registrant and Lawrence R. Irving.
10.14	Employment Agreement dated as of December 30, 2008 between the Registrant and Robert Garcia.
10.15	Employment Agreement dated as of December 30, 2008 between the Registrant and Chris Putnam.
10.16	Employment Agreement dated as of December 30, 2008 between the Registrant and Omar Tellez.
23.1	Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.
24	Power of Attorney (see page 71)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Compensation Arrangement.

* Incorporated by reference to Registrant s Registration Statement on Form S-1 (Commission File No. 333-132080).

** Incorporated by reference to Registrant s Annual Report on Form 10-K for the year ended December 31, 2007.

Confidential treatment has been requested for portions of this document. The omitted portions of this document have been filed with the Securities and Exchange Commission.

(10)

(b) Exhibits.

See (a)(3) above.

(c) Financial Statement Schedule.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
December 31, 2008, December 31, 2007, and December 31, 2006

	Beginning Balance	Additions	Reductions	Ending Balance

		(In thousands)		
Allowance for doubtful receivables				
2008	$ 448	$ 186	$ (441)	$ 193
2007	$ 171	$ 277	$	$ 448
2006	$ 221	$ 40	$ (90)	$ 171

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNCHRONOSS TECHNOLOGIES, INC.
(Registrant)

By /s/ Stephen G. Waldis
Stephen G. Waldis
Chairman of the Board, Chief Executive Officer and President

March 13, 2009

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ronald J. Prague or Lawrence R. Irving, or either of them, each with the power of substitution, their attorney-in-fact, to sign any amendments to this Form 10-K (including post-effective amendments), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or their substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Stephen G. Waldis Stephen G. Waldis	Chief Executive Officer and Director (Principal Executive Officer)	March 13, 2009
/s/ Lawrence R. Irving Lawrence R. Irving	Chief Financial Officer (Principal Financial and Accounting Officer)	March 13, 2009
/s/ William J. Cadogan William J. Cadogan	Director	March 13, 2009
/s/ Charles E. Hoffman Charles E. Hoffman	Director	March 13, 2009

/s/ Thomas J. Hopkins	Director	March 13, 2009
Thomas J. Hopkins		
/s/ James M. McCormick	Director	March 13, 2009
James M. McCormick		
/s/ Donnie M. Moore	Director	March 13, 2009
Donnie M. Moore		