

SYNCHRONOSS TECHNOLOGIES INC  
Form 10-Q  
August 04, 2016  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

06-1594540

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Crossing Boulevard, 8th Floor	
Bridgewater, New Jersey (Address of principal executive offices)	08807 (Zip Code)

(866) 620-3940

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Shares outstanding of the Registrant's common stock:

Class

	Outstanding at July 29, 2016
Common stock, \$0.0001 par value	45,135,189

---

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

FORM 10-Q INDEX

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Condensed Consolidated Financial Statements and Notes</u>	3
<u>Condensed Consolidated Balance Sheets (unaudited)</u>	3
<u>Condensed Consolidated Statements of Income and Comprehensive Income (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	32
<u>PART II. OTHER INFORMATION</u>	33
<u>Item 1. Legal Proceedings</u>	33
<u>Item 1A. Risk Factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3. Defaults Upon Senior Securities</u>	34
<u>Item 4. Mine Safety Disclosures</u>	34
<u>Item 5. Other Information</u>	34
<u>Item 6. Exhibits</u>	35
<u>SIGNATURES</u>	36



Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 111,028	\$ 147,634
Marketable securities	62,274	66,357
Accounts receivable, net of allowance for doubtful accounts of \$1,508 and \$3,029 at June 30, 2016 and December 31, 2015, respectively	162,386	143,692
Prepaid expenses and other assets	49,947	49,262
Total current assets	385,635	406,945
Marketable securities	13,949	19,635
Property and equipment, net	167,135	168,280
Goodwill	317,586	221,271
Intangible assets, net	222,045	174,322
Deferred tax assets	1,902	3,560
Other assets	14,780	16,215
Total assets	\$ 1,123,032	\$ 1,010,228
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 35,150	\$ 26,038
Accrued expenses	52,534	45,819
Deferred revenues	28,009	8,323
Contingent consideration obligation	7,657	—
Short term debt	47,000	—
Total current liabilities	170,350	80,180
Lease financing obligation - long term	13,623	13,343
Contingent consideration obligation - long-term	—	930
Convertible debt	225,585	224,878
Deferred tax liability 1	29,716	16,404

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

Other liabilities	22,545	3,227
Redeemable noncontrolling interest	55,459	61,452
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock, \$0.0001 par value; 100,000 shares authorized, 49,132 and 48,084 shares issued; 45,079 and 44,405 outstanding at June 30, 2016 and December 31, 2015, respectively	4	4
Treasury stock, at cost (4,053 and 3,679 shares at June 30, 2016 and December 31, 2015, respectively)	(95,812)	(65,651)
Additional paid-in capital 1	547,970	512,802
Accumulated other comprehensive loss	(34,880)	(38,684)
Retained earnings 1	188,472	201,343
Total stockholders' equity	605,754	609,814
Total liabilities and stockholders' equity	\$ 1,123,032	\$ 1,010,228

1 See Note 2 for discussion of the adoption of ASU 2016-09.

See accompanying notes to consolidated financial statements.

Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	\$ 157,551	\$ 137,820	\$ 300,237	\$ 270,746
Costs and expenses:				
Cost of services*	71,468	54,920	139,774	108,575
Research and development	26,170	22,462	50,267	44,486
Selling, general and administrative	30,618	18,717	58,199	39,600
Net change in contingent consideration obligation	6,386	—	6,727	—
Restructuring charges	1,191	1,451	4,162	4,691
Depreciation and amortization	25,262	16,632	49,317	31,467
Total costs and expenses	161,095	114,182	308,446	228,819
(Loss) income from operations	(3,544)	23,638	(8,209)	41,927
Interest income	591	471	1,221	937
Interest expense	(1,834)	(1,418)	(3,410)	(2,760)
Other income (expense), net	865	415	(19)	429
(Loss) income before income tax expense	(3,922)	23,106	(10,417)	40,533
Income tax expense 1	(3,381)	(7,952)	(7,969)	(14,818)
Net (loss) income	(7,303)	15,154	(18,386)	25,715
Net loss attributable to noncontrolling interests	(2,864)	—	(5,993)	—
Net (loss) income attributable to Synchronoss	\$ (4,439)	\$ 15,154	\$ (12,393)	\$ 25,715
Net (loss) income per common share attributable to Synchronoss:				
Basic	\$ (0.10)	\$ 0.36	\$ (0.29)	\$ 0.61
Diluted	\$ (0.10)	\$ 0.33	\$ (0.29)	\$ 0.56
Weighted-average common shares outstanding:				
Basic	43,450	41,870	43,449	41,898
Diluted	43,450	47,271	43,449	47,371
Comprehensive (loss) income attributable to Synchronoss	\$ (10,061)	\$ 21,934	\$ (8,589)	\$ 13,027



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

1 See Note 2 for discussion of the adoption of ASU 2016-09.

See accompanying notes to consolidated financial statements.

4

---

Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2016	2015 (As Adjusted)
Operating activities:		
Net (loss) income	\$ (18,386)	\$ 25,715
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization expense	49,317	31,467
Amortization of debt issuance costs	750	750
Loss on disposals	68	—
Amortization of bond premium	754	756
Deferred income taxes	5,980	2,065
Non-cash interest on leased facility	458	464
Stock-based compensation	16,426	13,087
Contingent consideration obligation	6,727	(1,532)
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for doubtful accounts	(18,170)	(19,758)
Prepaid expenses and other current assets 1	2,948	(4,749)
Other assets	2,580	(282)
Accounts payable	51	2,869
Accrued expenses 1	1,110	8,947
Other liabilities	(6,811)	(172)
Deferred revenues	30,388	2,882
Net cash provided by operating activities	74,190	62,509
Investing activities:		
Purchases of fixed assets	(26,864)	(34,947)
Purchases of marketable securities available-for-sale	(11,592)	(72,015)
Maturities of marketable securities available-for-sale	20,567	52,375
Businesses acquired, net of cash	(98,428)	(59,481)
Net cash used in investing activities	(116,317)	(114,068)
Financing activities:		
Proceeds from the exercise of stock options	4,945	11,828
Taxes paid on withholding shares 1	(5,380)	(16,844)
Payments on contingent consideration obligation	—	(4,468)
Borrowings on revolving line of credit	50,000	—
Repayment of revolving line of credit	(3,000)	—
Repurchases of common stock	(40,025)	—

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

Proceeds from the sale of treasury stock in connection with an employee stock purchase plan	955	975
Repayments of capital lease obligations	(1,484)	(564)
Net cash provided by (used in) financing activities	6,011	(9,073)
Effect of exchange rate changes on cash	(490)	718
Net decrease in cash and cash equivalents	(36,606)	(59,914)
Cash and cash equivalents at beginning of period	147,634	235,967
Cash and cash equivalents at end of period	\$ 111,028	\$ 176,053
Supplemental disclosures of cash flow information:		
Issuance of common stock in connection with Openwave acquisition	\$ 22,000	\$ —
Cash paid for income taxes	\$ 3,208	\$ 13,657
Cash paid for interest	\$ 1,355	\$ 698

1 See Note 2 for discussion of the adoption of ASU 2016-09.

See accompanying notes to consolidated financial statements.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED 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 leading innovator of cloud solutions, software-based activation, secure mobility, identity management and secure messaging for mobile carriers, enterprises, retailers and OEMs across the globe. Synchronoss’ software provides innovative service provider 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: activation and provisioning software for devices and services, cloud-based sync, backup, storage and content engagement capabilities, broadband connectivity solutions, analytics, white label messaging, identity/access management and secure mobility management that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs) and original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and mobile Internet devices (MIDs), such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers, medium and large enterprises and their consumers as well as other customers to accelerate and monetize value-add services for secure and broadband networks and connected devices.

Synchronoss’ Activation Software, Synchronoss Personal Cloud™ and Enterprise products and 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 subscribers’ devices while delivering additional communication services.

The Synchronoss Activation solution orchestrates the complex and different back-end systems of communication service providers to provide a best-in-class ordering system by orchestrating the workflow and consolidated automated customer care services. This allows CSPs using the Company’s platforms to realize the full benefits of their offerings. The platforms also support, among other automated transaction areas, credit card billing, inventory management, and trouble ticketing. In addition to this, the platform supports the physical transactions involved in customer activation and service such as managing access service requests, local service requests, local number portability, and directory listings.

The Synchronoss Personal Cloud™ solution seamlessly transfers content from an old device to a new device, syncs, backs up and connects consumer’s content from multiple smart devices to the Company’s cloud platform. This allows carrier customers to protect and manage their growing cache of personally generated, mobile content over long periods of time.

The Synchronoss Enterprise solutions support an advanced mobility digital experience for businesses and consumers for accessing and protecting their information. The Company's identity and access management platform helps consumers and business users to securely authenticate access to online websites to conduct e-commerce transactions or access important data. The secure mobility platforms help users safely and securely store and share important data. The solutions are based on understanding assumptions on the behaviors of individuals through the capture of who they are, what they are doing and how, where and when they are doing it. This allows the Company's platforms to help reduce fraud, improve cybersecurity detection/prevention and overall productivity. The identity and access solution supports both consumers by allowing them to self-register and verify their identity, while providing non-intrusive multi-factor authentication and businesses the ability to be sure the correct person is doing the transaction. The secure mobility solution combines the identity platform with a "bring your own device" (BYOD) platform that is based on a secure container for accessing data, applications, content and personal information management tools like email, calendar, messaging and notes.

Synchronoss Messaging is a white label messaging platform for service providers and offers a full range of deployment options including full integration with on premise systems, hybrid deployment support for optimal mix of technologies and protecting existing investments, and full cloud deployment for both SaaS and hosted models. Synchronoss Messaging features a distributed systems management console (messaging security, administration console for user and domain provisioning and management, integration with Nagios for monitoring and alerts) with support for smartphones, tablets and connected devices (support for leading protocols including iCal, CalDAV, CardDAV, EAS, IMAP/IDLE), Native Mobile App for iOS and Android for mail, contacts, calendar and task management.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

Synchronoss' products and 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 Synchronoss to meet the rapidly changing and converging services and connected devices offered by the Company's customers. The Company's products, platforms and solutions enable its Enterprise customers to acquire, retain and service subscribers quickly, reliably and cost-effectively with white label and custom-branded solutions. Customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and enterprise-wide sharing/collaboration with connected devices and contents 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. Synchronoss currently operates in and markets its solutions and services directly through its sales organizations in North America, Europe and Asia-Pacific.

## 2. Basis of Presentation and Consolidation

The condensed consolidated financial statements as of June 30, 2016 and for the three and six months ended June 30, 2016 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, 2015.

The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, variable interest entities (VIE) in which the Company is the primary beneficiary and entities in which the Company has a controlling interest. The Company has no unconsolidated subsidiaries or investments accounted for under the equity method. All material intercompany transactions and accounts are eliminated in consolidation. 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.

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, 2015.

#### Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for public companies in annual periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted beginning after December 15, 2018 and interim periods within those years. The Company is currently evaluating the impact of adoption on its condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" (ASU 2014-15). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial statements.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients” which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. This ASU also provides a practical expedient for contract modifications. The new standards are effective for public reporting companies for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the effect that these ASUs will have on its condensed consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the full effect of these standards on its ongoing financial reporting.

Impact of New Accounting Pronouncements

In March, 2016, the FASB released Accounting Standards Update (“ASU”) 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments may significantly impact net income, earnings per share, and the statement of cash flows. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company elected to early adopt this standard in the second quarter ended June 30, 2016.

ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. As such, the Company recorded a cumulative-effect adjustment of \$959 thousand to adjust retained earnings.

Under ASU 2016-09, excess tax benefits related to employee share-based payments are not reclassified from operating activities to financing activities in the statement of cash flows. The Company applied the effect of ASU 2016-09 to the presentation of excess tax benefits in the statement of cash flows, retrospectively. This change increased the net cash



provided by operating activities and decreased net cash provided by financing activities by \$3.9 million for the six months ended June 30, 2015.

Under ASU 2016-09, cash paid when withholding shares for tax withholding purposes are classified as a financing activity in the statement of cash flows. ASU 2016-09 requires that this change be adopted retrospectively. The presentation requirements for cash flows related to employee taxes paid for withheld shares increased the net cash provided by operating activities and decreased net cash provided by financing activities by \$16.8 million for the six months ended June 30, 2015.

ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. This resulted in an increase in the effective tax rate for the three and six months ended June 30, 2016 of 13% and 9%, respectively. The ASU requires that this change be adopted prospectively. The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share for the three months ended June 30, 2016. This increased the diluted weighted average common shares outstanding by 121,671 shares and 162,241 for the three and six months ended June 30, 2016, respectively.

ASU 2016-09 eliminates the requirement that excess tax benefits be realized (i.e., through a reduction in income taxes payable) before they can be recognized. Previously unrecognized deferred tax assets were recognized on a modified retrospective basis which resulted in a cumulative-effect adjustment to retained earnings of \$481 thousand.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

Adoption of the new standard impacted previously reported quarterly results as follows:

	Three Months Ended March 31, 2016,	
	As reported	As adjusted
Income statement:		
Provision for income taxes	\$ (3,965)	\$ (4,588)
Cash flows statement:		
Net cash from operations	\$ 37,731	\$ 40,489
Net cash used in financing	35,253	32,495
Balance sheet:		
Deferred tax liability	\$ 23,096	\$ 22,864
Additional paid-in capital	535,326	536,659
Retained earnings	194,012	192,911

The Company adopted ASU 2015-03, “Interest- Imputation of Interest (subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associate with Line of Credit Arrangements, during the first quarter of 2016, concurrently. The adoption of these ASUs required the Company to reclassify its deferred financing costs associated with its Convertible Senior Notes from other assets to long-term debt on a retrospective basis. The Company's consolidated balance sheets included deferred financing costs of \$4.4 million and \$5.1 million as of June 30, 2016 and December 31, 2015, respectively, which were reclassified from other assets to long-term debt. The debt issuance costs associated with the Company's Credit Facility continue to be presented in other assets on the condensed consolidated balance sheets.

## 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 (loss), and the convertible debt is assumed to have been converted into common shares at the beginning of the period.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The following table provides a reconciliation of the numerator and denominator used in computing basic and diluted net income (loss) attributable to common stockholders per common share. For the three and six months ended June 30, 2016, common stock options were excluded from the calculation of diluted earnings per share as their inclusion would be anti-dilutive. Stock options that are anti-dilutive and excluded from the following table totaled 459 thousand and 345 thousand for the three and six months ended June 30, 2015, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net (loss) income attributable to Synchronoss	\$ (4,439)	\$ 15,154	\$ (12,393)	\$ 25,715
Income effect for interest on convertible debt, net of tax	—	514	—	995
Numerator for diluted EPS- Income to common stockholders after assumed conversions	\$ (4,439)	\$ 15,668	\$ (12,393)	\$ 26,710
Denominator:				
Weighted average common shares outstanding — basic	43,450	41,870	43,449	41,898
Dilutive effect of:				
Shares from assumed conversion of convertible debt	—	4,326	—	4,326
Options and unvested restricted shares	—	1,075	—	1,147
Weighted average common shares outstanding — diluted	43,450	47,271	43,449	47,371

## 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.



Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONDENSED 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, liabilities and redeemable noncontrolling interest and their related classifications under the fair value hierarchy:

	June 30, 2016			
	Total	(Level 1)	(Level 2)	(Level 3)
<b>Assets</b>				
Cash and cash equivalents (A)	\$ 111,028	\$ 111,028	\$ —	\$ —
Securities available-for-sale (B)	76,223	—	76,223	—
Total assets	\$ 187,251	\$ 111,028	\$ 76,223	\$ —
<b>Liabilities</b>				
Contingent consideration obligation	\$ 7,657	\$ —	\$ —	\$ 7,657
Total liabilities	\$ 7,657	\$ —	\$ —	\$ 7,657
<b>Temporary Equity</b>				
Redeemable noncontrolling interest (C)	\$ 55,459	\$ —	\$ —	\$ 55,459
Total temporary equity	\$ 55,459	\$ —	\$ —	\$ 55,459
	December 31, 2015			
	Total	(Level 1)	(Level 2)	(Level 3)
<b>Assets</b>				
Cash and cash equivalents (A)	\$ 147,634	\$ 147,634	\$ —	\$ —
Securities available-for-sale (B)	85,992	—	85,992	—
Total assets	\$ 233,626	\$ 147,634	\$ 85,992	\$ —
<b>Liabilities</b>				
Contingent consideration obligation	\$ 930	\$ —	\$ —	\$ 930
Total liabilities	\$ 930	\$ —	\$ —	\$ 930
<b>Temporary Equity</b>				
Redeemable noncontrolling interest	\$ 61,452	\$ —	\$ —	\$ 61,452
Total temporary equity	\$ 61,452	\$ —	\$ —	\$ 61,452

(A) Cash and cash equivalents includes money market funds.

(B) Securities available-for-sale include municipal bonds, commercial papers, certificates of deposit, enhanced income money market fund and corporate bonds which are classified as marketable securities.

(C)

As of June 30, 2016, the carrying amount of the redeemable noncontrolling interest was greater than the fair value and accordingly no adjustment to the fair value was recorded.

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, Level 2 and Level 3 of the fair value measurement hierarchy occurred during the six months ended June 30, 2016.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

## Available-for-Sale Securities

At June 30, 2016 and December 31, 2015, the estimated fair value of investments classified as available for sale, are as follows:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Certificates of deposit	\$ 2,328	\$ 4	\$ —	\$ 2,332
Corporate bonds	35,627	—	(410)	35,217
Municipal bonds	36,744	20	(11)	36,753
Fixed Income Fund	2,105	—	(184)	1,921
Total available-for-sale securities	\$ 76,804	\$ 24	\$ (605)	\$ 76,223

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Certificates of deposit	\$ 2,329	\$ —	\$ (5)	\$ 2,324
Corporate bonds	39,986	—	(253)	39,733
Municipal bonds	38,564	11	(44)	38,531
Fixed Income Fund	5,593	—	(189)	5,404
Total available-for-sale securities	\$ 86,472	\$ 11	\$ (491)	\$ 85,992

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 June 30, 2016 and December 31, 2015 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.

The unrealized losses and fair values of available-for-sale securities that have been in an unrealized loss position for a period of less than and greater than 12 months as of June 30, 2016, are as follows:

	June 30, 2016		Securities in		Total	Gross	
	Securities in unrealized loss position less than 12 months		unrealized loss position greater than 12 months			unrealized	Fair
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	losses	Value	
Corporate bonds	\$ (410)	\$ 35,017	\$ —	\$ —	\$ (410)	\$ 35,017	
Municipal bonds	(8)	14,771	(1)	1,191	(9)	15,962	
Fixed Income Fund	—	—	(184)	1,920	(184)	1,920	
	\$ (418)	\$ 49,788	\$ (185)	\$ 3,111	\$ (603)	\$ 52,899	

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The unrealized losses and fair values of available-for-sale securities that have been in an unrealized loss position for a period of less than and greater than 12 months as of December 31, 2015, are as follows:

	December 31, 2015					
	Securities in unrealized loss position less than 12 months		Securities in unrealized loss position greater than 12 months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Gross unrealized losses	Fair Value
Certificates of deposit	\$ (5)	\$ 2,324	\$ —	\$ —	\$ (5)	\$ 2,324
Corporate bonds	(253)	39,808	—	—	(253)	39,808
Municipal bonds	(43)	20,630	(1)	550	(44)	21,180
Fixed Income Fund	—	—	(189)	5,404	(189)	5,404
	\$ (301)	\$ 62,762	\$ (190)	\$ 5,954	\$ (491)	\$ 68,716

Expected maturities of available-for-sale securities are as follows:

	June 30, 2016	
	Amortized Cost	Fair Value
Due within one year	\$ 60,763	\$ 60,353
Due after 1 year through 5 years	13,935	13,949
Total available-for-sale securities	\$ 74,698	\$ 74,302

Contingent Consideration

The Company determined the fair value of the contingent consideration related to the acquisition of 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 changes in any of those probabilities in isolation may result in a higher (lower) fair value measurement.

The changes in fair value of the Company's Level 3 contingent consideration obligation during the six months ended June 30, 2016 were as follows:

Balance at December 31, 2015	\$ 930
Fair value adjustment to contingent consideration obligation included in net loss	6,727
Balance at June 30, 2016	\$ 7,657

#### Redeemable Noncontrolling Interests

The Company accounts for the redeemable noncontrolling interest at its fair value as temporary equity, due to the redemption option existing outside the control of the Company. The noncontrolling shareholders have the option, which is embedded in the noncontrolling interest, to require the Company to purchase the remaining noncontrolling share at a formula price designed to approximate fair value based on operating results of the entity.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

The Company recognizes changes in the redemption value immediately as they occur and adjusts the carrying value of the noncontrolling interest to the greater of the estimated redemption value, which approximates fair value, at the end of each reporting period or the initial carrying amount. As of June 30, 2016, the carrying amount of the redeemable noncontrolling interest was greater than the fair value and accordingly no adjustment to the fair value was recorded.

The fair value of the redeemable noncontrolling interest was estimated by applying an income approach using a discounted cash flow analysis. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement. Significant changes in the underlying assumptions used to value the redeemable noncontrolling interest could significantly increase or decrease the fair value estimates recorded in the condensed consolidated balance sheets.

The changes in fair value of the Company’s Level 3 redeemable noncontrolling interests during the six months ended June 30, 2016 were as follows:

Balance at December 31, 2015	\$ 61,452
Fair value adjustment	—
Net loss attributable to redeemable noncontrolling interests	(5,993)
Balance at June 30, 2016	\$ 55,459

5. Acquisition

Openwave Messaging, Inc. (“Openwave”)

On March 1, 2016, the Company acquired all outstanding shares of Openwave for \$124.5 million, net of working capital adjustments and liabilities assumed, comprised of \$102.5 million paid in cash and \$22 million paid in shares of the Company's common stock, based upon the average market value of the common stock for the ten trading days prior to the acquisition date.

Openwave's product portfolio includes its core complete messaging platform optimized for today's most complex messaging requirements worldwide with a particular geographic strength in Asia Pacific. With this acquisition and combined with Synchronoss' current global footprint, Synchronoss will have increased direct access to subscribers around the world for the Synchronoss Personal Cloud™ platform and bolster the Company's go-to-market efforts internationally.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

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

	Purchase Price Allocation	
Cash	\$ 4,110	
Prepaid expenses and other assets	3,473	
Property, Plant & Equipment	2,882	
Long term assets	2,396	
Intangible assets:		Wtd.
Tradename	1,000	Avg. 1 year 7
Technology	32,100	years 10
Customer relationships	29,000	years
Goodwill	93,930	
Total assets acquired	168,891	
Accounts payable and accrued liabilities	17,722	
Deferred revenues	7,854	
Long term liabilities	18,777	
Net assets acquired	\$ 124,538	

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 recognized during the six months ended June 30, 2016 and 2015 including transaction costs such as legal, accounting, valuation and other professional services, were \$2.3 million and \$862 thousand, respectively and are included in the selling, general and administrative expenses on the condensed consolidated statements of income.

## 6. Stockholders' Equity

## Stock-Based Compensation

The following table summarizes information about stock-based compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock options	\$ 2,209	\$ 1,964	\$ 3,968	\$ 4,140
Restricted stock awards	5,720	4,319	12,008	8,622
ESPP Plan	196	175	450	325
Total stock-based compensation before taxes	\$ 8,125	\$ 6,458	\$ 16,426	\$ 13,087
Tax benefit	\$ 2,655	\$ 1,994	\$ 5,363	\$ 4,131

The total stock-based compensation cost related to unvested equity awards as of June 30, 2016 was approximately \$82.9 million. The expense is expected to be recognized over a weighted-average period of approximately 2.83 years.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

## Stock Options

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected stock price volatility	44 %	48 %	45 %	48 %
Risk-free interest rate	1.22 %	1.29 %	1.16 %	1.26 %
Expected life of options (in years)	4.00	4.00	4.00	4.01
Expected dividend yield	0 %	0 %	0 %	0 %
Weighted-average fair value (grant date) of the options	\$ 12.50	\$ 17.47	\$ 11.02	\$ 16.56

The following table summarizes information about stock options outstanding as of June 30, 2016:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at December 31, 2015	2,348	\$ 31.04		
Options Granted	828	30.66		
Options Exercised	(266)	18.61		
Options Cancelled	(130)	35.95		
Outstanding at June 30, 2016	2,780	\$ 31.88	4.82	\$ 7,745
Vested at June 30, 2016	2,579	\$ 31.75	4.71	\$ 7,259
Exercisable at June 30, 2016	1,210	\$ 29.11	3.05	\$ 5,152

The below table summarizes additional information related to stock options:



	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total intrinsic value for stock options exercised	\$ 1,780	\$ 6,794	\$ 3,639	\$ 11,544
Fair value of vested options	3,501	3,377	8,765	6,849

Awards of Restricted Stock and Performance Stock

A summary of the Company's unvested restricted stock at June 30, 2016, and changes during the six months ended June 30, 2016, is presented below:

	Number of	Weighted- Average Grant Date Fair Value
Non-Vested Restricted Stock	Awards	
Non-vested at December 31, 2015	1,412	\$ 36.80
Granted	850	33.62
Vested	(487)	35.56
Forfeited	(61)	48.51
Non-vested at June 30, 2016	1,714	\$ 35.36

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

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 a thousand shares of Common Stock within any purchase period.

Treasury Stock

On February 4, 2016, the Company's Board of Directors authorized a stock repurchase program to purchase up to \$100 million of the Company's outstanding Common Stock. Under the program, the Company may purchase shares of its Common Stock in the open market, through block trades or otherwise at prices deemed appropriate by the Company. The timing and amount of repurchase transactions under the program will depend on available working capital and other factors as determined by the Board of Directors and management.

As of June 30, 2016, a total of 1.3 million shares have been purchased under the program for an aggregate purchase price of \$40.0 million. The Company classifies Common Stock repurchased as Treasury Stock on its balance sheet.

7. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) was as follows:

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income attributable to Synchronoss	\$ (4,439)	\$ 15,154	\$ (12,393)	\$ 25,715
Translation adjustments	(6,224)	6,357	3,444	(10,480)
Unrealized loss on securities, (net of tax)	(22)	(107)	(2)	134
Net income on intra-entity foreign currency transactions, (net of tax)	624	530	362	(2,342)
Total comprehensive (loss) income attributable to Synchronoss	\$ (10,061)	\$ 21,934	\$ (8,589)	\$ 13,027

The changes in accumulated other comprehensive income (loss) during the six months ended June 30, 2016, are as follows:

	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, 2015	\$ (34,092)	\$ (4,292)	\$ (300)	\$ (38,684)
Other comprehensive income (loss)	3,444	524	(40)	3,928
Tax effect	—	(162)	38	(124)
Total comprehensive income (loss)	3,444	362	(2)	3,804
Balance at June 30, 2016	\$ (30,648)	\$ (3,930)	\$ (302)	\$ (34,880)

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

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 six months ended June 30, 2016 are as follows:

Balance at December 31, 2015	\$ 221,271
Acquisition	93,930
Translation adjustments	2,385
Balance at June 30, 2016	\$ 317,586

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 six months ended June 30, 2016 and the year ended December 31, 2015 was \$23.5 million and \$28.6 million, respectively.

The Company's intangible assets consist of the following:

	June 30, 2016		
	Cost	Accumulated Amortization	Net
Trade name	\$ 2,538	\$ (1,743)	\$ 795
Technology	163,202	(49,329)	113,873
Customer lists and relationships	135,987	(42,870)	93,117
Capitalized software and patents	19,255	(4,995)	14,260
Order Backlog	918	(918)	—
	\$ 321,900	\$ (99,855)	\$ 222,045

	December 31, 2015		
	Cost	Accumulated Amortization	Net
Trade name	\$ 1,531	\$ (1,372)	\$ 159
Technology	130,200	(35,336)	94,864
Customer lists and relationships	105,864	(33,969)	71,895
Capitalized software and patents	11,406	(4,002)	7,404
Order Backlog	918	(918)	—
	\$ 249,919	\$ (75,597)	\$ 174,322

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

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

Year ending December 31:	
2016	\$ 24,246
2017	45,004
2018	41,860
2019	34,549
2020	24,892
2021	13,059

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 totaled approximately \$44 thousand and \$88 thousand during the three months ended June 30, 2016 and 2015, respectively and \$118 thousand and \$151 thousand during the six months ended June 30, 2016 and 2015, respectively. Synchronoss has the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million.

On March 1, 2016, the Company borrowed \$50 million under the Credit Facility to fund acquisitions and capital asset purchases. Interest on the borrowing was based upon LIBOR plus a 225 basis point margin. On June 9, 2016, the Company repaid \$3 million of the outstanding borrowings under the Credit Facility. Interest expense on the borrowings totaled \$392 thousand and \$523 thousand during the three and six months ended June 30, 2016, respectively. On July 7, 2016, the Company amended the Credit Facility. (See Note 12)

The Credit Facility is subject to certain financial covenants. As of June 30, 2016, the Company was in compliance with all required covenants.

#### 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 which are presented net of the face value of the Note on the balance sheet.

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.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

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 June 30, 2016, 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 June 30, 2016, the carrying amount of the liability was \$225.6 million 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 \$230.3 million at June 30, 2016. 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 \$432 thousand for the three months ended June 30, 2016 and 2015 and \$863 thousand for the six months ended June 30, 2016 and 2015, respectively.

## 10. Restructuring

In March 2016, 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 June 30, 2016, there was \$1.5 million of unpaid restructuring charges classified under accrued expenses on the balance sheet.



A summary of the Company's restructuring accrual at June 30, 2016 and changes during the six months ended June 30, 2016, is presented below:

	Balance at December 31, 2015	Charges	Payments	Balance at June 30, 2016
Employment termination costs	\$ —	\$ 4,162	\$ (2,749)	\$ 1,413
Facilities consolidation	54	—	(7)	47
Total	\$ 54	\$ 4,162	\$ (2,756)	\$ 1,460

## 11. Income Taxes

The Company recognized approximately \$3.4 million and \$8.0 million in related income tax expense during the three months and six months ended June 30, 2016, respectively. The effective tax rate was approximately (86%) and (76%) for the three and six months ended June 30, 2016, which was higher than the U.S. federal statutory rate primarily due to the unfavorable impact of losses in foreign jurisdictions which have lower tax rates than the U.S., the unfavorable impact of the fair market value adjustment for the contingent consideration obligation related to the Razorsight earn-out and the recording of a non-cash income tax provision of \$2.9 million in income tax expense to establish a valuation allowance. The Company considered all available evidence, including historical profitability and projections of future taxable income together with new evidence, both positive and negative, that could affect the view of the future realization of deferred tax assets. As a result of the assessment, \$2.9 million in income tax expense was recorded related to a valuation allowance that reduced the deferred tax asset primarily related to the current net operating losses of certain foreign subsidiaries. The Company reviews the expected annual effective income tax rate and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, and changes resulting from the impact of tax law changes. The early adoption of ASU 2016-09 resulted in an increase in the effective tax rate for the three and six months ended June 30, 2016 of 13% and 9%, respectively.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED

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

12. 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. On December 3, 2015, the Court dismissed all claims in the complaint against the Company. On December 19, 2015, the former shareholders of Miyowa filed an appeal with the Court of Appeal of Paris, France, appealing the Court’s decision.

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 of such counterclaims.

13. Subsequent Events Review

On July 7, 2016, the Company entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association, as administrative agent (the “Administrative Agent”) and the several lenders party thereto (the “Credit Facility”). The Credit Facility, which will be used for general corporate purposes, is a \$250 million unsecured revolving line of credit that matures on July 7, 2021, subject to terms and conditions set forth

therein. Synchronoss has the right to request an increase in the aggregate principal amount of the Credit Facility to \$350 million. Synchronoss has drawn down \$44 million under the Credit Facility.

Table of Contents

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

The following discussion and analysis should be read in conjunction with the information set forth in our consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q and in our annual report Form 10-K for the year ended December 31, 2015. 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 leading innovator of cloud solutions, software-based activation, secure mobility, identity management and secure messaging for mobile carriers, enterprises, retailers and OEMs across the globe. Our software provides innovative service provider and enterprise solutions that drive billions of transactions on a wide range of connected devices across the world’s leading networks. Our solutions include: activation and provisioning software for devices and services, cloud-based sync, backup, storage and content engagement capabilities, broadband connectivity solutions, analytics, white label messaging, identity/access management and secure mobility management that enable communications service providers (CSPs), cable operators/multi-services operators (MSOs) and original equipment manufacturers (OEMs) with embedded connectivity (e.g. smartphones, laptops, tablets and MIDs, such as automobiles, wearables for personal health and wellness, and connected homes), multi-channel retailers, medium and large enterprises and their consumers as well as other customers to accelerate and monetize value-add services for secure and broadband networks and connected devices.

Our Activation Software, Synchronoss Personal Cloud™ and Enterprise products and 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 subscribers’ devices while delivering additional communication services.

Our Synchronoss Activation solution orchestrates the complex and different back-end systems of communication service providers to provide a best-in-class ordering system by orchestrating the workflow and consolidated automated customer care services. This allows CSPs using our platforms to realize the full benefits of their offerings.

The platforms also support, among other automated transaction areas, credit card billing, inventory management, and trouble ticketing. In addition to this, the platform supports the physical transactions involved in customer activation and service such as managing access service requests, local service requests, local number portability, and directory listings.

Our Synchronoss Personal Cloud™ solution seamlessly transfers content from an old device to a new device, and syncs, backs up and connects consumer's content from multiple smart devices to our cloud platform. This allows carrier customers to protect and manage their growing cache of personally generated, mobile content over long periods of time.

Our Synchronoss Enterprise solutions support an advanced mobility digital experience for businesses and consumers for accessing and protecting their information. Our identity and access management platform helps consumers and business users to securely authenticate access to online websites to conduct e-commerce transactions or access important data. Our secure mobility platforms help users safely and securely store and share important data. Our solutions are based on understanding assumptions on the behaviors of individuals through the capture of who they are, what they are doing and how, where and when they are doing it. This allows our platforms to help reduce fraud, improve cybersecurity detection/prevention and overall productivity. Our identity and access solution supports both consumers by allowing them to self-register and verify their identity, while providing non-intrusive multi-factor authentication and businesses the ability to be sure the correct person is doing the transaction. The secure mobility solution combines the identity platform with a "bring your own device" (BYOD) platform that is based on a secure container for accessing data, applications, content and personal information management tools like email, calendar, messaging and notes.

Our Synchronoss Messaging is a white label messaging platform for service providers and offers a full range of deployment options including full integration with on premise systems, hybrid deployment support for optimal mix of technologies and protecting existing

## Table of Contents

investments, and full cloud deployment for both SaaS and hosted models. Synchronoss Messaging features a distributed systems management console (messaging security, administration console for user and domain provisioning and management, integration with Nagios for monitoring and alerts) with support for smartphones, tablets and connected devices (support for leading protocols including iCal, CalDAV, CardDAV, EAS, IMAP/IDLE), Native Mobile App for iOS and Android for mail, contacts, calendar and task management.

Our products and 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 us to meet the rapidly changing and converging services and connected devices offered by our customers. Our products, platforms and solutions enable our Enterprise customers to acquire, retain and service subscribers quickly, reliably and cost-effectively with white label and custom-branded solutions. Our customers can simplify the processes associated with managing the customer experience for procuring, activating, connecting, backing-up, synchronizing and enterprise-wide sharing/collaboration with connected devices and contents 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.

## 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 June 30, 2016 and 2015, we derived approximately 70% and 73%, respectively, of our revenues from transactions processed and subscription arrangements.

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 June 30, 2016 and 2015. AT&T and Verizon in the aggregate accounted for 68% and 74% of our revenues for the three months ended June 30, 2016 and 2015, respectively. See “Risk Factors” for certain matters bearing risks on our future results of operations.

#### Current Trends Affecting Our Results of Operations

Growth in our service provider and enterprise solutions are being driven by the massive penetration and use of smart devices on a global basis. The following major trends drive our investment decisions in acquisitions and development of product and solutions:

**Activation.** Service Provider consolidation continues in the US and Internationally. As CSP’s merge with MSOs and TV Providers there is an urgency provisioning new subscribers with devices and new value-add service bundles, while driving cost out of the business. Synchronoss Activation is poised to create new efficiencies in often underserved digital channels as a way to quickly provision combined subscriber bases and utilize traditionally underperforming and lower cost digital sales channels.

**Personal Cloud.** Shorter carrier contracts and lease programs have resulted in faster device upgrade cycles by customers resulting in increased device order transactions and activations. With mobile devices becoming content rich and acting as a replacement for other traditional devices like PC’s, the ability 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 has become an essential need. 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, and connected home. The need for these devices to be activated and 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. Synchronoss Cloud products such as Personal Cloud, Mobile Content Transfer, Backup & Transfer and Out of Box Experience (OOBE) are poised to respond to this trend with white label, secure and scalable products for mobile devices.

Table of Contents

Secure Mobility. As Enterprise looks to increase productivity, it turns to mobile. Yet it finds itself confronted with the serious logistical challenges of not only managing stringent security requirements, but also accommodating the personal devices of its employees as a lower cost and more employee friendly option. This trend of Bring Your Own Device (BYOD) is now prevalent enough that regulated industries are investigating new ways to merge Wall Street level regulated security and privacy with main stream usability standards of Facebook, Twitter, Slacker and other third party mobile services. Inherent in this challenge is managing multi factor authentication, policy driven credential management and fraud protection as employees move in and out of “work” selves and “Home” selves – or even in, out or between companies. In addition to be able to manage different personas, the ability to create more productive work flows employing predictive analytics is taking on a higher value as a desirable function of a secure mobility platform. Synchronoss’ Secure Mobility platform enables Enterprise to pivot quickly into the regulated BYOD work and realize cost savings as well as productivity gains.

Messaging. Messaging as a medium is moving beyond standard email. Messaging is fast becoming an interface for commerce. With the emergence of messaging giants such as What’s App, Line, Facebook and others, companies are using advanced messaging to create commerce opportunities to give subscribers visibility to smart transactions within a very sticky, high frequency environment. Chat bots, operating on AI fueled from semantic analysis of messaging content are the latest entrants to create a “messaging user interface” that is linking subscribers and third parties together across multiple channels. Service providers are not adopting new messaging clients to compete with highly competitive and viral Over the Top players - instead they are adopting monetization techniques used by those players to extend subscriber information into third party applications and chat interfaces creating stickier commerce opportunities. Synchronoss Messaging is working closely with customers, especially in the Asia Pacific market, to evolve Service Provider messaging into a cloud-centric commerce offering utilizing personal cloud, identity management and other advanced messaging protocols that will open up new revenue streams and allow Operators to compete with OTT providers in new ways.

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 of new 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 free or bundled storage 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 Wireless 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 condensed 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.

## Table of Contents

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, 2015, 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
- Noncontrolling interest
- Investments in Affiliates and Other Entities
- 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 six months ended June 30, 2016. 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, 2015 for a more complete discussion of our critical accounting policies and estimates.

## Key Developments

On March 1, 2016, we acquired all outstanding shares of Openwave Messaging, Inc. for \$124.5 million, net of working capital adjustments and liabilities assumed, comprised of \$102.5 million paid in cash and \$22 million paid in shares of our common stock, based upon the average market value of the common stock for the ten trading days prior to the acquisition date.

Openwave's product portfolio includes its core complete messaging platform optimized for today's most complex messaging requirements worldwide with a particular geographic strength in Asia Pacific. With this acquisition and combined with our current global footprint, we will have increased direct access to subscribers around the world for the Synchronoss Personal Cloud platform and bolster our go-to-market efforts internationally.

## Results of Operations

Three months ended June 30, 2016 compared to the three months ended June 30, 2015

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-Q

The following table presents an overview of our results of operations for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,						2016 vs 2015		
	2016			2015			\$ Change	% Change	
	\$	% of Revenue	%	\$	% of Revenue	%			
	(in thousands)								
Net revenues	\$ 157,551	100.0	%	\$ 137,820	100.0	%	\$ 19,731	14.3	%
Cost of services*	71,468	45.4	%	54,920	39.8	%	16,548	30.1	%
Research and development	26,170	16.6	%	22,462	16.3	%	3,708	16.5	%
Selling, general and administrative	30,618	19.4	%	18,717	13.6	%	11,901	63.6	%
Net change in contingent consideration obligation	6,386	4.1	%	—	—	%	6,386	100.0	%
Restructuring charges	1,191	0.8	%	1,451	1.1	%	(260)	(17.9)	%
Depreciation and amortization	25,262	16.0	%	16,632	12.1	%	8,630	51.9	%
Total costs and expenses	161,095	102.2	%	114,182	82.8	%	46,913	41.1	%
(Loss) income from operations	\$ (3,544)	(2.2)	%	\$ 23,638	17.2	%	\$ (27,182)	(115.0)	%

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

Net revenues. Net revenues increased \$19.7 million to \$157.6 million for the three months ended June 30, 2016, compared to the same period in 2015. Transaction and subscription revenues as a percentage of sales were 70% or \$110.5 million for the three months ended June 30, 2016 compared to 73% or \$100.3 million for the same period in 2015. The \$10.2 million increase in transaction and subscription revenue is primarily driven by new subscription arrangements as a result of our expansion with new customers. Professional service and license revenues as a percentage of sales were 30% or \$47.0 million for the three months ended June 30, 2016, compared to

Table of Contents

27% or \$37.5 million for the same period in 2015. The increase in professional services and license revenue is primarily due to new license agreements and expansion of services with our customers.

Net revenues related to Activation Solutions increased \$273 thousand to \$66.3 million for the three months ended June 30, 2016 compared to the same period in 2015. Net revenues related to Activation Solutions represented 42% for the three months ended June 30, 2016, compared to 48% for the same period in 2015. Net revenues related to our Cloud Solutions increased by \$19.5 million to \$91.3 million for the three months ended June 30, 2016 compared to the same period in 2015. The increase in our Cloud Service performance was a result of the expansion and enhancements in our cloud offerings. Net revenues related to our Cloud Solutions represented 58% for the three months ended June 30, 2016, compared to 52% for the same period in 2015.

Expenses

Cost of services. Cost of services increased \$16.5 million to \$71.5 million for the three months ended June 30, 2016, compared to the same period in 2015, due primarily to increases in personnel and related costs, migration and integration of our acquired businesses. Personnel and related costs increased \$4.3 million due to increased headcount from the Openwave acquisition and the launch of our Enterprise solution. Outside consulting expenses increased \$7.5 million, of which \$5.9 million related to our expanded programs, migration and integration costs associated with prior acquisitions and \$1.5 million of costs related to the launch of our Enterprise solution. Facility costs increased by \$4.2 million this was primarily driven by increased costs for service contracts due to the expansion of our operational footprint.

Research and development. Research and development expense increased \$3.7 million to \$26.2 million for the three months ended June 30, 2016, compared to the same period in 2015 primarily due to an increase of \$4.2 million in outside consultant expense which was driven by the launch of our Enterprise solution offset by a decrease in personnel and related costs due to the capitalization of qualified software costs.

Selling, general and administrative. Selling, general and administrative expense increased \$11.9 million to \$30.6 million for the three months ended June 30, 2016, compared to the same period in 2015. The increase was driven by a \$3.6 million increase in personnel and related costs and a \$1.1 million increase in share based compensation, which were impacted by increased headcount due to the launch of our Enterprise solution and our Openwave acquisition. There was a \$1.4 million increase in outside consultants, of which the most significant increase related to costs incurred for the launch of our Enterprise solution. Additionally, there was an increase in professional services of \$1.4 million related to accounting and legal costs resulting from our acquisitions. The remaining increases related to facility costs of \$1.3 million and a \$929 thousand increase in bad debt expense

Net change in contingent consideration obligation. The net change in contingent consideration obligation resulted in a \$6.4 million increase for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to an increase in the probability of achieving the contractual milestones associated with the Razorsight earn-out. There was no contingent consideration balance for the three months ended June 30, 2015 due to the completion of all prior earn-out periods.

Restructuring charges. Restructuring charges were \$1.2 million for the three months ended June 30, 2016, related to employment termination costs as a result of the work force reduction plan started in March 2016 to reduce costs and align our resources with our key strategic priorities.

Depreciation and amortization. Depreciation and amortization expense increased \$8.6 million to \$25.3 million for the three months ended June 30, 2016, compared to the same period in 2015. 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.

Income (loss) from operations. Income (loss) from operations decreased \$27.2 million to a loss of \$3.5 million for the three months ended June 30, 2016, compared to the same period in 2015. This was primarily due to increases in intangible asset amortization, contingent consideration and additional costs associated with our acquired operations.

Interest income. Interest income increased \$120 thousand to \$591 thousand for the three months ended June 30, 2016, compared to the same period in 2015 due to an increase in our returns on our cash, cash equivalents and investment balances due to a change in our portfolio allocations.

Table of Contents

Interest expense. Interest expense increased \$416 thousand to \$1.8 million for the three months ended June 30, 2016, compared to the same period in 2015 due primarily to an increase of approximately \$349 thousand related to the \$50 million drawdown from the Credit Facility and an increase of approximately \$108 thousand related to bond premium amortization.

Other income (expense), net. Other income (expense) increased \$450 thousand to \$865 thousand for the three months ended June 30, 2016, compared to the same period in 2015. Other income (expense) increased primarily due to foreign currency fluctuations.

Income tax. We recognized approximately \$3.4 million and \$8.0 million in related income tax expenses during the three months ended June 30, 2016 and 2015, respectively. Our effective tax rate was approximately (86%) for the three months ended June 30, 2016, which was higher than our U.S. federal statutory rate primarily due to the unfavorable impact of losses in foreign jurisdictions which have lower tax rates than the U.S. and the unfavorable impact of the fair market value adjustment for the contingent consideration obligation related to the Razorsight earn-out. Our effective tax rate was approximately 34% for the three months ended June 30, 2015, which was slightly lower than our U.S. federal statutory rate. 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.

Six months ended June 30, 2016 compared to the six months ended June 30, 2015

	Six Months Ended June 30,			2015			2016 vs 2015		
	2016	% of Revenue		\$	% of Revenue		\$ Change	% Change	
	\$		%	\$		%	\$		%
	(in thousands)								
Net revenues	\$ 300,237	100.0	%	\$ 270,746	100.0	%	\$ 29,491	10.9	%
Cost of services*	139,774	46.6	%	108,575	40.1	%	31,199	28.7	%
Research and development	50,267	16.7	%	44,486	16.4	%	5,781	13.0	%
Selling, general and administrative	58,199	19.4	%	39,600	14.6	%	18,599	47.0	%
Net change in contingent consideration obligation	6,727	2.2	%	—	—	%	6,727	100.0	%
Restructuring charges	4,162	1.4	%	4,691	1.7	%	(529)	(11.3)	%
Depreciation and amortization	49,317	16.4	%	31,467	11.6	%	17,850	56.7	%
Total costs and expenses	308,446	102.7	%	228,819	84.5	%	79,627	34.8	%
(Loss) income from operations	\$ (8,209)	(2.7)	%	\$ 41,927	15.5	%	\$ (50,136)	(119.6)	%

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

Net revenues. Net revenues increased \$29.5 million to \$300.2 million for the six months ended June 30, 2016, compared to the same period in 2015. The increase in transaction and subscription revenue is primarily driven by new subscription arrangements as a result of our expansion with new customers. Transaction and subscription revenues as a percentage of sales were 71% or \$213.8 million for the six months ended June 30, 2016 compared to 73% or \$196.6 million for the same period in 2015. Professional service and license revenues as a percentage of sales were 29% or \$86.4 million for the six months ended June 30, 2016, compared to 27% or \$74.1 million for the same period in 2015. The increase in professional services and license revenue is primarily due to new license agreements and expansion of services with our customers.

Net revenues related to Activation Services decreased \$281 thousand to \$127.5 million for the six months ended June 30, 2016, compared to the same period in 2015. Net revenues related to Activation Services represented 42% for the six months ended June 30, 2016, compared to 47% for the same period in 2015. Net revenues related to our Cloud Services increased by \$29.8 million to \$172.8 million of our revenues for the six months ended June 30, 2016 compared to the same period in 2015. 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 58% for the six months ended June 30, 2016, compared to 53% for the same period in 2015.

#### Expenses

Cost of services. Cost of services increased \$31.2 million to \$139.8 million for the six months ended June 30, 2016, compared to the same period in 2015, due primarily to increases in personnel and related costs, migration and integration of our acquired businesses. Personnel and related costs increased \$5 million due to increased headcount from the Openwave acquisition and the launch of our

Table of Contents

Enterprise solution. Outside consulting expenses increased \$10.2 million, of which \$4.2 million of costs related to the launch of our Enterprise solution and an additional \$6 million related to our expanded programs, migration and integration costs associated with prior acquisitions. Facility costs increased by \$12.8 million this was primarily driven by increased costs for service contracts due to the expansion of our operational footprint.

Research and development. Research and development expense increased \$5.8 million to \$50.3 million for the six months ended June 30, 2016, compared to the same period in 2015 primarily due to an increase of \$8 million in outside consultant expense which was mostly driven by the launch of our Enterprise solution offset by a \$1.9 million decrease in personnel and related costs due to the capitalization of qualified software costs.

Selling, general and administrative. Selling, general and administrative expense increased \$18.6 million to \$58.2 million for the six months ended June 30, 2016, compared to the same period in 2015. The increase was driven by a \$7.3 million increase in personnel and related costs and a \$1.9 million increase in share based compensation, which were driven by additional headcount due to the launch of our Enterprise solution and our Openwave acquisition. There was a \$3.5 million increase in outside consultants, of which the most significant increase related to costs incurred for the launch of our Enterprise solution and an incremental \$2 million from our acquisition related activities. The remaining increases related to facility costs of \$1.5 million and a \$772 thousand increase in bad debt expense.

Net change in contingent consideration obligation. The net change in contingent consideration obligation resulted in a \$6.7 million increase for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, due to an increase in the probability of achieving the contractual milestones associated with the Razorsight earn-out. There was no contingent consideration for the six months ended June 30, 2015 due to the completion of all prior earn-out periods.

Restructuring charges. Restructuring charges were \$4.2 million for the six months ended June 30, 2016, related to employment termination costs as a result of the work force reduction plan started in March 2016 to reduce costs and align our resources with our key strategic priorities.

Depreciation and amortization. Depreciation and amortization expense increased \$17.9 million to \$49.3 million for the six months ended June 30, 2016, compared to the same period in 2015, 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.

Income (loss) from operations. Income (loss) from operations decreased \$50.1 million to a loss of \$8.2 million for the six months ended June 30, 2016, compared to the same period in 2015. This was primarily due to increases in intangible asset amortization, contingent consideration and additional costs associated with our acquired operations.



Interest income. Interest income increased \$284 thousand to \$1.2 million for the six months ended June 30, 2016, compared to the same period in 2015. Interest income increased primarily due to an increase in our returns on our cash, cash equivalents and investment balances due to a change in our portfolio allocations.

Interest expense. Interest expense increased \$650 thousand to \$3.4 million for the six months ended June 30, 2016, compared to the same period in 2015 due to an increase of approximately \$490 thousand related to the \$50 million drawdown from the Credit Facility and approximately \$207 thousand related to bond premium amortization.

Other income (expense), net. Other income (expense) decreased \$448 thousand to \$19 thousand for the six months ended June 30, 2016, compared to the same period in 2015. Other income (expense) increased primarily due to a prior year one time nonrecurring charges.

Income tax. We recognized approximately \$8.0 million and \$14.8 million in related income tax expense during the six months ended June 30, 2016 and 2015, respectively. Our effective tax rate was approximately (76%) for the six months ended June 30, 2016, which was higher than our U.S. federal statutory rate primarily due to the unfavorable impact of losses in foreign jurisdictions which have lower tax rates than the U.S., the unfavorable impact of the fair market value adjustment for the contingent consideration obligation related to the Razorsight earn-out and the recording of a non-cash income tax provision of \$2.9 million in income tax expense to establish a valuation allowance. We considered all available evidence, including our historical profitability and projections of future taxable income together with new evidence, both positive and negative, that could affect the view of the future realization of deferred tax assets. As a result of our assessment, we recorded \$2.9 million in income tax expense related to a valuation allowance that reduced the deferred tax asset primarily related to our current net operating loss. Our effective tax rate was approximately 37% for the six months ended June 30, 2015, which was higher than our U.S. federal statutory rate primarily due to the unfavorable impact of the fair market value

## Table of Contents

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 and borrowings on our Credit Facility. Our cash, cash equivalents and marketable securities balance was \$187.3 million at June 30, 2016, a decrease of \$46.4 million as compared to the balance at December 31, 2015. This decrease was primarily due to our acquisition of Openwave, purchases of fixed assets and repurchases of outstanding common stock under the Board approved repurchase program. This was offset by borrowings under the Credit Facility and cash provided by operations. 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.

At June 30, 2016, our non-U.S. subsidiaries held approximately \$23.3 million of cash and cash equivalents that are available for use by all of our operations around the world. At this time, we believe the funds held by all non-U.S. subsidiaries, except those acquired as part of the Openwave acquisition, 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.

## Convertible Senior Notes

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 June 30, 2016, the carrying amount of the liability was \$225.6 million and the outstanding principal of the 2019 Notes was \$230.0 million, with an effective interest rate of approximately 1.36%.

## Credit Facility

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.

On March 1, 2016, we borrowed \$50 million under the Credit Facility to fund acquisitions and capital asset purchases. On June 9, 2016, we repaid \$3 million of the outstanding borrowings under the Credit Facility. Interest on the borrowing was based upon LIBOR plus a 225 basis point margin. Interest expense on the borrowings totaled \$392 thousand during the three months ended June 30, 2016.

On July 7, 2016, we entered into an amended and restated Credit Agreement with Wells Fargo Bank, National Association, as administrative agent and the several lenders party to the Credit Facility, which will be used for general corporate purposes, is a \$250 million unsecured revolving line of credit that matures on July 7, 2021, subject to terms and conditions set forth therein. We have the right to request an increase in the aggregate principal amount of the Credit Facility to \$350 million. We have drawn down \$44,000,000 under the Credit Facility.

The Credit Facility is subject to certain financial covenants. As of June 30, 2016, we were in compliance with all required covenants.

#### Share Repurchase Program

On February 4, 2016, we announced that our Board of Directors approved a share repurchase program under which we may repurchase up to \$100 million of our outstanding common stock. We plan to make such purchases at prevailing prices over the next 12 to 18 months.

## Table of Contents

As of June 30, 2016, we repurchased approximately 1.3 million shares of our common stock for \$40.0 million in connection with our existing share repurchase program.

### Discussion of Cash Flows

Cash flows from operations. Net cash provided by operating activities for the six months ended June 30, 2016 was \$74.2 million, as compared to \$62.5 million provided for the same period in 2015. Cash flows from operations increased by approximately \$11.7 million and was positively impacted by the increase in deferred revenues offset by decreases in non-cash items.

Cash flows from investing. Net cash used in investing activities for the six months ended June 30, 2016 was \$116.3 million, as compared to \$114.1 million used for the same period in 2015. The increase was primarily due to the acquisition of Openwave Messaging, Inc.

Cash flows from financing. Net cash provided by financing activities for the six months ended June 30, 2016 was \$6.0 million, as compared to \$9.1 million used by financing activities for the same period in 2015. The increase in net cash provided by financing activities for the six months ended June 30, 2016 of \$15.1 million as compared to 2015 was primarily due to \$50 million in borrowings on our Credit Facility and a decrease in the amount of taxes paid on withholding shares. This was offset by \$3 million of repayments on our revolving line of credit, repurchases of common stock of \$40 million and a \$6.9 million decrease in the share-based compensation related proceeds.

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 six months ended June 30, 2016 or 2015.

### Impact of Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for public companies in annual periods beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted beginning after December 15, 2018 and interim periods within those years. Management is currently evaluating the impact of adoption on our condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (ASU 2014-15). ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. This ASU provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients” which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. This ASU also provides a practical expedient for contract modifications. The new standards are effective for public reporting companies for interim and annual periods beginning after December 15, 2017. Management is currently evaluating the effect that these ASUs will

Table of Contents

have on our consolidated financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of these standards on our ongoing financial reporting.

Impact of New Accounting Pronouncements

In March, 2016, the FASB released Accounting Standards Update (“ASU”) 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments may significantly impact net income, earnings per share, and the statement of cash flows. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. Management has elected to early adopt this standard in the second quarter ended June 30, 2016.

ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. As such we recorded a cumulative-effect adjustment of \$959 thousand to adjust our retained earnings.

Under ASU 2016-09, excess tax benefits related to employee share-based payments are not reclassified from operating activities to financing activities in the statement of cash flows. We applied the effect of ASU 2016-09 to the presentation of excess tax benefits in the statement of cash flows, retrospectively. This change increased the net cash provided by operating activities and decreased net cash provided by financing activities by \$3.9 million for the six months ended June 30, 2015.

Under ASU 2016-09, cash paid when withholding shares for tax withholding purposes are classified as a financing activity in the statement of cash flows. ASU 2016-09 requires that this change be adopted retrospectively. The presentation requirements for cash flows related to employee taxes paid for withheld shares increased the net cash provided by operating activities and decreased net cash provided by financing activities by \$16.8 million for the six months ended June 30, 2015.

ASU 2016-09 eliminates additional paid in capital (“APIC”) pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. The ASU requires that this change be adopted prospectively. We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the three months ended June 30, 2016. This increased the diluted weighted average common shares outstanding by 121,671 shares and 162,241 for the three and six months ended June 30, 2016, respectively.

ASU 2016-09 eliminates the requirement that excess tax benefits be realized (i.e., through a reduction in income taxes payable) before they can be recognized. Previously unrecognized deferred tax assets were recognized on a modified retrospective basis which resulted in a cumulative-effect adjustment to our retained earnings of \$481 thousand.

Adoption of the new standard impacted our previously reported quarterly results as follows:

	Three Months Ended March 31, 2016,	
	As reported	As adjusted
Income statement:		
Provision for income taxes	\$ (3,965)	\$ (4,588)
Cash flows statement:		
Net cash from operations	\$ 37,731	\$ 40,489
Net cash used in financing	35,253	32,495
Balance sheet:		
Deferred tax liability	\$ 23,096	\$ 22,864
Additional paid-in capital	535,326	536,659
Retained earnings	194,012	192,911

Management adopted ASU 2015-03, "Interest- Imputation of Interest (subtopic 835-30); Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associate with Line of Credit Arrangements, during the first quarter of 2016, concurrently. The adoption of these ASUs required the us to reclassify its deferred financing costs associated with its Convertible Senior Notes from other assets to long-term debt on a retrospective basis. Our

Table of Contents

consolidated balance sheets included deferred financing costs of \$4.4 million and \$5.1 million as of June 30, 2016 and December 31, 2015, respectively, which were reclassified from other assets to long-term debt. The debt issuance costs associated with the our Credit Facility continue to be presented in other assets on the condensed consolidated balance sheets.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2016 and December 31, 2015 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.

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, 2015, 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, 2015.

Foreign Currency Exchange Risk

We conduct business outside of the U.S. in several currencies including the British Pound Sterling, Euro, Australian Dollar, Indian Rupee, Philippine Peso, Japanese Yen, Chinese Yuan, Hong Kong Dollar, Swiss Franc, and the Canadian Dollar.

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 June 30, 2016 would increase interest income by less than \$1.2 million on an annual basis.

Borrowings under our credit facility, are at variable rates of interest and expose us to interest rate risk. As such, our net income is sensitive to movements in interest rates. If interest rates increase, our debt obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. Such increases in interest rates could have a material adverse effect on our cash flow and financial condition.

Based on our outstanding borrowings at June 30, 2016, a one-percentage point change in interest rates would have affected interest expense on the debt by \$470 thousand on an annualized basis.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of

Table of Contents

June 30, 2016, 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

On March 1, 2016, we completed our acquisition of Openwave Messaging, Inc. (“Openwave”). SEC guidance permits management to omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year from the date of the acquisition. Accordingly, we have not assessed Openwaves' internal control over financial reporting as of June 30, 2016.

Excluding the Openwave acquisition, 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. On December 3, 2015, the Court dismissed all claims in the complaint against us. On December 19, 2015, the former shareholders of Miyowa filed an appeal with the Court of Appeal of Paris, France, appealing the Court's decision.

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 from time to time may file counterclaims. Although due to the inherent uncertainties of litigation, we cannot predict the outcome of any of these actions at this time, 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, 2015, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

Table of Contents

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

The following table provides information relating to our repurchase of common stock during the six months ended June 30, 2016

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
3/1/2016- 3/31/2016	552,500	\$ 30.00	552,500	\$ 83,419,170
4/1/2016- 4/30/2016	372,462	32.20	372,462	71,425,709
5/1/2016- 5/31/2016	297,174	33.75	297,174	61,394,736
6/1/2016- 6/30/2016	39,835	35.64	39,835	59,974,843
Total	1,261,971	\$ 31.72	1,261,971	\$ 59,974,843

The repurchases were made under the stock repurchase program approved by our Board of Directors and announced on February 4, 2016 and through which we were authorized to purchase up to \$100 million of our common stock. The program does not have an expiration date.

Repurchases under the program may take place in the open market or in privately negotiated transactions and may be made pursuant to a Rule 10b5-1 plan.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

34

---

Table of Contents

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	Amended and Restated Credit Agreement dated as of July 7, 2016 between the Registrant and Wells Fargo Bank, National Association, as Administrative Agent
10.8.1	Form of Indenture for Convertible Senior Notes, incorporated by reference to Registrants Form S-3 (Commission File No. 333-132080).
10.8.2	Third Amendment Lease Agreement between the Registrant and Triple Net Investments XXV, L.P. for the premises located at 1555 Spillman Drive, Bethlehem, Pennsylvania, dated as of May 9, 2016.
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

101.LAB XBRL Taxonomy Extension Label Linkbase

---

35

---

Table of Contents

SIGNATURES

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

Synchronoss Technologies, Inc.

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

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

August 4, 2016

36

---