

SYNCHRONOSS TECHNOLOGIES INC

Form 10-Q

November 05, 2015

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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, 2015

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

06-1594540  
(I.R.S. Employer

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incorporation or organization) Identification No.)

200 Crossing Boulevard, 8th Floor

Bridgewater, New Jersey 08807  
(Address of principal executive offices) (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 | Outstanding<br>at October |
|-------|---------------------------|
|-------|---------------------------|

|                                  |            |
|----------------------------------|------------|
|                                  | 28, 2015   |
| Common stock, \$0.0001 par value | 44,124,489 |

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## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

|   | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| <b>ASSETS</b>   |                    |                   |
| Current assets:   |                    |                   |
| Cash and cash equivalents   | \$ 143,352         | \$ 235,967        |
| Marketable securities   | 67,452             | 51,097            |
| Accounts receivable, net of allowance for doubtful accounts of \$376 and \$88 at September 30, 2015 and December 31, 2014, respectively   | 157,166            | 118,371           |
| Prepaid expenses and other assets   | 32,515             | 35,023            |
| Deferred tax assets   | 3,899              | 1,475             |
| Total current assets  | 404,384            | 441,933           |
| Marketable securities   | 16,195             | 3,313             |
| Property and equipment, net   | 168,785            | 151,171           |
| Goodwill  | 186,973            | 147,135           |
| Intangible assets, net  | 119,408            | 99,489            |
| Deferred tax assets   | 7,754              | 1,232             |
| Other assets  | 18,140             | 18,549            |
| Total assets  | \$ 921,639         | \$ 862,822        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                    |                   |
| Current liabilities:  |                    |                   |
| Accounts payable  | \$ 14,814          | \$ 25,059         |
| Accrued expenses  | 41,594             | 42,679            |
| Deferred revenues   | 14,039             | 11,897            |
| Contingent consideration obligation   | 170                | 8,000             |
| Total current liabilities   | 70,617             | 87,635            |
| Lease financing obligation - long term  | 13,886             | 9,204             |
| Convertible debt  | 230,000            | 230,000           |
| Deferred tax liability  | 8,440              | 3,698             |
| Other liabilities   | 2,970              | 3,178             |
| Stockholders' equity:   |                    |                   |
| Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at September 30, 2015 and December 31, 2014  | —                  | —                 |
| Common stock, \$0.0001 par value; 100,000 shares authorized, 47,757 and 46,444 shares issued; 44,078 and 42,711 outstanding at September 30, 2015 and December 31, 2014, respectively | 4                  | 4                 |

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|  |            |            |
|--|------------|------------|
| Treasury stock, at cost (3,679 and 3,733 shares at September 30, 2015 and December 31, 2014, respectively) | (65,651)   | (66,336)   |
| Additional paid-in capital   | 498,653    | 454,740    |
| Accumulated other comprehensive loss   | (33,353)   | (20,014)   |
| Retained earnings  | 196,073    | 160,713    |
| Total stockholders' equity   | 595,726    | 529,107    |
| Total liabilities and stockholders' equity   | \$ 921,639 | \$ 862,822 |

See accompanying notes to consolidated financial statements.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

|   | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|---|----------------------------------|------------|---------------------------------|------------|
|   | 2015                             | 2014       | 2015                            | 2014       |
| Net revenues                                      | \$ 150,874                       | \$ 125,175 | \$ 421,620                      | \$ 327,103 |
| Costs and expenses:                               |                                  |            |                                 |            |
| Cost of services*                                 | 63,438                           | 50,496     | 172,013                         | 131,766    |
| Research and development                          | 23,986                           | 21,056     | 68,472                          | 53,902     |
| Selling, general and administrative               | 21,003                           | 21,382     | 60,603                          | 55,656     |
| Net change in contingent consideration obligation | —                                | 355        | —                               | 1,680      |
| Restructuring charges                             | 399                              | —          | 5,090                           | —          |
| Depreciation and amortization                     | 19,754                           | 16,268     | 51,221                          | 42,292     |
| Total costs and expenses                          | 128,580                          | 109,557    | 357,399                         | 285,296    |
| Income from operations                            | 22,294                           | 15,618     | 64,221                          | 41,807     |
| Interest income                                   | 546                              | 358        | 1,483                           | 867        |
| Interest expense                                  | (1,448)                          | (1,164)    | (4,208)                         | (2,258)    |
| Other (expense) income                            | (1,030)                          | 3          | (601)                           | 1,052      |
| Income before income tax expense                  | 20,362                           | 14,815     | 60,895                          | 41,468     |
| Income tax expense                                | (10,717)                         | (5,488)    | (25,535)                        | (16,193)   |
| Net income  | \$ 9,645                         | \$ 9,327   | \$ 35,360                       | \$ 25,275  |
| Net income per common share:                      |                                  |            |                                 |            |
| Basic   | \$ 0.23                          | \$ 0.23    | \$ 0.84                         | \$ 0.63    |
| Diluted   | \$ 0.21                          | \$ 0.22    | \$ 0.77                         | \$ 0.61    |
| Weighted-average common shares outstanding:       |                                  |            |                                 |            |
| Basic   | 42,491                           | 40,833     | 42,077                          | 40,173     |
| Diluted   | 47,692                           | 44,265     | 47,505                          | 41,795     |
| Comprehensive income (loss)                       | \$ 8,994                         | \$ (3,004) | \$ 22,021                       | \$ 13,446  |



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

See accompanying notes to consolidated financial statements.

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## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

|   | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2015                            | 2014      |
| Operating activities:   |                                 |           |
| Net income  | \$ 35,360                       | \$ 25,275 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation and amortization expense   | 51,221                          | 42,292    |
| Amortization of debt issuance costs   | 1,125                           | 242       |
| Amortization of bond premium  | 1,261                           | 263       |
| Deferred income taxes   | (11,772)                        | (2,407)   |
| Non-cash interest on leased facility  | 694                             | 709       |
| Stock-based compensation  | 21,234                          | 20,470    |
| Changes in operating assets and liabilities:                                      |                                 |           |
| Accounts receivable, net of allowance for doubtful accounts                       | (40,442)                        | (40,795)  |
| Prepaid expenses and other current assets   | 8,020                           | (4,434)   |
| Other assets  | (670)                           | (2,804)   |
| Accounts payable  | 106                             | 8,331     |
| Accrued expenses  | (4,975)                         | (1,570)   |
| Contingent consideration obligation   | (1,532)                         | 2,881     |
| Excess tax benefit from the exercise of stock options                             | (4,710)                         | (754)     |
| Other liabilities   | (138)                           | 1,228     |
| Deferred revenues   | 1,610                           | (3,925)   |
| Net cash provided by operating activities   | 56,392                          | 45,002    |
| Investing activities:   |                                 |           |
| Purchases of fixed assets   | (53,461)                        | (24,796)  |
| Purchases of intangible assets  | (1,200)                         | —         |
| Purchases of marketable securities available-for-sale                             | (105,817)                       | (27,657)  |
| Maturities of marketable securities available-for-sale                            | 75,370                          | 1,990     |
| Businesses acquired, net of cash  | (83,592)                        | (38,085)  |
| Net cash used in investing activities   | (168,700)                       | (88,548)  |
| Financing activities:   |                                 |           |
| Proceeds from the exercise of stock options                                       | 16,752                          | 20,727    |
| Payments on contingent consideration obligation                                   | (4,468)                         | —         |
| Debt issuance costs related to convertible notes                                  | —                               | (6,561)   |
| Proceeds from issuance of convertible notes                                       | —                               | 230,000   |
| Borrowings on revolving line of credit  | —                               | 40,000    |

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|   |            |            |
|---|------------|------------|
| Repayment of revolving line of credit   | —          | (40,000)   |
| Excess tax benefit from the exercise of stock options                                       | 4,710      | 754        |
| Proceeds from the sale of treasury stock in connection with an employee stock purchase plan | 1,902      | 1,677      |
| Repayments of capital obligations   | (1,772)    | (1,129)    |
| Net cash provided by financing activities   | 17,124     | 245,468    |
| Effect of exchange rate changes on cash   | 2,569      | 189        |
| Net (decrease) increase in cash and cash equivalents  | (92,615)   | 202,111    |
| Cash and cash equivalents at beginning of period  | 235,967    | 63,512     |
| Cash and cash equivalents at end of period  | \$ 143,352 | \$ 265,623 |
| Supplemental disclosures of cash flow information:  |            |            |
| Cash paid for income taxes  | \$ 24,052  | \$ 14,152  |
| Cash paid for interest  | \$ 3,918   | \$ 1,998   |

See accompanying notes to consolidated financial statements.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

(Amounts in tables in thousands, except for per share data or unless otherwise noted)

1. Description of Business

Synchronoss Technologies, Inc. (the “Company” or “Synchronoss”) is a mobile innovation company that provides software-based cloud and activation solutions for connected devices to enterprise customers on a global scale. The Company’s software creates innovative consumer and enterprise solutions that drive billions of transactions on a wide range of connected devices across the world’s leading networks. The Company’s solutions include: intelligent connectivity management and content synchronization, backup and sharing service procurement, provisioning, activation, and support that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs), original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile Internet devices, such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers and other customers to accelerate and monetize value-add services for connected devices. This includes automating subscriber activation, order management, upgrades, service provisioning and connectivity and content management from any sales channel to any communication service (wireless or wireline), across any connected device type and managing the transfer, synchronization and sharing of content.

The Company’s Synchronoss Personal Cloud™ platform is specifically designed to power the activation of the devices and technologies that seamlessly connect today’s consumer leveraging the Company’s cloud assets to manage these devices and content associated with them. The Synchronoss WorkSpace™ platform focuses on providing a secure, integrated file sharing and collaboration solution for small and medium businesses. The Company’s consumer and small business platforms and solutions enable Synchronoss to drive a natural extension of the Company’s mobile activations and cloud services with leading wireless networks around the world to link other non-traditional devices (i.e., automobiles, wearables for personal health and wellness, and connected homes).

The Company’s Activation Services, Synchronoss Personal Cloud™ and Synchronoss WorkSpace™ platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services or devices and “back-office” infrastructure-related systems and processes. The Company’s customers rely on the Company’s solutions and technology to automate the process of activation and content and settings management for their subscriber’s devices while delivering additional communication services. The Company’s Integrated Life™ platform brings together the capabilities of device/service activation with content and settings management to provide a seamless experience of activating and managing both traditional and non-traditional devices. The Company’s platforms also support automated customer care processes through use of accurate and effective speech processing technology and enable the Company’s customers to offer their subscribers the ability to store in and retrieve from the Cloud their personal and work content and data which resides on their connected mobile devices, such as personal computers, smartphones and tablets. The Company’s platforms are designed to be carrier-grade, highly available, flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels

including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets allowing the Company to meet the rapidly changing and converging services and connected devices offered by the Company's customers. Synchronoss enables its customers to acquire, retain and service subscribers quickly, reliably and cost-effectively by enabling backup, restore, synchronization and sharing of subscriber content.

Through the use of the Company's platforms, the Company's customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and social media and enterprise-wide sharing/collaboration with connected devices and content from these devices and associated services. The extensibility, scalability, reliability and relevance of the Company's platforms enable new revenue streams and retention opportunities for the Company's customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud, while optimizing their cost of operations and enhancing customer experience. The Company currently operates in and markets its solutions and services directly through the Company's sales organizations in North America, Europe and Asia-Pacific.

The Company's industry-leading customers include Tier 1 mobile service providers such as AT&T Inc., Verizon, Vodafone, Orange, Sprint, Telstra and U.S. Cellular, Tier 1 cable operators/MSOs and wireline operators like AT&T Inc., Comcast, Cablevision, Charter, CenturyLink, Mediacom and Level 3 Communications and large OEMs such as Apple and Ericsson. These customers utilize the Company's platforms, technology and services to service both consumer and business customers.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

(Amounts in tables in thousands, except for per share data or unless otherwise noted)

2. Basis of Presentation and Consolidation

The consolidated financial statements as of September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 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 consolidated 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, 2014. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts 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. Certain amounts from the prior year’s financial statements have been reclassified to conform to the current year’s presentation and such amounts were not considered material to amend prior periods.

For further information about the Company’s basis of presentation and consolidation or its significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2014.

Recently Issued Accounting Standards

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, simplifying the Accounting for Measurement-Period Adjustments that eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance does not change what constitutes a measurement period adjustment. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15 Interest- Imputation of Interest, final guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. This publication has been updated to reflect an SEC staff member's comment in June 2015 that the staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether a balance is outstanding. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board ("IASB") (collectively, the "Boards") jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under US GAAP and IFRS. The standard's core principle (issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB), is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 by one year, and would allow entities the option to early adopt the new revenue standard as of the original effective date. The Company is currently evaluating their adoption method and the impact of the standard on the consolidated financial statements.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

(Amounts in tables in thousands, except for per share data or unless otherwise noted)

## 3. Earnings per Common Share

Basic earnings per share is calculated by using the weighted-average number of common shares outstanding during the period, excluding amounts associated with restricted shares.

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, convertible debt and unvested restricted stock. The dilutive effects of stock options and restricted stock awards are based on the treasury stock method. The dilutive effect of the assumed conversion of convertible debt is determined using the if-converted method. The after-tax effect of interest expense related to the convertible securities is added back to net income, and the convertible debt is assumed to have been converted into common shares at the beginning of the period.

The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income attributable to common stockholders per common share. Stock options that are anti-dilutive and excluded from the following table totaled 745 thousand and 834 thousand for the three months ended September 30, 2015 and 2014, respectively, and 434 thousand and 1.4 million for the nine months ended September 30, 2015 and 2014, respectively.

|  | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|--|----------------------------------|----------|---------------------------------|-----------|
|  | 2015                             | 2014     | 2015                            | 2014      |
| Numerator:   |                                  |          |                                 |           |
| Net income attributable to common stockholders             | \$ 9,645                         | \$ 9,327 | \$ 35,360                       | \$ 25,275 |
| Income effect for interest on convertible debt, net of tax | 377                              | 247      | 1,366                           | 247       |
|  | \$ 10,022                        | \$ 9,574 | \$ 36,726                       | \$ 25,522 |



Numerator for diluted EPS- Income to common stockholders after assumed conversions

Denominator:

Weighted average common shares outstanding — basic

|        |        |        |        |
|--------|--------|--------|--------|
| 42,491 | 40,833 | 42,077 | 40,173 |
|--------|--------|--------|--------|

Dilutive effect of:

Shares from assumed conversion of convertible debt

|       |       |       |     |
|-------|-------|-------|-----|
| 4,326 | 2,257 | 4,326 | 576 |
|-------|-------|-------|-----|

Options and unvested restricted shares

|     |       |       |       |
|-----|-------|-------|-------|
| 875 | 1,175 | 1,102 | 1,046 |
|-----|-------|-------|-------|

Weighted average common shares outstanding — diluted

|        |        |        |        |
|--------|--------|--------|--------|
| 47,692 | 44,265 | 47,505 | 41,795 |
|--------|--------|--------|--------|

#### 4. Fair Value Measurements of Assets and Liabilities

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

- Level 1 – Observable inputs – quoted prices in active markets for identical assets and liabilities;
- Level 2 – Observable inputs – other than the quoted prices in active markets for identical assets and liabilities – includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets, and amounts derived from valuation models where all significant inputs are observable in active markets; and
- Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable and require the Company to develop relevant assumptions.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

(Amounts in tables in thousands, except for per share data or unless otherwise noted)

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

|             | September 30, 2015 | December 31, 2014 |
|-------------|--------------------|-------------------|
| Level 1 (A) | \$ 143,352         | \$ 235,967        |
| Level 2 (B) | 83,647             | 54,410            |
| Level 3 (C) | (170)              | (8,000)           |
| Total       | \$ 226,829         | \$ 282,377        |

- (A) Level 1 assets include money market funds which are classified as cash equivalents and marketable securities, respectively.
- (B) Level 2 assets include certificates of deposit, municipal bonds, enhanced income money market funds and corporate bonds which are classified as marketable securities.
- (C) Level 3 liabilities include the contingent consideration obligation.

The Company utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. The Company's marketable securities investments classified as Level 2 primarily utilize broker quotes in a non-active market for valuation of these securities. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the nine months ended September 30, 2015.

## Available-for-Sale Securities

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, 2015 were as follows:

| Aggregate<br>Fair Value | Aggregate Amount of<br>Unrealized |        |
|-------------------------|-----------------------------------|--------|
|                         | Gains                             | Losses |

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|  |           |       |          |
|--|-----------|-------|----------|
| Due in one year or less                  | \$ 67,452 | \$ 15 | \$ (110) |
| Due after one year, less than five years | 16,195    | 19    | (9)      |
|  | \$ 83,647 | \$ 34 | \$ (119) |

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, 2014 were as follows:

|  | Aggregate<br>Fair Value | Aggregate Amount of<br>Unrealized |         |
|--|-------------------------|-----------------------------------|---------|
|  |                         | Gains                             | Losses  |
| Due in one year or less                  | \$ 51,097               | \$ 10                             | \$ (72) |
| Due after one year, less than five years | 3,313                   | 2                                 | (3)     |
|  | \$ 54,410               | \$ 12                             | \$ (75) |

Unrealized gains and losses are reported as a component of accumulated other comprehensive loss in stockholders' equity. The cost of securities sold is based on the specific identification method. The Company evaluates investments with unrealized losses to determine if the losses are other than temporary. The Company has determined that the gross unrealized losses as of September 30, 2015 and December 31, 2014 are temporary. In making this determination, the Company considered the financial condition, credit ratings and near-term prospects of the issuers, the underlying collateral of the investments, and the magnitude of the losses as compared to the cost and the length of time the investments have been in an unrealized loss position. Additionally, while the Company classifies the securities as available-for-sale, the Company does not currently intend to sell such investments and it is more likely than not to recover the carrying value prior to being required to sell such investments.

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SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

(Amounts in tables in thousands, except for per share data or unless otherwise noted)

## Contingent Consideration

The Company determined the fair value of the contingent consideration related to Razorsight using a real options approach which uses a risk-adjusted expected growth rate based on assessments of expected growth in revenue, adjusted by an appropriate factor. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration obligation are the probabilities of achieving certain financial targets and contractual milestones. Significant increases (decreases) in any of those probabilities in isolation may result in a higher (lower) fair value measurement.

The Company determined the fair value of the contingent consideration obligation related to Strumsoft using the probability-weighted income approach derived from quarterly revenue estimates and a probability assessment with respect to the likelihood of achieving the various performance criteria. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration obligation are the probabilities of achieving certain financial targets and contractual milestones. Significant increases (decreases) in any of those probabilities in isolation may result in a higher (lower) fair value measurement. As of December 31, 2014, all of the financial targets and contractual milestones were met and on February 20, 2015 the Company paid out \$8 million related to the Strumsoft Earn-out.

The changes in fair value of the Company's Level 3 contingent consideration obligation during the nine months ended September 30, 2015 were as follows:

|                                     |          |
|-------------------------------------|----------|
|                                     | Level 3  |
| Balance at December 31, 2014        | \$ 8,000 |
| Payment of contingent consideration | (8,000)  |
| Addition of Razorsight earn-out     | 170      |
| Balance at September 30, 2015       | \$ 170   |

## 5. Acquisition

### Razorsight Corporation (“Razorsight”)

On August 4, 2015, the Company acquired all outstanding shares of Razorsight for \$25.3 million, net of liabilities assumed. In addition, the Company potentially may make payments ("Razorsight Earn-out") totaling up to approximately \$15 million based on the ability to achieve a range of business objectives for the period from the acquisition date through December 31, 2016.

Razorsight offers cloud-based analytics solutions for communications service providers. Their cloud-based products embed advanced statistical analysis and predictive analytics to proactively pinpoint customer attrition risk, revenue opportunities, and better customer experiences. Synchronoss believes that this acquisition will strategically enhance the Company’s product portfolio allowing the Company to reach a broader client base and by expanding their value proposition and more deeply embedding their platform.

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The Company determined the preliminary fair value of the net assets acquired as follows:

|  | Purchase<br>Price<br>Allocation |           |
|--|---------------------------------|-----------|
| Cash                                     | \$ 1,172                        |           |
| Prepaid expenses and other assets        | 1,300                           |           |
| Accounts receivable                      | 120                             |           |
| Equipment                                | 879                             |           |
| Other assets - long term                 | 144                             |           |
| Intangible assets:                       |                                 | Wtd. Avg. |
| Technology                               | 9,200                           | 4 years   |
| Customer relationships                   | 11,690                          | 10 years  |
| Goodwill                                 | 11,874                          |           |
| Total assets acquired                    | 36,379                          |           |
| Accounts payable and accrued liabilities | 2,211                           |           |
| Lease obligation                         | 284                             |           |
| Deferred revenues                        | 965                             |           |
| Contingent consideration                 | 170                             |           |
| Deferred taxes                           | 7,465                           |           |
| Net assets acquired                      | \$ 25,284                       |           |

The goodwill recorded in connection with this acquisition was based on operating synergies and other benefits expected to result from the combined operations and the assembled workforce acquired. The goodwill acquired is not deductible for tax purposes.

Acquisition-related costs, including transaction costs such as legal, accounting, valuation and other professional services, were \$112 thousand.

F-Secure Corporation (“F-Secure”)

On February 23, 2015, the Company acquired certain cloud assets from F-Secure, an online security and privacy company headquartered in Finland, for cash consideration of \$59.5 million, net of liabilities assumed. The Company believes that the purchase will expand the Company's cloud services customer base.

On February 18, 2015, the Company entered into a patent license and settlement agreement whereby the Company granted F-Secure a limited license to the Company's patents. As part of the business combination accounting rules, the Company calculated the fair value of the license using an income approach, specifically a relief from royalty method, which incorporates significant estimates and assumptions made by management, which by their nature are characterized by uncertainty. Inputs used to value the license are considered Level 3 inputs.

The Company determined the preliminary fair value of the net assets acquired as follows:

|                        | Preliminary<br>Purchase<br>Price<br>Allocation | Wtd. Avg. |
|------------------------|--|-----------|
| Intangible assets:     |  |           |
| Technology             | \$ 3,071                                       | 1 year    |
| Customer relationships | 20,475   | 5 years   |
| Goodwill               | 36,454   |           |
| Total assets acquired  | 60,000   |           |
| Accrued expenses       | 519  |           |
| Net assets acquired    | \$ 59,481                                      |           |

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The goodwill recorded in connection with this acquisition is based on operating synergies and other benefits expected to result from the combined operations and the assembled workforce acquired. The goodwill acquired will not be deductible for tax purposes.

Acquisition-related costs recognized during the nine months ended September 30, 2015, including transaction costs such as legal, accounting, valuation and other professional services, were \$862 thousand.

## 6. Stockholders' Equity

## Stock-based Compensation

The following table summarizes information about stock-based compensation, which includes the fair value for equity awards issued:

|  | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|--|----------------------------------|----------|---------------------------------|-----------|
|  | 2015                             | 2014     | 2015                            | 2014      |
| Pre-tax stock based compensation expense   | \$ 8,143                         | \$ 7,788 | \$ 21,234                       | \$ 20,470 |
| Tax effect of stock based compensation     | 2,570                            | 2,637    | 6,701                           | 6,962     |
| Cash received from the exercise of options | 4,924                            | 12,857   | 16,752                          | 20,727    |

The total stock-based compensation cost related to unvested equity awards as of September 30, 2015 was approximately \$67.0 million. The expense is expected to be recognized over a weighted-average period of approximately 2.73 years.



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A summary of the Company's unvested restricted stock at September 30, 2015, and changes during the nine months ended September 30, 2015, is presented below:

|                                  |                  |
|----------------------------------|------------------|
| Non-Vested Restricted Stock      | Number of Awards |
| Non-vested at December 31, 2014  | 1,342            |
| Granted                          | 765              |
| Vested                           | (524)            |
| Forfeited                        | (158)            |
| Non-vested at September 30, 2015 | 1,425            |

Stock Options

The following table summarizes information about stock options outstanding as of September 30, 2015:

|  | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|--|-------------------|---------------------------------|---|---------------------------|
| Options Outstanding at December 31, 2014         | 2,767             | \$ 25.81                        |   |                           |
| Options Granted                                  | 594               | 43.22                           |   |                           |
| Options Exercised                                | (706)             | 23.73                           |   |                           |
| Options Cancelled                                | (173)             | 32.00                           |   |                           |
| Outstanding at September 30, 2015                | 2,482             | \$ 30.13                        | 4.52  | \$ 13,119                 |
| Vested or expected to vest at September 30, 2015 | 2,339             | \$ 29.80                        | 4.43  | \$ 12,973                 |
| Exercisable at September 30, 2015                | 1,247             | \$ 23.55                        | 3.14  | \$ 11,681                 |

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

|                                     | Three Months Ended September 30, |   |      |   | Nine Months Ended September 30, |   |      |   |
|-------------------------------------|----------------------------------|---|------|---|---------------------------------|---|------|---|
|                                     | 2015                             |   | 2014 |   | 2015                            |   | 2014 |   |
| Expected stock price volatility     | 46                               | % | 48   | % | 48                              | % | 58   | % |
| Risk-free interest rate             | 1.27                             | % | 1.33 | % | 1.26                            | % | 1.43 | % |
| Expected life of options (in years) | 3.98                             |   | 4.12 |   | 4.00                            |   | 4.25 |   |
| Expected dividend yield             | 0                                | % | 0    | % | 0                               | % | 0    | % |

The weighted-average fair value (as of the date of grant) of the options was \$15.53 and \$17.03 per share for the three months ended September 30, 2015 and 2014, respectively, and \$16.54 and \$14.64 per share for the nine months ended September 30, 2015 and 2014, respectively.

## Employee Stock Purchase Plan

On February 1, 2012, the Company established a ten year Employee Stock Purchase Plan (“ESPP” or the “Plan”) for certain eligible employees. The Plan is to be administered by the Company’s Board of Directors. The total number of shares available for purchase under the Plan is 500 thousand shares of the Company’s Common Stock. Employees participate over a six month period through payroll withholdings and may purchase, at the end of the six month period, the Company’s Common Stock at the lower of 85% of the fair market value on the first day of the offering period or the fair market value on the purchase date. No participant will be granted a right to purchase Common Stock under the Plan if such participant would own more than 5% of the total combined voting power of the Company. In addition, no participant may purchase more than one thousand shares of Common Stock within any purchase period.

The expected life of ESPP shares is the average of the remaining purchase period under each offering period. The weighted-average assumptions used to value employee stock purchase rights are as follows:

|                                 | Three Months Ended September 30, |   |      |   | Nine Months Ended September 30, |   |      |   |
|---------------------------------|----------------------------------|---|------|---|---------------------------------|---|------|---|
|                                 | 2015                             |   | 2014 |   | 2015                            |   | 2014 |   |
| Expected stock price volatility | 36                               | % | 63   | % | 36                              | % | 52   | % |
| Risk-free interest rate         | 0.25                             | % | 0.07 | % | 0.24                            | % | 0.06 | % |
| Expected life (in years)        | 0.50                             |   | 0.50 |   | 0.50                            |   | 0.50 |   |
| Expected dividend yield         | 0                                | % | 0    | % | 0                               | % | 0    | % |

The weighted-average fair value (as of the date of grant) of the ESPP shares was \$11.82 and \$10.58 per share for the three months ended September 30, 2015 and 2014, respectively, and \$11.82 and \$10.54 per share for the nine months ended September 30, 2015 and 2014, respectively.

The following table summarizes information about the ESPP Plan:

|                                  | Three Months Ended September 30, |        | Nine Months Ended September 30, |          |
|----------------------------------|----------------------------------|--------|---------------------------------|----------|
|                                  | 2015                             | 2014   | 2015                            | 2014     |
| Compensation expense             | \$ 150                           | \$ 148 | \$ 475                          | \$ 503   |
| Treasury shares sold             | 25                               | 34     | 54                              | 61       |
| Cash received from purchases (1) | \$ 927                           | \$ 937 | \$ 1,902                        | \$ 1,677 |

(1) Included within the financing activities section of the consolidated statements of cash flows.

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The total unrecognized compensation expense related to the ESPP as of September 30, 2015 was approximately \$197 thousand, which is expected to be recognized over the remainder of the offering period.

## 7. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) was as follows:

|   | Three Months Ended September 30, |            | Nine Months Ended September 30, |           |
|---|----------------------------------|------------|---------------------------------|-----------|
|   | 2015                             | 2014       | 2015                            | 2014      |
| Net income  | \$ 9,645                         | \$ 9,327   | \$ 35,360                       | \$ 25,275 |
| Translation adjustments   | (971)                            | (10,652)   | (11,681)                        | (6,735)   |
| Unrealized (loss) gain on securities, (net of tax)                            | 255                              | (47)       | 389                             | (43)      |
| Net income (loss) on intra-entity foreign currency transactions, (net of tax) | 65                               | (1,632)    | (2,047)                         | (5,051)   |
| Total comprehensive income (loss)   | \$ 8,994                         | \$ (3,004) | \$ 22,021                       | \$ 13,446 |

The changes in accumulated other comprehensive income (loss) during the nine months ended September 30, 2015, are as follows, net of tax:

|                                   | Foreign Currency | Unrealized (Loss) Income on Intra-Entity Foreign Currency Transactions | Unrealized Holding Gains (Losses) on Available-for-Sale Securities | Total       |
|-----------------------------------|------------------|--|--|-------------|
| Balance at December 31, 2014      | \$ (16,880)      | \$ (2,957)   | \$ (177)   | \$ (20,014) |
| Other comprehensive (loss) income | (11,681)         | (3,715)  | 400  | (14,996)    |
| Tax effect                        | —                | 1,668  | (11)   | 1,657       |
| Total comprehensive (loss) income | (11,681)         | (2,047)  | 389  | (13,339)    |

|                               |             |            |        |             |
|-------------------------------|-------------|------------|--------|-------------|
| Balance at September 30, 2015 | \$ (28,561) | \$ (5,004) | \$ 212 | \$ (33,353) |
|-------------------------------|-------------|------------|--------|-------------|

## 8. Goodwill and Intangibles

### Goodwill

The Company records goodwill which represents the excess of the purchase price over the fair value of assets acquired, including other definite-lived intangible assets. Goodwill is reviewed annually for impairment or upon the occurrence of events or changes in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The changes in Goodwill during the nine months ended September 30, 2015 are as follows:

|  |            |
|--|------------|
| Balance at December 31, 2014             | \$ 147,135 |
| Acquisitions                             | 48,328     |
| Reclassifications, adjustments and other | (30)       |
| Translation adjustments                  | (8,460)    |
| Balance at September 30, 2015            | \$ 186,973 |

The reclassification adjustment of \$30 thousand is primarily related to a change in the Company's deferred tax asset in connection with a pre-acquisition tax loss.

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## Other Intangible Assets

Intangible assets consist primarily of trade names, technology, and customer lists and relationships. These intangible assets are amortized on the straight line method over the estimated useful life. Amortization expense for the nine months ended September 30, 2015 and the year ended December 31, 2014 was \$20.0 million and \$19.8 million, respectively.

The Company's intangible assets consist of the following:

|                                  | Weighted September 30, 2015 |            |              |            |
|----------------------------------|-----------------------------|------------|--------------|------------|
|                                  | Average                     |            | Accumulated  |            |
|                                  | Life                        | Cost       | Amortization | Net        |
| Trade name                       | 4                           | \$ 1,539   | \$ (1,360)   | \$ 179     |
| Technology                       | 7                           | 75,549     | (31,845)     | 43,704     |
| Customer lists and relationships | 9                           | 99,992     | (29,935)     | 70,057     |
| Capitalized software and patents | 3                           | 9,051      | (3,583)      | 5,468      |
| Order Backlog                    | —                           | 918        | (918)        | —          |
|                                  | 8                           | \$ 187,049 | \$ (67,641)  | \$ 119,408 |

|                                  | Weighted December 31, 2014 |            |              |           |
|----------------------------------|----------------------------|------------|--------------|-----------|
|                                  | Average                    |            | Accumulated  |           |
|                                  | Life                       | Cost       | Amortization | Net       |
| Trade name                       | 4                          | \$ 1,564   | \$ (1,299)   | \$ 265    |
| Technology                       | 7                          | 66,931     | (24,260)     | 42,671    |
| Customer lists and relationships | 10                         | 70,443     | (21,126)     | 49,317    |
| Capitalized software and patents | 3                          | 9,346      | (2,110)      | 7,236     |
| Order Backlog                    | —                          | 918        | (918)        | —         |
|                                  | 8                          | \$ 149,202 | \$ (49,713)  | \$ 99,489 |

Estimated future amortization expense of its intangible assets for the next five years is as follows:

| Year ending December 31: |          |
|--------------------------|----------|
| 2015                     | \$ 9,071 |
| 2016                     | 28,896   |
| 2017                     | 22,612   |
| 2018                     | 20,385   |
| 2019                     | 15,887   |
| 2020                     | 6,657    |

## 9. Debt

### Credit Facility

In September 2013, the Company entered into a Credit Agreement (the “Credit Facility”) with JP Morgan Chase Bank, N.A., as the administrative agent, Wells Fargo Bank, National Association, as the syndication agent and Capital One, National Association and KeyBank National Association, as co-documentation agents. The Credit Facility, which can be used for general corporate purposes, is a \$100 million unsecured revolving line of credit that matures on September 27, 2018. The Company pays a commitment fee in the range of 25 to 35 basis points on the unused balance of the revolving credit facility under the Credit Agreement. Commitment fees

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totaled approximately \$89 thousand and \$46 thousand during the three months ended September 30, 2015 and 2014, respectively and \$241 thousand and \$171 thousand during the nine months ended September 30, 2015 and 2014, respectively. Synchronoss has the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million.

The Credit Facility is subject to certain financial covenants. As of September 30, 2015, the Company was in compliance with all required covenants and there were no outstanding balances on the Credit Facility.

Convertible Senior Notes

On August 12, 2014, the Company issued \$230.0 million aggregate principal amount of its 0.75% Convertible Senior Notes due in 2019 (the “2019 Notes”). The 2019 Notes mature on August 15, 2019, and bear interest at a rate of 0.75% per annum payable semi-annually in arrears on February 15 and August 15 of each year. The Company accounted for the \$230.0 million face value of the debt as a liability and capitalized approximately \$7.1 million of financing fees, related to the issuance.

The 2019 Notes are senior, unsecured obligations of the Company, and are convertible into shares of its common stock based on a conversion rate of 18.8072 shares per \$1,000 principal amount of 2019 Notes which is equivalent to an initial conversion price of approximately \$53.17 per share. The Company will satisfy any conversion of the 2019 Notes with shares of the Company’s common stock. The 2019 Notes are convertible at the note holders’ option prior to their maturity and if specified corporate transactions occur. The issue price of the 2019 Notes was equal to their face amount.

Holders of the 2019 Notes who convert their notes in connection with a qualifying fundamental change, as defined in the related indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, following the occurrence of a fundamental change, holders may require that the Company repurchase some or all of the 2019 Notes for cash at a repurchase price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any. As of September 30, 2015, none of these conditions existed with respect to the 2019 Notes and as a result, the 2019 Notes are classified as long term.



The 2019 Notes are the Company's direct senior unsecured obligations and rank equal in right of payment to all of the Company's existing and future unsecured and unsubordinated indebtedness.

At September 30, 2015, the carrying amount of the liability and the outstanding principal of the 2019 Notes was \$230.0 million, with an effective interest rate of approximately 1.36%. The fair value of the 2019 Notes was \$225.1 million at September 30, 2015. The fair value of the liability of the 2019 Notes was determined using a discounted cash flow model based on current market interest rates available to the Company. These inputs are corroborated by observable market data for similar liabilities and therefore classified within Level 2 of the fair-value hierarchy.

The interest expense of the Company's 2019 Notes related to the contractual interest coupon was \$431 thousand and \$216 thousand for the three months ended September 30, 2015 and 2014, respectively and \$1.3 million and \$216 thousand for the nine months ended September 30, 2015 and 2014, respectively.

#### 10. Restructuring

In January 2015, the Company initiated the preliminary phase of a work-force reduction as part of a corporate restructuring, with reductions occurring across all levels and departments within the Company. This measure was intended to reduce costs and to align the Company's resources with its key strategic priorities. As of September 30, 2015, there was \$213 thousand of unpaid restructuring charges classified under accrued expenses on the balance sheet.

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A summary of the Company's restructuring accrual at September 30, 2015 and changes during the nine months ended September 30, 2015, is presented below:

|                              | Balance at<br>December 31, 2014 | Charges  | Payments   | Balance at<br>September 30, 2015 |
|------------------------------|---------------------------------|----------|------------|----------------------------------|
| Employment termination costs | \$ —                            | \$ 5,027 | \$ (4,877) | \$ 150                           |
| Facilities consolidation     | —                               | 63       | —          | 63                               |
| Total                        | \$ —                            | \$ 5,090 | \$ (4,877) | \$ 213                           |

## 11. Legal Matters

On October 7, 2014, the company filed an amended complaint in the United States District Court for the District of New Jersey (Civ Act. No. 3:14-cv-06220) against F-Secure Corporation and F-Secure, Inc. (collectively, "F-Secure"), claiming that F-Secure has infringed, and continues to infringe, several of the Company's patents. In February 2015, Synchronoss entered into a patent license and settlement agreement with F-Secure Corporation and F-Secure, Inc. whereby the Company granted each of these companies (but not their subsidiaries or affiliates) a limited license to Synchronoss' patents. As a result of entering into the patent license and settlement agreement, the parties filed a joint stipulation to dismiss the above complaint.

The Company's 2011 acquisition agreement with Miyowa SA provided that former shareholders of Miyowa SA would be eligible for earn-out payments, to the extent specified business milestones were achieved following the acquisition. In December 2013, Eurowebfund and Bakamar, two former shareholders of Miyowa SA, filed a complaint against the Company in the Commercial Court of Paris, France claiming that they are entitled to certain earn-out payments under the acquisition agreement. The Company was served with a copy of this complaint in January 2014. The Company believes Miyowa SA failed to meet the criteria required for it to pay the claimed amounts and that no earn-out payments are owed. The Company continues to pursue its claims and defend all counterclaims, which counterclaims the Company believes are without merit. However, due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the lawsuit or estimate any potential loss if the outcome is adverse to the Company.

The Company is not currently subject to any legal proceedings that could have a material adverse effect on its operations; however, it may from time to time become a party to various legal proceedings arising in the ordinary course of its business. The Company is currently the plaintiff in several patent infringement cases. The defendants in several of these cases have filed counterclaims. Although the Company cannot predict the outcome of the cases at this time due to the inherent uncertainties of litigation, the Company continues to pursue its claims and believes that the counterclaims are without merit, and the Company intends to defend all such counterclaims.

## 12. Subsequent Events Review

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

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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, 2014. This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as “believes,” “expects,” “anticipates,” “intends,” “plans,” “hopes,” “should,” “continues,” “seeks,” “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 mobile innovation company that provides cloud solutions and software-based activation for connected devices globally. Such services include intelligent connectivity management and content synchronization, backup and sharing, as well as device and service procurement, provisioning, activation, and support, that enable communications service providers (“CSPs”), cable operators/multi-services operators (“MSOs”), original equipment manufacturers (“OEMs”) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile Internet devices, such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers and other customers to accelerate and monetize their go-to-market strategies for connected devices. This includes automating subscriber activation, order management, upgrades, service provisioning and connectivity and content management from any sales channel to any communication service (wireless or wireline), across any connected device type and managing the transfer, synchronization and sharing of content. Our global solutions touch all aspects of connected devices on the mobile Internet.

Our Synchronoss Personal Cloud™ solution targets individual consumers while our Synchronoss WorkSpace™ solution focuses on providing a secure, integrated file sharing and collaboration solution for small and medium businesses. In addition, our Integrated Life™ platform is specifically designed to power the activation of the devices and technologies that seamlessly connect today’s consumer leveraging our cloud assets to manage these devices and contents associated with them. The Integrated Life™ platform enables us to drive a natural extension of our mobile activations and cloud services with leading wireless networks around the world to link other non-traditional devices (i.e., automobiles, wearables for personal health and wellness, and connected homes).

Our Activation Services, Synchronoss Personal Cloud™, Synchronoss WorkSpace™, and Synchronoss Integrated Life™ platforms provide end-to-end seamless integration between customer-facing channels/applications, communication services, or devices and “back-office” infrastructure-related systems and processes. Our customers rely on our solutions and technology to automate the process of activation and content and settings management for their customers’ devices while delivering additional communication services. Our Synchronoss Integrated Life™ platform brings together the capabilities of device/service activation with content and settings management to provide a seamless experience of activating and managing non-traditional devices. Our platforms also support automated customer care processes through use of accurate and effective speech processing technology and enable our customers to offer their subscribers the ability to store in and retrieve from the Cloud their personal and work content and data to their connected mobile devices, such as personal computers, smartphones and tablets. Our platforms are designed to be carrier-grade, high availability, flexible and scalable to enable multiple converged communication services to be managed across multiple distribution channels, including e-commerce, m-commerce, telesales, customer stores, indirect and other retail outlets, 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 enabling backup, restore, synchronization and sharing of subscriber content. Through the use of our platforms, our customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and social media and enterprise-wide sharing/collaboration connected devices and content from these devices and associated services. The extensibility, scalability, reliability and relevance of our platforms enable new revenue streams and retention opportunities for our customers through new subscriber acquisitions, sale of new devices, accessories and new value-added service offerings in the Cloud, while optimizing their cost of operations and enhancing customer experience.

We currently operate in and market our solutions and services directly through our sales organizations in North America, Europe and Asia-Pacific.

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Our industry-leading customers include Tier 1 mobile service providers such as AT&T Inc., Verizon, Vodafone, Orange, Sprint, Telstra and U.S. Cellular, Tier 1 cable operators/MSOs and wireline operators like AT&T Inc., Comcast, Cablevision, Charter, CenturyLink, Mediacom and Level 3 Communications, and large OEMs such as Apple and Ericsson. These customers utilize our platforms, technology and services to service both consumer and business customers.

## Revenues

We generate a substantial portion of our revenues on a per-transaction or subscription basis, which is derived from contracts that extend up to 60 months from execution. For the three months ended September 30, 2015 and 2014, we derived approximately 73% and 80%, respectively, of our revenues from transactions processed and subscription arrangements. The change is a result of a shift in revenue mix related to an increase in professional services and license revenue primarily due to new license agreements and expansion of services with existing and new customers.

Historically, our revenues have been directly impacted by the number of transactions processed. 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.

Most of our revenues are recorded in U.S. dollars but as we continue to expand our footprint with international carriers and increase the extent of recording our international activities in local currencies, we will become subject to currency translation risk that could affect our future net sales as reported in U.S. dollars.

Each of AT&T and Verizon accounted for more than 10% of our revenues for the three months ended September 30, 2015 and 2014. AT&T and Verizon in the aggregate accounted for 75% of our revenues for the three months ended September 30, 2015 and 2014. 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 colocation fees, 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 U.S. Generally Accepted Accounting Principles (“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 minor modifications and 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 expenses, travel and related expenses, trade shows, costs of communications equipment and support services, facilities costs, consulting fees, costs of marketing programs, such as internet and print and other overhead costs.

Net change in contingent consideration obligation consists of the changes to the fair value estimate of the obligation to the former equity holders which resulted from our acquisitions. The estimate is based on the weighted probability of achieving certain financial targets and milestones. Most of the contingent consideration obligation earn-out periods are no longer than 12 months in duration. As such, we recognize the changes in fair value over that period. Final determination of the payment is done up to 90 days after the earn-out period.

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Restructuring charges consist of the costs associated with the January 2015 work-force reduction plan to reduce costs and align our resources with our key strategic priorities. The restructuring charges include employee termination and facilities consolidation costs.

Depreciation relates to our property and equipment and includes our network infrastructure and facilities. Amortization primarily relates to trademarks, customer lists, technology acquired and internally developed software.

Interest expense consists primarily of interest on our lease financing obligations and our convertible senior notes.

## Current Trends Affecting Our Results of Operations

Business from our Activation and Cloud Solutions has been driven by the unprecedented growth in mobile devices globally. Certain industry trends, such as Next programs from AT&T, have resulted in faster device upgrade cycles increasing device order transactions and activations. Our recent acquisition of the Personal Cloud assets of F-Secure is intended to provide additional penetration within our AT&T account. With mobile devices becoming content rich and starting to act as a replacement for other traditional devices like PC's, the need to securely back up content from mobile devices, sync it with other devices and share it with others in their community of family, friends and business associates have become essential needs. The major Tier 1 carriers are also publicly discussing achieving 500% penetration (multiple connected devices per user) by enabling connectivity to non-traditional devices. Such devices include connected cars, health and wellness devices, connected home and health care. The need for these devices to be activated, managed and the contents from them to be stored in a common cloud are also expected to be drivers of our businesses in the long term.

Bring Your Own Technology is impacting the work environment for Small and Medium Businesses, which find themselves in a position where they need to offer their employees a safe environment to share and collaborate on their work documents and files via mobile devices. Leveraging our Synchronoss Personal Cloud™ solution infrastructure and technology to build our Synchronoss WorkSpace™ solution for this purpose is enabling us to serve a new and emerging market, which we believe will also contribute to our growth.

To support our expected 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 as well as routine software maintenance activities. We also leverage modular components from our existing software platforms to build new products. 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 and service types. We are also making investments in new research and development for



development of products designed to enable us to grow rapidly in the mobile wireless market. Our purchase of capital assets and equipment may also increase based on aggressive deployment, subscriber growth and promotional offers for storage incentives by our major Tier 1 carrier customers.

We continue to advance our plans for the expansion of our platforms' footprint with broadband carriers and international mobile carriers to support connected devices and multiple networks through our focus on transaction management and cloud-based services for back up, synchronization and sharing of content. Our initiatives with AT&T, Verizon, Vodafone and other CSPs continue to grow both with our current businesses as well as new products. 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 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 consolidated financial statements and the reported amounts of revenues and expenses during a fiscal period. Although we believe that our judgments and estimates are appropriate, correct and reasonable under the circumstances, actual results may differ from those estimates. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected. See "Risk Factors" for certain matters bearing risks on our future results of operations.

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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, 2014, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies which we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations:

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

There were no significant changes in our critical accounting policies and estimates discussed in our Form 10-K during the nine months ended September 30, 2015. 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, 2014 for a more complete discussion of our critical accounting policies and estimates.

## Key Developments

On August 4, 2015, the Company acquired all outstanding shares of Razorsight for \$25.3 million, net of liabilities assumed. Razorsight offers cloud-based analytics solutions for communications service providers. Their cloud-based products embed advanced statistical analysis and predictive analytics to proactively pinpoint customer attrition risk, revenue opportunities, and better customer experiences. Synchronoss believes that this acquisition will strategically enhance the Company's product portfolio allowing the Company to reach a broader client base and by expanding its value proposition and more deeply embedding its platforms.

On February 23, 2015, the Company acquired certain cloud assets from F-Secure, an online security and privacy company headquartered in Finland, for cash consideration of \$59.5 million, net of liabilities assumed. This acquisition expands the Company's cloud services customer base.

## Results of Operations

Three months ended September 30, 2015 compared to the three months ended September 30, 2014

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The following table presents an overview of our results of operations for the three months ended September 30, 2015 and 2014:

|   | Three Months Ended September 30, |              |  |            |              |           | 2015 vs 2014 |          |
|---|----------------------------------|--------------|--|------------|--------------|-----------|--------------|----------|
|   | 2015                             |              |  | 2014       |              |           | \$ Change    | % Change |
|   | \$                               | % of Revenue |  | \$         | % of Revenue |           |              |          |
|   | (in thousands)                   |              |  |            |              |           |              |          |
| Net revenues                                      | \$ 150,874                       | 100.0 %      |  | \$ 125,175 | 100.0 %      | \$ 25,699 | 20.5 %       |          |
| Cost of services*                                 | 63,438                           | 42.0 %       |  | 50,496     | 40.3 %       | 12,942    | 25.6 %       |          |
| Research and development                          | 23,986                           | 15.9 %       |  | 21,056     | 16.8 %       | 2,930     | 13.9 %       |          |
| Selling, general and administrative               | 21,003                           | 13.9 %       |  | 21,382     | 17.1 %       | (379)     | (1.8) %      |          |
| Net change in contingent consideration obligation | —                                | — %          |  | 355        | 0.3 %        | (355)     | (100.0) %    |          |
| Restructuring charges                             | 399                              | 0.3 %        |  | —          | — %          | 399       | 100.0 %      |          |
| Depreciation and amortization                     | 19,754                           | 13.1 %       |  | 16,268     | 13.0 %       | 3,486     | 21.4 %       |          |
| Total costs and expenses                          | 128,580                          | 85.2 %       |  | 109,557    | 87.5 %       | 19,023    | 17.4 %       |          |
| Income from operations                            | \$ 22,294                        | 14.8 %       |  | \$ 15,618  | 12.5 %       | \$ 6,676  | 42.7 %       |          |

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

Net Revenues. Net revenues increased \$25.7 million to \$150.9 million for the three months ended September 30, 2015, compared to the same period in 2014. Transaction and subscription revenues as a percentage of sales were 73% or \$109.4 million for the three months ended September 30, 2015 compared to 80% or \$100.3 million for the same period in 2014. The \$7 million increase in transaction and subscription revenue is primarily due to new subscription arrangements and increased transactional services with our existing customers. Professional service and license revenues as a percentage of sales were 27% or \$41.5 million for the three months ended September 30, 2015, compared to 20% or \$24.9 million for the same period in 2014. The increase in professional services and

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license revenue is primarily due to new license agreements and expansion of services with existing and new customers.

Net revenues related to Activation Services increased \$7.4 million to \$74.8 million for the three months ended September 30, 2015 compared to the same period in 2014. Activation Services revenue growth was largely attributed to an increased customer base and growth with existing customers. Net revenues related to Activation Services represented 50% for the three months ended September 30, 2015, compared to 54% for the same period in 2014. Net revenues related to our Cloud Services increased by \$18.3 million to \$76.1 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase in our Cloud Service performance was a result of an increased customer base and increased adoption of our cloud offerings. Net revenues related to our Cloud Services represented 50% for the three months ended September 30, 2015, compared to 46% for the same period in 2014.

## Expenses

**Cost of Services.** Cost of services increased \$12.9 million to \$63.4 million for the three months ended September 30, 2015, compared to the same period in 2014, due primarily to an increase of \$9.3 million in colocation costs related to the expansion of our hosting and storage offerings. There was also an increase of \$3.1 million in outside consulting expense related to expanded programs, operations and migration projects. Cost of services as a percentage of revenue increased to 42.0% for the three months ended September 30, 2015, as compared to 40.3% for the same period in 2014.

**Research and Development.** Research and development expense increased \$2.9 million to \$24.0 million for the three months ended September 30, 2015, compared to the same period in 2014 primarily due to an increase of \$2.8 million in personnel and related costs as a result of our continued growth as we further expand the capabilities of our offerings and an increase in headcount as a result of our acquisitions and our investments in our product group. Additionally, software development costs associated with the Synchronoss Workspace platform were capitalized for the three months ended September 30, 2014, decreasing our expenses in the prior year. Research and development expense as a percentage of revenues decreased to 15.9% for the three months ended September 30, 2015 as compared to 16.8% for the same period in 2014.

**Selling, General and Administrative.** Selling, general and administrative expense decreased \$379 thousand to \$21.0 million for the three months ended September 30, 2015, compared to the same period in 2014. The decrease was primarily due to lower costs associated with acquisitions. As a result of increased revenues, selling, general and administrative expense as a percentage of revenues decreased to 13.9% for the three months ended September 30, 2015, compared to 17.1% for the same period in 2014.

Net change in contingent consideration obligation. The net change in contingent consideration obligation resulted in a \$355 thousand decrease for the three months ended September 30, 2015, as compared to the three months ended September 30, 2014. There was no change in the contingent consideration for the three months ended September 30, 2015. The prior year consisted of a \$355 thousand fair value increase of contingent consideration associated with the Strumsoft earn-out.

Restructuring Charges. Restructuring charges were \$399 thousand related to employment termination and facility consolidation costs, as a result of the work force reduction plan started in January 2015 to reduce costs and align our resources with our key strategic priorities.

Depreciation and amortization. Depreciation and amortization expense increased \$3.5 million to \$19.8 million for the three months ended September 30, 2015, compared to the same period in 2014. This was primarily related to the increase in depreciable fixed assets necessary for the continued expansion of our platforms and amortization of our newly acquired intangible assets related to our recent acquisitions. Depreciation and amortization expense as a percentage of revenues increased to 13.1% for the three months ended September 30, 2015, as compared to 13.0% for the three months ended September 30, 2014.

Income from Operations. Income from operations increased \$6.7 million to \$22.3 million for the three months ended September 30, 2015, compared to the same period in 2014. This was primarily due to increased revenues offset by increases in depreciable fixed assets, intangible amortization and additional costs associated with our acquired operations. Income from operations as a percentage of revenues increased to 14.8% for the three months ended September 30, 2015, as compared to 12.5% for the three months ended September 30, 2014.

Interest income. Interest income increased \$188 thousand to \$546 thousand for the three months ended September 30, 2015, compared to the same period in 2014. Interest income increased primarily due to an increase in our investment balances.

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Interest expense. Interest expense increased \$284 thousand to \$1.4 million for the three months ended September 30, 2015, compared to the same period in 2014 due primarily to an increase of approximately \$392 thousand related to the convertible debt contractual interest and deferred financing costs and an increase of \$62 thousand related to interest paid on capital leases, offset by a decrease of interest paid on the credit facility in the prior year of approximately \$136 thousand.

Other expense. Other expense decreased \$1.0 million to \$1.0 million for the three months ended September 30, 2015, compared to the same period in 2014. Other expense decreased primarily due to foreign currency exchange rate fluctuations, primarily the strengthening of the U.S. Dollar against the Euro.

Income Tax. We recognized approximately \$10.7 million and \$5.5 million in related income tax expenses during the three months ended September 30, 2015 and 2014, respectively. Our effective tax rate was approximately 52.6% for the three months ended September 30, 2015, which was higher than our U.S. federal statutory rate due to the unfavorable impact of losses in foreign jurisdictions, which have lower tax rates than the U.S. and the unfavorable impact of transaction costs related to the purchase of Razorsight, which are required to be capitalized for income tax purposes. Our effective tax rate was approximately 37.0% for the three months ended September 30, 2014, which was slightly higher than our U.S. federal statutory rate primarily due to the unfavorable impact of the fair market value adjustment for the contingent consideration obligation related to the Strumsoft earn-out. 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, and changes resulting from the impact of tax law changes.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

The following table presents an overview of our results of operations for the nine months ended September 30, 2015 and 2014:

|   | Nine Months Ended September 30, |              |   |            |              |   | 2015 vs 2014 |          |   |
|---|---------------------------------|--------------|---|------------|--------------|---|--------------|----------|---|
|   | 2015                            |              |   | 2014       |              |   | \$ Change    | % Change |   |
|   | \$                              | % of Revenue |   | \$         | % of Revenue |   |              |          |   |
|   | (in thousands)                  |              |   |            |              |   |              |          |   |
| Net revenues                                      | \$ 421,620                      | 100.0        | % | \$ 327,103 | 100.0        | % | \$ 94,517    | 28.9     | % |
| Cost of services*                                 | 172,013                         | 40.8         | % | 131,766    | 40.3         | % | 40,247       | 30.5     | % |
| Research and development                          | 68,472                          | 16.2         | % | 53,902     | 16.5         | % | 14,570       | 27.0     | % |
| Selling, general and administrative               | 60,603                          | 14.4         | % | 55,656     | 17.0         | % | 4,947        | 8.9      | % |
| Net change in contingent consideration obligation | —                               | —            | % | 1,680      | 0.5          | % | (1,680)      | (100.0)  | % |

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|                               |           |      |   |           |      |   |           |       |   |
|-------------------------------|-----------|------|---|-----------|------|---|-----------|-------|---|
| Restructuring charges         | 5,090     | 1.2  | % | —         | —    | % | 5,090     | 100.0 | % |
| Depreciation and amortization | 51,221    | 12.1 | % | 42,292    | 12.9 | % | 8,929     | 21.1  | % |
| Total costs and expenses      | 357,399   | 84.8 | % | 285,296   | 87.2 | % | 72,103    | 25.3  | % |
| Income from operations        | \$ 64,221 | 15.2 | % | \$ 41,807 | 12.8 | % | \$ 22,414 | 53.6  | % |

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

Net Revenues. Net revenues increased \$94.5 million to \$421.6 million for the nine months ended September 30, 2015, compared to the same period in 2014. Transaction and subscription revenues as a percentage of sales were 73% or \$306.0 million for the nine months ended September 30, 2015 compared to 76% or \$248.0 million for the same period in 2014. The \$55.9 million increase in transaction and subscription revenue is primarily due to new subscription arrangements and increased transactional services with new and existing customers. Professional service and license revenues as a percentage of sales were 27% or \$115.6 million for the nine months ended September 30, 2015, compared to 24% or \$79.1 million for the same period in 2014. The increase in professional services and license revenue is primarily due to new license agreements and expansion of services with existing and new customers.

Net revenues related to Activation Services increased \$23.5 million to \$202.5 million for the nine months ended September 30, 2015, compared to the same period in 2014. Activation Services revenue growth was largely attributed to an increased customer base and growth with existing customers. Net revenues related to Activation Services represented 48% for the nine months ended September 30, 2015, compared to 55% for the same period in 2014. Net revenues related to our Cloud Services increased by \$71.0 million to \$219.1 million of our revenues for the nine months ended September 30, 2015 compared to the same period in 2014. The increase in our Cloud Service performance was a result of an increased customer base and continued adoption of our cloud offerings. Net revenues related to our Cloud Services represented 52% for the nine months ended September 30, 2015, compared to 45% for the same period in 2014.

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Expenses

**Cost of Services.** Cost of services increased \$40.2 million to \$172.0 million for the nine months ended September 30, 2015, compared to the same period in 2014, due primarily to an increase of \$24.8 million in colocation costs related to the expansion of our hosting and storage offerings. There was also an increase of \$9.3 million in outside consulting expense, due to our increased use of third party exception handling vendors as a result of increased customer volumes. Additionally, our personnel and related costs increased \$5.2 million as a result of our continued growth in existing and new programs with our customers. Cost of services as a percentage of revenues increased slightly to 40.8% for the nine months ended September 30, 2015, as compared to 40.3% for the same period in 2014.

**Research and Development.** Research and development expense increased \$14.6 million to \$68.5 million for the nine months ended September 30, 2015, compared to the same period in 2014 primarily due to an increase of \$11.4 million in personnel and related costs, due to continued growth and an increase in headcount as a result of our acquisitions and our investments in our product group. Additionally, software development costs associated with the Synchronoss Workspace platform were capitalized for the nine months ended September 30, 2014, decreasing our expenses in the prior year. Additionally, there was an increase in facility costs of \$2.2 million. Research and development expense as a percentage of revenues decreased marginally to 16.2% for the nine months ended September 30, 2015 as compared to 16.5% for the same period in 2014.

**Selling, General and Administrative.** Selling, general and administrative expense increased \$4.9 million to \$60.6 million for the nine months ended September 30, 2015, compared to the same period in 2014. The increase is primarily due to a \$4.4 million increase in professional fees, a \$2.2 million increase in outside consultants and a \$1.3 million increase in personnel and related costs offset by a \$1.9 million decrease in merger & acquisition expense. The increase in professional fees relates to accounting and legal costs as a result of our acquisitions, tax planning activities and our patent licensing program. The \$1.3 million increase in personnel and related costs was due to increased headcount and in annual salaries and stock-based compensation. As a result of increased revenues, selling, general and administrative expense as a percentage of revenues decreased to 14.4% for the nine months ended September 30, 2015, compared to 17.0% for the same period in 2014.

**Net change in contingent consideration obligation.** The net change in contingent consideration obligation resulted in a \$1.7 million decrease for the nine months ended September 30, 2015, as compared to the three months ended September 30, 2014. There was no change in contingent consideration for the nine months ended September 30, 2015. The prior year consisted of a \$1.7 million fair value increase of contingent consideration associated with the Strumsoft earn-out.

**Restructuring charges.** Restructuring charges were \$5.1 million related to employment termination costs and facility consolidation costs, as a result of the work force reduction plan started in January 2015 to reduce costs and align our resources with our key strategic priorities.



Depreciation and amortization. Depreciation and amortization expense increased \$8.9 million to \$51.2 million for the nine months ended September 30, 2015, compared to the same period in 2014, primarily related to the increase in depreciable fixed assets necessary for the continued expansion of our platforms and amortization of our newly acquired intangible assets related to our recent acquisitions. Depreciation and amortization expense as a percentage of revenues decreased to 12.1% for the nine months ended September 30, 2015, as compared to 12.9% for the nine months ended September 30, 2014.

Income from Operations. Income from operations increased \$22.4 million to \$64.2 million for the nine months ended September 30, 2015, compared to the same period in 2014. This was primarily due to increased revenues offset by increases in depreciable fixed assets, intangible amortization, restructuring charges related to our work force reduction to align our resources with our key strategic priorities and additional costs associated with our acquired operations. Income from operations as a percentage of revenues increased to 15.2% for the nine months ended September 30, 2015, as compared to 12.8% for the nine months ended September 30, 2014.

Interest income. Interest income increased \$616 thousand to \$1.5 million for the nine months ended September 30, 2015, compared to the same period in 2014. Interest income increased primarily due to an increase in our cash, cash equivalents and investment balances.

Interest expense. Interest expense increased \$2.0 million to \$4.2 million for the nine months ended September 30, 2015, compared to the same period in 2014 due to an increase of approximately \$2 million related to the convertible debt contractual interest and deferred financing costs.

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Other expense. Other expense decreased \$1.7 million to \$601 thousand for the nine months ended September 30, 2015, compared to the same period in 2014 primarily due to a prior year New York state refundable research and development tax credit and foreign currency exchange rate fluctuations, primarily the strengthening of the U.S. Dollar against the Euro.

Income Tax. We recognized approximately \$25.5 million and \$16.2 million in related income tax expense during the nine months ended September 30, 2015 and 2014, respectively. Our effective tax rate was approximately 41.9% for the nine months ended September 30, 2015, which was higher than our U.S. federal statutory rate primarily due to lower than expected benefits realized in foreign tax jurisdictions. Our effective tax rate was approximately 39.0% for the nine months ended September 30, 2014, which was higher than our U.S. federal statutory rate primarily due to the unfavorable impact of the fair market value adjustment for the contingent consideration obligation related to the Strumsoft earn-out offset by the favorable impact of profits in foreign jurisdictions, which have lower tax rates than the U.S. 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, and changes resulting from the impact of tax law changes.

Liquidity and Capital Resources

Our principal source of liquidity has been cash provided by operations. Our cash, cash equivalents and marketable securities balance was \$227.0 million at September 30, 2015, a decrease of \$63.4 million as compared to the balance at December 31, 2014. This decrease was primarily due to \$83.6 million paid for our acquisitions and \$53.5 million related to purchases of fixed assets. This was offset by cash provided by operations of \$56.4 million and \$17.1 million provided by our financing activities, predominantly proceeds from the exercise of stock options. 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 and technology expansion, capital expenditures, and working capital.

On August 12, 2014, we issued \$230.0 million aggregate principal amount of 0.75% Convertible Senior Notes due in 2019 (the "2019 Notes"). The 2019 Notes mature on August 15, 2019, and bear interest at a rate of 0.75% per annum payable semi-annually in arrears on February 15 and August 15 of each year. We accounted for the \$230 million face value of the debt as a liability and capitalized approximately \$7.1 million of financing fees, related to the issuance. At September 30, 2015, the carrying amount of the liability and the outstanding principal of the 2019 Notes was \$230.0 million, with an effective interest rate of approximately 1.36%. The fair value of the 2019 Notes was \$225.1 million at September 30, 2015.

In September 2013, we entered into a Credit Agreement (the "Credit Facility") with JP Morgan Chase Bank, N.A., as the administrative agent, Wells Fargo Bank, National Association, as the syndication agent and Capital One, National

Association and KeyBank National Association, as co-documentation agents. The Credit Facility, which can be used for general corporate purposes, is a \$100 million unsecured revolving line of credit that matures on September 27, 2018. We have the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million.

The Credit Facility is subject to certain financial covenants. As of September 30, 2015, we were in compliance with all required covenants and there were no outstanding balances on the Credit Facility.

At September 30, 2015, our non-U.S. subsidiaries held approximately \$12.2 million of cash and cash equivalents that are available for use by all of our operations around the world. At this time, we believe these funds will be permanently reinvested outside of the U.S. However, if these funds were repatriated to the U.S. or used for U.S. operations, certain amounts could be subject to U.S. tax for the incremental amount in excess of the foreign tax paid. Due to the timing and circumstances of repatriation of such earnings, if any, it is not practical to determine the unrecognized deferred tax liability related to the amount.

#### Discussion of Cash Flows

Cash flows from operations. Net cash provided by operating activities for the nine months ended September 30, 2015 was \$56.4 million, as compared to \$45.0 million provided for the same period in 2014. Cash flows from operations increased by approximately \$11.4 million, the operating cash flows for the nine months ended September 30, 2015 benefited from the increase in net income and non-cash items of \$12.3 million.

Cash flows from investing. Net cash used in investing activities for the nine months ended September 30, 2015 was \$168.7 million, as compared to \$88.5 million used for the same period in 2014. The increase was primarily due to the acquisitions of F-Secure and Razorsight as well as an increase in capital expenditures.

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Cash flows from financing. Net cash provided by financing activities for the nine months ended September 30, 2015 was \$17.1 million, as compared to \$245.5 million provided by financing activities for the same period in 2014. The decrease in net cash provided by financing activities for the nine months ended September 30, 2015 of \$228.3 million as compared to 2014 was primarily due to the prior year issuance of the convertible debt for \$230 million.

We believe that our existing cash and cash equivalents, cash generated from our existing operations, our available credit facilities and other available sources of financing will be sufficient to fund our operations for the next twelve months based on our current business plan.

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 nine months ended September 30, 2015 or 2014.

Impact of Recently Issued Accounting Standards

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, that eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance does not change what constitutes a measurement period adjustment. Management does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15 Interest- Imputation of Interest, final guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. This publication has been updated to reflect an SEC staff member’s comment in June 2015 that the staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether a balance is outstanding. Management does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board (“IASB”) (collectively, the “Boards”) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition

guidance under US GAAP and IFRS. The standard's core principle (issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB), is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 by one year, and would allow entities the option to early adopt the new revenue standard as of the original effective date. Management is currently evaluating the adoption method and the impact of the standard on the consolidated financial statements.

#### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2015 and December 31, 2014 that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our interests.

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## Contractual Obligations

Our contractual commitments consist of obligations under leases for office space, automobiles, convertible debt and its associated interest expense, computer equipment and furniture and fixtures. The following table summarizes our long term contractual obligations as of September 30, 2015 (in thousands).

|                                 | Payments Due by Period |                  |                  |                   |                   |
|---------------------------------|------------------------|------------------|------------------|-------------------|-------------------|
|                                 | Total                  | Less Than 1 Year | 1—3 Years        | 4—5 Years         | More Than 5 Years |
| Long-term lease obligations (1) | \$ 18,017              | \$ 1,137         | \$ 2,351         | \$ 2,454          | \$ 12,075         |
| Convertible Senior Notes        | 230,000                | —                | —                | 230,000           | —                 |
| Interest (2)                    | 6,684                  | 1,725            | 3,450            | 1,509             | —                 |
| Operating lease obligations     | 54,468                 | 7,037            | 13,201           | 12,457            | 21,773            |
| Capital lease obligations       | 6,307                  | 1,601            | 3,055            | 1,648             | 3                 |
| Purchase obligations (3)        | 65,085                 | 28,012           | 25,744           | 10,390            | 939               |
| Other long-term liabilities (4) | 1,123                  | 74               | 1,049            | —                 | —                 |
| <b>Total</b>                    | <b>\$ 381,684</b>      | <b>\$ 39,586</b> | <b>\$ 48,850</b> | <b>\$ 258,458</b> | <b>\$ 34,790</b>  |

(1) Amount represents obligation associated with the Pennsylvania facility lease.

(2) Represents the interest on the Convertible Senior Notes.

(3) Amount represents obligations associated with colocation agreements.

(4) Amount represents unrecognized tax positions recorded in our balance sheet. Although the timing of the settlement is uncertain, we believe this amount will be settled within 3 years.

## 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, 2014, 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, 2014.

## Foreign Currency Exchange Risk

We conduct business outside of the U.S. in several currencies including the British Pound Sterling, Euro, Australian Dollar, and Indian Rupee. The functional currency is translated into U.S. dollars for balance sheet accounts using the month end rates in effect as of the balance sheet date and average exchange rate for revenue and expense accounts for each respective period. The translation adjustments are deferred as a separate component of stockholders' equity within accumulated other comprehensive income. Gains or losses resulting from transactions denominated in foreign currencies are included in other income or expense, within the consolidated statements of income.

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.

#### Interest Rate Risk

We are exposed to the risk of interest rate fluctuations on the interest income earned on our cash and cash equivalents. A hypothetical 100 basis point movement in interest rates applicable to our cash and cash equivalents outstanding at September 30, 2015 would increase interest income by less than \$973 thousand on an annual basis. We are subject to foreign currency exchange risk with

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respect to cash balances maintained in foreign currencies. As of September 30, 2015, there were no outstanding balances on the Credit Facility.

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, 2015. 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, 2015, 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 October 7, 2014, we filed an amended complaint in the United States District Court for the District of New Jersey (Civ Act. No. 3:14-cv-06220) against F-Secure Corporation and F-Secure, Inc. (collectively, "F-Secure"), claiming that F-Secure has infringed, and continues to infringe, several of our patents. In February 2015, we entered into a patent license and settlement agreement with F-Secure Corporation and F-Secure, Inc. whereby we granted each of these companies (but not their subsidiaries or affiliates) a limited license to our patents. As a result of entering into the



patent license and settlement agreement, the parties filed a joint stipulation to dismiss the above complaint.

Our 2011 acquisition agreement with Miyowa SA provided that former shareholders of Miyowa SA would be eligible for earn-out payments to the extent specified business milestones were achieved following the acquisition. In December 2013, Eurowebfund and Bakamar, two former shareholders of Miyowa SA filed a complaint against us in the Commercial Court of Paris, France claiming that they are entitled to certain earn-out payments under the acquisition agreement. We were served with a copy of this complaint in January 2014. We believe Miyowa SA failed to meet the criteria required for us to pay the claimed amounts and that no earn-out payments are owed. We will continue to pursue our claims and defend all counterclaims, which counterclaims we believe are without merit. However, due to the inherent uncertainties of litigation, we cannot predict the outcome of the lawsuit or estimate any potential loss if the outcome is adverse to the Company.

We are not currently subject to any legal proceedings that could have a material adverse effect on our operations; however, we may from time to time become a party to various legal proceedings arising in the ordinary course of our business. We are currently the plaintiff in several patent infringement cases. The defendants in several of these cases have filed counterclaims. Although we cannot predict the outcome of the cases at this time due to the inherent uncertainties of litigation, we continue to pursue our claims and believe that any counterclaims are without merit, and we intend to defend against all such counterclaims.

#### 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, 2014, 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

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could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 3.2         | Restated Certificate of Incorporation of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 3.4         | Amended and Restated Bylaws of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 4.2         | Form of the Registrant's Common Stock certificate, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).  |
| 10.8        | Credit Agreement dated as of September 27, 2013 between the Registrant and JPMorgan Chase Bank, N.A., as Administrative Agent, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013.  |
| 10.8.1      | Form of Indenture for Convertible Senior Notes, incorporated by reference to Registrants Form S-3 (Commission File No. 333-132080).  |
| 10.9        | Cingular Master Services Agreement, effective September 1, 2005 by and between the Registrant and Cingular Wireless LLC, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.  |
| 10.9.1      | Subordinate Material and Services Agreement No. SG021306.S.025 by and between the Registrant and AT&T Services, Inc. dated as of August 1, 2013, including order numbers SG021306.S.025.S.001, SG021306.S.025.S.002, SG021306.S.025.S.003 and SG021306.S.025.S.004, incorporated by reference to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013. |
| 31.1        | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2        | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1        | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2        | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and section 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002   |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Schema Document   |
| 101.CAL     | XBRL Calculation Linkbase Document   |

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.PRE XBRL Presentation Linkbase Document

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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 and  
Chief Executive Officer  
(Principal executive officer)

/s/Karen L. Rosenberger  
Karen L. Rosenberger  
Executive Vice President, Chief Financial Officer  
and Treasurer

November 5, 2015