

SYNCHRONOSS TECHNOLOGIES INC

Form 10-Q

November 04, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2010**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-52049**

**SYNCHRONOSS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**06-1594540**

(I.R.S. Employer Identification No.)

**750 Route 202 South, Suite 600**

**Bridgewater, New Jersey**

(Address of principal executive offices)

**08807**

(Zip Code)

**(866) 620-3940**

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

Shares outstanding of the Registrant's common stock:

Class  
Common stock, \$0.0001 par value

Outstanding at November 2, 2010  
31,839,781 shares



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**SYNCHRONOSS TECHNOLOGIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except per share data)

|   | <b>September<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-----------------------------------|------------------------------|
| <b>ASSETS</b>   |                                   |                              |
| Current assets:   |                                   |                              |
| Cash and cash equivalents   | \$ 63,116                         | \$ 89,924                    |
| Marketable securities   | 1,726                             | 2,558                        |
| Accounts receivable, net of allowance for doubtful accounts of \$463 and \$830 at September 30, 2010 and December 31, 2009, respectively  | 38,804                            | 25,939                       |
| Prepaid expenses and other assets   | 6,852                             | 4,069                        |
| Deferred tax assets   | 1,548                             | 1,462                        |
| <br>  |                                   |                              |
| Total current assets  | 112,046                           | 123,952                      |
| Marketable securities   | 7,704                             | 5,202                        |
| Property and equipment, net   | 26,473                            | 23,735                       |
| Goodwill  | 24,661                            | 6,911                        |
| Intangible assets, net  | 34,143                            | 2,727                        |
| Deferred tax assets   | 12,919                            | 8,992                        |
| Other assets  | 2,783                             | 1,040                        |
| <br>  |                                   |                              |
| Total assets  | \$ 220,729                        | \$ 172,559                   |
| <br>  |                                   |                              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                   |                              |
| Current liabilities:  |                                   |                              |
| Accounts payable  | \$ 6,918                          | \$ 5,171                     |
| Accrued expenses  | 9,488                             | 7,350                        |
| Deferred revenues   | 8,797                             | 3,095                        |
| Lease financing obligation  | 113                               |                              |
| <br>  |                                   |                              |
| Total current liabilities   | 25,316                            | 15,616                       |
| Lease financing obligation long-term  | 9,194                             | 9,150                        |
| Contingent consideration obligation long-term   | 11,317                            |                              |
| Other liabilities   | 1,195                             | 1,329                        |
| Stockholders equity:  |                                   |                              |
| Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively                              |                                   |                              |
| Common stock, \$0.0001 par value; 100,000 shares authorized, 33,810 and 33,104 shares issued; 31,810 and 31,104 outstanding at September 30, 2010 and December 31, 2009, respectively | 3                                 | 3                            |
| Treasury stock, at cost (2,000 shares at September 30, 2010 and December 31, 2009)  | (23,713)                          | (23,713)                     |
| Additional paid-in capital  | 137,114                           | 117,797                      |
| Accumulated other comprehensive income (loss)   | 91                                | (7)                          |

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|  |            |            |
|--|------------|------------|
| Retained earnings                          | 60,212     | 52,384     |
| Total stockholders' equity                 | 173,707    | 146,464    |
| Total liabilities and stockholders' equity | \$ 220,729 | \$ 172,559 |

See accompanying consolidated notes.

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

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net revenues                                      | \$ 44,456                 | \$ 33,097   | \$ 116,738               | \$ 93,204   |
| Costs and expenses:                               |                           |             |                          |             |
| Cost of services*                                 | 22,983                    | 16,790      | 59,638                   | 47,179      |
| Research and development                          | 7,569                     | 3,243       | 16,760                   | 9,359       |
| Selling, general and administrative               | 10,465                    | 5,561       | 23,310                   | 17,218      |
| Net change in contingent consideration obligation | (1,968)                   |             | (1,968)                  |             |
| Depreciation and amortization                     | 2,606                     | 2,154       | 6,459                    | 6,264       |
| Total costs and expenses                          | 41,655                    | 27,748      | 104,199                  | 80,020      |
| Income from operations                            | 2,801                     | 5,349       | 12,539                   | 13,184      |
| Interest income and other income                  | 706                       | 106         | 940                      | 458         |
| Interest expense and other expense                | (342)                     | (250)       | (909)                    | (546)       |
| Income before income tax expense                  | 3,165                     | 5,205       | 12,570                   | 13,096      |
| Income tax expense                                | (1,024)                   | (2,076)     | (4,742)                  | (5,305)     |
| Net income  | \$ 2,141                  | \$ 3,129    | \$ 7,828                 | \$ 7,791    |
| Net income per common share:                      |                           |             |                          |             |
| Basic   | \$ 0.05                   | \$ 0.10     | \$ 0.23                  | \$ 0.25     |
| Diluted   | \$ 0.05                   | \$ 0.10     | \$ 0.23                  | \$ 0.25     |
| Weighted-average common shares outstanding:       |                           |             |                          |             |
| Basic   | 31,586                    | 30,865      | 31,276                   | 30,767      |
| Diluted   | 32,480                    | 31,355      | 32,196                   | 31,282      |

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

See notes to financial statements

footnote 4

See accompanying consolidated notes.



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

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2010</b>              | <b>2009</b> |
| <b>Operating activities:</b>  |                          |             |
| Net income  | \$ 7,828                 | \$ 7,791    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |             |
| Depreciation and amortization expense   | 6,459                    | 6,264       |
| Loss (gain) on disposal of fixed assets   | 31                       | (6)         |
| Proceeds from insurance claim   | (418)                    |             |
| Deferred income taxes   | 818                      | (1,288)     |
| Non-cash interest on leased facility  | 684                      | 447         |
| Stock-based compensation  | 8,763                    | 6,004       |
| Changes in operating assets and liabilities:                                      |                          |             |
| Accounts receivable, net of allowance for doubtful accounts                       | (12,604)                 | (3,320)     |
| Prepaid expenses and other current assets   | (1,780)                  | 117         |
| Other assets  | (1,695)                  | (77)        |
| Accounts payable  | 1,248                    | 947         |
| Accrued expenses  | 888                      | (762)       |
| Contingent consideration obligation   | (1,913)                  |             |
| Excess tax benefit from the exercise of stock options                             | (755)                    | (221)       |
| Other liabilities   | (285)                    | (40)        |
| Lease obligation  | 3                        |             |
| Deferred revenues   | 2,451                    | 1,174       |
| Net cash provided by operating activities   | 9,723                    | 17,030      |
| <b>Investing activities:</b>  |                          |             |
| Purchases of fixed assets   | (7,310)                  | (10,590)    |
| Proceeds from the sale of fixed assets  |                          | 6           |
| Proceeds from insurance claim   | 418                      |             |
| Purchases of marketable securities available for sale                             | (4,296)                  | (2,631)     |
| Maturity of marketable securities available for sale                              | 2,659                    | 1,835       |
| Business acquired, net of cash  | (30,779)                 | (49)        |
| Net cash used in investing activities   | (39,308)                 | (11,429)    |
| <b>Financing activities:</b>  |                          |             |
| Proceeds from the exercise of stock options                                       | 2,663                    | 879         |
| Excess tax benefit from the exercise of stock options                             | 755                      | 221         |
| Payments on capital obligations   | (684)                    | (121)       |
| Net cash provided by financing activities   | 2,734                    | 979         |
| Effect of exchange rate changes on cash   | 43                       |             |

|  |           |           |
|--|-----------|-----------|
| Net increase in cash and cash equivalents      | (26,808)  | 6,580     |
| Cash and cash equivalents at beginning of year | 89,924    | 72,203    |
| Cash and cash equivalents at end of period     | \$ 63,116 | \$ 78,783 |

**Supplemental disclosures of cash flow information:**

|   |          |          |
|---|----------|----------|
| Cash paid for income taxes                                  | \$ 5,053 | \$ 4,328 |
| Non-cash increase in building and related lease liability   | \$       | \$ 2,123 |
| Issuance of common stock in connection with the acquisition | \$ 7,316 | \$       |

See accompanying consolidated notes.

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

The consolidated financial statements as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles ( GAAP ) for complete financial statements and should be read in conjunction with the financial statements and notes in the Annual Report of Synchronoss Technologies, Inc. incorporated by reference in the Company s annual report on Form 10-K for the year ended December 31, 2009. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Synchronoss Technologies UK Ltd., Synchronoss Technologies Ireland, Ltd., Wisor Telecom Corporation ( Wisor ), Synchronoss Telecom India Private Ltd., FusionOne, Inc., and FusionOne Esti Ou. All significant intercompany balances and transactions are eliminated in consolidation. The Company has no unconsolidated subsidiaries or investments accounted for under the equity method. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

**1. Description of Business**

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

On July 19, 2010 the Company acquired FusionOne, Inc. and its subsidiary, FusionOne Esti ou ( Estonia ) (collectively, FusionOne ) for approximately \$32 million in cash and issued approximately 400 thousand common shares of the Company s Common Stock. FusionOne was incorporated in Delaware on May 19, 1998 and began operations on November 4, 1998 (inception) (Note 7). FusionOne provides internet synchronization technology and marketing services that make information access seamless and simple across multiple communications and computing devices across both compatible and traditionally incompatible systems. In addition, FusionOne has expanded its technology to provide personal content management applications for mobile phone users which includes affordable backup of the users address book, calendar, pictures and downloaded content.

**2. Basis of Presentation**

For further information about the Company s basis of presentation or its significant accounting policies, refer to the financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009.



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

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

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

**4. Earnings per Common Share**

The Company calculates basic and diluted per share amounts based on net earnings adjusted for the effects to earnings that would result if contingently issuable shares related to contingent consideration settleable in the Company's stock were reported as equity for the periods presented. To calculate basic earnings per share the Company uses the weighted average number of common shares outstanding during the period adjusted for the weighted average number of contingently issuable shares. The weighted average numbers of shares contingently issuable are calculated as if they were outstanding as of the last day of the period. The diluted earnings per share calculation is based on the weighted average number of shares of common stock outstanding adjusted for the number of additional shares that would have been outstanding had all potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, non-vested share awards and contingently issuable shares related to contingent consideration settleable in stock. The dilutive effects of stock options and restricted stock awards are based on the treasury stock method. The dilutive effects of the contingent consideration settleable in stock are calculated as if the contingently issuable shares were outstanding as of the acquisition date, July 19, 2010. 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 2,281 and 1,460 for the three months ended September 30, 2010 and 2009, respectively, and 1,769 and 1,462 for the nine months ended September 30, 2010 and 2009, respectively.

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended September<br/>30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Numerator:   |   |             |  |             |
| Net income   | \$ 2,141                                    | \$ 3,129    | \$ 7,828                                   | \$ 7,791    |
| Income effect of contingent consideration obligation, net of tax       | (591)                                       |             | (544)                                      |             |
| Net income applicable to shares of common stock for earnings per share | 1,550                                       | 3,129       | 7,284                                      | 7,791       |
| Denominator:   |   |             |  |             |
| Weighted average common shares outstanding - basic                     | 31,586                                      | 30,865      | 31,276                                     | 30,767      |

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Dilutive effect of:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Net issuable common share equivalents                 | 30     |        | 10     |        |
| Options and unvested restricted shares                | 864    | 490    | 910    | 515    |
| Weighted average common shares<br>outstanding diluted | 32,480 | 31,355 | 32,196 | 31,282 |

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

**5. Comprehensive Income**

The components of comprehensive income are as follows:

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net Income   | \$ 2,141                  | \$ 3,129    | \$ 7,828                 | \$ 7,791    |
| Translation adjustments                            | 66                        | (166)       | 64                       | (79)        |
| Unrealized gain (loss) on securities, (net of tax) | 23                        | 26          | 34                       | 26          |
| Total Other Comprehensive Income                   | \$ 2,230                  | \$ 2,989    | \$ 7,926                 | \$ 7,738    |

**6. Fair Value Measurements of Assets and Liabilities**

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

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

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

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

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

|             | <b>September 30,</b> | <b>December</b> |
|-------------|----------------------|-----------------|
|             | <b>2010</b>          | <b>30,</b>      |
|             |                      | <b>2009</b>     |
| Level 1 (A) | \$ 63,116            | \$ 89,924       |
| Level 2 (B) | 9,430                | 7,760           |
| Level 3 (C) | (11,317)             |                 |
| Total       | \$ 61,229            | \$ 97,684       |

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

(B) Level 2 assets include certificates of

deposit which  
are classified as  
marketable  
securities.

(C) Level 3  
liabilities  
includes the  
contingent  
consideration  
obligation  
which is  
classified as  
long term  
liabilities.

The Company utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. The Company's marketable securities investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the three months and nine months ended September 30, 2010.

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

|  | Aggregate<br>Fair Value | Aggregate Amount of<br>Unrealized |        |
|--|-------------------------|-----------------------------------|--------|
|  |                         | Gains                             | Losses |
| Due in one year or less                  | \$ 1,726                | \$ 23                             | \$     |
| Due after one year, less than five years | 7,704                   | 117                               | (3)    |
|  | \$ 9,430                | \$ 140                            | \$ (3) |



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

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 31, 2009 were as follows:

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

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

The Company determined the fair value of the contingent consideration obligation based on a probability-weighted income approach derived from quarterly revenue estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. No changes in valuation techniques or inputs occurred during the three months and nine months ended September 30, 2010.

The changes in fair value of the Company's Level 3 contingent consideration obligation during the nine months ended September 30, 2010 were as follows:

|   |           |
|---|-----------|
|   | Level 3   |
| Contingent consideration obligation related to acquisition of FusionOne as of July 19, 2010 | \$ 13,230 |
| Fair value adjustment to contingent consideration included in net income                    | (1,968)   |
| Earn-out compensation due to employees  | 55        |
| Balance at September 30, 2010   | \$ 11,317 |

**7. Acquisition**

On July 19, 2010 the Company acquired 100% of FusionOne, Inc. a leader in mobile content transfer and synchronization software. The acquisition of FusionOne accelerates the Company's overall connected device growth strategy and customer diversification efforts. Pursuant to the Agreement and Plan of Merger and Reorganization dated July 6, 2010 (the Merger Agreement), the Company paid approximately \$32 million in cash and issued approximately 400 thousand common shares of the Company's Common Stock valued at approximately \$7.1 million based on the Company's July 19, 2010 closing stock price per share, and potentially may make payments (Earn-out) totaling up to \$35 million in cash and stock, based on achievements of certain financial targets for the period from July 1, 2010 through December 31, 2011. The maximum that could be paid to existing employees of FusionOne is \$7 million and will be recorded as compensation expense over the service period.

*Acquisition-related Costs*

Acquisition-related costs recognized in the three and nine months ended September 30, 2010, including transaction costs such as legal, accounting, valuation and other professional services, were \$2.4 million and \$2.7 million, respectively.



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

The Earn-out acquisition date fair value of \$13.2 million was determined based on a probability-weighted income approach derived from quarterly revenue estimates and a probability assessment with respect to the likelihood of achieving the various earn-out criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. For the three and nine months ended September 30, 2010, a change in the Earn-out fair value of \$2.0 million was recorded as a credit in the consolidated statement of income. As of September 30, 2010, the preliminary range of outcomes and the assumptions used to develop the estimates had not changed significantly. The decrease in the fair value was due principally to FusionOne not achieving all of their quarterly metrics. Each reporting period, the Company will estimate the change in the fair value of the contingent consideration and any change in fair value will be recognized in the statement of income. The estimate of the fair value of the contingent consideration requires subjective assumptions to be made of various potential operating result scenarios. Future revisions to these assumptions could materially change the estimate of the fair value of the contingent consideration and therefore materially affect the Company's future financial results.

During September 2010, in its efforts to improve efficiencies and better align its costs and structure for the future the Company communicated its decision to exit the activities of the Estonia operations and consolidate some functions in its corporate headquarters. The Company recorded charges of \$335 thousand associated with these exit and restructure activities. These charges were recorded in research and development and selling, general and administrative costs in the Company's consolidated financial statements of income. The Company plans to cease operations in Estonia on December 31, 2010.

The following table summarizes the acquisition-related costs, the fair value change in contingent consideration and the acquisition-related contingent consideration to be paid to the existing employees of FusionOne, recognized in the three and nine months ended September 30, 2010 and 2009.

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Cost of services   | \$ 4  |             | \$ 4                                       | \$          |
| Research and development   | 162   |             | 162  |             |
| Selling, general and administrative                                | 2,626                                       |             | 2,940                                      |             |
| Net change in contingent consideration obligation                  | (1,968)                                     |             | (1,968)                                    |             |
| <br>   |   |             |  |             |
| Total acquisition-related costs and contingent consideration costs | \$ 824                                      | \$          | \$ 1,138                                   | \$          |

*Preliminary allocation of Consideration Transferred*

Total estimated purchase price is summarized as follows:

|   |               |
|---|---------------|
|   | July 19, 2010 |
| Cash consideration                            | \$ 32,172     |
| Value of Synchronoss common stock issued      | 7,136         |
| Estimated fair value of the Earn-out payments | 13,230        |
| Working Capital Deficiency                    | (346)         |
|   | \$ 52,192     |

The Company accounted for this business combination by applying the acquisition method, and accordingly, the preliminary estimated purchase price was allocated to the tangible assets and identifiable intangible assets acquired

and liabilities assumed based upon their relative fair values. The excess of the purchase price over the net tangible and identifiable intangible assets and liabilities was recorded as goodwill. Goodwill associated with the acquisition of FusionOne is not tax deductible. The results of FusionOne's operations have been included in the consolidated financial statements since the acquisition date. The Company is in the process of finalizing the purchase allocation and the value of contingent consideration, thus the provisional measures of contingent consideration, intangible assets, deferred income taxes and goodwill are subject to change. The Company expects the purchase price allocation will be finalized in 2011.

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

The following table summarizes the estimated fair values of the assets and liabilities assumed at the acquisition date. Estimates of both current and non-current deferred tax assets are subject to change, pending the finalization of certain tax returns:

|  | July 19, 2010 |
|--|---------------|
| Cash and cash equivalents                    | \$ 1,286      |
| Accounts receivable                          | 261           |
| Prepaid expenses and other assets            | 296           |
| Property and equipment                       | 609           |
| Deferred tax assets, net                     | 4,832         |
| Intangible assets                            | 32,700        |
| <br>Total identifiable assets acquired       | <br>39,984    |
| <br>Accounts payable and accrued liabilities | <br>(1,988)   |
| Capital lease                                | (154)         |
| Deferred revenue                             | (3,400)       |
| <br>Total liabilities assumed                | <br>(5,542)   |
| <br>Net identifiable assets acquired         | <br>34,442    |
| <br>Goodwill                                 | <br>17,750    |
| <br>Net assets acquired                      | <br>\$ 52,192 |

*Intangible Assets*

The Company is amortizing the value of the trade name, technology, and customer relationships on a straight-line basis over an estimated useful life of 8, 10, and 16 years, respectively. Amortization expense related to the acquired intangible assets resulting from the FusionOne acquisition, which is included in depreciation and amortization expense, was approximately \$525 thousand for the three and nine months ended September 30, 2010.

Intangible assets consist of the following (in thousands):

|                          | September 30,<br>2010 |
|--------------------------|-----------------------|
| Intangible assets:       |                       |
| Trade name               | \$ 500                |
| Accumulated amortization | (12)                  |
| <br>Trade name, net      | <br>488               |
| <br>Technology           | <br>15,000            |
| Accumulated amortization | (299)                 |
| <br>Technology, net      | <br>14,701            |

|                             |           |
|-----------------------------|-----------|
| Customer relationships      | 17,200    |
| Accumulated amortization    | (214)     |
| Customer relationships, net | 16,986    |
| Intangibles assets, net     | \$ 32,175 |

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

*Deferred Revenues*

In connection with the purchase price allocation, the Company estimated the fair value of the service obligations assumed from FusionOne as a consequence of the acquisition. The estimated fair value of the service obligations was determined using a cost build-up approach. The cost build-up approach determines fair value by estimating the costs relating to fulfilling the obligations plus a normal profit margin of a market participant. The estimated costs to fulfill the service obligations were based on the historical direct costs and indirect costs related to FusionOne's service agreements with its customers. The Company recorded \$3.4 million of deferred revenue to reflect the estimate of the fair value of FusionOne's service obligations assumed.

*Pro forma*

The following unaudited pro forma financial information reflects the consolidated results of operations of Synchronoss as if the acquisition of FusionOne had taken place on January 1, 2010 and January 1, 2009. The pro forma information includes adjustments for the amortization of intangible assets. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date.

|                                   | Three Months Ended |         | Nine Months Ended |         |
|-----------------------------------|--------------------|---------|-------------------|---------|
|                                   | September 30,      |         | September 30,     |         |
|                                   | 2010               | 2009    | 2010              | 2009    |
| Net sales                         | 44,742             | 34,829  | 127,012           | 99,078  |
| Net earnings                      | 3,078              | (2,373) | 4,547             | (8,098) |
| Diluted earnings per common share | 0.09               | (0.08)  | 0.14              | (0.26)  |

**8. Stockholders' Equity***Stock Options*

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

|                                     | Three Months Ended |       | Nine Months Ended |       |
|-------------------------------------|--------------------|-------|-------------------|-------|
|                                     | September 30,      |       | September 30,     |       |
|                                     | 2010               | 2009  | 2010              | 2009  |
| Expected stock price volatility     | 62%                | 63%   | 62%               | 62%   |
| Risk-free interest rate             | 2.44%              | 2.76% | 2.52%             | 2.85% |
| Expected life of options (in years) | 4.87               | 4.89  | 4.89              | 4.91  |
| Expected dividend yield             | 0%                 | 0%    | 0%                | 0%    |

The weighted-average fair value (as of the date of grant) of the options granted was \$9.57 and \$6.11 per share for the three months ended September 30, 2010 and 2009, respectively, and \$10.07 and \$6.09 for the nine months ended September 30, 2010 and 2009, respectively. During the three months ended September 30, 2010 and 2009, the Company recorded total pre-tax stock-based compensation expense of \$3.2 million (\$2.3 million after tax or \$0.07 per diluted share) and \$2.1 million (\$1.5 million after tax or \$0.05 per diluted share), respectively, which includes fair value for equity awards issued after January 1, 2006. During the nine months ended September 30, 2010 and 2009, the Company recorded total pre-tax stock-based compensation expense of \$8.8 million (\$6.0 million after tax or \$0.19 per diluted share) and \$6.0 million (\$4.2 million after tax or \$0.14 per diluted share), respectively, which includes both intrinsic value for equity awards issued prior to 2006 and fair value for equity awards issued after January 1, 2006. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of September 30, 2010 was approximately \$22.9 million. That cost is expected to be recognized over a weighted-average period of approximately 2.84 years.





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

The following table summarizes information about stock options outstanding:

|                                | Shares<br>Available<br>for Grant | Options Outstanding    |  | Weighted-<br>Average<br>Exercise<br>Price |
|--------------------------------|----------------------------------|------------------------|--|---|
|                                |                                  | Number<br>of<br>Shares | Option<br>Exercise Price<br>per Share<br>Range |   |
| Balance at December 31, 2009   | 310                              | 4,623                  | \$ 0.29 38.62                                  | \$ 13.44                                  |
| Options granted                | (1,152)                          | 1,152                  | \$ 15.89 20.91                                 | \$ 19.72                                  |
| Options exercised              |                                  | (278)                  | \$ 0.29 17.90                                  | \$ 9.58                                   |
| Options forfeited              | 70                               | (122)                  | \$ 10.27 38.62                                 | \$ 17.31                                  |
| Expansion of pool in May 2010  | 3,000                            |                        |  |   |
| Expansion of pool in Aug. 2010 | 414                              |                        |  |   |
| Balance at September 30, 2010  | 2,642                            | 5,375                  | \$ 0.29 38.62                                  | \$ 14.89                                  |

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

| <b>Non-Vested Restricted Stock</b> | Number of<br>Awards |
|------------------------------------|---------------------|
| Non-vested at January 1, 2010      | 114                 |
| Granted                            | 37                  |
| Vested                             | (42)                |
| Forfeited                          |                     |
| Non-vested at September 30, 2010   | 109                 |

On August 3, 2010, the Company's Board of Directors granted equity awards made to one hundred three employees and one newly appointed executive officer of the Company. Pursuant to NASDAQ Listing Rule 5635(c)(4), the equity awards were granted under the Synchronoss Technologies, Inc. 2010 New Hire Equity Incentive Plan, which the Board of Directors adopted to facilitate the granting of equity awards as an inducement to new employees to join Synchronoss. In accordance with Nasdaq rules, these grants were made under a stock incentive plan without stockholder approval.

**9. Income Taxes**

The Company's effective tax rate was approximately 32.4% and approximately 39.9% during the three months ended September 30, 2010 and 2009, respectively. The Company reviews the expected annual effective income tax rate and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. The Company's effective tax rate is lower than its US federal statutory rate due to taxes in foreign jurisdictions where the rate is lower than the US federal statutory rate offset by increases in its allocation to states with higher income taxes. Additionally, the Company received benefits from discrete items during the quarter as described below.



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

The Company received a benefit due to the fair market value adjustment for the contingent consideration obligation related to the Earn-out for the FusionOne equity holders. The Company expects to be exposed to fluctuations in its effective rate during the Earn-out period for the contingent consideration liability. Due to the nature of this transaction the Company may experience significant adjustments to fair value of the contingent consideration obligation depending on the outcome of the quarterly achievements. In addition, the Company received a benefit due to the reduction in our uncertain tax position reserve.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

|   |    |       |
|---|----|-------|
| Unrecognized tax benefit at December 31, 2009                   | \$ | 993   |
| Additions for tax positions of prior periods                    |    | 52    |
| Decreases for tax positions of prior periods                    |    | (99)  |
| Reductions related to the expiration of statutes of limitations |    | (460) |
| Unrecognized tax benefit at September 30, 2010                  | \$ | 486   |

These benefits were partially offset by the tax impact of the non-deductible transaction costs related to the FusionOne acquisition. Also, the Company had a tax rate increase primarily resulting from the expiration of the tax holiday in India and increased state taxes due to more contracts being performed in those locations.

During the three months ended September 30, 2010 and 2009, the Company recognized approximately \$1.0 million and \$2.1 million, respectively, in related tax expense. During the nine months ended September 30, 2010 and 2009, the Company recognized approximately \$4.7 million and \$5.3 million in related tax expense, respectively.

**10. Capital Transactions**

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

**11. Legal Matters**

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

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

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey (the State Derivative Suit ) and the United States District Court for the District of New Jersey (the Federal Derivative Suit ) against certain of the Company s officers and directors, purportedly derivatively on behalf of the Company (collectively, the Derivative Suits ). The Complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations in connection with the disclosures that also are the subject of the Securities Law Actions described above. The Company is also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on the Company s behalf. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court s discretion. On October 20, 2010, the parties to the Federal Derivative Suit filed a notice of voluntary dismissal with prejudice as to the named plaintiff, noting that the plaintiff was dismissing the case without receiving payment of any kind. The proceedings in the State Derivative Suit are currently subject to a stay order. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the State Derivative Suit at this time, and the Company can give no assurance that the claims in these complaints will not have a material adverse effect on its financial position or results of operations.

**12. Subsequent Events Review**

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

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the information set forth in our consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q and in our annual report Form 10-K for the year ended December 31, 2009. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as believes, expects, anticipates, intends, should, continues, likely or similar expressions, indicate a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. We caution investors not to place substantial reliance on the forward-looking statements included in this report. These statements speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments. All numbers are expressed in thousands unless otherwise stated.

**Overview**

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

On July 19, 2010 we acquired FusionOne, Inc. and its subsidiary, FusionOne Esti ou ( Estonia ) (collectively, FusionOne ) for approximately \$32 million in cash and issued approximately 400 thousand common shares of our Common Stock. FusionOne was incorporated in Delaware on May 19, 1998 and began operations on November 4, 1998 (inception). FusionOne provides internet synchronization technology and marketing services that make information access seamless and simple across multiple communications and computing devices across both compatible and traditionally incompatible systems. In addition, FusionOne has expanded its technology to provide personal content management applications for mobile phone users which includes affordable backup of the user's address book, calendar, pictures and downloaded content.

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

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***Revenues***

We generate a substantial portion of our revenues on a per-transaction basis, most of which is derived from contracts that extend up to 60 months from execution. For the three months ended September 30, 2010 and 2009, we derived approximately 76% and 83%, respectively, of our revenues from transactions processed. The remainder of our revenues was generated by professional services, licenses and subscriptions.

Historically, our revenues have been directly impacted by the number of transactions processed. In recent years, the fourth quarter has had the highest volume of transactions processed due to increased consumer activation activity during the holiday season. The future success of our business depends on the continued growth of consumer and business transactions and, as such, the volume of transactions that we process could fluctuate on a quarterly basis. See

*Current Trends Affecting Our Results of Operations* for certain matters regarding future results of operations.

We currently derive a significant portion of our revenues from one customer, AT&T. For the three months ended September 30, 2010, AT&T accounted for approximately 62% of our revenues compared to 67% for the three months ended September 30, 2009. Our agreement with AT&T was renewed effective January 1, 2009 and runs through December of 2011. AT&T may renew this agreement for two additional one year periods. This agreement defines the work activities, transaction pricing, forecasting process, service level agreements and remedies associated with certain services performed by us for AT&T's ecommerce organization. The agreement provides for AT&T to pay us (i) a monthly hosting fee, (ii) a fee based on the number of transactions processed through our technology platform, (iii) a fee based on manual processing services and (iv) for professional services rendered by us. A copy of this agreement has been previously filed with the Securities & Exchange Commission.

Our five largest customers, for the three months ending September 30, 2010 were AT&T, Frontier Communications, Level 3, Time Warner Cable, and Verizon, which accounted for approximately 84% of our revenues, compared to 87% of our revenues from our five largest customers, AT&T, Comcast, Level 3, Time Warner Cable, and Vonage, for the three months ended September 30, 2009. See *Risk Factors* for certain matters bearing risks on our future results of operations.

***Costs and Expenses***

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

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

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

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

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

Net change in contingent consideration obligation consists of the changes to the fair value estimate of the obligation to the FusionOne former equity holders. The estimate is based on the weighted probability achievements of certain financial targets for the period from July 1, 2010 through December 31, 2011.

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

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**Current Trends Affecting Our Results of Operations**

Our on-demand business model enables delivery of our proprietary solutions over the Web as a service and has been driven by market trends such as various forms of order provisioning, local number portability, the implementation of new technologies, subscriber growth, competitive churn, network changes, growth of the emerging device market (i.e., smartphone devices, netbooks, etc.) and consolidations in the industry. In particular, the emergence of order provisioning of e-commerce transactions for smartphone devices, wireless, VoIP, LNP, and other communication services surrounding the convergence of bundled services has increased the need for our services and we believe will continue to be a source of growth for us.

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

We continue to advance our plans for the expansion of our platform footprint with international carriers to support connected devices and multiple networks through our focus on transaction management. Our initiatives with AT&T across direct and indirect commerce channels, business and consumer segments continue to grow along with our account presence with a number of Tier 1 cable MSOs and connected device OEMs. We are also exploring additional opportunities through merger and acquisition activities to support our customer, product and geographic diversification strategies.

**Critical Accounting Policies and Estimates**

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

We believe that of our significant accounting policies, which are described in Note 2 in our Annual Report on Form 10-K for the year ended December 31, 2009, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See Risk Factors for certain matters bearing risks on our future results of operations.

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

There were no significant changes in our critical accounting policies and estimates discussed in our Form 10-K during the three months ended September 30, 2010. In addition, our preliminary estimates of purchase price allocation and valuation of contingent consideration is subject to estimates as discussed in Note 7. We are in the process of finalizing these preliminary estimates, thus the amounts recorded are subject to change, and these changes could be material.



Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009 for a more complete discussion of our critical accounting policies and estimates.

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

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

|  | Three Months Ended<br>September 30, |                 |                      |                 | Three Months Ended<br>September 30,<br>2010 vs 2009 |             |
|--|-------------------------------------|-----------------|----------------------|-----------------|---|-------------|
|  | 2010                                | % of<br>Revenue | 2009                 | % of<br>Revenue | \$<br>Change  | %<br>Change |
|  | \$                                  |                 | \$<br>(in thousands) |                 |   |             |
| Net revenue  | \$ 44,456                           | 100.0%          | \$ 33,097            | 100.0%          | \$ 11,359   | 34.3%       |
| Cost of services*                                    | 22,983                              | 51.7%           | 16,790               | 50.7%           | 6,193   | 36.9%       |
| Research and development                             | 7,569                               | 17.0%           | 3,243                | 9.8%            | 4,326   | 133.4%      |
| Selling, general and<br>administrative               | 10,465                              | 23.5%           | 5,561                | 16.8%           | 4,904   | 88.2%       |
| Net change in contingent<br>consideration obligation | (1,968)                             | (4.4%)          |                      |                 | (1,968)   | (100.0%)    |
| Depreciation and<br>amortization                     | 2,606                               | 5.9%            | 2,154                | 6.5%            | 452   | 21.0%       |
|  | 41,655                              | 93.7%           | 27,748               | 83.8%           | 13,907  | 50.1%       |
| Income from operations                               | \$ 2,801                            | 6.3%            | \$ 5,349             | 16.2%           | \$ (2,548)  | (47.6%)     |

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

**Net Revenue.** Net revenues increased \$11.4 million to \$44.5 million for the three months ended September 30, 2010, compared to the same period in 2009. This increase was due primarily to increased transaction volumes and expansion into new programs from our AT&T and Time Warner Cable relationships and due to our FusionOne acquisition which contributed additional revenues this quarter. Net revenues related to AT&T increased \$5.2 million to \$27.4 million for the three months ended September 30, 2010 compared to the same period in 2009. AT&T represented 62% of our revenues for the three months ended September 30, 2010, compared to 67% for the three months ended September 30, 2009. Net revenues outside of AT&T generated \$17.1 million of our revenues during the three months ended September 30, 2010 as compared to \$10.9 million during the three months ended September 30, 2009. Net revenues outside of AT&T represented 38% and 33% of our revenues during the three months ended September 30, 2010 and 2009, respectively. Transaction revenues recognized for the three months ended September 30, 2010 and 2009 represented 76% or \$33.8 million and 83% or \$27.5 million of net revenues, respectively. Professional service revenues as a percentage of sales were 16% or \$6.9 million for the three months ended September 30, 2010, compared to 16% or \$5.4 million for the previous three months ended September 30, 2009. As a result of the FusionOne acquisition, license and Subscription revenue increased \$3.5 million to 8% or 3.7 million for the three months ended September 30, 2010 as compared to the same period in 2009.

**Expense**

**Cost of Services.** Cost of services increased \$6.2 million to \$23.0 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to an increase of \$3.1 million for outside consultants related to growth in existing and new programs with our customers. There was an increase of \$1.6 million in our personnel and related costs and an increase of \$557 thousand in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to the continued expansion of programs which have led to an increase in headcount. Also contributing to the increase in cost of services was \$1.2 million in telecommunication and facility costs related to the increased call volume and capacity associated with our data facilities and our expansions related to the FusionOne acquisition offset by a decrease of \$390 thousand in license fees related to our 2009 ATG license purchase. Additionally there was an increase in travel costs of \$74 thousand related to our global and domestic expansion. Cost of services as a percentage of revenues increased to 51.7% for the three months ended September 30, 2010, as compared to 50.7% for the three months ended September 30, 2009.

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**Research and Development.** Research and development expense increased \$4.3 million to \$7.6 million for the three months ended September 30, 2010, compared to the same period in 2009, due primarily to the acquisition of FusionOne. We had an increase of \$2.1 million in our personnel and related costs and an increase of \$341 thousand in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due to an increase in headcount primarily as a result of the FusionOne acquisition. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of \$29 thousand related to the employee Earn-out achieved in the three months ended September 30, 2010. In addition there was an increase of \$1.3 million in professional services augmenting our staff related to the development of new technologies and an increase of \$358 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources. In the three months ended September 30, 2010 there were restructuring and exit activity costs of \$133 thousand related to the exit activities of the Estonia operations. Research and development expense as a percentage of revenues increased to 17.0% for the three months ended September 30, 2010 as compared to 9.8% for the three months ended September 30, 2009.

**Selling, General and Administrative.** Selling, general and administrative expense increased \$4.9 million to \$10.5 million for the three months ended September 30, 2010, compared to the same period in 2009 primarily due to the acquisition of FusionOne including acquisition related fees of \$2.4 million for investment banking and professional services. We had increases in our personnel and related costs of \$1.6 million, stock-based compensation expense of \$244 thousand, consulting costs of \$148 thousand, franchise taxes and other taxes of \$158 thousand, an increase in professional services of \$48 thousand, an increase in telecommunication and facility costs of \$73 thousand, and an increase in our bad debt expense of \$34 thousand. The increase in personnel and related and stock-based compensation costs was primarily due to an increase in headcount from the FusionOne acquisition. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of \$22 thousand related to the employee Earn-out achieved in the three months ended September 30, 2010. In the three months ended September 30, 2010 there were restructure and exit activity costs of \$202 thousand related to the consolidation of FusionOne into Synchronoss. Selling, general and administrative expense as a percentage of revenues increased to 23.5% for the three months ended September 30, 2010, compared to 16.8% for the three months ended September 30, 2009.

**Depreciation and amortization.** Depreciation and amortization expense increased \$452 thousand to \$2.6 million for the three months ended September 30, 2010, compared to the same period in 2009, primarily related to the amortization of our newly acquired intangible assets of FusionOne by the completion of the depreciation of certain assets which have, for accounting purposes, reached the end of their respective useful lives. Depreciation and amortization expense as a percentage of revenues decreased to 5.9% for the three months ended September 30, 2010, as compared to 6.5% for the same period in 2009. The decrease in percentage was the result of a higher revenue base as compared to the same period in 2009.

**Net change in contingent consideration obligation.** The fair value change in the contingent consideration liability related to the FusionOne former equity holders resulted in a credit to expenses of \$2.0 million for the three months ended September 30, 2010. The decrease in the estimate of the fair value is due principally to FusionOne not achieving all of their quarterly metrics. As of September 30, 2010 the range of outcomes and the assumptions used to develop the estimates for the remaining Earn-out period had not changed significantly.

**Income from Operations.** Income from operations decreased \$2.5 million to \$2.8 million for the three months ended September 30, 2010, compared to the same period in 2009. This decrease was due primarily to the costs associated with the July 19, 2010 acquisition of FusionOne and our increased investments in our research and development staff. Income from operations decreased as a percentage of revenues to 6.3% for the three months ended September 30, 2010, as compared to 16.2% for the three months ended September 30, 2009.

**Interest and other income.** Interest and other income increased \$600 thousand to \$706 thousand for the three months ended September 30, 2010, compared to the same period in 2009. Interest and other income increased primarily due to other income from insurance claim proceeds received offset by decreased interest income due to decreased cash balances and rates on our investments.

***Interest and other expense.*** Interest expense and other expense increased \$92 thousand to \$342 thousand for the three months ended September 30, 2010, compared to the same period in 2009. Interest and other expense increased primarily due to currency fluctuations related to the settlement of our customer account sales. During three months ended September 30, 2010 and 2009 we recognized \$229 thousand and \$220 thousand, respectively, of interest expense related to the Bethlehem facility lease.

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**Income Tax.** Our effective tax rate was approximately 32.4% and approximately 39.9% during the three months ended September 30, 2010 and 2009, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. Our effective tax rate is lower than our US federal statutory rate due to taxes in foreign jurisdictions where the rate is lower than the US federal statutory rate offset by increases in our allocation to states with higher income taxes. Additionally, we received benefits from discrete items during the quarter as described below.

We received a benefit due to our fair market value adjustment for the contingent consideration obligation related to the Earn-out for the FusionOne equity holders. We expect to be exposed to fluctuations in our effective rate during the Earn-out period for our contingent consideration liability. Due to the nature of this transaction we may experience significant adjustments to fair value of the contingent consideration obligation depending on the outcome of the quarterly achievements. In addition, we received a benefit due to the reduction in our uncertain tax position reserve.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the three months ended September 30, 2010 is as follows:

|   |          |
|---|----------|
| Unrecognized tax benefit at June 30, 2010                       | \$ 1,012 |
| Additions for tax positions of prior periods                    | 33       |
| Decreases for tax positions of prior periods                    | (99)     |
| Reductions related to the expiration of statutes of limitations | (460)    |
| Unrecognized tax benefit at September 30, 2010                  | \$ 486   |

These benefits were partially offset by the tax impact of the non-deductible transaction costs related to the FusionOne acquisition. Also, we had a tax rate increase primarily resulting from the expiration of the tax holiday in India and increased state taxes due to more contracts being performed in those locations.

During the three months ended September 30, 2010 and 2009, we recognized approximately \$1.0 million and \$2.1 million, respectively, in related tax expense.

**Results of Operations*****Nine months ended September 30, 2010 compared to the nine months ended September 30, 2009***

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

|  | Nine Months Ended<br>September 30,<br>2010 |                 | 2009      |                 | Nine Months Ended<br>September 30,<br>2010 vs 2009 |             |
|--|--|-----------------|-----------|-----------------|--|-------------|
|  | \$<br>(in<br>thousands)                    | % of<br>Revenue | \$        | % of<br>Revenue | \$<br>Change                                       | %<br>Change |
| Net revenue  | \$ 116,738                                 | 100.0%          | \$ 93,204 | 100.0%          | \$ 23,534  | 25.2%       |
| Cost of services*                                    | 59,638                                     | 51.1%           | 47,179    | 50.6%           | 12,459   | 26.4%       |
| Research and development                             | 16,760                                     | 14.4%           | 9,359     | 10.0%           | 7,401  | 79.1%       |
| Selling, general and<br>administrative               | 23,310                                     | 20.0%           | 17,218    | 18.5%           | 6,092  | 35.4%       |
| Net change in contingent<br>consideration obligation | (1,968)                                    | (1.7%)          |           |                 | (1,968)  | (100.0%)    |
|  | 6,459                                      | 5.5%            | 6,264     | 6.7%            | 195  | 3%          |

Depreciation and  
amortization

|                        |           |       |           |       |          |        |
|------------------------|-----------|-------|-----------|-------|----------|--------|
|                        | 104,199   | 89.3% | 80,020    | 85.9% | 24,179   | 30.2%  |
| Income from operations | \$ 12,539 | 10.7% | \$ 13,184 | 14.1% | \$ (645) | (4.9%) |

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

**Net Revenue.** Net revenues increased \$23.5 million to \$116.7 million for the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009. This increase was due primarily to increased transaction volumes and expansion into new programs from our customers as well as the acquisition of FusionOne. Net revenues related to AT&T increased \$14.3 million to \$75.1 million for the nine months ended September 30, 2010 compared to the same period in 2009. AT&T represented 64% and 65% of our revenues for the nine months ended September 30, 2010 and 2009, respectively. Net revenues outside of AT&T increased \$9.2 million to \$41.6 million for the nine months ended September 30, 2010, as compared to \$32.4 million during the nine months ended September 30, 2009. Net revenues outside of AT&T represented 36% and 35% of our revenues during the nine months ended September 30, 2010 and 2009, respectively. Transaction revenues recognized for the nine months ended September 30, 2010 and 2009 represented 79% or \$91.6 million and 84% or \$77.8 million of net revenues, respectively. Professional service revenues increased as a percentage of sales to 18% or \$20.5 million for the nine months ended September 30, 2010, compared to 16% or \$14.7 million for the previous nine months ended September 30, 2009. License and Subscription revenues increased \$3.9 million to 4% or \$4.6 million for the nine months ended September 30, 2010 as compared to the same period in 2009 due to our FusionOne acquisition.

**Table of Contents*****Expense***

***Cost of Services.*** Cost of services increased \$12.5 million to \$59.6 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to an increase of \$3.8 million in personnel and related costs and an increase of \$1.3 million in stock-based compensation. The increase in personnel and related costs and stock-based compensation was due primarily to an increase in headcount to support the growth of existing and new programs. There was an increase of \$5.0 million for outside consultants related to growth in programs with existing customers. There was an increase of \$2.4 million in telecommunication and facility costs related to the increased call volume and capacity associated with our data facilities and our expansions related to the FusionOne acquisition offset by a decrease of \$390 thousand in license fees related to our 2009 ATG license purchase. Additionally there was an increase in travel costs of \$281 thousand related to our global and domestic expansion. Cost of services as a percentage of revenues increased to 51.1% for the nine months ended September 30, 2010, as compared to 50.6% for the nine months ended September 30 2009.

***Research and Development.*** Research and development expense increased \$7.4 million to \$16.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, due primarily to the acquisition of FusionOne. We had an increase of \$3.6 million in our personnel and related costs and an increase of \$758 thousand in stock based compensation due to increase in headcounts resulting from continued growth and the FusionOne acquisition. Also included the increase in personnel and related costs and in stock-based compensation costs were costs of \$29 thousand related to the employee Earn-out achieved in the three months ended September 30, 2010. Contributing to the increase was \$2.2 million in professional services related to the development of new technologies and an increase of \$751 thousand in telecommunication and facility costs related to the increase in headcount and the utilization of our expanded resources. In the nine months ended September 30, 2010 there were restructuring and exit activity costs of \$133 thousand related to the exit activities of the Estonia operations. Research and development expense as a percentage of revenues increased to 14.4% for the nine months ended September 30, 2010 as compared to 10.0% for the nine months ended September 30, 2009.

***Selling, General and Administrative.*** Selling, general and administrative expense increased \$6.1 million to \$23.3 million for the nine months ended September 30, 2010, compared to the same period in 2009 due to \$2.7 million of investment banking and professional services fees associated with the acquisition of FusionOne on July 19, 2010. We had increases in our personnel and related costs of \$2.0 million and stock-based compensation expense of \$743 thousand, consulting costs of \$357 thousand and marketing costs of \$322 thousand, an increase in franchise and other taxes of \$207 thousand, and an increase in our bad debt expense of \$126 thousand. The increase in personnel and related and stock-based compensation costs was primarily due to an increase in headcount primarily as a result of our continued growth and the FusionOne acquisition. Also included in the increase in personnel and related costs and in stock-based compensation costs were costs of \$22 thousand related to the employee Earn-out achieved in the nine months ended September 30, 2010. The consulting and marketing costs increases relate to our expanded business development and marketing activities. These expenses were offset by decreases in professional services of \$448 thousand, telecommunication and facility costs of \$70 thousand, company meetings of \$58 thousand, and \$49 thousand in other costs. The decrease in professional services relates to a reduction in legal fees and the decrease in telecommunication and facility costs was primarily due to a reduction in services. In the nine months ended September 30, 2010 there were restructure and exit activity costs of \$202 thousand related to the consolidation of FusionOne into Synchronoss. Selling, general and administrative expense as a percentage of revenues increased to 20.0% for the nine months ended September 30, 2010, compared to 18.5% for the nine months ended September 30 2009.

***Depreciation and amortization.*** Depreciation and amortization expense increased \$195 thousand to \$6.5 million for the nine months ended September 30, 2010, compared to the same period in 2009, related to the amortization of our newly acquired intangible assets of FusionOne and by the completion of the depreciation of certain assets which, for accounting purposes, have reached the end of their respective lives. Depreciation and amortization expense as a percentage of revenues decreased to 5.5% for the nine months ended September 30, 2010, as compared to 6.7% for the same period in 2009. The decrease in percentage was a result of a higher revenue base as compared to the same period 2009.



***Net change in contingent consideration obligation.*** The fair value change in the contingent consideration liability related to the FusionOne former equity holders resulted in a credit to expenses of \$2.0 million for the nine months ended September 30, 2010. The decrease in the estimate of the fair value is due principally to FusionOne not achieving all of their quarterly metrics. As of September 30, 2010 the range of outcomes and the assumptions used to develop the estimates for the remaining Earn-out period had not changed significantly.

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**Income from Operations.** Income from operations decreased \$645 thousand to \$12.5 million for the nine months ended September 30, 2010, compared to the same period in 2009. This decrease was due primarily to the costs associated with the July 19, 2010 acquisition of FusionOne and increased investments in our research and development staff and related costs. Income from operations decreased as a percentage of revenues to 10.7% for the nine months ended September 30, 2010, as compared to 14.1% for the nine months ended September 30, 2009.

**Interest and other income.** Interest and other income increased \$482 thousand to \$940 thousand for the nine months ended September 30, 2010, compared to the same period in 2009. Interest and other income increased primarily due to proceeds from insurance claims offset by decreased interest income due to decreased cash balances and lower rates on our investments.

**Interest and other expense.** Interest expense and other expense increased \$363 thousand to \$909 thousand for the nine months ended September 30, 2010, compared to the same period in 2009. Interest and other expense increased primarily due to the lease financing obligation related to our Pennsylvania facility that began in April 2009. During nine months ended September 30, 2010 and 2009 we recognized \$684 thousand and \$447 thousand, respectively, of interest expense related to the facility lease.

**Income Tax.** Our effective tax rate was approximately 37.7% and approximately 40.5% during the nine months ended September 30, 2010 and 2009, respectively. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. Our effective tax rate is lower than our US federal statutory rate due to taxes in foreign jurisdictions where the rate is lower than the US federal statutory rate offset by increases in our allocation to states with higher income taxes. Additionally, we received benefits from discrete items during the nine months ended September 30, 2010, as described below.

We received a benefit due to our fair market value adjustment for the contingent consideration obligation related to the Earn-out for the FusionOne equity holders. We expect to be exposed to fluctuations in our effective rate during the Earn-out period for our contingent consideration liability. Due to the nature of this transaction we may experience significant adjustments to fair value of the contingent consideration obligation depending on the outcome of the quarterly achievements. In addition, we received a benefit due to the reduction in our uncertain tax position reserve.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the nine months ended September 30, 2010 is as follows:

|   |        |
|---|--------|
| Unrecognized tax benefit at December 31, 2009                   | \$ 993 |
| Additions for tax positions of prior periods                    | 52     |
| Decreases for tax positions of prior periods                    | (99)   |
| Reductions related to the expiration of statutes of limitations | (460)  |
| Unrecognized tax benefit at September 30, 2010                  | \$ 486 |

These benefits were partially offset by the tax impact of the non-deductible transaction costs related to the FusionOne acquisition. Also, we had a tax rate increase primarily resulting from the expiration of the tax holiday in India and increased state taxes due to more contracts being performed in those locations.

During the nine months ended September 30, 2010 and 2009, we recognized approximately \$4.7 million and \$5.3 million in related tax expense, respectively.

**Liquidity and Capital Resources**

Our principal source of liquidity has been cash provided by operations. Our cash, cash equivalents and marketable securities balance was \$72.5 million at September 30, 2010, a decrease of \$25.1 million as compared to the end of 2009. This decrease was primarily due to the \$32 million in cash used for the purchase of FusionOne. We anticipate that our principal uses of cash in the future will be to fund the expansion of our business through both organic growth as well as possible acquisition activities and the expansion of our customer base internationally. Uses of cash will also include facility expansion, capital expenditures and working capital.

**Discussion of Cash Flows**

*Cash flows from operations.* Net cash provided by operating activities for the nine months ended September 30, 2010 was \$9.7 million, as compared to \$17.0 million for the nine months ended September 30, 2009. Our primary uses of cash from operating activities are for personnel related expenditures and outside consultants. We also make cash payments related to taxes and leased facilities. During the nine months ended September 30, 2010 we also made payments of approximately \$2.7 million related to our FusionOne related acquisition transaction costs. The decrease in net cash provided by operating activities for the nine months ended September 30, 2010 of \$7.3 million as compared to the same period in 2009 is due to the change in working capital which included a \$9.3 million increase in our accounts receivable balance as our collection of customer accounts only partially offset the increase of \$23.5 million in customer sales and a \$2.0 million increase in our accounts payable and accrued expenses.

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*Cash flows from investing.* Net cash used in investing activities for the nine months ended September 30, 2010 was \$39.3 million, as compared to \$11.4 million for the nine months September 30, 2009. The primary use of cash was \$30.8 million used in the July 19, 2010 acquisition of FusionOne net of cash acquired. In addition there was \$7.3 million used to purchase property and equipment primarily related to our continued investments in our global information technology and business system infrastructure. We also used \$1.6 million related to the purchases and maturity of our marketable securities available for sale.

*Cash flows from financing.* Net cash provided by financing activities for the nine months ended September 30, 2010 was \$2.7 million, as compared to \$1.0 million for the nine months ended September 30, 2009. The increase was due to the increase in proceeds from the exercise of stock options and an increase in the tax benefit from the exercise of stock options, offset by payments on our capital obligation related to our data facility in the nine months ended September 30, 2010.

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

**Effect of Inflation**

Although inflation generally affects us by increasing our cost of labor and equipment, we do not believe that inflation has had any material effect on our results of operations for the three months ended June 30, 2010 and 2009.

**Impact of Recently Issued Accounting Standards**

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

**Off-Balance Sheet Arrangements**

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

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. We believe our exposure associated with these market risks has not changed materially since December 31, 2009.

**Foreign Currency Exchange Risk**

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

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

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

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**ITEM 4. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures.***

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2010. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2010, the end of the period covered by this quarterly report, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

***Changes in internal controls over financial reporting***

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

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

On October 23, 2008 and November 3, 2008, complaints were filed in the state court of New Jersey (the State Derivative Suit ) and the United States District Court for the District of New Jersey (the Federal Derivative Suit ) against certain of our officers and directors, purportedly derivatively on our behalf (collectively, the Derivative Suits ). The Complaints in the Derivative Suits assert that the named officers and directors breached their fiduciary duties and other obligations in connection with the disclosures that also are the subject of the Securities Law Actions described above. We were also named as a nominal defendant in the Derivative Suits, although the lawsuits are derivative in nature and purportedly asserted on our behalf. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court 's discretion. On October 20, 2010, the parties to the Federal Derivative Suit filed a notice of voluntary dismissal with prejudice as to the named plaintiff, noting that that the plaintiff was dismissing the case without receiving payment of any kind. The proceedings in the State Derivative Suit are currently subject to a stay order. Due to the inherent uncertainties of litigation, we cannot predict the outcome of the State Derivative Suit at this time, and we can give no assurance that the claims in these complaints will not have a material adverse effect on its financial position or results of operations.

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**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

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

None.

***Use of Proceeds***

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

On July 19, 2010 we acquired 100% of the capital stock of FusionOne, Inc. a leader in mobile content transfer and synchronization software. The acquisition of FusionOne accelerates our overall connected device growth strategy and customer diversification efforts. Pursuant to the Agreement and Plan of Merger and Reorganization dated July 6, 2010 (the Merger Agreement), we paid approximately \$32 million in cash and issued approximately 400 thousand common shares of our Common Stock valued at approximately \$7.1 million based on our July 19, 2010 closing stock price per share, and potentially may make payments totaling up to \$35 million in cash and stock, based on achievements of certain financial targets for the period from July 1, 2010 through December 31, 2011.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. Reserved**

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3.2*               | Restated Certificate of Incorporation of the Company   |
| 3.4*               | Amended and Restated Bylaws of the Company   |
| 4.2*               | Form of Company's Common Stock certificate   |
| 31.1               | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2               | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1               | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2               | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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



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**SIGNATURES**

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

Synchronoss Technologies, Inc.

/s/ Stephen G. Waldis

**Stephen G. Waldis**

**Chairman of the Board of Directors,  
President and Chief Executive Officer  
(Principal executive officer)**

/s/ Lawrence R. Irving

**Lawrence R. Irving**

**Executive Vice President, Chief  
Financial Officer and Treasurer**

November 4, 2010