

SYNCHRONOSS TECHNOLOGIES INC

Form 10-K

February 26, 2016

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

Form 10 K

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

For the fiscal year ended December 31, 2015

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  
(State of incorporation) (IRS Employer Identification No.)

200 Crossing Boulevard, 8th Floor, Bridgewater, New Jersey 08807

(Address of principal executive offices, including ZIP code)

(866) 620 3940

(Registrant's telephone number, including area code)

---

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.0001 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

---

Indicate by check mark whether the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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

Large accelerated filer Accelerated filer Non accelerated filer Smaller reporting company  
(Do not check if a 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

The aggregate market value of the common stock held by non affiliates of the Registrant as of June 30, 2015, the last business day of the Registrant's last completed second quarter, based upon the closing price of the common stock as reported by The NASDAQ Stock Market on such date was approximately \$1.2 billion. Shares of common stock held by each executive officer, director and stockholders known by the Registrant to own 10% or more of the outstanding stock based on public filings and other information known to the Registrant have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 18, 2016, a total of 44,594,635 shares of the Registrant's common stock were outstanding. The exhibit index as required by Item 601(a) of Regulation S-K is included in Item 15 of Part IV of this report on Form 10-K.

#### DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the Registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders (the "Proxy Statement"), which is to be filed pursuant to Regulation 14A within 120 days after the end of the Registrant's fiscal year ended December 31, 2015. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

---

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

FORM 10 K

December 31, 2015

TABLE OF CONTENTS

Item	Page No.
<u>PART I</u>	
1. <u>Business</u>	1
1A. <u>Risk Factors</u>	15
1B. <u>Unresolved Staff Comments</u>	27
2. <u>Properties</u>	28
3. <u>Legal Proceedings</u>	28
4. <u>Mine Safety Disclosures</u>	28
<u>PART II</u>	
5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
6. <u>Selected Financial Data</u>	31
7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
8. <u>Financial Statements and Supplementary Data</u>	51
9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	91
9A. <u>Controls and Procedures</u>	91
9B. <u>Other Information</u>	94
<u>PART III</u>	
10. <u>Directors and Executive Officers and Corporate Governance</u>	94
11. <u>Executive Compensation</u>	94
12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	94
13. <u>Certain Relationships and Related Transactions</u>	95
14. <u>Principal Accountant Fees and Services</u>	95
<u>PART IV</u>	
15. <u>Exhibits and Financial Statement Schedules</u>	96
<u>Signatures</u>	99

Table of Contents

PART I

ITEM 1. BUSINESS

The words "Synchronoss", "we", "our", "ours", "us" and the "Company" refer to Synchronoss Technologies, Inc. and its consolidated subsidiaries. All statements in this Annual Report on Form 10-K that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding Synchronoss' "expectations," "beliefs," "hopes," "intentions," "anticipates," "seeks," "strategies," "plans," "targets," "estimations," "outlook" or the like. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Past performance is not necessarily indicative of future results. Synchronoss cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors including, but not limited to, the risk factors discussed in this Annual Report on Form 10-K. Synchronoss expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Synchronoss' expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.

This Annual Report on Form 10-K includes industry and market data that we obtained from periodic industry publications, third-party studies and surveys, filings of public companies in our industry and internal company surveys. These sources include government and industry sources. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable. Although we believe the industry and market data to be reliable as of the date of this Annual Report on Form 10-K, this information could prove to be inaccurate. Industry and market data could be wrong because of the method by which sources obtained their data and because information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. In addition, we do not know all of the assumptions regarding general economic conditions or growth that were used in preparing the forecasts from the sources relied upon or cited herein.

General

We are a leading innovator of cloud solutions and software-based activation for mobile carriers, enterprises, retailers and OEMs across the globe. Our software provides innovative consumer 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, 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.

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.

Table of Contents

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 ecommerce 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 Integrated Life™ platform brings together select capabilities of our device/service Activation software and services with our Synchronoss Personal Cloud™ and analytics solutions to give carrier subscribers innovative digital experiences that work across new and emerging consumer devices (e.g. connected cars, wearables, connected homes, smart TV’s, etc.) in carrier and the Internet of Things markets.

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.

We were incorporated in Delaware in 2000. Our Web address is [www.synchronoss.com](http://www.synchronoss.com). On this Web site, we post the following filings after they are electronically filed with or furnished to the U.S. Securities and Exchange Commission (SEC): our annual reports on Form 10-K, quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statement on Form 14A related to our annual stockholders' meeting and any amendment to those reports or statements filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available on the Investor Relations portion of our Web site free of charge. The contents of our Web site are not intended to be incorporated by reference into this Form 10-K or in any other report or document we file.

Synchronoss’ Products, Platforms and Solutions

Our Activation Services, Synchronoss Personal Cloud™, Enterprise and Integrated Life™ platforms provide highly scalable automated on-demand, end-to-end order processing, transaction management, service provisioning, device activation, intelligent connectivity and content transfer, synchronization and social media, identity and access management, secure mobility management as well as enterprise-wide sharing/collaboration through multiple channels including e-commerce, m-commerce, telesales, enterprise, indirect, and retail outlets. Our global platforms are designed to be flexible and scalable across a wide range of existing communication services and connected devices, while offering a best-in-class experience for our customers and supporting traditional and non-traditional devices. The extensible nature of our platforms enables our customers to rapidly respond to the ever changing and competitive nature of the telecommunications, enterprise and mobile marketplaces.

In addition to having the capability to handle large volumes of customer transactions quickly and efficiently, our platforms are designed to recognize, isolate and address transactions when there is insufficient information or other erroneous process elements. This knowledge enables us to adapt our solutions to automate a higher percentage of transactions over time, further improving the value of our solutions to our customers. Our platforms also offer a centralized reporting platform that provides intelligent, real-time analytics around the entire workflow related to any transaction. This reporting allows our customers to appropriately identify buying behaviors and trends, define their subscriber segments and identify areas where their business is changing or could be improved. These analytics enable our customers to upsell new and additional products and services in a targeted fashion that help increase their consumption of our product offerings. The automation and ease of integration of our platforms are designed to enable our customers to lower the cost of new subscriber acquisitions, enhance the accuracy and reliability of customer transactions thereby reducing the inbound service call volumes, and respond rapidly to competitive market conditions to create new revenue streams. Our platforms offer flexible, scalable, extensible and relevant solutions backed by service level agreements (SLAs) and exception handling.



## Table of Contents

Our platforms manage transactions relating to a wide range of existing communications and digital content services across our customers. For example, we enable wireless providers to conduct business-to-consumer, or B2C, business-to-business, or B2B, enterprise and indirect channel (i.e.: resellers/dealers) transactions. Our platforms are designed to provide our customers with the opportunity to improve operational performance and efficiencies, dynamically identify new revenue opportunities and rapidly deploy new services. They are also designed to provide customers the opportunity to improve performance and efficiencies for activation, content migration and connectivity management for connected devices.

Our Activation Services solution is a scalable and flexible platform that decouples the order processing customer experience from varied and legacy information technology (IT) back-office order management systems. This enables sale, delivery, and assurance of new “Complex Product” bundles quickly and cheaply, creates a uniform product portfolio and pricing schema across all sales channels and reduces cost while improving the customer experience by reducing error rates and throughput time in processing orders, alarms, etc. The platform is fully scalable, agile and adaptable to future products, services and channel changes, serving as an activation platform with end-to-end channel visibility and analytics and featuring a flexible commercial model – software as a service (SaaS) or product sale with professional services.

Our Activation Platform features the following components:

- Core Offers - 6 modules allowing for service and product order capture and transaction processing may include: Order Manager, Orchestration Gateway, Work Flow Manager, Front End Portals, Visibility Manager, Product Catalogue
- Add-on Offers - 10 modules that are available to extend new functionality around value-added services as needed may include: Fraud Verification, Inbound Call Tracking Manager, Notification Manager, Visibility Manager, IVR/ICT Manager, Dynamic Work Queue Manager, Catalogue Manager, Bulk Order Process Manager, Identity Manager, Call to Order Capture Manager
- Service-Based Offers: Operations work and program management services may include: Operation and Call Center Management, Sales Delivery and Program Management
- Custom Development: Value added applications for Enterprise and Consumers such as sales portals can be added to the Activation Platform to facilitate catalogue management, point of sale, customer self-care, and inventory management
- Enhanced Customer Service Support: Ensure orders subject to activation are managed and submitted properly in all downstream systems as well as providing our customers inside sales capabilities with the intent to increase sales and order activity within the channels we support

Our Synchronoss Personal Cloud™ platform is designed to deliver an operator-branded experience for subscribers to backup, restore, synchronize and share their personal content across smartphones, tablets, computers and other connected devices from anywhere at any time. A key element of our Synchronoss Personal Cloud™ platform is that it extends a carrier's or OEM's visibility and reaches into all aspects of a subscriber's use of a connected device. It introduces the notion of Connect-Sync-Activate for all devices. Once connected, most users of mobile devices avail themselves of content synchronization from the Cloud using policies that are appropriate and applicable to each specific device. Our Synchronoss Personal Cloud™ platform is specifically designed to support connected devices, such as smartphones, MIDs, laptops, tablets and wirelessly enabled consumer electronics such as wearables for health and wellness, cameras, tablets, e-readers, personal navigation devices, and global positioning system (GPS) enabled devices, as well as connected automobiles. Our Synchronoss Personal Cloud™ solution features products that facilitate the transfer of mobile content from one smart device to another and the sync, backup, storage, content management and content engagement features for mobile content.

Our Synchronoss Personal Cloud™ platform is linked to a family of clients designed to enable a persistent relationship between a subscriber and their content across devices and time. Our platform supports clients and data backup across major operating systems including: IOS, Android, Windows and works with mobile smart devices, tablets and PCs/Web. Our platform and clients also support the backup, sync, upload and download of data classes including photos, videos, music, messages, documents, contacts and call logs. Our clients may also feature interactive features intended to stimulate daily use of the product such as Groups Spaces, smart push notifications, advanced sharing capabilities, smart album creation with more expected to be added over time. Our Synchronoss Personal Cloud™ platform and clients may also integrate with select third party providers to co-opt features that drive third party application and service engagement, thus providing future monetization opportunities to third parties and carriers.

Our Synchronoss Mobile Content Transfer™ solution is an easy to use product that enables a secure, peer-to-peer, wireless transfer of content from one mobile smart device to another in a carrier retail location at home, or at work. Our solution supports secure mobile content transfer across major operating systems including IOS, Android and Windows. Our Synchronoss Mobile Content Transfer™ solution can transfer select data classes that may include photos, videos, music, messages, documents, contacts and call logs, across operating systems with varying degrees of support in accordance with the openness of the platform.

## Table of Contents

Our Synchronoss Backup & Transfer™ solution is a variation of Synchronoss Mobile Content Transfer™ that offers the same peer-to-peer transfer of select data classes across smart mobile devices and major operating systems and also offers the ability to send supported data classes that may include photos, videos, music, messages, documents, contacts and call logs up to the cloud for temporary storage and then restore the content back into the new device or to a new device with the same client. This capability supports care channel uses cases of securing content during a device wipe and also creates a value added solution in the case of lost devices, cracked screens and other edge use cases. Furthermore, our Synchronoss Backup & Transfer™ solution gives the subscriber the capability to establish a cloud account at the point of transfer and an automatic sync capability to keep content backed up to the cloud account going forward. This unified experience is designed to drive cloud enrollment at the point of transfer (often during a new account activation or upgrade) and provide an opportunity to get content into the Cloud to reduce the time of transfer for the next upgrade.

Our Synchronoss Enterprise solutions offer a best in class technology platform with purpose-built industry solutions that drive business outcomes for Enterprise customers including: improved employee productivity in a secure environment, greater agility and responsiveness to consumers, higher consumer loyalty and enhanced revenue opportunities, as well as proactively anticipating regulatory data/retention and privacy requirements. There are currently three primary components to this platform, which drives a secure digital online experience in select Enterprise vertical markets:

- **Secure Mobility Management:** A BYOD implementation that provides the rich integration and orchestration of secure mobile productivity software featuring fine grain activity capture and dynamic policy execution through best in class mobility management, security and policy management tools and intelligent productivity through behavioral analytics
- **Data & Analytics:** Solution which support fraud and cyber security detection/prevention, dynamic policy administration/execution and predictive productivity.
- **Identity and Access Management:** Solution that allows customers to self-register and verify their identity while providing non-intrusive multi factor authentication and also provides businesses with the assurance that the consumer is the person authorized to conduct the transaction.

Our Synchronoss Enterprise solutions are targeted, initially at the following markets:

- **Financial Services:** Capital markets, banking and insurance.
- **Healthcare:** Providers and payers
- **Life Sciences:** Pharmaceuticals, device manufacturers and clinical research organizations

- Federal and State government sectors

Our various platforms described above are combined together to form our Integrated Life™ Platform. All our platforms are designed to be:

**Carrier Grade:** We designed our platforms to handle high-volume transactions from carriers (such as the launch of the new iPhone 6) rapidly and efficiently, with very little down-time. Our platforms are also capable of simultaneously handling millions of device content related transactions on a daily basis to ensure that personal content on all subscriber devices stays fresh and synchronized with the Cloud.

**Highly Automated:** We designed our platforms to eliminate manual processes and to automate otherwise labor-intensive tasks, with the goal of improving operating efficiencies and order accuracy, and reducing costs. By tracking every order and identifying those that are not provisioned properly, our platforms are designed to substantially reduce the need for manual intervention and reduce unnecessary customer service center calls. The technology of our platforms automatically guides a customer's request for service through the entire series of required steps.

**Predictable and Reliable:** We are committed to providing high-quality, dependable services to our customers. To ensure reliability, system uptime and other service offerings, our transaction management is guaranteed through SLAs. Our platforms offer a complete customer management solution, including exception handling, which we believe is one of the main factors that differentiates us from our competitors. In performing exception handling, our platforms recognize and isolate transaction orders that are not configured to specifications, process them in a timely manner and communicate these orders back to our customers, thereby improving efficiency and reducing backlog. If manual intervention is required, our exception handling services are performed internally as well as outsourced to centers located in the United States and Canada and, where applicable, to other cost-effective geographies. Additionally, our database is designed to preserve data integrity while ensuring fast, efficient, transaction-oriented data retrieval methods.

Table of Contents

**Seamless:** Our platforms integrate information across our customers' entire operation, including subscriber information, order information, delivery status, installation scheduling and content stored on the device to allow for the seamless activation and content transfer during the device purchase flow. Through our platforms, the device is automatically activated and consumer's content is available for use via the Cloud, ensuring continuity of service and reducing subscriber churn propensity. CSPs and multi-channel retailers can bundle additional applications during retail phone purchases, and also provide live updates to support new features and new devices. We have built our platforms using an open design with fully-documented software interfaces, commonly referred to as application programming interfaces, or APIs. Our APIs enable our customers, strategic partners and other third parties to integrate our platforms with other software applications and to build best-in-class cloud-based applications incorporating third-party or customer-designed capabilities. Through our open design and alliance program, we believe we provide our customers with superior solutions that combine our technology with best-of-breed applications with the efficiency and cost-effectiveness of commercial, packaged interfaces.

**Scalable:** Our platforms are designed to process expanding transaction volumes reliably and cost effectively. While our transaction volume has increased rapidly and substantially since our inception, we anticipate substantial future growth in transaction volumes, and we believe our platforms are capable of scaling their output commensurately, requiring principally routine computer hardware and software updates. Our synchronization and activation platforms routinely support our customers' transactions at the highest level of demands when needed with our current production deployments. We continue to see the number of transactions for connected devices, such as smartphones, MIDs, laptops, tablets and wirelessly enabled consumer electronics such as cameras, tablets, e-readers, personal navigation devices, GPS enabled devices, and other connected consumer electronics, to be one of the fastest growing transaction types across all our platforms, products and services. Our Synchronoss Personal Cloud platform is deployed across more than 65 million devices, managing 10 billion entities in the Cloud and performing more than 7 million synchronizations per day.

**Value-add Reporting Tools:** Our platforms' attributes are tightly integrated into the critical workflows of our customers and have analytical reporting capabilities to provide near real-time information for every step of the relevant transaction processes. In addition to improving end-user customer satisfaction, these capabilities are designed to provide our customers with value-added insights into historical and current transaction trends. We also offer mobile reporting capabilities for users to receive critical data about their transactions on connected devices.

**Build Consumer Loyalty and Create New Revenue Streams:** Our synchronization services help drive consumers to CSPs, OEMs or multi-channel retailers by presenting them with a branded application and fully-integrated Web portal that provides convenience, security, and continuity for end user customers, which we believe helps our customers by further building the brand loyalty of their subscribers. We believe our Synchronoss Personal Cloud solution helps reduce subscriber churn by making it easy for subscribers to migrate smartphone content from an old device to a new device. Our Synchronoss Personal Cloud solution enables our carrier customers to sell premium value-add cloud storage solutions as well as cloud enabling premium partner opportunities. We are designing solutions that are capable of allowing carriers, OEMs and retail distributors to promote and fulfill new services through mobile channels to better monetize their cloud subscriber base.

**Efficient:** Our platforms' capabilities provide what we believe to be a more cost-effective, efficient and productive approach to enabling new activations across services and channels. Our solutions allow our customers to reduce overhead costs associated with building and operating their own customer transaction management infrastructure. With automated activation and integrated fall out support, our e-commerce platforms centralize customer service expectations, which we believe dramatically reduces our customers' subscriber acquisition/retention costs in addition to operating expenses for training and staffing costs. We also provide our customers with the information and tools intended to more efficiently manage marketing and operational aspects of their business, as well as business intelligence required to do targeted up-selling of their products and services.

**Quick Concept to Market Delivery:** The automation and ease of integration of our on-demand platform allows our customers to accelerate the deployment of their services and new service offerings by shortening the time between a subscribers' order and the provisioning of service or activation and enabling of a connected device(s).

**Extensible and Relevant:** Our customers operate in dynamic and fast paced industries. Our platforms and solutions are built in a modular fashion, which make them conducive to be extended dynamically and enable our customers to offer solutions that are relevant to current market situations, with the goal of providing them with the competitive edge required for them to be successful. The platforms are also designed to be highly customizable to each carrier's specific back-office systems as well as branding requirements.

**Secure:** By leveraging our identity and access management capabilities consumers can self-register their identity, be verified and credentialed and manage their profile in order to have the best customer experience possible. This solution also supports identity proofing and scoring in order to conduct fraud and cyber security detection and prevention and multifactor authentication.

**Ease of Use:** By leveraging our persona management capability in conjunction with our identity management functions the platform allows users to establish and manage personalized experiences across a variety of personas they may choose to build. This creates convenient navigation, predictable actions and frictionless transactions.

**Designed to integrate with back-office systems,** our platforms allow work to flow electronically across our customers' operations while providing ready access to performance and resource usage information in providing activation and subscriber management.

Table of Contents

Demand Drivers for Our Business

Our products and services are capable of managing a wide variety of transactions across multiple customer delivery channels and services, which we believe enables us to benefit from increased growth, complexity and technological change in the communications technology industry. As the communications technology industry continues to evolve, new access networks, connected devices and applications with multiple services and modes are emerging. More significantly, the accumulation of multiple connected devices per subscriber is creating new opportunities for network and cloud-driven service continuity. This proliferation of services and advancement of technologies is accelerating subscriber revenue growth, significantly expanding the types and volume of rich content accessed and stored by consumers, and increasing the number of transactions between our customers and their subscribers. In addition to this dynamic, we believe our core electronic transaction management business is further being driven by the following factors:

- A proliferation of connected devices led by
  - o new and richer operating systems,
  - o increasing connected devices adoption,
  - o broadband networks experiencing critical mass and
  - o enhanced cloud computing enabling access to rich content
- New and evolving business models by North American carriers encouraging more frequent device upgrades by subscribers
- New emerging connected devices are giving consumers multiple smart devices and create a more compelling need for cloud sharing and identity management
- Wireless ecosystem continues to experience a paradigm shift in its buying patterns
- Continued growth of the online channel for the communications marketplace
  - Expansion of communication service bundles to be utilized across multiple devices
- Pressure on operators to improve efficiency while delivering a superior subscriber experience
- Growth of the on-demand delivery model
- Mobile Network Operators' shift in focus from new subscriber additions to new connections added, as well as an increasing concentration adding new non-traditional devices to family share plans
- Mobile applications and cloud-enabled services combined with innovative devices and the Internet of Things offer new opportunities to connect, transact business and consume an array of content and information
- Increased need for tighter security, additional ways to secure customer information and the ability to access information

Increased Embedded Connectivity. We continue to see embedded connectivity technology within a vast array of common electronic devices. According to Machina Research, total connected devices are projected to grow from 15 billion in 2015 to 27.1 billion by 2020 and according to the GSM Association (GSMA), the number of unique mobile subscribers is expected to increase from 4.7 billion in 2015 to 5.6 billion by 2020.

We see the following drivers behind this development:

**New and Richer Operating Systems.** Device operating systems like iOS for the iPhone/iTouch/iPad portfolio, Android produced by Google, Windows® mobile devices, and BlackBerry OS for the BlackBerry portfolio have accelerated the adoption and usage of smartphones. Other growing markets are in smart wearables and connected vehicles. Apple has watchOS and CarPlay, while Google has Android Wear and Android Auto, respectively. According to IDC, the smartwatch market has a CAGR of 42.8% from 2015-2019. For connected vehicles, BI Intelligence forecasts that 75% of all cars will ship with connectivity capabilities by 2020.

**Increasing Mobile Adoption Worldwide:** According to estimates by the International Telecommunication Union (ITU), in 2015 there were 3.4 billion active mobile-broadband subscriptions in the world or 47.2 percent of the global population, and fixed broadband penetration is expected to reach approximately 10.8 percent globally. The GSMA has stated that half of the world's population in 2015 had a mobile subscription, up from just one in five in 2002 and predicts an additional one billion subscribers by 2020, increasing the global penetration rate to approximately 60%.

**Smartphone Sales and Diversification:** IDC estimates that approximately 1.5 billion smartphones were shipped worldwide in 2015, approximately an 11.9% year-over-year growth rate. Slower annual growth continues throughout the forecast period with unit shipments of 2.0 billion by 2019 resulting in a five-year CAGR of 8.5%. Despite a number of mature markets nearing smartphone saturation, the demand for low-cost computing in emerging markets continues to drive the smartphone market forward. These smartphones, tablets and other connected devices have a need to store, synchronize and share content across multiple devices which drive the need for personal cloud solutions in the marketplace.

**Wireless Broadband Networks Experiencing Critical Mass:** The establishment of multiple broadband mobile networks (e.g., Universal Mobile Telecommunications System, High-Speed Packet Access, Evolution-Data Optimized, WiMax, and LTE among others) has provided broader bandwidth to CSPs, while decreasing the cost per bit transmitted, thus enabling the proliferation of mobile devices and equipment with embedded connectivity. As more of these devices enter the market, and many of them having lower average revenue per user (ARPU) than traditional wireless services, they will necessitate an efficient and seamless activation/provisioning system with a best-in-class customer experience to differentiate them.



Table of Contents

**4G-LTE Networks:** The continued emergence and advancement of 4G-LTE networks is expected to improve the connected devices customer experience with higher data speeds and reduced latency. In addition, devices such as mobile routers and tablets can generate mobile hotspots. With fixed mobile broadband, mobile carriers and MSOs can also offer bundled services. These networks are focused on enhancing Machine to Machine (M2M) communications.

**Wireless Ecosystem Continues to Experience a Paradigm Shift in its Buying Patterns:** Consumers have traditionally been accustomed to purchasing their devices and service plans directly from CSPs. That is, if they wanted a particular wireless service, they first had to decide which operator they wanted, and then only after they made this decision, could they select a phone. We are seeing considerable forces altering this typical buy flow and in doing so generating considerable innovation and a change in the ecosystem. Managing the activation, provisioning, connectivity and synchronization of these devices and handling the connectivity with the different service providers is something that is not core to OEMs or multi-channel retailers. As this dynamic evolves, we expect that there will be an increasing need for automated connect-sync-activate services as well as other transaction areas such as device integration, certification, credit card billing, inventory management, and trouble ticketing.

**Continued Growth of the Online Channel for the Communications Space:** Cloud-based commerce provides our customers with the opportunity to cost-effectively gain new subscribers, provide service and interact more effectively. Specifically, we estimate that the cost per gross add (CPGA) for a customer obtained via e-commerce can be up to 50% less than those obtained via traditional means. With the dramatic increase in Internet usage and desire to directly connect with end users over the course of the customer lifecycle, service providers are increasingly focusing on e-commerce as a channel for customer acquisition and delivery of ongoing services. According to Forrester, e-commerce sales were approximately 10% of all sales in the U.S in 2015 and they estimate that e-Commerce will experience a strong compound annual growth rate of 10% over the next five years, translating to \$480 billion in online sales by 2019.

**Expansion of Communication Service Bundles:** “Quad Play” services are bundled offerings that include fixed voice, broadband, television and mobile voice. According to Ovum, quad-play bundles are predicted to be the fastest-growing bundle type, rising to almost 46 million subscriptions by 2019, a 31 percent compound annual growth rate. With subscribers expecting CSPs to offer all services under one contract, communications companies continue the development of bundled style offerings of their available services. In this environment, more CSPs are utilizing an array of communication delivery technologies to become all-in-one providers of communication services. For example, MSOs are increasingly creating true quad-play's (i.e., voice, video, high speed data and wireless) with the creation, acquisition and/or development of their own wireless networks. As wireless technology proliferates further into the consumer device market, we believe we will see an emergence of service bundling that surpasses the traditional perception of a quad-play, where the wireless component will encompass an added array of wireless enabled devices. As quad-play offerings gain more traction and service bundles begin encompassing emerging devices and technologies, we believe that the level of complexity in seamlessly delivering these services will increase significantly and that CSPs will need transaction management systems that can effectively handle those delivery challenges.

**Faster Upgrade Cycles for Smartphones:** With the operators and OEMs offering smartphone upgrade and trade-in programs, customers have the option to upgrade earlier than the typical two-year cycle. According to GSMA, in 2015 the mobile industry generated \$3.1 trillion to the world economy in economic value added terms, a contribution of 4.2% of the world's total GDP. By 2020, GSMA predicts this amount will be \$3.7 trillion. Two key areas of our business are involved in this process. Subscribers placing their orders on-line with our operator customers, transparently use our Activation platform for these upgrades resulting in growth of transactions processed by us. Secondly, subscribers who upgrade need to back up their data from old phones and restore that data on their new devices, which increases the need for our cloud solutions. With the storage capacity of Smartphones increasing each year, the requirements for storage to back up the data on these devices will likely also increase. Adding to this is the growing size of file types. Higher megapixel counts and resolutions have contributed to the expanding file sizes of photos and videos. According to 451 Research, photos and videos occupied the most storage capacity for the average smartphone user. The biggest drivers impacting mobile content creation were more on-device storage capacity and cloud storage capacity.

**Pressure on Customers to Improve Efficiency while Delivering a Superior Subscriber Experience:** Increased competition, recessionary markets, and the cost of network capacity have placed significant pressure on our customers to reduce costs and increase revenues. At the same time, due to deregulation, the emergence of new network technologies and the proliferation of services, the complexity of back-office operations has increased significantly. Customers with multiple back-end systems are looking for ways to help their systems interoperate for a better customer experience. In addition, customers are moving to automated provisioning systems that enable them to more easily purchase, upgrade or add new features, application and content. As a result, we believe customers are looking for ways to offer new communications services more rapidly and efficiently to existing and new customers. Increased competition and demand for superior subscriber experience have placed significant pressure on our customers to improve customer-centric processes. CSPs are increasingly turning to transaction-based, cost effective, scalable and automated third-party solutions that can offer guaranteed levels of service delivery.

**Growth in On-Demand Delivery Model:** Our on-demand business model enables delivery of our proprietary solutions over the Internet as a service. As such, customers do not have to make large and potentially risky upfront investments in software, additional hardware, extensive implementation services and additional IT staff.

Table of Contents

Services, Networks and Device Complexity: The wireless industry is changing. CSPs are moving away from unlimited data plans, networks are becoming multi-layered with varying levels of complexity and devices are becoming more feature rich and capable, driving bandwidth consuming traffic over the networks. We believe all of these require CSPs and OEMs to be more creative in the services they offer, requiring an increased need for automation in device integration, certification and activation. This will require complex policy-based device and network management. Certain functions of our platforms can help address these needs.

Security – Fraud and Cyber Threat Detection and Prevention: There is a continuing increase in threats against consumers and companies from a variety of sources. The main point of attack is the credentials of the users that access applications and commercial sites. It has become critically important to assure complete confidence in the identification and authentication of users.

Consumer identity verification and authentication: Consumers today are burdened with having too many username and passwords to manage across their personal and professional lives. At the same time they don't want to be burdened with intrusive authentication methods. They desire simple safe and security identity and authentication methods.

Mobile productivity and security: The enterprise mobile world, including the proliferation of BYOD, creates the need for an additional level of security, given the nature of the platform and operating systems. Additionally, according to the Yankee Group, an enterprise user is working on their mobile device 50% to 60% of the time, this establishes the need for increasing productivity for the user based at the point of the experience.

Our Growth Strategy

Our growth strategy is to establish our platforms as the de-facto industry standard for CSPs, MSOs, OEMs, enterprise customers and multi-channel retailers while investing in logical extensions of our product and services portfolio. We plan to continue to focus our technology and development efforts around improving functionality, helping customers drive higher ARPU and subscriber retention, embracing alternative channels and allowing more capabilities for ordering bundled applications and content offerings across these same complex and advanced networks.

Key elements of this strategy are:

Expand our Product Portfolio to Communication Service Providers. Given the explosive growth of connected mobile broadband devices and the increasing need to backup, restore and share content across those devices, our objective is to play a vital role in monetizing those devices with our connect-sync-activate strategy. Methods of monetization may include licenses per device, maintenance fees, professional service fees, active user fees as well as data storage fees. Our acquisitions of Newbay Software, Limited, VoxMobili Limited and the assets of F-Secure have enabled us to expand the functionality of our Synchronoss Personal Cloud platform and improve the scalability of these existing platforms to offer a more robust solution to our customers. We believe we will be able to integrate this solution with other potential revenue generating offers from service providers and other customers.

Expanding into Enterprise Cloud. Following up on the success of our Synchronoss Personal Cloud™ offering, we have also leveraged that platform to support the increased need for cloud-based document sharing and collaboration needs in the Small and Medium Business (SMB) area. SMB's rely heavily on CSP's for support of new trends, such as Bring Your Own Technology (BYOT/BYOD). Our Synchronoss WorkSpace™ offering combined with our Orbit platform acquired through our Goldman Sachs venture, are ideally suited for such solutions, as they are designed to assure an IT manager that employees can enhance productivity by using their own mobile devices, while complying with their internal security and other IT policies.

Expand Into New Geographic Markets. Although the majority of our revenue has traditionally been generated in North America, we continue to expand globally. Today, we have several instances of our platforms deployed in Europe and new customer engagements with a variety of carriers, such as Virgin Mobil and British Telecom to support their customers. In addition, our various acquisitions, including those of assets of F-Secure in 2015 and VoxMobili and Clarity in 2014 have helped expand our operations and customer engagements in Europe and the Asia-Pacific region. We believe that the growth of connected devices will further drive opportunities to penetrate new geographic markets within the coming years. The Asia/Pacific and Latin America regions are of particular interest, as these markets experience similar trends to those that have driven growth in North America and Europe.

Expand through Strategic Partnerships or Acquisitions. We are in the process of integrating our various acquisitions and we will continue to assimilate the synergies and efficiencies that these acquisitions may afford us. In 2015, we entered into ventures with Verizon on the Identity Access market and Goldman Sachs on BYOD with the goal of establishing a foothold and launch our entry in the enterprise market. As we explore new opportunities, we continue to look for strategic partnership or acquisition candidates that may enable us to more rapidly enter new markets or enhance our offerings.

## Table of Contents

**Broaden Customer Base and Expand Offering to Existing Customers.** As our existing customers continue to expand into new distribution channels, such as the rapidly growing e-commerce channels, they will likely need to support new types of transactions that are managed by our platforms. In addition, we believe our customers will require new transaction management solutions as they expand their subscriber customer base, which will provide us with opportunities to drive increasing amounts of volume over our platforms. Many customers purchase multiple services from us, and we believe we are well positioned to cross-sell additional services to customers who do not currently purchase our full services portfolio. The expansion of our relationship with AT&T, Verizon and other customers highlight further penetration of existing customers as well as the development of a major growth initiative in consumer digital convergence.

**Expand into the Enterprise Market.** Launch directly with Enterprise customers through our direct sales efforts as well as key strategic partnerships. These efforts are designed to allow us to capture direct customer relationships in the enterprise space via our partners' direct subject matter expertise in industry verticals and/or their broad reach as clear market leaders that drive a significant share of the market opportunities.

**Expand into Emerging Devices and Internet of Things Space.** Various forecasts, such as Gartner, GSMA and IDC have cited explosive growth in the non-traditional connected devices space. Such devices include connected cars, connected homes, health and wellness and health care domains. According to Gartner, there will be over 30 billion devices connected by 2020. The increased growth will come from the non-traditional IT market. We plan on expanding both our activation platforms (focused on the new activation needs emerging from such devices on the service provider networks) as well as our cloud platforms (focused on storing data from the varying devices to be stored securely in the Cloud) in an effort to capitalize on the growth emerging from these new opportunities.

**Maintain Technology Leadership.** We strive to continue to build upon our technology leadership by continuing to invest in research and development to increase the automation of processes and workflows and develop complementary product modules that leverage our platforms and competitive strengths, thus driving increased interest by making it more economical for customers to use us as a third-party solutions provider. In addition, we believe our close relationships with our Tier 1 customers will continue to provide us with valuable insights into the dynamics that are creating demand for next-generation solutions.

**Leverage and Enforce our Intellectual Property.** We have a significant repository of intellectual property assets, and we expect to use this as a differentiator of our products and services in the marketplace.

## Customers

We strive to maintain strong and collaborative relationships with our customers, which we believe to be one of our core competencies and critical to our success. We are generally the only provider of the services we offer to our

customers. Contracts extend up to 60 months from execution and include minimum transaction or revenue commitments from our customers. All of our significant customers may terminate their contracts for convenience upon written notice and in many cases payment of contractual penalties. Contract penalties received by us were immaterial to our Statements of Income for the years ended December 31, 2015, 2014, and 2013.

Each of AT&T and Verizon accounted for more than 10% of our revenues for the years ended 2015, 2014 and 2013. AT&T and Verizon in the aggregate accounted for 75%, 73% and 66% of net revenues for the year ended December 31, 2015, 2014 and 2013, respectively. The loss of either AT&T or Verizon as a customer would have a material negative impact on our company. We believe that if either AT&T or Verizon terminated their relationship with us, they would encounter substantial costs in replacing Synchronoss' solutions.

## Sales and Marketing

### Sales

We market and sell our services primarily through a direct sales force and through our strategic partners. To date, we have concentrated our sales efforts on a range of CSPs, OEMs, enterprises, government and multi-channel retailers both domestically and internationally. Typically our sales process involves an initial consultative process that allows our customers to better assess the operating and capital expenditure benefits associated with an optimal activation, provisioning, and cloud-based content management architecture. Our sales teams are well trained in our Activation Services, Synchronoss Personal Cloud, Synchronoss Workspace, Secure Mobility, Identity and Access Management and Integrated Life platforms and on the market trends and conditions that our current and potential customers are facing. This enables them to easily identify and qualify opportunities that are appropriate for our platform deployments to benefit these customers. Following each sale, we assign account managers to provide ongoing support and to identify additional sales opportunities. We generate leads from contacts made through trade-shows, seminars, conferences, events, market research, our Web site, customers, strategic partners and our ongoing public relations program.

## Table of Contents

### Marketing

We focus our marketing efforts on supporting new product initiatives, creating awareness of our services and generating new sales opportunities. We base our product management strategy on analysis of market requirements, customer needs, industry direction, competitive offerings and projected customer cost savings and revenue opportunities. Our team is active in numerous technology and industry forums and regularly gets invited to speak at tradeshows such as the Consumer Electronics Show (CES), Cellular Telecommunications Industry Association (CTIA), GSMA (Mobile World Congress), Mobile Future Forward Series, Wireless Influencers Forum, Securities Industry and Financial Markets Association (SIFMA) and National Cable & Telecommunications Association (NCTA), in which we also demonstrate our solutions. In addition, through our product marketing and marketing communications functions, we also have an active public relations program and maintain relationships with recognized trade media and industry analysts such as ABI Research, International Data Corporation (IDC), Gartner Inc., Forrester Research, Inc., Ovum, Frost & Sullivan and Yankee Group. We also manage and maintain our Web site, blog, social media profiles on LinkedIn, Twitter and Facebook, utilize search engine optimization (SEO) and search engine marketing (SEM), publish product related content and educational white papers, videos and conduct seminars and user group meetings. Finally, we also actively sponsor technology-related conferences and demonstrate our solutions at trade-shows targeted at providers of communications services.

### Operations and Technology

We leverage common proprietary information technology platforms to deliver carrier grade services to our customers across communication and digital convergence market segments. Constructed using a combination of internally developed and licensed technologies, our platforms integrate our order management, gateway, workflow, cloud-based content management, and reporting into a unified system. The platforms are secure foundations on which to build and offer additional services and maximize performance, scalability and reliability.

### Exception Handling Services

We differentiate our services from both the internal and competitive offerings by handling exceptions through our technology and human touch solutions, a substantial portion of which are provided by third-party vendors. Our business process engineers optimize each workflow; however, there are exceptions and we handle these with the goal of ensuring the highest quality customer experience at the lowest cost. Our exception handling services deal with the customer communication touch points including provisioning orders, inbound calls, automated interactive voice responses (e.g., order status, address changes), Web forums, inbound and outbound email, proactive outbound calls (e.g., out of stock, backorders, exceptions) and self-correct order tools. These services are continuously reviewed for improved workflow and automation. We use third-party vendors in providing exception handling services, each of whom provide services under automatically renewable contracts. We believe our unique exception handling services help reduce the cost of each transaction by driving more automation, over time, into a better and more cost effective way to manage our customers' subscriber experiences.

## Locations

Our locations are distributed across various time zones in the United States, Asia and Europe to help us serve our customers in a timely manner. We believe these diverse locations afford us access to key talent in all major markets in the U.S. and around the globe.

## Data Center Facilities

We own and maintain data center facilities in Bethlehem, Pennsylvania, Bangalore, India, and Tucson, Arizona. These facilities are currently expected to support our growth objectives. These secure facilities house all customer-facing, production, test and development systems that are the backbone of the services delivered to our customers. The facilities and systems are monitored 7 days a week, 24 hours a day, and are protected via multiple layers of physical and electronic security measures. In addition, a redundant power supply ensures constant, regulated power into the managed data facility and a backup generator system provides power indefinitely to the facility in the event of a utility power failure. All systems in the managed data facility are monitored for availability and performance using industry standard tools. We also host equipment in data center colocation facilities with Terremark Inc., VCHS, Saavis, Rackspace, and several other third parties, which enables us to offer geographically diversified hosting and storage for our Synchronoss Personal Cloud™ solutions.

## Network

We use AT&T, Verizon, Level 3 and Sprint to provide a managed, fully-redundant network solution at each of our data center facilities to deliver enterprise scale services to customers. Wide Area Network connectivity between our locations is achieved via redundant Multiprotocol Label Switching (MPLS) circuits and Internet access to selected locations via multiple dedicated circuits. A dedicated Metro Ethernet solution is utilized to provide a data center backbone connection between our primary data center facility in Bethlehem and our primary disaster recovery site, should the need arise.



## Table of Contents

### Disaster Recovery Facility

We operate disaster recovery solutions in our Tucson, Arizona and in our colocation facilities that are used to provide hot sites for real time data backup and disaster recovery purposes.

### Customer Support

Our Customer Service Center (CSC) acts as an initial point of contact for all customer-related issues and requests. The CSC staff is available 7 days a week via phone, email or pager to facilitate the diagnosis and resolution of application and service-related issues with which they are presented. Issues that require further investigation are immediately escalated to our product and infrastructure support teams on behalf of the customer as part of our continuing effort to provide the greatest speed of problem resolution and highest levels of customer service.

### Competition

Competition in our markets is intense and includes rapidly-changing technologies and customer requirements, as well as evolving industry standards and frequent product introductions. We compete primarily on the basis of the breadth of our domain expertise, our proprietary exception handling, and the breadth of our Synchronoss Personal Cloud content synchronization and sharing capabilities, as well as on the basis of price, time-to-market, functionality, quality and breadth of product and service offerings. We believe the most important factors making us a strong competitor include:

- Breadth and depth of our transaction and content management solutions, including our exception handling technology
- Carrier grade nature and scalability of our solutions
- Quality and performance of our products
- High-quality customer service
- Ability to implement and integrate solutions
- Overall value of our platforms
- References of our customers

We are aware of other software developers and smaller entrepreneurial companies that are focusing significant resources on developing and marketing products and services that will compete with our platforms. We anticipate continued growth in the communications industry and the entrance of new competitors in the order processing and transaction management solutions market and expect that the market for our products and services will remain intensely competitive.

## Government Regulation

We are not currently subject to any federal, state or local government regulation, other than regulations that apply to businesses generally. Many of our customers are subject to regulation by the Federal Communications Commission, or FCC. Changes in FCC regulations that affect our existing or potential customers could lead them to spend less on transaction management solutions, which would reduce our revenues and could have a material adverse effect on our business, financial condition or results of operations. We also comply with industry required regulations, such as PCI compliance and all of our employees have completed the required compliance education.

## Intellectual Property

To establish and protect our intellectual property, we rely on a combination of copyright, trade secret, patent and trademark rights, as well as confidentiality procedures and contractual restrictions. Synchronoss®, the Synchronoss® logo, ConvergenceNow® and ActivationNow® are registered trademarks of Synchronoss. In addition, we regularly file patent applications to protect inventions arising from our research and development, and have obtained and filed applications for over 120 patents in the United States and other countries. No single patent is solely responsible for protecting our products or services. In addition to legal protections, we rely on the technical and creative skills of our employees, deep technical integration with our customer's networks and back-office systems, frequent product enhancements and improved product quality to maintain a technology-leadership position. We maintain a program to protect our investment in technology by attempting to ensure respect for our intellectual property rights. We cannot be certain that others will not develop technologies that are similar or superior to our technology. We enter into confidentiality and invention assignment agreements with our employees and confidentiality agreements with our alliance partners and customers, and we control access to and distribution of our software, documentation and other proprietary information.

Table of Contents

Employees

We believe that our recent growth and success is attributable in large part to our employees and an experienced management team, many members of which have years of industry experience in building, implementing, marketing and selling transaction management solutions critical to business operations. We intend to continue training our employees as well as developing and promoting our culture and believe such efforts provide us with a sustainable competitive advantage. We offer a work environment that enables employees to make meaningful contributions, as well as incentive programs to continue to motivate and reward our employees.

As of December 31, 2015, we had 1,895 full time employees. None of our employees are covered by any collective bargaining agreements.

Table of Contents

## Executive Officers of the Registrant

The following sets forth certain information regarding our Executive Officers as of February 26, 2016:

Name	Age	Position
Stephen G. Waldis	48	Chairman of the Board of Directors and Chief Executive Officer
Robert Garcia	47	President and Chief Operating Officer
Karen L. Rosenberger	50	Executive Vice President, Chief Financial Officer and Treasurer
Ronald J. Prague	52	Executive Vice President, Chief Legal Officer, General Counsel & Secretary
David Schuette	50	Executive Vice President and President, Enterprise
Joel Silverman	51	Executive Vice President of Americas
Patrick J. Doran	42	Executive Vice President and Chief Technology Officer
Daniel Rizer	52	Executive Vice President of Business Development and Product Management
Chris Halbard	49	Executive Vice President, International
David Berry	50	Executive Vice President and Chief Innovation Officer

---

Stephen G. Waldis has served as Chief Executive Officer of Synchronoss since founding the Company in 2000 and has served as Chairman of the Board of Directors since 2001. From 2000 until 2011 Mr. Waldis also served as President of Synchronoss. Before founding Synchronoss, from 1994 to 2000, Mr. Waldis served as Chief Operating Officer at Vertek Corporation, a privately held professional services company serving the telecommunications industry. From 1992 to 1994, Mr. Waldis served as Vice President of Sales and Marketing of Logical Design Solutions, a provider of telecom and interactive solutions. From 1989 to 1992, Mr. Waldis worked in various technical and product management roles at AT&T. Mr. Waldis received a degree in corporate communications from Seton Hall University.

Robert Garcia has served as President of Synchronoss since December 2011 and Chief Operating Officer since 2007. Prior to that position, Mr. Garcia served in various positions at Synchronoss, including Executive Vice President of Operations and Service Delivery and General Manager of Synchronoss' western office since joining Synchronoss in August 2000. Before joining Synchronoss, Mr. Garcia was a Senior Business Consultant with Vertek Corporation from January 1999 to August 2000. Mr. Garcia has also held senior management positions with Philips Lighting Company and Johnson & Johnson Company. Mr. Garcia received a degree in logistics and economics from St. John's University in New York.

Karen L. Rosenberger has served as Chief Financial Officer and Treasurer since April 2014. Prior to that position, Ms. Rosenberger served in various positions at Synchronoss since joining Synchronoss in 2000, most recently as Senior Vice President, Controller and Chief Accounting Officer. Before joining Synchronoss, Ms. Rosenberger held various management positions with Medical Broadcasting Company and CoreTech Consulting Group. Ms. Rosenberger received a degree in accounting from Cedar Crest College and a Master of Business Administration from

Saint Joseph's University. Ms. Rosenberger is a certified public accountant and a member of the American Institute of Certified Public Accountants and the New Jersey Society of Certified Public Accountants.

Ronald J. Prague has served as Executive Vice President, General Counsel, Chief Legal Officer and Secretary since joining Synchronoss in 2006. Before joining Synchronoss, Mr. Prague held various senior positions with Intel Corporation from 1998 to 2006, including as Group Counsel for Intel's Communications Infrastructure Group. Prior to joining Intel, Mr. Prague practiced law with the law firms of Haythe & Curley (now Torys LLP) and Richards & O'Neil (now Morgan Lewis). Mr. Prague is a graduate of Northwestern University School of Law and earned a degree in business administration and marketing from Cornell University.

David Schuette joined Synchronoss in August 2015 and serves as Executive Vice President and President, Enterprise. Prior to joining Synchronoss, from 2009 to August 2015, Mr. Schuette held several roles at Slide3Advisors and Knowledge Group, Inc., two consulting firms. Mr. Schuette received a degree in Communications from Miami University, Oxford, OH.

Joel Silverman has served as Executive Vice President of Americas since October 2014 and, prior to that position, Mr. Silverman held various senior sales and general manager positions since he joined Synchronoss in 2011. Prior to joining Synchronoss, from 2010 to 2011, Mr. Silverman was Chief Marketing Officer at Litl, LLC and from 2004 to 2010 he was Senior Vice President – Sales and Distribution of Virgin Mobil USA. Mr. Silverman received a Bachelor of Science degree in Operations Research/Industrial Engineering from Cornell University and an MBA from the Andersen School at UCLA.

Patrick J. Doran has served as Executive Vice President and Chief Technology Officer since 2007. Prior to that position, Mr. Doran served in various positions, including Chief Architect and Senior Software Engineer, since joining Synchronoss in 2002. Before joining Synchronoss, Mr. Doran was a Senior Development Engineer at Agility Communications from 2000 to 2002 and a Member of Technical staff at AT&T/Lucent from 1996 to 2000. Mr. Doran received a degree in Computer and Systems engineering from Rensselaer Polytechnic Institute and a Master Degree in Industrial Engineering from Purdue University.

Table of Contents

Daniel Rizer has served as Executive Vice President of Business Development and Product Management since January 2014. Prior to that position, Mr. Rizer was Executive Vice President of Business Development since joining Synchronoss in 2008. Before joining Synchronoss, Mr. Rizer was the Chief Operating Officer for Motricity from 2005 to 2008. Mr. Rizer has also held senior positions with IBM and Accenture. Mr. Rizer received his Bachelor of Science in Operations Management from Auburn University, and graduated with a Master of Science in Management Information Systems from Boston University.

Chris Halbard has served as Executive Vice President, International since joining Synchronoss in February 2014. Prior to joining Synchronoss, Mr. Halbard was a Senior Advisor to The Boston Consulting Group serving clients within the technology, media and telecommunications industries. Previously, he was the COO and CFO of the Global Services division of British Telecom plc (BT). Prior to British Telecom, Mr. Halbard held a number of senior positions at Lucent Technologies, AT&T and Arthur Andersen & Co. Mr. Halbard is a qualified Chartered Accountant and received his BA HONS in Economics and Business Studies from The University of Sheffield.

David E. Berry has served as Executive Vice President and Chief Innovation Officer of Synchronoss since 2012. Mr. Berry previously was Executive Vice President and Chief Technology Officer of Synchronoss from 2000 to 2006. Between 2006 and re-joining the Company, Mr. Berry worked as: an independent consultant; a CTO of a healthcare startup; and a CIO of a digital signage company. Mr. Berry received a Master of Arts in Corporate and Public Communication from Seton Hall University and a Bachelor of Science in Mathematics and Computer Science from Fairfield University.

Table of Contents

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. The following are certain risk factors that could affect our business, financial results and results of operations. You should carefully consider the following risk factors in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. The risks that we have highlighted here are not the only ones that we face. If any of the risks actually occur, our business, financial condition or results of operation 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.

Risks Related to Our Business and Industry

We have substantial customer concentration, with a limited number of customers accounting for a substantial portion of our 2015 revenues.

Each of AT&T and Verizon Wireless accounted for more than 10% of our revenues for each of 2015 and 2014. AT&T and Verizon Wireless in the aggregate accounted for 75% and 73% of net revenues for 2015 and 2014, respectively. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of customers. It is not possible for us to predict the future level of demand for our services that will be generated by these customers or the future demand for the products and services of these customers in the end-user marketplace. In addition, revenues from these larger customers may fluctuate from time to time based on the commencement and completion of projects, the timing of which may be affected by market conditions or other factors, some of which may be outside of our control. Further, some of our contracts with these larger customers permit them to terminate our services at any time (subject to notice and certain other provisions). If any of our major customers experience declining or delayed sales due to market, economic or competitive conditions, we could be pressured to reduce the prices we charge for our services or we could lose the customer. Any such development could have an adverse effect on our margins and financial position, and would negatively affect our revenues and results of operations and/or trading price of our common stock.

The communications industry is highly competitive, and if we do not adapt to rapid technological change, we could lose customers or market share.

Our industry is characterized by rapid technological change and frequent new service offerings and is highly competitive with respect to the need for innovation. Significant technological changes could make our technology and services obsolete, less marketable or less competitive. We must adapt to this rapidly changing market by continually improving the features, functionality, reliability and responsiveness of our transaction and content management services, and by developing new features, services and applications to meet changing customer needs and further

address the enterprise market. Our ability to take advantage of opportunities in the market may require us to invest in development and incur other expenses well in advance of our ability to generate revenues from these offerings or services. We may not be able to adapt to these challenges or respond successfully or in a cost-effective way. Our failure to do so would adversely affect our ability to compete and retain customers and/or market share. Further, we may experience delays in the development of one or more features of our offerings, which could materially reduce the potential benefits to us providing these services. In addition, our present or future service offerings may not satisfy the evolving needs of the industry in which we operate. If we are unable to anticipate or respond adequately to such needs, due to resource, technological or other constraints, our business and results of operations could be harmed.

The success of our business depends on our ability to achieve or sustain market acceptance of our services and solutions at desired pricing levels.

Our competitors and customers may cause us to reduce the prices we charge for our services and solutions. Our current or future competitors may offer our customers services at reduced prices or bundling and pricing services in a manner that may make it difficult for us to compete. Customers with a significant volume of transactions may attempt to use this leverage in pricing negotiations with us. Also if our prices are too high, current or potential customers may find it economically advantageous to handle certain functions internally instead of using our services. We may not be able to offset the effects of any price reductions by increasing the number of transactions we handle or the number of customers we serve, by generating higher revenue from enhanced services or by reducing our costs. If these or other sources of pricing pressure cause us to reduce the pricing of our service or solutions below desirable levels, our business and results of operations may be adversely affected.



Table of Contents

The success of our business depends on the continued growth of consumer and business transactions related to communications services on the Internet.

The future success of our business depends upon the continued growth of consumer and business transactions on the Internet, including attracting consumers who have historically purchased wireless services and devices through traditional retail stores and attracting new enterprise customers. Specific factors that could deter consumers from purchasing wireless services and devices on the Internet include concerns about buying wireless devices without a face-to-face interaction with sales personnel and the ability to physically handle and examine the devices.

Our business growth would be impeded if the performance or perception of the Internet was harmed by security problems such as "viruses," "worms" or other malicious programs, reliability issues arising from outages and damage to Internet infrastructure, delays in development or adoption of new standards and protocols to handle increased demands of Internet activity, increased costs, decreased accessibility and quality of service, or increased government regulation and taxation of Internet activity. The Internet has experienced, and is expected to continue to experience, significant user and traffic growth, which has, at times, caused user frustration with slow access and download times. If Internet activity grows faster than Internet infrastructure or if the Internet infrastructure is otherwise unable to support the demands placed on it, or if hosting capacity becomes scarce, the growth of our business may be adversely affected.

The success of our business depends on the continued growth in demand for connected devices.

The future success of our business depends upon the continued growth in demand for connected devices. While we believe the market for connected devices will continue to grow for the foreseeable future, we cannot accurately predict the extent to which demand for connected devices will increase, if at all. If the demand for connected devices were to slow down or decline, our business and results of operations may be adversely affected.

Our cloud strategy, including our Synchronoss Personal Cloud, Synchronoss WorkSpace and Integrated Life offerings, may not be successful.

Our cloud strategy, including our Synchronoss Personal Cloud, Synchronoss WorkSpace™ and Integrated Life offerings, may not be successful. We offer customers the ability to offer their subscribers the ability to backup, restore and share content across multiple devices through a cloud-based environment in the Cloud. The success of our Synchronoss Personal Cloud and Synchronoss WorkSpace offerings is dependent upon continued acceptance by and growth in subscribers of cloud-based services in general and there can be no guarantee of the adoption rate by these subscribers. In addition to this, the success of our Integrated Life offering is dependent upon the uptake of non-traditional connected devices by consumers and its general growth in the industry. Our cloud strategy will continue to evolve and we may not be able to compete effectively, generate significant revenues or maintain

profitability. While we believe our expertise, investments in infrastructure, and the breadth of our cloud-based services provides us with a strong foundation to compete, it is uncertain whether our strategies will attract the users or generate the revenue required to be successful. In addition to software development costs, we are incurring costs to build and maintain infrastructure to support cloud-based services. Whether we are successful in our cloud strategy depends on our execution in a number of areas, which may or may not be within our control, including continuing to innovate and bring to market compelling cloud-based offerings, continued growth and demand for cloud-based offerings, maintaining the utility, compatibility, and performance of our cloud-based services on the growing array of devices, including smartphones, handheld computers, netbooks and tablets, and ensuring that our cloud-based services meet the reliability expectations of our customers and maintain the security of their data.

Table of Contents

Our revenue, earnings and profitability are affected by the length of our sales cycle, and a longer sales cycle could adversely affect our results of operations and financial condition.

Our business is directly affected by the length of our sales cycles. Our customers' businesses are relatively complex and their purchase of the types of services that we offer generally involve a significant financial commitment, with attendant delays frequently associated with large financial commitments and procurement procedures within an organization. In addition, as we continue to further penetrate the enterprise and the size and complexity of our sales opportunities continue to expand, we have seen an increase in the average length of time in our sales cycles. The purchase of the types of services that we offer typically also requires coordination and agreement across many departments within a potential customer's organization. Delays associated with such timing factors could have a material adverse effect on our results of operations and financial condition. In periods of economic slowdown our typical sales cycle lengthens, which means that the average time between our initial contact with a prospective customer and the signing of a sales contract increases. The lengthening of our sales cycle could reduce growth in our revenue. In addition, the lengthening of our sales cycle contributes to an increased cost of sales, thereby reducing our profitability.

As we continue to pursue new enterprise customers, our sales cycle, forecasting processes and deployment processes may be less predictable and require greater time and expense.

Our sales cycle may lengthen as we continue to pursue new enterprise customers. Enterprise customers may undertake a significant evaluation process in regard to enterprise software which can last from several months to a year or longer. If our sales cycle were to lengthen in this manner, events may occur during this period that affect the size or timing of a purchase or even cause cancellations, and this may lead to more unpredictability in our business and operating results. Additionally, sales cycles for sales of our products tend to be longer, ranging from three to 12 months or more which may make forecasting more complex and uncertain. We may spend substantial time, effort and money on our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases by large enterprises are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing, and other delays. Finally, large enterprises typically have longer implementation cycles, require greater product functionality and scalability and a broader range of services, demand that vendors take on a larger share of risks, sometimes require acceptance provisions that can lead to a delay in revenue recognition, and expect greater payment flexibility from vendors. All of these factors can add further risk to business conducted with these end-customers. If we fail to realize an expected sale from a large end-customer in a particular quarter or at all, our business, operating results, and financial condition could be materially and adversely affected.

In addition, we may face unexpected deployment challenges with enterprise customers or more complicated installations of our products. It may be difficult to deploy our software products if the customer has unexpected database, hardware or software technology issues. Additional deployment complexities may occur if a customer hires a third party to deploy our products and services. Any difficulties or delays in the initial implementation could cause customers to reject our software or lead to the delay or non-receipt of future orders, in which case our business, operating results and financial condition would be harmed.

If we do not meet our revenue forecasts, we may be unable to reduce our expenses to avoid or minimize harm to our results of operations.

Our revenues are difficult to forecast and are likely to fluctuate significantly from period to period. We base our operating expense and capital investment budgets on expected sales and revenue trends, and many of our expenses, such as office and equipment leases and personnel costs, will be relatively fixed in the short term and will increase over time as we make investments in our business. Our estimates of sales trends may not correlate with actual revenues in a particular quarter or over a longer period of time. Variations in the rate and timing of conversion of our sales prospects into actual revenues could cause us to plan or budget inaccurately and those variations could adversely affect our financial results. In particular, delays, reductions in amount or cancellation of customers' contracts would adversely affect the overall level and timing of our revenues, and our business, results of operations and financial condition could be harmed. Due to the relatively fixed nature of many of our expenses, we may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. In the course of our sales to customers, we may encounter difficulty collecting accounts receivable and could be exposed to risks associated with uncollectible accounts receivable. In the event we are unable to collect on our accounts receivable, it could negatively affect our cash flows, operating results and business.

Table of Contents

Compromises to our privacy safeguards or disclosure of confidential information could impact our reputation.

Names, addresses, telephone numbers, credit card data and other personal identification information ("PII") are collected, processed and stored in our systems. Our treatment of such information is subject to contractual restrictions and federal, state and foreign data privacy laws and regulations. We have implemented steps designed to protect against unauthorized access to such information, and comply with these laws and regulations. Because of the inherent risks and complexities involved in protecting this information, the steps we have taken to protect PII may not be sufficient to prevent the misappropriation or improper disclosure of such PII. If such misappropriation or disclosure were to occur, our business could be harmed through reputational injury, litigation and possible damages claimed by the affected end customers, including in some cases costs related to customer notification and fraud monitoring, or potential fines from regulatory authorities. We may need to incur significant costs or modify our business practices and/or our services in order to comply with these data privacy and protection laws and regulations in the future. Even the mere perception of a security breach or inadvertent disclosure of PII could adversely affect our business and results of operations. In addition, third party vendors that we engage to perform services for us may unintentionally release PII or otherwise fail to comply with applicable laws and regulations. Our insurance may not cover potential claims of this type or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed. Concerns about the security of online transactions and the privacy of PII could deter consumers from transacting business with us on the Internet. The occurrence of any of these events could have an adverse effect on our business, financial position, and results of operations.

If the wireless services industry experiences a decline in subscribers, our business may suffer.

The wireless services industry has faced an increasing number of challenges, including a slowdown in new subscriber growth. Revenues from services performed for customers in the wireless services industry accounted for 63% and 60% of our revenues in 2015 and 2014, respectively. A continued slowdown in subscriber growth in the wireless services industry could adversely affect our business growth.

Fraudulent Internet transactions could negatively impact our business.

Our business may be exposed to risks associated with Internet credit card fraud and identity theft that could cause us to incur unexpected expenditures and loss of revenues. Under current credit card practices, a merchant is liable for fraudulent credit card transactions when, as is the case with the transactions we process, that merchant does not obtain a cardholder's signature. Although our customers currently bear the risk for a fraudulent credit card transaction, in the future we may be forced to share some of that risk and the associated costs with our customers. To the extent that technology upgrades or other expenditures are required to prevent credit card fraud and identity theft, we may be required to bear the costs associated with such expenditures. In addition, to the extent that credit card fraud and/or identity theft cause a decline in business transactions over the Internet generally, both the business of our customers and our business could be adversely affected.

The consolidation in the communications industry can reduce the number of actual and potential customers and adversely affect our business.

The communications industry continues to experience consolidation and an increased formation of alliances among CSPs and between CSPs and other entities. Should one or more of our significant customers consolidate or enter into an alliance with an entity or decide to either use a different service provider or to manage its transactions internally, this could have a negative material impact on our business. Any such consolidations, alliances or decisions to manage transactions internally may cause us to lose customers or require us to reduce prices as a result of enhanced customer leverage, which would have a material adverse effect on our business. We may not be able to offset the effects of any price reductions. We may not be able to expand our customer base to make up any revenue declines if we lose customers or if our transaction volumes decline.

Table of Contents

If we fail to compete successfully with existing or new competitors, our business could be harmed.

If we fail to compete successfully with established or new competitors, it could have a material adverse effect on our results of operations and financial condition. The communications and enterprise industries are highly competitive and fragmented, and we expect competition to increase. We compete with independent providers of information systems and services and with the in-house departments of our OEMs and communications services companies' customers. Rapid technological changes, such as advancements in software integration across multiple and incompatible systems, and economies of scale may make it more economical for CSPs, MSOs or OEMs to develop their own in-house processes and systems, which may render some of our products and services less valuable or eventually obsolete. Our competitors include firms that provide comprehensive information systems and managed services solutions, BYOD providers, systems integrators, clearinghouses and service bureaus. Many of our competitors have long operating histories, large customer bases, substantial financial, technical, sales, marketing and other resources and strong name recognition.

Current and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to increase their ability to address the needs of our current or prospective customers. In addition, our competitors have acquired, and may continue to acquire in the future, companies that may enhance their market offerings. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. As a result, our competitors may be able to adapt more quickly than us to new or emerging technologies and changes in customer requirements, and may be able to devote greater resources to the promotion and sale of their products. These relationships and alliances may also result in transaction pricing pressure which could result in large reductions in the selling prices of our products and services. Our competitors or our customers' in-house solutions may also provide services at a lower cost, significantly increasing pricing pressure on us. We may not be able to offset the effects of this potential pricing pressure. Our failure to adapt to changing market conditions and to compete successfully with established or new competitors may have a material adverse effect on our results of operations and financial condition. In particular, a failure to offset competitive pressures brought about by competitors or in-house solutions developed by our customers could result in a substantial reduction in or the outright termination of our contracts with some of our customers, which would have a significant, negative and material impact on our business.

Failures or interruptions of our systems and services could materially harm our revenues, impair our ability to conduct our operations and damage relationships with our customers.

Our success depends on our ability to provide reliable services to our customers and process a high volume of transactions in a timely and effective manner. Although we operate disaster recovery solutions in our Tucson, Arizona and in our colocation facilities that are used to provide hot sites for real time data backup and disaster recovery purposes, our network operations are currently centered in a single facility in Bethlehem, Pennsylvania that is susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks and similar events. We could also experience failures or interruptions of our systems and services, or other problems in connection with our operations, as a result of, among other things:

- damage to or failure of our computer software or hardware or our connections and outsourced service arrangements with third parties;
- errors in the processing of data by our systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events;
- fire, cyber-attack, terrorist attack or other catastrophic event;
- increased capacity demands or changes in systems requirements of our customers; or
- errors by our employees or third-party service providers.

We have acquired a number of companies, products, services and technologies over the last several years. While we make significant efforts to address any IT security issues with respect to our acquisitions, we may still inherit certain risks when we integrate these acquisitions. In addition, our business interruption insurance may be insufficient to compensate us for losses or liabilities that may occur. Any interruptions in our systems or services could damage our reputation and substantially harm our business and results of operations.



Table of Contents

If we fail to meet our service level obligations under our service level agreements, we would be subject to penalties and could lose customers.

We have service level agreements with many of our customers under which we guarantee specified levels of service availability. These arrangements involve the risk that we may not have adequately estimated the level of service we will in fact be able to provide. The importance of high quality customer support will increase as we expand our business and pursue new enterprise customers. If we fail to meet our service level obligations under these agreements, we would be subject to penalties, which could result in higher than expected costs, decreased revenues and decreased operating margins. We could also lose customers.

Economic, political and market conditions can adversely affect our business, results of operations and financial condition.

Our business is influenced by a range of factors that are beyond our control and that we have no comparative advantage in forecasting. These include but are not limited to general economic and business conditions, the overall demand for cloud-based products and services, general political developments and currency exchange rate fluctuations. Economic uncertainty may exacerbate negative trends in consumer spending and may negatively impact the businesses of certain of our customers, which may cause a reduction in their use of our platforms or increase their likelihood of defaulting on their payment obligations, and therefore cause a reduction in our revenues. These conditions and uncertainty about future economic conditions may make it challenging for us to forecast our operating results, make business decisions and identify the risks that may affect our business, financial conditions and results of operations. In addition, changes in these conditions may result in a more competitive environment, resulting in possible pricing pressures.

The financial and operating difficulties in the telecommunications sector may negatively affect our customers and our company.

The telecommunications sector has at times faced significant challenges resulting from significant changes in technology and consumer behavior, excess capacity, poor operating results and financing difficulties. The sector's financial status has also at times been uncertain and access to debt and equity capital has been seriously limited. The impact of these events on us could include slower collection on accounts receivable, higher bad debt expense, uncertainties due to possible customer bankruptcies, lower pricing on new customer contracts, lower revenues due to lower usage by the end customer and possible consolidation among our customers, which will put our customers and operating performance at risk. In addition, because we operate in the communications sector, we may also be negatively impacted by limited access to debt and equity capital.

We are exposed to our customers' credit risk.

We are subject to the credit risk of our customers and customers with liquidity issues may lead to bad debt expense for us. Most of our sales are on an open credit basis, with typical payment terms between 45 and 60 days in the United States and, because of local customs or conditions, longer payment terms in some markets outside the United States. We use various methods to screen potential customers and establish appropriate credit limits, but these methods cannot eliminate all potential bad credit risks and may not prevent us from approving applications that are fraudulently completed. Moreover, businesses that are good credit risks at the time of application may become bad credit risks over time and we may fail to detect this change. We maintain reserves we believe are adequate to cover exposure for doubtful accounts. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense. A decrease in accounts receivable resulting from an increase in bad debt expense could adversely affect our liquidity. Our exposure to credit risks may increase if our customers are adversely affected by a difficult macroeconomic environment, or if there is a continuation or worsening of the economic environment. Although we have programs in place that are designed to monitor and mitigate the associated risk, including monitoring of particular risks in certain geographic areas, there can be no assurance that such programs will be effective in reducing our credit risks or the incurrence of additional losses. Future and additional losses, if incurred, could harm our business and have a material adverse effect on our business operating results and financial condition. Additionally, to the degree that the current or future credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

Table of Contents

Our reliance on third-party providers for communications software, services, hardware and infrastructure exposes us to a variety of risks we cannot control.

Our success depends on software, equipment, network connectivity and infrastructure hosting services supplied by our vendors and customers. In addition, we rely on third-party vendors to perform a substantial portion of our exception handling services. We may not be able to continue to purchase the necessary software, equipment and services from vendors on acceptable terms or at all. If we are unable to maintain current purchasing terms or ensure service availability with these vendors and customers, we may lose customers and experience an increase in costs in seeking alternative supplier services.

Our business also depends upon the capacity, reliability and security of the infrastructure owned and managed by third parties, including our vendors and customers that are used by our technology interoperability services, network services, number portability services, call processed services and enterprise solutions. We have no control over the operation, quality or maintenance of a significant portion of that infrastructure and whether those third parties will upgrade or improve their software, equipment and services to meet our and our customers' evolving requirements. We depend on these companies to maintain the operational integrity of our services. If one or more of these companies is unable or unwilling to supply or expand its levels of services to us in the future, our operations could be severely interrupted. In addition, rapid changes in the communications industry have led to industry consolidation. This consolidation may cause the availability, pricing and quality of the services we use to vary and could lengthen the amount of time it takes to deliver the services that we use.

We are participants in two joint ventures, which may subject us to certain risks relating to our ability to perform our obligations under the joint ventures, including funding future joint venture capital requirements.

Entering into joint ventures and alliances entails risks, including difficulties in developing and expanding the business of a newly formed joint venture, funding capital calls for the joint venture, exercising influence over the management and activities of joint venture, quality control concerns regarding joint venture products and services and potential conflicts of interest with the joint venture and our joint venture partner. We cannot guarantee that the joint venture operations will be successful. Any inability to meet our obligations as a joint venture partner under the joint ventures could result in penalties and reduced percentage interest in the joint venture for our company. Also, we could be disadvantaged in the event of disputes and controversies with our joint venture partner, since our joint venture partner is a relatively significant customer of our products and services and future product and services of the joint venture.

Our failure to protect confidential information and our network against security breaches could damage our reputation and substantially harm our business and results of operations.

Security threats are a particular challenge to companies like us whose business is technology products and services. The encryption and authentication technology licensed from third parties on which we rely to securely transmit confidential information, including credit card numbers, may not adequately protect customer transaction data. A cyber-attack or any other security incident that allows unauthorized access to or modification of our customers' data or our own data or our IT systems or if the services we provide to our customers were disrupted, or if our products or services are perceived as having security vulnerabilities, could damage our reputation and expose us to risk of loss or litigation and possible liability or fines which could substantially harm our business and results of operations. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed. As a result, we may need to expend significant resources to protect against security breaches or to address problems caused by breaches.

Table of Contents

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

Our success depends to a significant degree upon the protection of our software and other proprietary technology rights, particularly with respect to our Activation Services, and Synchronoss Personal Cloud™ and Enterprise platforms. We rely on trade secret, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. We also regularly file patent applications to protect inventions arising from our research and development, and have obtained a number of patents in the United States and other countries. There can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual property, or that such patents will not be challenged by third parties. Also, much of our business and many of our solutions rely on key technologies developed or licensed by third or other parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms. The steps we have taken to protect our intellectual property may not prevent misappropriation of our proprietary rights or the reverse engineering of our solutions. Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in other countries are uncertain and may afford little or no effective protection of our proprietary technology. Consequently, we may be unable to prevent our proprietary technology from being exploited abroad, which could require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could materially harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Claims by others that we infringe their proprietary technology could harm our business.

Third parties could claim that our current or future products or technology infringe their proprietary rights. We expect that software developers will increasingly be subject to infringement claims as the number of products and competitors providing software and services to the communications industry increases and overlaps occur. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from offering our products or services. Any of these events could seriously harm our business. Third parties may also assert infringement claims against our customers. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers. We also are generally obligated to indemnify our customers if our services infringe the proprietary rights of third parties.

If anyone asserts a claim against us relating to proprietary technology or information, while we might seek to license their intellectual property, we might not be able to obtain a license on commercially reasonable terms or on any terms. In addition, any efforts to develop non-infringing technology could be unsuccessful. Our failure to obtain the

necessary licenses or other rights or to develop non-infringing technology could prevent us from offering our services and could therefore seriously harm our business.

Table of Contents

We may seek to acquire companies or technologies, which could disrupt our ongoing business, disrupt our management and employees and adversely affect our results of operations.

We have made, and in the future intend to make, acquisitions of, and investments in, companies, technologies or products in existing, related or new markets for us which we believe may enhance our market position or strategic strengths. However, we cannot be sure that any acquisition or investment will ultimately enhance our products or strengthen our competitive position. Acquisitions involve numerous risks, including but not limited to:

- diversion of management's attention from other operational matters;
- inability to identify acquisition candidates on terms acceptable to us or at all, or inability to complete acquisitions as anticipated or at all;
- inability to realize anticipated benefits;
- failure to commercialize purchased technologies;
- inability to capitalize on characteristics of new markets that may be significantly different from our existing markets;
- exposure to operational risks, rules and regulations to the extent such activities are located in countries where we have not historically done business;
- inability to obtain and protect intellectual property rights in key technologies;
- ineffectiveness of an acquired company's internal controls;
- impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or its product offerings;
- unknown, underestimated and/or undisclosed commitments or liabilities;
- excess or underutilized facilities; and
- ineffective integration of operations, technologies, products or employees of the acquired companies.

In addition, acquisitions may disrupt our ongoing operations and increase our expenses and harm our results of operations or financial condition. Future acquisitions could also result in potentially dilutive issuances of equity securities, the incurrence of debt, which may reduce our cash available for operations and other uses, an increase in contingent liabilities or an increase in amortization expense related to identifiable assets acquired, each of which could materially harm our business, financial condition and results of operations.

Our expansion into international markets may be subject to uncertainties that could increase our costs to comply with regulatory requirements in foreign jurisdictions, disrupt our operations and require increased focus from our management.

Our growth strategy includes the growth of our operations in foreign jurisdictions. International operations and business expansion plans are subject to numerous additional risks, including economic and political risks in foreign jurisdictions in which we operate or seek to operate, potential additional costs due to localization and other geographic specific costs, difficulty in enforcing contracts and collecting receivables through some foreign legal systems, unexpected changes in legal and regulatory requirements, differing technology standards and pace of adoption,

fluctuations in currency exchange rates, varying regional and geopolitical business conditions and demands, and the difficulties associated with managing a large organization spread throughout various countries potential tax issues, including restrictions on repatriating earnings and multiple conflicting, changing and complex tax laws and regulations, and the differences in foreign laws and regulations, including foreign tax, data privacy requirements, anti-competition, intellectual property, labor, contract, trade and other laws. Additionally, compliance with international and U.S. laws and regulations that apply to our international operations may increase our cost of doing business in foreign jurisdictions. Violation of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, or prohibitions on the conduct of our business. As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could adversely affect our international operations and, consequently, our operating results.



Table of Contents

Our expansion into international markets may expose us to risks associated with fluctuations in foreign currency exchange rates that could adversely affect our business.

We consider the U.S. dollar to be our functional currency. However, as we expand our operations into international markets a portion of our revenues and/or operating costs may be incurred outside the United States in other currencies. In such event, fluctuations in exchange rates between the currencies in which such revenues and/or costs may occur and the U.S. dollar may have a material adverse effect on our results of operations and financial condition. In addition, from time to time following our expansion into international markets we may experience increases in the costs of our operations outside the United States, as expressed in U.S. dollars, which could have a material adverse effect on our results of operations and financial condition. Further, the imposition of restrictions on the conversion of foreign currencies could also have a material adverse effect on our business, results of operations and financial condition.

We must recruit and retain our key management and other key personnel and our failure to recruit and retain qualified employees could have a negative impact on our business.

We believe that our success depends in part on the continued contributions of our senior management and other key personnel to generate business and execute programs successfully. In addition, the relationships and reputation that these individuals have established and maintain with our customers and within the industry in which we operate contribute to our ability to maintain good relations with our customers and others within the industry. The loss of any members of senior management or other key personnel could materially impair our ability to identify and secure new contracts and otherwise effectively manage our business. Further, in the technology industry, there is substantial and continuous competition for highly skilled business, product development, technical and other personnel. Competition for qualified personnel at times can be intense and as a result we may not be successful in attracting and retaining the personnel we require, which could have a material adverse effect on our ability to meet our commitments and new product delivery objectives.

Our inability to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new products and enhancements to our platforms or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests and the per share value of our common stock could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and force us to maintain specified liquidity or other ratios, any of which could harm our business, results of operations, and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products and platforms;
- acquire complementary technologies, products or businesses;
- expand operations, in the United States or internationally; or
- respond to competitive pressures or unanticipated working capital requirements

Our failure to do any of these things could harm our business, financial condition and results of operations.

Table of Contents

We continue to incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to new and ongoing compliance initiatives.

We operate as a public company, and will continue to incur significant legal, accounting and other expenses as we comply with the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the NASDAQ Global Market, including recent changes under the Dodd-Frank Wall Street Reform and Consumer Protection Act. These rules impose various new requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will continue to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as executive officers.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statements as of the end of each fiscal year. We successfully completed our assessment of our internal control over financial reporting as of December 31, 2015. Our continued compliance with Section 404 will require that we incur substantial expense and expend significant management time on compliance related issues. We currently do not have an internal audit group and we will evaluate the need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. In future years, if we fail to timely complete this assessment, there may be a loss of public confidence in our internal control, the market price of our stock could decline and we could be subject to regulatory sanctions or investigations by the NASDAQ Global Market, the Securities and Exchange Commission or other regulatory authorities, which would require additional financial and management resources. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

Our outstanding indebtedness and related obligations could adversely affect our financial condition and restrict our operating flexibility.

We have substantial debt and related obligations. In August 2014, we issued \$230.0 million aggregate principal amount of our 0.75% Convertible Senior Notes due in 2019 (the “2019 Notes”). In September 2013, we entered into a Credit Agreement (the “Credit Facility”) with JP Morgan Chase Bank, N.A., as administrative agent, Wells Fargo Bank, National Association, as syndication agent and Capital One, National Association and KeyBank National Association, as co-documentation agents. The Credit Facility is a \$100 million unsecured revolving line of credit that matures in September 2018. We have the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million. While we do not currently utilize any of the borrowing capacity provided by the Credit Facility, we could increase our debt levels through this facility as conditions warrant. Our substantial level of debt and related obligations, including interest payments, covenants and restrictions, could have important consequences, including the

following:

- impairing our ability to invest in and successfully grow our business;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, which could result in an event of default under the agreement governing the 2019 Notes or the Credit Facility;
- limiting our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, debt obligations and other general corporate requirements;
- increasing our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore we may be unable to take advantage of opportunities that our leverage prevents us from exploiting; and
- imposing additional restrictions on the manner in which we conduct our business, including restrictions on our ability to pay dividends, incur additional debt and sell assets.

25

---

Table of Contents

The occurrence of any one of these events could have an adverse effect on our business, financial condition, operating results or cash flows and ability to satisfy our obligations under our indebtedness. Our failure to comply with the covenants under the agreements governing the 2019 Notes or the Credit Facility could result in an event of default and the acceleration of any debt then outstanding under the 2019 Notes or the Credit Facility, as the case may be. Any declaration of an event of default could significantly harm our business and prospects and could cause our stock price to decline. Insufficient funds may require us to delay, scale back, or eliminate some or all of our activities.

Although the agreement governing the 2019 Notes and the Credit Facility each contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and any indebtedness incurred in compliance with these restrictions could be substantial. If new debt is added to current debt levels, the related risks that we and the Note holders face would be increased.

We intend to reserve from time to time a certain amount of cash in order to satisfy the obligations relating to our debt, which could adversely affect the amount or timing of investments to grow our business.

The 2019 Notes are unsecured debt and are not redeemable by us prior to the maturity date. Holders of the 2019 Notes may require us to purchase all or any portion of their 2019 Notes at 100% of their principal amount, plus any unpaid interest, upon a fundamental change. A fundamental change is generally defined to include a merger involving us, an acquisition of a majority of our outstanding common stock, and the change of a majority of our board without the approval of the board. In addition, to the extent we pursue and complete a monetization transaction, the structure of such transaction may qualify as a fundamental change under the 2019 Notes, which could trigger the put rights of the holders of the 2019 Notes, in which case we would be required to use a portion of the net proceeds from such transaction to repurchase any 2019 Notes put to us. This could adversely affect the amount or timing of any distributions to our stockholders.

We intend to reserve from time to time a certain amount of cash in order to satisfy these obligations relating to the 2019 Notes, which could materially affect the amount or timing of any investments to grow our business. If any or all of the 2019 Notes are not converted into shares of our common stock before the maturity date, we will have to pay the holders the full aggregate principal amount of the 2019 Notes then outstanding. Any of the above payments could have a material adverse effect on our cash position. If we fail to satisfy these obligations, it may result in a default under the indenture, which could result in a default under certain of our other debt instruments, if any. Any such default would harm our business and the price of our securities could fall.

Changes in, or interpretations of, accounting principles could result in unfavorable accounting charges.

We prepare our consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate

accounting principles. A change in these principles, or their interpretation, could have a significant effect on our reported results and may even retroactively affect previously reported results. Our accounting principles that recently have been or may be affected by changes in accounting principles are: (i) accounting for stock-based compensation; (ii) accounting for income taxes; (iii) accounting for business combinations and goodwill; (iv) revenue recognition guidance; and (v) accounting for foreign currency translation.

Changes in, or interpretations of, tax rules and regulations, could adversely affect our effective tax rates.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in tax laws or the interpretation of tax laws or by changes in the valuation of our deferred tax assets and liabilities. It is possible that future requirements, including the recently proposed implementation of International Financial Reporting Standards, or IFRS, could change our current application of U.S. generally accepted accounting principles (“GAAP”), resulting in a material adverse impact on our financial position or results of operations. In addition, we are subject to the continued examination of our income tax returns by the Internal Revenue Service (“IRS”) and other tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations, if any, to determine the adequacy of our provision for income taxes. We believe such estimates to be reasonable, but there can be no assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

Table of Contents

Our stock price may continue to experience significant fluctuations.

Our stock price, like that of other technology companies, continues to fluctuate greatly. Our stock price can be affected by many factors such as quarterly increases or decreases in our earnings, speculation in the investment community about our financial condition or results of operations and changes in revenue or earnings estimates, announcement of new services, technological developments, alliances, or acquisitions by us. Additionally, the price of our common stock may continue to fluctuate greatly in the future due to factors that are non-company specific, such as the decline in the United States and/or international economies, acts of terror against the United States or other jurisdictions where we conduct business, war or due to a variety of company specific factors, including quarter to quarter variations in our operating results, shortfalls in revenue, gross margin or earnings from levels projected by securities analysts and the other factors discussed in these risk factors.

If securities or industry analysts do not publish research or reports or publish unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We currently have research coverage by securities and industry analysts. If one or more of the analysts who covers us downgrades our stock or states a view that our business prospects are reduced, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, interest in the purchase of our stock could decrease, which could cause our stock price or trading volume, or both, to decline.

Delaware law and provisions in our restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, therefore depressing the trading price of our common stock.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and bylaws:

- authorize the issuance of “blank check” preferred stock that could be issued by our Board of Directors to thwart a takeover attempt;
- prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of the stock to elect some directors;
-

establish a classified Board of Directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following election;

- require that directors only be removed from office for cause;
- provide that vacancies on the Board of Directors, including newly-created directorships, may be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and
- establish advance notice requirements for nominating candidates for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

27

---



Table of Contents

ITEM 2. PROPERTIES

In 2012, we entered into a ten year lease for approximately 80,000 square feet of office space for our corporate headquarters in Bridgewater, New Jersey. We also lease a 61,000 square foot facility in Bethlehem, Pennsylvania which expires in 2019 with two 5 year renewal options extending to 2029, a lease for a 47,000 square foot facility in Tucson, Arizona which expires in 2021 and a lease for a 100,000 square foot facility in Bangalore, India which expires in 2021. In addition to the above office space, we also lease offices in various states in the United States including Arizona, California, Colorado, Illinois, Maryland, New York, Texas, Virginia and Washington and in certain countries including Australia, Finland, France, Ireland, Malta and the Philippines. Lease terms for our locations expire in the years between 2016 and 2029. We believe that the facilities we now lease are sufficient to meet our needs through at least the next 12 months. However, we may require additional office space after that time or if our current business plans change, and we are currently evaluating expansion possibilities.

ITEM 3. 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.

On November 21, 2011, we filed an amended complaint in the United States District Court for the District of New Jersey (Civ Act. No. 3:11-cv-06713) against OnMobile Global Limited, VoxMobili, Inc. and VoxMobili, S.A. (collectively, "VoxMobili"), claiming that VoxMobili has infringed, and continues to infringe, several of our patents. On April 2, 2012, VoxMobili filed an answer to our complaint and asserted certain counterclaims that our patents at issue are invalid. In March 2014, we entered into a patent license and settlement agreement with OnMobile Global Limited, VoxMobili, Inc. and VoxMobili, S.A. 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.

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 4. MINE SAFETY DISCLOSURES

Not applicable.

28

---

Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Market Information

Our common stock is traded and listed on the NASDAQ Global Select Market under the symbol "SNCR." The following table sets forth, for each period during the past two years, the high and low sale prices as reported by NASDAQ.

	Common Stock			
	2015		2014	
	High	Low	High	Low
First Quarter	\$ 51.39	\$ 37.76	\$ 37.86	\$ 25.28
Second Quarter	\$ 52.45	\$ 42.01	\$ 35.57	\$ 27.78
Third Quarter	\$ 49.53	\$ 27.86	\$ 46.74	\$ 32.26
Fourth Quarter	\$ 40.39	\$ 29.77	\$ 54.05	\$ 39.00

As of February 18, 2016, there were approximately 56 named holders of record of our common stock. On February 18, 2016, the last reported sale price of our common stock as reported on the NASDAQ Global Select Market was \$25.56 per share.

## Dividend Policy

We have never declared or paid cash dividends on our common or preferred equity. We do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our Board of Directors, subject to the covenants under our Credit Facility, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our Board of Directors may deem relevant.

Table of Contents

Stock Performance Graph

The graph set forth below compares the cumulative total stockholder return on our common stock between December 31, 2010 and December 31, 2015, with the cumulative total return of (i) the NASDAQ Computer Index and (ii) the NASDAQ Composite Index, over the same period. This graph assumes the investment of \$100 on December 31, 2010 in our common stock, the NASDAQ Computer Index and the NASDAQ Composite Index, and assumes the reinvestment of dividends, if any. The graph assumes the initial value of our common stock on December 31, 2010 was the closing sales price of \$26.71 per share.

The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

Information used in the graph was obtained from NASDAQ, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Synchronoss Technologies, Inc.	100	113	79	116	157	132
Nasdaq Composite Index	100	98	114	157	179	189
Nasdaq Computer Index	100	100	113	149	179	190

On February 4, 2016 we announced that our Board of Directors has 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.

We anticipate that the timing and amount of any share repurchases will be determined based on market conditions and in accordance with the requirements of the Securities and Exchange Commission. Once adopted, the repurchase program does not obligate us to acquire any particular amount of common stock, and repurchases may be commenced, suspended or discontinued at any time without prior notice.



Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial data included elsewhere in this Form 10 K. The selected statements of operations and the selected balance sheet data are derived from our consolidated audited financial statements.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Statements of Operations Data:					
Net revenues	\$ 578,831	\$ 457,314	\$ 349,047	\$ 273,692	\$ 229,084
Costs and expenses:					
Cost of services*	239,074	184,414	146,238	115,670	106,595
Research and development	91,430	73,620	64,845	52,307	41,541
Selling, general and administrative	90,735	79,227	62,096	46,680	44,886
Net change in contingent consideration obligation	760	1,799	(5,324)	(6,235)	2,954
Restructuring charges	5,090	—	5,172	—	—
Depreciation and amortization	72,152	55,956	41,126	23,812	14,739
Total costs and expenses	499,241	395,016	314,153	232,234	210,715
Income from operations	79,590	62,298	34,894	41,458	18,369
Interest income	2,047	1,265	2,646	1,315	821
Interest expense	(5,711)	(3,430)	(3,178)	(998)	(928)
Other income	372	441	217	889	97
Income before income tax expense	76,298	60,574	34,579	42,664	18,359
Income tax expense	(29,616)	(21,679)	(11,228)	(15,581)	(3,233)
Net income	46,682	38,895	23,351	27,083	15,126
Net income attributable to noncontrolling interests	6,052	—	—	—	—
Net income attributable to Synchronoss	40,630	38,895	23,351	27,083	15,126
Income effect for interest on convertible debt, net of tax	1,920	754	—	—	—
Net income applicable to shares of common stock for earnings per share	\$ 42,550	\$ 39,649	\$ 23,351	\$ 27,083	\$ 15,126
Net income attributable to common stockholders per common share:					
Basic	\$ 0.96	\$ 0.96	\$ 0.60	\$ 0.71	\$ 0.40
Diluted	\$ 0.89	\$ 0.92	\$ 0.58	\$ 0.69	\$ 0.43
Weighted-average common shares outstanding:					
Basic	42,284	40,418	38,891	38,195	37,372
Diluted	47,653	43,297	40,009	39,126	38,619

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

	As of December 31,				
	2015	2014	2013	2012†	2011
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	\$ 233,626	\$ 290,377	\$ 77,605	\$ 56,869	\$ 152,576
Working capital	326,765	354,298	98,786	84,451	152,886
Total assets	1,015,350	862,822	527,019	466,662	398,618
Lease financing obligation - long-term	13,343	9,204	9,252	9,540	9,241
Contingent consideration obligation - long-term	930	—	4,468	5,100	8,432
Convertible debt	230,000	230,000	—	—	—
Redeemable noncontrolling interest	61,452	—	—	—	—
Total stockholders' equity	609,814	529,107	447,639	374,657	334,563

†Certain prior period amounts have been recast in connection with Accounting Standards Codification 805, Business Combinations.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This annual report on Form 10-K, particularly Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below, 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" 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 discuss factors that we believe could cause or contribute to these differences below and elsewhere in this Annual Report on Form 10-K, including those set forth under "Risk Factors". We caution investors not to place substantial reliance on the forward looking statements included in this report on Form 10-K. 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.

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document. All numbers are expressed in thousands unless otherwise stated.

Overview

We are a leading innovator of cloud solutions and software-based activation for mobile carriers, enterprises, retailers and OEMs across the globe. Our software provides innovative consumer 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, 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 ecommerce 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.

## Table of Contents

Our Integrated Life™ platform brings together select capabilities of our device/service Activation software and services with our Synchronoss Personal Cloud™ and analytics solutions to give carrier subscribers innovative digital experiences that work across new and emerging consumer devices (e.g. connected cars, wearables, connected homes, smart TV's, etc.) in carrier and the Internet of Things markets.

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 years ended December 31, 2015 and 2014, we derived approximately 71% or \$409.7 million in 2015 compared to 77% or \$350.0 million in 2014. This dollar increase is a result of new subscription arrangements with our existing customers and increased transaction volumes. The remainder of our revenues were generated from professional services and software licenses.

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 business 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.

Each of AT&T and Verizon accounted for more than 10% of our revenues for the years ended December 31, 2015 and 2014. AT&T and Verizon in the aggregate accounted for 75% and 73% of our revenues for the years ended December 31, 2015 and 2014, respectively.

### Costs and Expenses

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

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

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

## Table of Contents

Selling, general and administrative expense consists of personnel costs including salaries, sales commissions, sales operations and other personnel-related expenses, travel and related expenses, trade shows, costs of communications equipment and support services, facilities costs, consulting fees, costs of marketing programs, such as internet and print and other overhead and administrative costs.

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

Restructuring charges consist of the costs associated with the January 2015 work-force reduction plan to reduce costs and align our resources with our key strategic priorities. The restructuring charges include employee termination costs and facilities consolidation costs related to minimum lease payments of a leased location that will be closed.

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

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

## Current Trends Affecting Our Results of Operations

Businesses from our Activation Platforms and Synchronoss Personal Cloud™ solutions have been driven by the unprecedented growth in mobile devices globally. Certain industry trends, such as Next programs from AT&T, have resulted in faster device upgrade cycles 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 essential needs. The major Tier 1 carriers are also publicly discussing achieving 500% penetration (multiple connected devices per user) by enabling connectivity to non-traditional devices. Such devices include connected cars, health and wellness devices, connected home and health care. The need for these devices to be activated 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.

Bring Your Own Technology (BYOT/BYOD) is impacting the work environment for Small and Medium Businesses, which find themselves in a position where they need to offer their employees a safe environment to share and

collaborate on their work documents and files via mobile devices. Leveraging our Synchronoss Personal Cloud™ solution infrastructure and technology to build Synchronoss WorkSpace™ for this purpose is expected to enable us to serve a completely new market, which we believe will also contribute to our growth.

To support our expected growth driven by the favorable industry trends mentioned above, we continue to look for opportunities to improve our operating efficiencies, such as the utilization of offshore technical and non-technical resources for our exception handling center management as well as routine software maintenance activities. We also leverage modular components from our existing software platforms to build new products. We believe that these opportunities will continue to provide future benefits and position us to support revenue growth. In addition, we anticipate further automation of the transactions generated by our more mature customers and additional transaction types. Our cost of services can fluctuate from period to period based upon the level of automation and the on-boarding of new transaction and service types. We are also making investments in new research and development 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, Vodafone and other CSPs continue to grow both with our current businesses as well as new products. We are also exploring additional opportunities through merger and acquisition activities to support our customer, product and geographic diversification strategies.

## Table of Contents

### Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements in accordance with U.S. GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during a fiscal period. The Securities and Exchange Commission (“SEC”) considers an accounting policy to be critical if it is important to a company’s financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. We have discussed the selection and development of the critical accounting policies with the audit committee of our Board of Directors, and the audit committee has reviewed our related disclosures in this Form 10 K. 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.

We believe the following to be our critical accounting policies because they are important to the portrayal of our consolidated financial condition and results of operations and they require critical management judgments and estimates about matters that are uncertain. If actual results or events differ materially from those contemplated by us in making these estimates, our reported consolidated financial condition and results of operations for future periods could be materially affected. See “Risk Factors” for certain matters bearing risks on our future results of operations.

### Revenue Recognition and Deferred Revenue

We provide services principally on a transactional or subscription basis or, at times, on a fixed fee basis and recognize the revenues as the services are performed or delivered as discussed below:

**Transactional and Subscription Service Arrangements:** Transaction and subscription revenues represented approximately 71%, 77%, and 70% of our revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Transaction and subscription revenues consist of revenues derived from the processing of transactions through our service platforms, providing enterprise portal management services on a subscription basis and maintenance agreements on software licenses. Transaction service arrangements include services such as processing equipment orders, new account set up and activation, number port requests, credit checks and inventory management. Subscription services include monthly active user fees, software as a service (“SaaS”) fees, hosting and storage and the related maintenance support for those services.

Transaction revenues are principally based on a contractual price per transaction and are recognized based on the number of transactions processed during each reporting period. Revenues are recorded based on the total number of transactions processed at the applicable price established in the relevant contract. The total amount of revenue recognized is based primarily on the volume of transactions. Subscription revenues are recorded one of two ways: on a straight line basis over the life of the contract or on a fixed monthly fee based on a set contracted amount.

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

Professional Service and Software License Arrangements: Professional service and software license revenues represented approximately 29%, 23% and 30% of our revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Professional services include process and workflow consulting services and development services. Professional services when sold with transactional or subscription service arrangements are accounted for separately when the professional services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of the professional services. When accounted for separately, professional service revenues are recognized as services are performed and all other elements of revenue recognition have been satisfied.

## Table of Contents

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

If a professional service arrangement were not to qualify for separate accounting, we would recognize the professional service revenues ratably over the remaining term of the transaction or subscription agreement.

Revenue from software license arrangements is recognized when the license is delivered to our customers and all of the software revenue recognition criteria are met. When software arrangements include multiple elements, the arrangement consideration is allocated at the inception to all deliverables using the residual method providing we have vendor specific objective evidence (VSOE) on all undelivered elements. We determine VSOE for each element based on historical stand alone sales to third parties.

When transaction or subscription service arrangements, include multiple elements, the arrangement consideration is allocated at the inception of an arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price. The selling price used for each deliverable will be based on VSOE if available, third party evidence (TPE) if vendor specific objective evidence is not available, or estimated selling price (ESP) if neither vendor specific objective evidence nor third party evidence is available. The objective of ESP is to determine the price at which we would transact a sale if the product or service were sold on a stand alone basis. We determine ESP by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices. ESP is generally used for offerings that are not typically sold on a stand alone basis or for new or highly customized offerings.

While we follow specific and detailed rules and guidelines related to revenue recognition, we make and use management judgments and estimates in connection with the revenue recognized in any reporting period, particularly in the areas described above, as well as collectability. If management made different estimates or judgments, differences in the timing of the recognition of revenue could occur.

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

Service Level Standards



Pursuant to certain contracts, we are subject to service level standards and to corresponding penalties for failure to meet those standards. All performance related penalties are reflected as a corresponding reduction of our revenues. These penalties, if applicable, are recorded in the month incurred and were insignificant for the years ended December 31, 2015, 2014 and 2013.

#### Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated bad debts resulting from the inability of our customers to make required payments. The amount of the allowance account is based on historical experience and our analysis of the accounts receivable balance outstanding. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit losses that we have in the past or that our reserves will be adequate. If the financial condition of one of our customers were to deteriorate, resulting in its inability to make payments, additional allowances may be required which would result in an additional expense in the period that this determination was made.

#### Income Taxes

Since we conduct operations on a global basis, our effective tax rate has and will depend upon the geographic distribution of our pre-tax earnings among locations with varying tax rates. We account for the effects of income taxes that result from our activities during the current and preceding years. Under this method, deferred income tax liabilities and assets are based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse or be utilized. The realization of deferred tax assets is contingent upon the generation of future taxable income. A valuation allowance is recorded if it is "more likely than not" that a portion or all of a deferred tax asset will not be realized.

## Table of Contents

In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results and incorporate assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

We recognize a tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured by determining the amount that has a greater than 50 percent likelihood of being realized upon the settlement of the position. Components of the reserve are classified as current or a long term liability in the consolidated balance sheets based on when we expect each of the items to be settled. We record interest and penalties accrued in relation to uncertain tax benefits as a component of interest expense. We expect that the amount of unrecognized tax benefits will change during 2016; however, we do not expect the change to have a significant impact on our results of operations or financial position.

While we believe we have identified all reasonably identifiable exposures and that the reserve we have established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause us to either materially increase or reduce the carrying amount of our tax reserves. In general, tax returns for the year 2011 and thereafter are subject to future examination by tax authorities.

Our policy has been to leave our cumulative unremitted foreign earnings invested indefinitely outside the United States, and we intend to continue this policy. As such, taxes have not been provided on any of the remaining accumulated foreign unremitted earnings. Due to the timing and circumstances of repatriation of such earnings, if any, it is not practicable to determine the unrecognized deferred tax liability relating to such amounts. If the cumulative unremitted foreign earnings exceed the amount we intend to reinvest in foreign countries in the future, we would provide for taxes on such excess amount.

## Stock Based Compensation

As of December 31, 2015, we maintain four stock based compensation plans. We utilize the Black Scholes pricing model to determine the fair value of stock options on the dates of grant. Restricted stock awards are measured based on the fair market values of the underlying stock on the dates of grant, unless the awards are subject to market conditions, in which case we use a binomial lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. We recognize stock based compensation over the requisite service period with an offsetting credit to additional paid in capital.

For our performance restricted stock awards we estimate the number of shares the recipient is to receive by applying a probability of achieving the performance goals. The actual number of shares the recipient receives is determined at the end of the performance period based on the results achieved versus goals based on our performance targets, such as operating income. Once the number of awards is determined, the compensation cost is fixed and continues to be recognized using the accelerated attribution recognition over the requisite service period for each vesting tranche.

We classify benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing cash inflow with a corresponding operating cash outflow. We included \$5.2 million, \$1.2 million and \$3.0 million of excess tax benefits as a financing cash inflow for the years ended December 31, 2015, 2014 and 2013, respectively.

We utilize the Black-Scholes option pricing model for determining the estimated fair value for stock option awards. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on our historical information of our stock. The average expected life was determined using historical stock option exercise activity. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. We have never declared or paid cash dividends on our common or preferred equity and do not anticipate paying any cash dividends in the foreseeable future. Forfeitures are estimated based on the historical analysis of actual stock option forfeitures.

Table of Contents

The weighted average assumptions used in the Black Scholes option pricing model are as follows:

	Year Ended December 31,		
	2015	2014	2013
Expected stock price volatility	47 %	57 %	66 %
Risk-free interest rate	1.27 %	1.43 %	0.87 %
Expected life of options (in years)	4.0	4.2	4.5
Expected dividend yield	— %	— %	— %
The weighted-average fair value (as of the date of grant) of the options granted	\$ 15.88	\$ 14.67	\$ 15.79

The total stock based compensation cost related to unvested equity awards not yet recognized as an expense as of December 31, 2015 was approximately \$52.0 million.

#### Business Combinations

We account for business combinations in accordance with the acquisition method. The acquisition method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business acquisition. Our consolidated financial statements and results of operations reflect an acquired business from the completion date of an acquisition.

The judgments that we make in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income in periods following a business combination. We generally use either the income, cost or market approach to aid in our conclusions of such fair values and asset lives. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset, discounted to present value. The cost approach presumes that an investor would pay no more for an asset than its replacement or reproduction cost. The market approach estimates value based on what other participants in the market have paid for reasonably similar assets. Although each valuation approach is considered in valuing the assets acquired, the approach ultimately selected is based on the characteristics of the asset and the availability of information.

We record contingent consideration resulting from a business combination at its fair value on the acquisition date. Each reporting period thereafter, we revalue these obligations and record increases or decreases in their fair value as an adjustment to net change in contingent consideration obligation within the consolidated statement of income. Changes in the fair value of the contingent consideration obligation can result from updates in the achievement of financial targets and changes to the weighted probability of achieving those future financial targets. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each

subsequent period. Accordingly, any change in the assumptions described above, could have a material impact on the amount of the net change in contingent consideration obligation that we record in any given period.

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

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

## Table of Contents

### Investments in Affiliates and Other Entities

In the normal course of business, we enter into various types of investment arrangements, each having unique terms and conditions. These investments may include equity interests held by us in business entities, including general or limited partnerships, contractual ventures, or other forms of equity participation. Management determines whether such investments involve a variable interest entity (“VIE”) based on the characteristics of the subject entity. If the entity is determined to be a VIE, then management determines if we are the primary beneficiary of the entity and whether or not consolidation of the VIE is required. The primary beneficiary consolidating the VIE must normally have both (i) the power to direct the activities of a VIE that most significantly affect the VIE’s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE, in either case that could potentially be significant to the VIE. When we are deemed to be the primary beneficiary, the VIE is consolidated and the other party’s equity interest in the VIE is accounted for as a noncontrolling interest. In cases where we determine that we have an undivided interest in the assets, liabilities, revenues and profits of an unincorporated VIE (e.g., a general partnership interest), such amounts are consolidated on a basis proportional to our ownership interest in the unincorporated entity.

If an entity fails to meet the characteristics of a VIE, management then evaluates such entity under the voting model. Under the voting model, we would consolidate the entity if it is determined that we, directly or indirectly, have greater than 50% of the voting shares, and determine that other equity holders do not have substantive participating rights.

On December 31, 2015 we formed a venture with MCI Communication Services and Verizon Patent and Licensing Inc. (collectively, “Verizon”) referred to as Zentry, LLC (“Zentry”), in which we obtained a 67% interest, with the goal of accelerating our entrance into the enterprise market by adding identity management capabilities to our Synchronoss Secure Mobility Suite.

On November 16, 2015 we formed a venture with Goldman Sachs, Inc. (“Goldman”), referred to as SNCR, LLC, in which we obtained a 67% interest, in order to develop and deploy our Synchronoss Secure Mobility Suite. We will be integrating our Synchronoss Workspace™ platform with Goldman's internally developed mobile security intellectual property to help provide a safe, secure mobile device environment that also effectively supports BYOD.

### Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired, including other definite lived intangible assets. Goodwill is not amortized, but reviewed annually for impairment or upon the occurrence of events or changes in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. We performed our annual impairment test noting no impairment as of December 31, 2015, and we do not believe we are at significant risk for impairment.

The change in the carrying amount of goodwill for the year ended December 31, 2015 is as follows:

Balance at December 31, 2014	\$ 147,135
Acquisitions	84,636
Reclassifications, adjustments and other	(30)
Translation adjustments	(10,470)
Balance at December 31, 2015	\$ 221,271

The reclassification, adjustments and other of \$30 thousand is primarily related to an increase in the Company's deferred taxes in connection with a foreign tax election.

Table of Contents

## Results of Operations

Year ended December 31, 2015, compared to the year ended December 31, 2014

The following table presents an overview of our results of operations for the years ended December 31, 2015 and 2014.

	Year Ended December 31,			2014			2015 vs 2014		
	2015	% of Revenue		\$	% of Revenue		\$ Change	% Change	
	(in thousands)								
Net revenues	\$ 578,831	100.0	%	\$ 457,314	100.0	%	\$ 121,517	26.6	%
Cost of services*	239,074	41.3	%	184,414	40.3	%	54,660	29.6	%
Research and development	91,430	15.8	%	73,620	16.1	%	17,810	24.2	%
Selling, general and administrative	90,735	15.7	%	79,227	17.3	%	11,508	14.5	%
Net change in contingent consideration obligation	760	0.1	%	1,799	0.4	%	(1,039)	(57.8)	%
Restructuring charges	5,090	0.9	%	—	—	%	5,090	100.0	%
Depreciation and amortization	72,152	12.5	%	55,956	12.2	%	16,196	28.9	%
	499,241	86.2	%	395,016	86.4	%	104,225	26.4	%
Income from operations	\$ 79,590	13.8	%	\$ 62,298	13.6	%	\$ 17,292	27.8	%

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

## Revenues

Net Revenues. Net revenues increased \$121.5 million to \$578.8 million in 2015, compared to 2014. Transaction and subscription revenues as a percentage of sales were 71% or \$409.7 million in 2015 compared to 77% or \$350.0 million in 2014. The \$59.7 million increase in transaction and subscription revenue is primarily due to our expanded offerings and an increase in subscriptions with our existing customers. Professional service and software license revenues as a percentage of sales were 29% or \$169.1 million in 2015 compared to 23% or \$107.3 million in 2014. The increase in professional services and license revenue is due to new license agreements of approximately \$38 million with existing and new customers of which \$20.3 million related to our new ventures with Verizon and Goldman Sachs. New releases in our personal cloud offering accounted for an additional \$18 million of this increase.



Net revenues related to Activation Services increased \$23.0 million to \$268.8 million in 2015, compared to \$245.8 million in 2014. Net revenues related to Activation Services represented 46% for the year ended December 31, 2015, compared to 54% for 2014. The \$23.0 million increase was driven by the expansion of our customer base. Net revenues related to our Cloud Services increased by \$98.5 million to \$310.0 million of our revenues for the year ended December 31, 2015 compared to 2014. Net revenues related to our Cloud Services represented 54% for the year ended December 31, 2015, compared to 46% in 2014. The increase in our Cloud Service performance was a result of strong adoption of our cloud offerings across our customer base and our expanded offerings.

## Expense

**Cost of Services.** Cost of services increased \$54.7 million to \$239.1 million in 2015, compared to 2014, due primarily to an increase of \$36.2 million in colocation costs related to the expansion and virtualization of our hosting and storage offerings. There was also an increase of \$12.2 million in outside consulting expense due to our ongoing migration and integration projects. There was also increases in third party exception handling vendors related to the increase in our activation business. Additionally, our personnel and related costs increased \$5.0 million as a result of our continued growth.

**Research and Development.** Research and development expense increased approximately \$17.8 million to \$91.4 million in 2015, compared to 2014, primarily due to an increase of \$12.8 million in personnel and related costs and an increase of \$1.5 million in stock-based compensation, due to an increase in headcount as a result of our acquisitions and our investments in our product group. An increase in facility costs of \$1.9 million was driven by increased maintenance contracts related to our development and testing environments.

**Selling, General and Administrative.** Selling, general and administrative expenses increased \$11.5 million to \$90.7 million in 2015, compared to 2014. The most significant drivers of the increase are a \$4.3 million increase in professional fees, a \$3.4 million increase in outside consultants and a \$3.5 million increase in our bad debt expense, offset by a \$1.1 million decrease in merger & acquisition expense. The increase in professional fees relates to accounting and legal costs as a result of our acquisitions, tax planning activities and our patent licensing program. The most significant increases in outside consultants related to costs incurred for the launch of our Enterprise business, including our strategic venture with Goldman Sachs.

Table of Contents

**Net Change in Contingent Consideration Obligation.** The net change in contingent consideration obligation decreased by \$1.0 million for the year ended December 31, 2015. There was a \$760 thousand increase in the contingent consideration for the year ended December 31, 2015 related to an increase in the Razorsight earn-out due to the achievement of certain milestones. The prior year consisted of a \$1.8 million increase in the fair value increase of contingent consideration associated with the Strumsoft earn-out.

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

**Depreciation and Amortization.** Depreciation and amortization expense increased \$16.2 million to \$72.2 million in 2015, compared to 2014, primarily related to the increase in depreciable fixed assets necessary for the continued expansion of our platforms and amortization of our newly acquired intangible assets related to our recent acquisitions and ventures.

**Income from Operations.** Income from operations increased \$17.3 million to \$79.6 million in 2015, compared to 2014. This was primarily due to increased revenues partially offset by increases in depreciable fixed assets, intangible amortization, restructuring charges related to our work force reduction and additional costs associated with our acquired operations.

**Interest Income.** Interest income increased \$782 thousand to \$2.0 million in 2015, compared to 2014. Interest income increased primarily due to an increase in our cash, cash equivalents and investment balances during the year.

**Interest Expense.** Interest expense increased \$2.3 million to \$5.7 million in 2015, compared to 2014 due to an increase of approximately \$2 million related to the convertible debt contractual interest together with amortization of deferred financing costs and an increase of \$342 thousand related to interest paid on capital leases.

**Other Income.** Other income decreased \$69 thousand to \$372 thousand in 2015, compared to 2014. Other income decreased primarily due to a prior year New York state refundable research and development tax credit which was not available in the current year and foreign currency exchange rate fluctuations.

**Income Tax.** During 2015 and 2014, we recognized approximately \$29.6 million and \$21.7 million in income tax expense, respectively. Our effective tax rate was approximately 38.8% and 35.8% during 2015 and 2014, respectively.

In 2015, our effective tax rate was higher than our U.S. federal statutory rate primarily due to the tax effect of non-deductible expenses and the unfavorable tax impact of losses in foreign jurisdictions which have lower tax rates than the U.S. offset by the favorable impact of the minority interest in the ventures and the tax credit for research and experimentation expenses.

We expect to be exposed to fluctuations in our effective rate during the earn-out period for our contingent consideration liabilities. Due to the nature of these transactions we may experience significant adjustments to fair value of the contingent consideration obligation depending on the outcome of the target achievements.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the twelve months ended December 31, 2015 is as follows:

Unrecognized tax benefit at December 31, 2014	\$ 1,154
Additions for tax positions of prior periods	58
Additions for tax positions of current periods	344
Reductions related to the expiration of statutes of limitations	(64)
Unrecognized tax benefit at December 31, 2015	\$ 1,492

Table of Contents

Year ended December 31, 2014, compared to the year ended December 31, 2013

The following table presents an overview of our results of operations for the years ended December 31, 2014 and 2013.

	Year Ended December 31,		2013		2014 vs 2013	
	2014		\$	% of Revenue	\$ Change	% Change
	(in thousands)					
Net revenues	\$ 457,314	100.0 %	\$ 349,047	100.0 %	\$ 108,267	31.0 %
Cost of services*	184,414	40.3 %	146,238	41.9 %	38,176	26.1 %
Research and development	73,620	16.1 %	64,845	18.6 %	8,775	13.5 %
Selling, general and administrative	79,227	17.3 %	62,096	17.8 %	17,131	27.6 %
Net change in contingent consideration obligation	1,799	0.4 %	(5,324)	(1.5) %	7,123	(133.8)%
Restructuring charges	—	— %	5,172	1.5 %	(5,172)	(100.0)%
Depreciation and amortization	55,956	12.2 %	41,126	11.8 %	14,830	36.1 %
	395,016	86.4 %	314,153	90.0 %	80,863	25.7 %
Income from operations	\$ 62,298	13.6 %	\$ 34,894	10.0 %	\$ 27,404	78.5 %

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

## Revenues

Net Revenues. Net revenues increased \$108.3 million to \$457.3 million in 2014, compared to 2013. This increase was primarily due to the expansion of our services provided to our customers. Transaction and subscription revenues as a percentage of sales were 77% or \$350.0 million in 2014 compared to 70% or \$243.0 million in 2013. The increase in transaction and subscription revenue is primarily due to new subscription arrangements with our existing customers and increased transaction volumes. Professional service and software license revenues as a percentage of sales were 23% or \$107.3 million in 2014 compared to 30% or \$106.0 million in 2013.

Net revenues related to Activation Services increased \$12.8 million to \$245.8 million in 2014, compared to \$233.0 million in 2013. Net revenues related to Activation Services represented 54% for the year ended December 31, 2014, compared to 67% for 2013. Net revenues related to our Cloud Services increased by \$95.5 million to \$211.5 million of our revenues for the year ended December 31, 2014 compared to 2013. Net revenues related to our Cloud Services

represented 46% for the year ended December 31, 2014, compared to 33% in 2013. The increase in our Cloud Service performance was a result of strong adoption of our cloud offerings across our customer base.

## Expense

**Cost of Services.** Cost of services increased \$38.2 million to \$184.4 million in 2014, compared to 2013, due primarily to an increase of \$18.1 million in colocation costs related to the expansion of our hosting and storage offering. Personnel and related costs increased \$11.7 million due primarily to our continued growth in existing and new programs with our current customers and recent acquisitions. Outside consulting increased \$8.2 million due to increased usage of third party exception handling vendors needed to process additional transactions related to our increased business.

**Research and Development.** Research and development expense increased approximately \$8.8 million to \$73.6 million in 2014, compared to 2013, primarily due to an increase of \$4.9 million in our personnel and related costs and an increase of \$3.7 million in outside consulting as a result of our continued growth as we further expand the capabilities of our offerings.

**Selling, General and Administrative.** Selling, general and administrative expenses increased \$17.1 million to \$79.2 million in 2014, compared to 2013. There was an increase of \$10.0 million in personnel and related costs and an increase of \$2.8 million in stock based compensation. The increase in personnel and related costs primarily related to increased headcount as a result of our international expansion as well as the earn-out compensation due to former owners and employees of Strumsoft. Our marketing expense increased \$1.2 million due to our market expansion activities associated with the rebranding and the launch of our new products. There was also an increase of \$1.3 million in merger and acquisition expense related to the acquisitions of Digi-Data, Vox and Clarity. The remaining increases of \$725 thousand related to telecommunication and facility costs that were impacted by the increase of our common area maintenance costs and \$713 thousand related to various outside consultant costs supporting strategic projects.

Table of Contents

**Net Change in Contingent Consideration Obligation.** The net change in contingent consideration obligation increased by \$7.1 million for the year ended December 31, 2014. During 2014 the contingent consideration associated with the Strumsoft acquisition increased \$1.8 million due to changes in the fair value estimates related to the weighted probability of achieving revenue milestones. As of December 31, 2014 all of the business objectives for the Strumsoft earn-out have been met and accordingly the Company recorded \$8 million on the balance sheet related to the Strumsoft earn-out, which is to be paid within 60 days following December 31, 2014. This contrasts with a \$5.3 million reduction of the contingent consideration obligation for the year ended December 31, 2013 driven by the Spatial Systems Nominees PTY Limited ("Spatial") earn-out reversal as a result of the timing of projected revenue financial milestones required to be achieved in order to receive the expected payout and the settlement of the SpeechCycle, Inc. ("SpeechCycle") earn-out.

**Depreciation and Amortization.** Depreciation and amortization expense increased \$14.8 million to \$56.0 million in 2014, compared to 2013, primarily related to capital investments in our IT infrastructure to support the continued expansion of our platforms and the amortization of our newly acquired intangible assets of Digi-Data, Clarity and Vox. Effective October 1, 2014, the Company changed the useful life estimate of its data center hardware assets from 3 years to 5 years to better reflect the estimated period during which these assets will remain in service and economically viable. These changes resulted in a decrease in depreciation expense of \$3.6 million in 2014.

**Income from Operations.** Income from operations increased \$27.4 million to \$62.3 million in 2014, compared to 2013. This was primarily due to increased revenues offset by the additional costs associated with our acquired operations and no restructuring costs incurred in 2014.

**Interest Income.** Interest income increased \$281 thousand to \$838 thousand in 2014, compared to 2013. Interest income increased primarily due to an increase in our cash, cash equivalents and investment balances.

**Interest Expense.** Interest expense increased \$1.9 million to \$3.0 million in 2014, compared to 2013 due to an increase of approximately \$439 thousand related to our \$40 million borrowing on our revolving credit facility, which was drawn in July and subsequently repaid in September 2014, and an additional \$1.2 million of coupon rate interest and deferred financing fees related to the \$230 million of convertible debt issued in August 2014.

**Other Income.** Other income increased \$224 thousand to \$441 thousand in 2014, compared to 2013. Other income increased primarily due to an increase in New York state refundable research and development tax credits domestically, upon the state's completion of its audit, and foreign currency exchange rate fluctuations.

**Income Tax.** During 2014 and 2013, we recognized approximately \$21.7 million and \$11.2 million in income tax expense, respectively. Our effective tax rate was approximately 35.8% and 32.5% during 2014 and 2013, respectively. In 2014, our effective tax rate was higher than our U.S. federal statutory rate primarily due to state taxes, the tax effect

of non-deductible expenses and the unfavorable tax impact of the fair market value adjustment for the contingent consideration obligations related to the earn-out payments and Subpart F income, offset by the favorable impact of income in foreign jurisdictions which have lower tax rates than the U.S. and the tax credit for research and experimentation expenses.

We expect to be exposed to fluctuations in our effective rate during the earn-out period for our contingent consideration liabilities. Due to the nature of these transactions we may experience significant adjustments to fair value of the contingent consideration obligation depending on the outcome of the target achievements.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the twelve months ended December 31, 2014 is as follows:

Unrecognized tax benefit at December 31, 2013	\$ 734
Reductions for tax positions of prior periods	(217)
Additions for tax positions of current periods	650
Reductions related to the expiration of statutes of limitations	(13)
Unrecognized tax benefit at December 31, 2014	\$ 1,154

Table of Contents

## Unaudited Quarterly Results of Operations

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2015				
Net revenues	\$ 132,926	\$ 137,820	\$ 150,874	\$ 157,211
Gross profit(2)	79,271	82,900	87,436	90,150
Net income	10,561	15,154	9,645	11,322
Net income attributable to Synchronoss (3)(4)	10,561	15,154	9,645	5,270
Basic net income per common share(1)	0.25	0.36	0.23	0.12
Diluted net income per common share(1)	0.23	0.33	0.21	0.12

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
2014				
Net revenues	\$ 98,477	\$ 103,451	\$ 125,175	\$ 130,211
Gross profit(2)	58,498	62,161	74,679	77,562
Net income attributable to Synchronoss (3)(4)	7,584	8,364	9,327	13,620
Basic net income per common share(1)	0.19	0.21	0.23	0.33
Diluted net income per common share(1)	0.19	0.20	0.22	0.30

- 
- (1) Per common share amounts for the quarters and full year have been calculated separately. Accordingly, quarterly amounts do not add to the annual amount because of differences in the weighted average common shares outstanding during each period principally due to the effect of issuing shares of our common stock and options during the year.
- (2) Gross profit is defined as net revenues less cost of services and excludes depreciation and amortization expense.
- (3) Net income for the quarters ended December 31, 2015, December 31, 2014, September 30, 2014, June 30, 2014 and March 31, 2014 included a change in contingent consideration obligation of \$760 thousand, \$118 thousand, \$355 thousand, \$115 thousand, and \$1.2 million, respectively.
- (4) Net income for the quarters ended September 30, 2015, June 30, 2015 and March 31, 2015, included restructuring charges of \$399 thousand, \$1.5 million and \$3.2 million, respectively.
- (5) Net income for the quarter ended December 31, 2014 included a \$3.6 million depreciation expense adjustment related to a change in estimate which increased net income by \$2.3 million.





Table of Contents

Liquidity and Capital Resources

Our principal source of liquidity has been cash provided by operations. Our cash, cash equivalents and marketable securities balance was \$233.6 million at December 31, 2015, a decrease of \$56.8 million as compared to the balance at December 31, 2014. This decrease was primarily due to cash used for acquisitions and purchases of fixed assets offset by cash generated from operations and the exercise of stock options. We anticipate that our principal uses of cash in the future will be to fund the expansion of our business through both organic growth as well as possible acquisition activities and the expansion of our customer base internationally. Uses of cash will also include facility and technology expansion, capital expenditures, and working capital.

On August 12, 2014 we issued \$230.0 million aggregate principal amount of our 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 2019 Notes as a liability and capitalized approximately \$7.1 million of financing fees, related to the issuance.

In September 2013, we entered into a Credit Agreement (the “Credit Facility”) with JP Morgan Chase Bank, N.A., as the administrative agent, Wells Fargo Bank, National Association, as the syndication agent and Capital One, National Association and KeyBank National Association, as co-documentation agents. The Credit Facility, which can be used for general corporate purposes, is a \$100 million unsecured revolving line of credit that matures on September 27, 2018. We have the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million.

The Credit Facility is subject to certain financial covenants. As of December 31, 2015, we were in compliance with all required covenants. There were no outstanding balances on the Credit Facility at December 31, 2015.

On February 4, 2016 we announced that our Board of Directors has 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. The repurchase program will be funded using our working capital. There can be no assurance as to the actual volume of any share repurchases in any given period or over the term of the program or as to the manner or terms of any such repurchases.

We anticipate that the timing and amount of any share repurchases will be determined based on market conditions and in accordance with the requirements of the Securities and Exchange Commission. Once adopted, the repurchase program does not obligate us to acquire any particular amount of common stock, and repurchases may be commenced, suspended or discontinued at any time without prior notice.

At December 31, 2015, our non U.S. subsidiaries held approximately \$16.6 million of cash and cash equivalents that are available for use by all of our operations around the world. 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.

Table of Contents

Discussion of Cash Flows

Year ended December 31, 2015, compared to the year ended December 31, 2014

**Cash Flows from Operations.** Net cash provided by operating activities for the year ended December 31, 2015 was \$117.6 million, as compared to \$71.0 million for the year ended December 31, 2014; an increase of \$46.6 million. Operating cash flows for the year ended December 31, 2015 benefited from the increase in net income and non-cash items of \$34.0 million and an increase in net working capital of \$29.5 million.

**Cash Flows from Investing.** Net cash used in investing activities for the year ended December 31, 2015 was \$226.1 million, as compared to \$153.0 million for the year ended December 31, 2014. The increase in net cash used in investing activities for the year ended December 31, 2015, of \$73.1 million as compared to 2014 is primarily due to current year acquisitions combined with purchases of property and equipment related to our continued investments in our global information technology and business systems infrastructure.

**Cash Flows from Financing.** Net cash provided by financing activities for the year ended December 31, 2015 was \$20.5 million, as compared to \$254.3 million for the year ended December 31, 2014. The decrease in net cash provided by financing activities for the year ended December 31, 2015, of \$233.8 million as compared to 2014 is primarily due to the issuance of the 2019 Notes for \$230 million in 2014.

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.

Year ended December 31, 2014, compared to the year ended December 31, 2013

**Cash Flows from Operations.** Net cash provided by operating activities for the year ended December 31, 2014 was \$71.0 million, as compared to \$81.1 million for the year ended December 31, 2013. Cash flows from operations decreased by \$10.1 million. Operating cash flow for the year ended December 31, 2014 benefited from the increase in net income and non-cash items of \$36.5 million other assets and liabilities together with a change in the contingent consideration fair value increased the operating cash flow by \$23.1 million. These increases were offset by a decrease in working capital for the year ended December 31, 2014 of approximately \$69.8 million. Among the changes in working capital, the accounts receivable increase accounted for most of the change.

Cash Flows from Investing. Net cash used in investing activities for the year ended December 31, 2014 was \$153.0 million, as compared to \$73.7 million for the year ended December 31, 2013. The increase in net cash used in investing activities for the year ended December 31, 2014, of \$79.3 million as compared to 2013 is primarily due to the acquisitions of Vox, Clarity and Digi-Data in 2014 combined with increased purchases of property and equipment related to our continued investments in our global information technology and business systems infrastructure and purchases of marketable securities.

Cash Flows from Financing. Net cash provided by financing activities for the year ended December 31, 2014 was \$254.3 million, as compared to \$20.1 million cash provided by financing activities for the year ended December 31, 2013. The increase in net cash provided by financing activities for the year ended December 31, 2014, of \$234.2 million as compared to 2013 is primarily due to the issuance of the 2019 Notes and an increase in proceeds from the exercises of stock options.

#### 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 during 2015, 2014 and 2013. We do not expect the current rate of inflation to have a material impact on our business.

Table of Contents

## Contractual Obligations

Our contractual commitments consist of obligations under leases for office space, automobiles, convertible debt and its associated interest expense, colocation agreements, computer equipment and furniture and fixtures. The following table summarizes our long term contractual obligations as of December 31, 2015 (in thousands).

	Payments Due by Period				
	Total	Less Than 1 Year	1—3 Years	4—5 Years	More Than 5 Years
Capital lease obligations (1)	\$ 23,495	\$ 2,707	\$ 5,296	\$ 3,728	\$ 11,764
Convertible Senior Notes	230,000	—	—	230,000	—
Interest (2)	6,253	1,725	3,450	1,078	—
Contingent consideration obligation (3)	930	—	930	—	—
Operating lease obligations	55,261	7,820	14,354	13,047	20,040
Purchase obligations (4)	55,466	25,311	20,573	9,582	—
Other long-term liabilities (5)	1,492	51	1,441	—	—
Total	\$ 372,897	\$ 37,614	\$ 46,044	\$ 257,435	\$ 31,804

(1) Amount includes the Pennsylvania facility lease and the VCHS data center.

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

(3) Amount represents the fair value of the contingent consideration obligations of our Razorsight acquisition and is based on actual and estimated achievements of financial targets and milestones as of December 31, 2015. When settled at the end of the applicable earn out period the amount is subject to change due to the actual achievements of financial targets and our stock price.

(4) Amount represents obligations associated with colocation agreements.

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

Table of Contents

Impact of Recently Issued Accounting Standards

In January 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We are currently evaluating the impact that ASU 2016-01 will have on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which will require entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present deferred tax assets and deferred tax liabilities as current and noncurrent in a classified balance sheet. The ASU may be applied either prospectively or retrospectively. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual period. Management has adopted ASU 2015-17 effective for the fourth quarter 2015 and will present the net deferred tax assets as noncurrent and reclassify any current deferred tax assets and liabilities in our consolidated balance sheet on a prospective basis.

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

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

regardless of whether a balance is outstanding. Management does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In May 2015, the FASB issued ASU 2015-08, Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (“ASU 2015-08”). The amendments in ASU 2015-08 amend various SEC paragraphs included in the FASB’s Accounting Standards Codification to reflect the issuance of Staff Accounting Bulletin No. 115 (“SAB 115”). SAB 115 rescinds portions of the interpretive guidance included in the SEC’s Staff Accounting Bulletins series and brings existing guidance into conformity with ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting,” which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. Management has adopted the amendments in ASU 2015-08, effective May 8, 2015, as the amendments in the update are effective upon issuance. The adoption of this ASU did not significantly impact our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” This amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share. The updated guidance is effective for public entities for interim and annual periods beginning after December 15, 2016 and early adoption is not permitted. Management does not expect the adoption of this ASU to significantly impact our consolidated financial statements.



Table of Contents

In April 2015, the FASB issued ASU 2015-05, Intangible – Goodwill and Other Internal Use Software (Topic 350-40), as part of its initiative to reduce complexity in accounting standards. This guidance clarified how customers in cloud computing arrangements should determine whether the arrangement includes a software license. The guidance also eliminates the existing requirement for customers to account for software licenses that they acquire by analogizing to the guidance on leases. Instead, entities will account for these arrangements as licenses of intangible assets. For public business entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted for all entities. Management does not expect the adoption of this ASU to significantly impact our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in this update. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Upon adoption, an entity must apply the guidance retrospectively to all prior periods presented. Management does not expect the adoption of this ASU to significantly impact our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. Early adoption is allowed, including early adoption in an interim period. A reporting entity may apply a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or may apply the amendments retrospectively. Management is currently assessing the impact, if any, of the adoption of this guidance on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The new guidance eliminates the separate presentation of extraordinary items, net of tax and the related earnings per share, but does not affect the requirement to disclose material items that are unusual in nature or infrequently occurring. The ASU applies to all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Entities have the option to apply the new guidance prospectively or retrospectively, and can choose early adoption. Management does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

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

#### Off Balance Sheet Arrangements

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

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The following discussion about market risk disclosures involves forward looking statements. Actual results could differ materially from those projected in the forward looking statements. We deposit our excess cash in what we believe are high quality financial instruments, primarily money market funds and certificates of deposit and, we may be exposed to market risks related to changes in interest rates. We do not actively manage the risk of interest rate fluctuations on our marketable securities; however, such risk is mitigated by the relatively short term nature of these investments. These investments are denominated in United States dollars.

The primary objective of our investment activities is to preserve our capital for the purpose of funding operations, while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve these objectives, our investment policy allows us to maintain a portfolio of cash equivalents and short and long term investments in a variety of securities, which could include commercial paper, money market funds and corporate and government debt securities. Our cash, cash equivalents and marketable securities at December 31, 2015 and 2014 were invested in liquid money market accounts, certificates of deposit and government securities. All market risk sensitive instruments were entered into for non trading purposes.

Foreign Currency Exchange Risk

We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, Australian Dollar, and the Indian Rupee.

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.

If and when we draw down on our Credit Facility, we will be subject to U.S. LIBOR interest rate fluctuations. As of December 31, 2015, there were no outstanding balances on the Credit Facility.

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 December 31, 2015 would increase interest income by less than \$1.1 million on an annual basis. We are subject to foreign currency exchange risk with respect to cash balances maintained in foreign currencies.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	53
<u>Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013</u>	54
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013</u>	55
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013</u>	56
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013</u>	57
<u>Notes to Consolidated Financial Statements</u>	58

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Synchronoss Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Synchronoss Technologies, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synchronoss Technologies, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Synchronoss Technologies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey

February 26, 2016

52

---

Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 147,634	\$ 235,967
Marketable securities	66,357	51,097
Accounts receivable, net of allowance for doubtful accounts of \$3,029 and \$88 at December 31, 2015 and 2014, respectively	143,692	118,371
Prepaid expenses and other assets	49,262	35,023
Deferred tax assets	—	1,475
Total current assets	406,945	441,933
Marketable securities	19,635	3,313
Property and equipment, net	168,280	151,171
Goodwill	221,271	147,135
Intangible assets, net	174,322	99,489
Deferred tax assets	3,560	1,232
Other assets	21,337	18,549
Total assets	\$ 1,015,350	\$ 862,822
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 26,038	\$ 25,059
Accrued expenses	45,819	42,679
Deferred revenues	8,323	11,897
Contingent consideration obligation	—	8,000
Total current liabilities	80,180	87,635
Lease financing obligation - long-term	13,343	9,204
Contingent consideration obligation - long-term	930	—
Convertible debt	230,000	230,000
Deferred tax liability	16,404	3,698
Other liabilities	3,227	3,178
Redeemable noncontrolling interest	61,452	—
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at December 31, 2015 and 2014	—	—
Common stock, \$0.0001 par value; 100,000 shares authorized, 48,084 and 46,444 shares issued; 44,405 and 42,711 outstanding at December 31, 2015 and December 31, 2014, respectively	4	4



Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-K

Treasury stock, at cost (3,679 and 3,733 shares at December 31, 2015 and 2014, respectively)	(65,651)	(66,336)
Additional paid-in capital	512,802	454,740
Accumulated other comprehensive loss	(38,684)	(20,014)
Retained earnings	201,343	160,713
Total stockholders' equity	609,814	529,107
Total liabilities and stockholders' equity	\$ 1,015,350	\$ 862,822
See accompanying notes to consolidated financial statements.		

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Net revenues	\$ 578,831	\$ 457,314	\$ 349,047
Costs and expenses:			
Cost of services*	239,074	184,414	146,238
Research and development	91,430	73,620	64,845
Selling, general and administrative	90,735	79,227	62,096
Net change in contingent consideration obligation	760	1,799	(5,324)
Restructuring charges	5,090	—	5,172
Depreciation and amortization	72,152	55,956	41,126
Total costs and expenses	499,241	395,016	314,153
Income from operations	79,590	62,298	34,894
Interest income	2,047	1,265	2,646
Interest expense	(5,711)	(3,430)	(3,178)
Other income	372	441	217
Income before income tax expense	76,298	60,574	34,579
Income tax expense	(29,616)	(21,679)	(11,228)
Net income	46,682	38,895	23,351
Net income attributable to noncontrolling interests	6,052	—	—
Net income attributable to Synchronoss	\$ 40,630	\$ 38,895	\$ 23,351
Net income per common share:			
Basic †	\$ 0.96	\$ 0.96	\$ 0.60
Diluted †	\$ 0.89	\$ 0.92	\$ 0.58
Weighted-average common shares outstanding:			
Basic †	42,284	40,418	38,891
Diluted †	47,653	43,297	40,009

---

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

†See notes to financial statement footnote 2.

See accompanying notes to consolidated financial statements



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income attributable to Synchronoss	\$ 40,630	\$ 38,895	\$ 23,351
Other comprehensive loss, net of tax:			
Foreign currency translation adjustments	(17,281)	(12,739)	(3,779)
Unrealized (loss) gain on securities	(54)	(176)	2
Net (loss) gain on intra-entity foreign currency transactions	(1,335)	(6,376)	3,419
Total other comprehensive loss	(18,670)	(19,291)	(358)
Total comprehensive income attributable to Synchronoss	\$ 21,960	\$ 19,604	\$ 22,993

See accompanying notes to consolidated financial statements.

Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2012 .	42,533	\$ 4	(3,859)	\$ (67,918)	\$ 344,469	\$ (365)	\$ 98,467	\$ 374,657
Stock based compensation .	—	—	—	—	10,035	—	—	10,035
Issuance of restricted stock .	734	—	—	—	14,539	—	—	14,539
Issuance of common stock on exercise of options .	1,156	—	—	—	19,196	—	—	19,196
Issuance of common stock related to acquisition .	33	—	—	—	1,144	—	—	1,144
ESPP compensation .	—	—	—	—	640	—	—	640
Sale of Treasury Stock in connection with an employee stock purchase plan .	—	—	66	814	660	—	—	1,474
Net income attributable to Synchronoss .	—	—	—	—	—	—	23,351	23,351
Total other comprehensive loss	—	—	—	—	—	(358)	—	(358)
Tax benefit from stock option exercise .	—	—	—	—	2,961	—	—	2,961
Balance at December 31, 2013 .	44,456	\$ 4	(3,793)	\$ (67,104)	\$ 393,644	\$ (723)	\$ 121,818	\$ 447,639
Stock based compensation .	—	—	—	—	9,992	—	—	9,992
Issuance of restricted stock .	765	—	—	—	18,353	—	—	18,353
Issuance of common stock on exercise of options .	1,223	—	—	—	30,003	—	—	30,003
	—	—	—	—	642	—	—	642

ESPP								
compensation								
Sale of Treasury								
Stock in connection								
with an employee								
stock purchase plan .	—	—	60	768	909	—	—	1,677
Net income								
attributable to								
Synchronoss	. —	—	—	—	—	—	38,895	38,895
Total other								
comprehensive loss .	—	—	—	—	—	(19,291)	—	(19,291)
Tax benefit from								
stock option								
exercise	. —	—	—	—	1,197	—	—	1,197
Balance at								
December 31, 2014 .	46,444	\$ 4	(3,733)	\$ (66,336)	\$ 454,740	\$ (20,014)	\$ 160,713	\$ 529,107
Stock based								
compensation	. —	—	—	—	8,495	—	—	8,495
Issuance of								
restricted stock	. 761	—	—	—	22,592	—	—	22,592
Issuance of								
common stock on								
exercise of options .	879	—	—	—	19,936	—	—	19,936
ESPP								
compensation	. —	—	—	—	624	—	—	624
Sale of Treasury								
Stock in connection								
with an employee								
stock purchase plan .	—	—	54	685	1,217	—	—	1,902
Net income								
attributable to								
Synchronoss	. —	—	—	—	—	—	40,630	40,630
Total other								
comprehensive loss	—	—	—	—	—	(18,670)	—	(18,670)
Tax benefit from								
stock option								
exercise	. —	—	—	—	5,198	—	—	5,198
Balance at								
December 31, 2015 .	48,084	\$ 4	(3,679)	\$ (65,651)	\$ 512,802	\$ (38,684)	\$ 201,343	\$ 609,814
See accompanying notes to consolidated financial statements.								

Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
<b>Operating activities:</b>			
Net income	\$ 46,682	\$ 38,895	\$ 23,351
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	72,152	55,956	41,126
Amortization of debt issuance costs	1,501	618	—
Loss on disposal of asset	16	33	—
Amortization of bond premium	1,705	384	294
Deferred income taxes	8,319	3,207	1,575
Non-cash interest on leased facility	924	946	921
Stock-based compensation	31,711	28,987	25,214
Changes in operating assets and liabilities:			
Accounts receivable, net of allowance for doubtful accounts	(27,577)	(50,924)	10,167
Prepaid expenses and other current assets	(8,543)	(14,660)	8,022
Other assets	(4,282)	(1,930)	(7,376)
Accounts payable	6,185	4,169	348
Accrued expenses	(710)	1,263	(7,155)
Contingent consideration obligation	(772)	3,532	(6,214)
Excess tax benefit from the exercise of stock options	(5,198)	(1,203)	(2,961)
Other liabilities	(402)	5,825	(320)
Deferred revenues	(4,130)	(4,119)	(5,900)
Net cash provided by operating activities	117,581	70,979	81,092
<b>Investing activities:</b>			
Purchases of fixed assets	(59,960)	(73,885)	(73,434)
Purchases of intangible assets	(1,200)	—	—
Purchases of marketable securities available-for-sale	(139,569)	(50,275)	(8,366)
Sales and maturities of marketable securities available-for-sale	106,210	9,265	14,825
Business acquired, net of cash	(131,592)	(38,085)	(6,677)
Net cash used in investing activities	(226,111)	(152,980)	(73,652)
<b>Financing activities:</b>			
Proceeds from the exercise of stock options	19,936	30,003	19,196
Payments on contingent consideration obligation	(4,468)	—	(1,926)
Debt issuance costs related to convertible notes	—	(7,065)	—
Proceeds from issuance of convertible notes	—	230,000	—
Borrowings on revolving line of credit	—	40,000	—
Repayment of revolving line of credit	—	(40,000)	—
Excess tax benefit from the exercise of stock option	5,198	1,203	2,961
	1,902	1,677	1,474

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-K

Proceeds from the sale of Treasury Stock in connection with an employee stock purchase plan			
Repayments of capital obligations	(2,021)	(1,515)	(1,597)
Net cash provided by financing activities	20,547	254,303	20,108
Effect of exchange rate changes on cash	(350)	153	(64)
Net (decrease) increase in cash and cash equivalents	(88,333)	172,455	27,484
Cash and cash equivalents at beginning of year	235,967	63,512	36,028
Cash and cash equivalents at end of year	\$ 147,634	\$ 235,967	\$ 63,512
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 5,791	\$ 2,290	\$ 168
Cash paid for income taxes	\$ 29,868	\$ 19,342	\$ 1,773
Supplemental disclosures of non-cash investing and financing activities:			
Issuance of common stock in connection with the acquisition	\$ —	\$ —	\$ 1,144
See accompanying notes to consolidated financial statements.			



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. Description of Business

Synchronoss is a leading innovator of cloud solutions and software-based activation for mobile carriers, enterprises, retailers and OEMs across the globe. Synchronoss' software provides innovative consumer and enterprise solutions that drive billions of transactions on a wide range of connected devices across the world's leading networks. The Company's solutions include: activation and provisioning software for devices and services, cloud-based sync, backup, storage and content engagement capabilities, broadband connectivity solutions, analytics, 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 ecommerce 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.

The Company's Integrated Life™ platform brings together select capabilities of the Company's device/service Activation software and services with the Company's Synchronoss Personal Cloud™ and analytics solutions to give carrier subscribers innovative digital experiences that work across new and emerging consumer devices (e.g. connected cars, wearables, connected homes, smart TV's, etc.) in carrier and the Internet of Things (IoT) markets.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The 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. All material intercompany transactions and accounts are eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

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

Revenue Recognition and Deferred Revenue

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

Transactional and Subscription Service Arrangements: Transaction and subscription revenues consist of revenues derived from the processing of transactions through the Company's service platforms, providing enterprise portal management services on a subscription basis and maintenance agreements on software licenses. Transaction service arrangements include services such as processing equipment orders, new account set up and activation, number port requests, credit checks and inventory management. Subscription services include monthly active user fees, software as a service ("SaaS") fees, hosting and storage and the related maintenance support for those services.

Transaction revenues are principally based on a contractual price per transaction and are recognized based on the number of transactions processed during each reporting period. Revenues are recorded based on the total number of transactions processed at the applicable price established in the relevant contract. The total amount of revenues recognized is based primarily on the volume of transactions. Subscription revenues are recorded one of two ways: on a straight line basis over the life of the contract or on a fixed monthly fee based on a set contracted amount.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

**Professional Service and Software License Arrangements:** Professional services include process and workflow consulting services and development services. Professional services when sold with transactional or subscription service arrangements are accounted for separately when the professional services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of the professional services. When accounted for separately, professional service revenues are recognized as services are performed and all other elements of revenue recognition have been satisfied.

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

If a professional service arrangement were not to qualify for separate accounting, the Company would recognize the professional service revenues ratably over the remaining term of the transaction or subscription agreement.

Revenue from software license arrangements is recognized when the license is delivered to its customers and all of the software revenue recognition criteria are met. When software arrangements include multiple elements, the arrangement consideration is allocated at the inception to all deliverables using the residual method providing the Company has vendor specific objective evidence (VSOE) on all undelivered elements. The Company determines VSOE for each element based on historical stand alone sales to third parties.

When transaction or subscription service arrangements, include multiple elements, the arrangement consideration is allocated at the inception of an arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price. The selling price used for each deliverable will be based on VSOE if available, third party evidence (TPE) if vendor specific objective evidence is not available, or estimated selling price (ESP) if neither vendor specific objective evidence nor third party evidence is available. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand alone basis. The Company determines ESP by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices. ESP is generally used for offerings that are not typically sold on a stand alone basis or for new or highly customized offerings.

While the Company follows specific and detailed rules and guidelines related to revenue recognition, it makes and uses management judgments and estimates in connection with the revenue recognized in any reporting period, particularly in the areas described above, as well as collectability. If management made different estimates or judgments, differences in the timing of the recognition of revenue could occur.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Service Level Standards

Pursuant to certain contracts, the Company is subject to service level standards and to corresponding penalties for failure to meet those standards. All performance related penalties are reflected as a corresponding reduction of the Company's revenues. These penalties, if applicable, are recorded in the month incurred and were insignificant for the years ended December 31, 2015, 2014 and 2013, respectively.

Cost of Services

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

Research and Development

Research and development costs are expensed as incurred, unless they meet U.S. GAAP criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Amortization of software development costs is computed using the straight line method over the estimated useful lives of the assets, 3 and 5 years. As of December 31, 2015, the Company had \$6.1 million of unamortized software development costs and \$2.0 million of amortization expense which was recognized during 2015. As of December 31, 2014, the Company had \$6.1 million of unamortized software development costs and \$837 thousand of amortization expense which was recognized during 2014. As of December 31, 2013, the Company had \$1.8 million of unamortized software development costs and \$1.2 million of amortization expense which was recognized during 2013. Research and development expense consists primarily of costs related to personnel, including salaries and other personnel related expenses, consulting fees and the cost of facilities, computer and support services used in service technology development. The Company also expends costs relating to developing modifications and minor enhancements of its existing technology and services.

### Concentration of Credit Risk

The Company's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains its cash and cash equivalents at several major financial institutions. The Company has not experienced any realized losses in such accounts and believes it is not exposed to any significant credit risk related to cash, cash equivalents and securities. The Company's cash equivalents and short term marketable securities consist primarily of money market funds, certificates of deposit, commercial paper, and municipal and corporate bonds. The Company believes that concentration of credit risk with respect to accounts receivable is limited because of the creditworthiness of the Company's major customers.

AT&T and Verizon Wireless in the aggregate accounted for 75%, 73% and 66% of net revenues for 2015, 2014 and 2013, respectively. AT&T and Verizon accounted for 72% and 68% of accounts receivable at December 31, 2015 and 2014, respectively. The loss of either AT&T or Verizon as a customer would have a material negative impact on the Company. The Company believes that if either AT&T or Verizon terminated their relationships with Synchronoss, they would encounter substantial costs in replacing Synchronoss' solutions.



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Fair Value of Financial Instruments and Liabilities

The Company includes disclosures of fair value information about financial instruments and liabilities, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. Due to their short term nature, the carrying amounts reported in the financial statements approximate the fair value for cash and cash equivalents, marketable securities, accounts receivable and accounts payable.

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities consist of fixed income investments with a maturity of greater than three months and enhanced money market funds. These investments are classified as available for sale and are reported at fair value on the Company's balance sheet. The Company classifies its securities with maturity dates of 12 months or more as long term. Unrealized holding gains and losses are reported within accumulated other comprehensive loss as a separate component of stockholders' equity. If a decline in the fair value of a marketable security below the Company's cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value as a new cost basis and the amount of the write down is included in earnings as an impairment charge. The Company has recorded temporary changes in fair value of the marketable securities but has not recorded other than temporary charges for the periods presented herein.

Accounts Receivable and Allowance for Doubtful Accounts

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

age of customer receivable balances, the customer's financial condition and current economic trends.

### Property and Equipment

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

62

---

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Noncontrolling Interest

Noncontrolling interests ("NCI") are evaluated by the Company and are shown as either a liability, temporary equity (shown between liabilities and equity) or as permanent equity depending on the nature of the redeemable features at amounts based on formulas specific to each entity. Generally, mandatorily redeemable NCI's are classified as liabilities and non-mandatorily redeemable NCI's are classified outside of stockholders' equity in the Consolidated Balance Sheets as temporary equity under the caption, redeemable noncontrolling interests, and are measured at their redemption values at the end of each period. If the redemption value is greater than the carrying value, an adjustment is recorded in retained earnings to record the NCI at its redemption value. Redeemable NCI's that are mandatorily redeemable are classified as a liability in the Consolidated Balance Sheets under either other current liabilities or other long-term liabilities, depending on the remaining duration until settlement, and are measured at the amount of cash that would be paid if settlement occurred at the balance sheet date with any change from the prior period recognized as interest expense.

If the noncontrolling interest is not currently redeemable yet probable of becoming redeemable, the Company is required to either (1) accrete changes in the redemption value over the period from the date of issuance to the earliest redemption date of the instrument using an appropriate methodology, usually the interest method, or (2) recognize changes in the redemption value immediately as they occur and adjust the carrying value of the security to equal the redemption value at the end of each reporting period. The Company has elected to recognize changes in the redemption value immediately as they occur and adjust 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.

Net income attributable to NCI's reflects the portion of the net income (loss) of consolidated entities applicable to the NCI stockholders in the accompanying Consolidated Statements of Income. The net income attributable to NCI is classified in the Consolidated Statements of Income as part of consolidated net income and deducted from total consolidated net income to arrive at the net income attributable to the Company.

Business Combinations

The Company accounts for business combinations in accordance with the acquisition method. The acquisition method of accounting requires that assets acquired, liabilities assumed and any noncontrolling interest in the acquiree (if any) be recorded at their fair values on the date of a business acquisition. The Company's consolidated financial statements and results of operations reflect an acquired business from the completion date of an acquisition.

The judgments that the Company makes in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income in periods following a business combination. The Company generally uses either the income, cost or market approach to aid in its conclusions of such fair values and asset lives. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset, discounted to present value. The cost approach presumes that an investor would pay no more for an asset than its replacement or reproduction cost. The market approach estimates value based on what other participants in the market have paid for reasonably similar assets. Although each valuation approach is considered in valuing the assets acquired, the approach ultimately selected is based on the characteristics of the asset and the availability of information.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company records contingent consideration resulting from a business combination at its fair value on the acquisition date. Each reporting period thereafter, the Company revalues these obligations and records increases or decreases in their fair value as an adjustment to net change in contingent consideration obligation within the consolidated statement of income. Changes in the fair value of the contingent consideration obligation can result from updates in the achievement of financial targets and changes to the weighted probability of achieving those future financial targets. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent period. Accordingly, any change in the assumptions described above, could have a material impact on the amount of the net change in contingent consideration obligation that the Company records in any given period.

Investments in Affiliates and Other Entities

In the normal course of business, Synchronoss enters into various types of investment arrangements, each having unique terms and conditions. These investments may include equity interests held by Synchronoss in business entities, including general or limited partnerships, contractual joint ventures, or other forms of equity participation. Synchronoss determines whether such investments involve a VIE based on the characteristics of the subject entity. If the entity is determined to be a VIE, then management determines if Synchronoss is the primary beneficiary of the entity and whether or not consolidation of the VIE is required. The primary beneficiary consolidating the VIE must normally have both (i) the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE, in either case that could potentially be significant to the VIE. When Synchronoss is deemed to be the primary beneficiary, the VIE is consolidated and the other party's equity interest in the VIE is accounted for as a noncontrolling interest. In cases where Synchronoss determines that it has an undivided interest in the assets, liabilities, revenues and profits of an unincorporated VIE (e.g., a general partnership interest), such amounts are consolidated on a basis proportional to Synchronoss' ownership interest in the unincorporated entity.

If an entity fails to meet the characteristics of a VIE, the Company then evaluates such entity under the voting model. Under the voting model, the Company consolidates the entity if they determine that they, directly or indirectly, have greater than 50% of the voting shares, and determine that other equity holders do not have substantive participating rights.

During the year ended December 31, 2015, the Company formed a venture with MCI Communications and Verizon Patent and Licensing Inc. (collectively, "Verizon"), referred to as Zentry, LLC ("Zentry"). The Company determined that Zentry was a voting interest entity, because the entity has sufficient equity at risk to enable it to finance its activities independently. As the Company holds a majority ownership in Zentry, the Company consolidates Zentry under the

voting model.

During the year ended December 31, 2015, the Company formed a venture with Goldman Sachs (“Goldman”), referred to as SNCR, LLC which was determined to be a VIE. The Company concluded that the entity does not have enough equity to finance its activities without additional subordinated financial support, which was provided by the Company via a \$20 million line of credit. The Company consolidates the entity under the VIE model. SNCR, LLC is the primary beneficiary and has the power to direct activities that most significantly impact the ventures’ economic performance. In particular, the Company directs the day to day operations, sales, marketing, distribution and R&D efforts of SNCR, LLC.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of assets acquired, including other definite lived intangible assets. Goodwill is not amortized, but reviewed annually for impairment or upon the occurrence of events or changes in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. There were no impairment charges recognized during the years ended December 31, 2015, 2014 and 2013.

64

---

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Impairment of Long Lived Assets

A review of long lived assets for impairment is performed when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If an indication of impairment is present, the Company compares the estimated undiscounted future cash flows to be generated by the asset to the asset's carrying amount. If the undiscounted future cash flows are less than the carrying amount of the asset, the Company records an impairment loss equal to the amount by which the asset's carrying amount exceeds its fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets or using a discounted cash flow analysis. There were no impairment charges recognized during the years ended December 31, 2015, 2014 and 2013.

Long lived assets that do not have indefinite lives are amortized/depreciated over their useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company reevaluates the useful life determinations each year to determine whether events and circumstances warrant a revision to the remaining useful lives.

Income Taxes

Since the Company conducts operations on a global basis, its effective tax rate has and will depend upon the geographic distribution of its pre tax earnings among locations with varying tax rates. The Company accounts for the effects of income taxes that result from its activities during the current and preceding years. Under this method, deferred income tax liabilities and assets are based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse or be utilized. The realization of deferred tax assets is contingent upon the generation of future taxable income. A valuation allowance is recorded if it is "more likely than not" that a portion or all of a deferred tax asset will not be realized.

In evaluating the Company's ability to recover their deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, the Company begins with historical results adjusted for the results of discontinued operations and incorporates assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates the Company is using to manage the underlying businesses.

In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income (loss).

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured by determining the amount that has a greater than 50 percent likelihood of being realized upon the settlement of the position. Components of the reserve are classified as a current or a long term liability in the consolidated balance sheets based on when the Company expects each of the items to be settled. The Company records interest and penalties accrued in relation to uncertain tax benefits as a component of interest expense. The Company expects that the amount of unrecognized tax benefits will change during 2016, however, the Company does not expect the change to have a significant impact on its results of operations or financial position.

While the Company believes it has identified all reasonably identifiable exposures and that the reserve that the Company has established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved. It is also possible that changes in facts and circumstances could cause the Company to either materially increase or reduce the carrying amount of its tax reserves. In general, tax returns for the year 2011 and thereafter are subject to future examination by tax authorities.



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company's policy has been to leave its cumulative unremitted foreign earnings invested indefinitely outside the United States, and the Company intends to continue this policy. As such, taxes have not been provided on any of the remaining accumulated foreign unremitted earnings. Due to the timing and circumstances of repatriation of such earnings, if any, it is not practicable to determine the unrecognized deferred tax liability relating to such amounts. If the cumulative unremitted foreign earnings exceed the amount the Company intends to reinvest in foreign countries in the future, the Company would provide for taxes on such excess amount.

Foreign Currency

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

Comprehensive Income

Reporting on comprehensive income requires components of other comprehensive income, including unrealized gains or losses on available for sale securities, to be included as part of total comprehensive income. Comprehensive income is comprised of net income, translation adjustments and unrealized gains and losses on available for sale securities. The components of comprehensive income are included in the statements of comprehensive income.

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

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

The diluted earnings per share calculation is based on the weighted-average number of shares of common stock outstanding adjusted for the number of additional shares that would have been outstanding had all potentially dilutive common shares been issued.

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

Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 attributable to common stockholders per common share. Stock options that are anti dilutive and excluded from the following table totaled 553 thousand, 1.1 million and 1.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

	Year Ended December 31,		
	2015	2014	2013
Numerator:			
Net income attributable to Synchronoss	\$ 40,630	\$ 38,895	\$ 23,351
Income effect for interest on convertible debt, net of tax	1,920	754	—
Net income applicable to shares of common stock for earnings per share	\$ 42,550	\$ 39,649	\$ 23,351
Denominator:			
Weighted-average common shares outstanding — basic	42,284	40,418	38,891
Dilutive effect of:			
Shares from assumed conversion of convertible debt	4,326	1,682	—
Options and unvested restricted shares	1,043	1,197	1,118
Weighted-average common shares outstanding — diluted	47,653	43,297	40,009

## Stock Based Compensation

The Company utilizes the Black Scholes pricing model to determine the fair value of stock options on the dates of grant. Restricted stock awards are measured based on the fair market values of the underlying stock on the dates of grant, unless the awards are subject to market conditions, in which case the Company uses a binomial lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. The Company recognizes stock based compensation over the requisite service period with an offsetting credit to additional paid in capital.

For the Company's performance restricted stock awards the Company estimates the number of shares the recipient is to receive by applying a probability of achieving the performance goals. The actual number of shares the recipient receives is determined at the end of the performance period based on the results achieved versus goals based on the performance targets, such as revenues and operating income. Once the number of awards is determined, the compensation cost is fixed and continues to be recognized using the accelerated attribution recognition over the requisite service period for each vesting tranche.

The Company classifies benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing cash inflow with a corresponding operating cash outflow.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Impact of Recently Issued Accounting Standards

In January 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which will require entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The ASU simplifies the current guidance, which requires entities to separately present deferred tax assets and deferred tax liabilities as current and noncurrent in a classified balance sheet. The ASU may be applied either prospectively or retrospectively. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual period. Management has adopted ASU 2015-17 effective for the fourth quarter 2015 and will present the net deferred tax assets as noncurrent and reclassify any current deferred tax assets and liabilities in the consolidated balance sheet on a prospective basis. As per the early adoption of ASU 2015-17 and the prospective treatment by the Company, the prior periods have not been adjusted. If the prior period was adjusted the 2014 deferred income taxes would be a non-current deferred tax asset of \$2.7 million and non-current deferred tax liability of \$3.7 million.

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-16, Simplifying the Accounting for Measurement-Period Adjustments that eliminates the requirement in Business Combinations (Topic 805) to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on

prior periods) be recognized in the reporting period in which the adjustment is identified. The new guidance does not change what constitutes a measurement period adjustment. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15 Interest- Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line of Credit Arrangements, final guidance that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. This publication has been updated to reflect an SEC staff member's comment in June 2015 that the staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether a balance is outstanding. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In May 2015, the FASB issued ASU 2015-08, Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (“ASU 2015-08”). The amendments in ASU 2015-08 amend various SEC paragraphs included in the FASB’s Accounting Standards Codification to reflect the issuance of Staff Accounting Bulletin No. 115 (“SAB 115”). SAB 115 rescinds portions of the interpretive guidance included in the SEC’s Staff Accounting Bulletins series and brings existing guidance into conformity with ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting,” which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The Company has adopted the amendments in ASU 2015-08, effective May 8, 2015, as the amendments in the update are effective upon issuance. The adoption of this ASU did not significantly impact the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share. The updated guidance is effective for public entities for interim and annual periods beginning after December 15, 2016 and early adoption is not permitted. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Intangible – Goodwill and Other Internal Use Software (Topic 350-40), as part of its initiative to reduce complexity in accounting standards. This guidance clarified how customers in cloud computing arrangements should determine whether the arrangement includes a software license. The guidance also eliminates the existing requirement for customers to account for software licenses that they acquire by analogizing to the guidance on leases. Instead, entities will account for these arrangements as licenses of intangible assets. For public business entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted for all entities. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by the amendments in this update. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Upon adoption, an entity must apply the guidance retrospectively to all prior periods presented. The Company does not expect the adoption of this ASU to significantly impact the consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The new consolidation standard changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a VIE, and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. Early adoption is allowed, including early adoption in an interim period. A reporting entity may apply a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or may apply the amendments retrospectively. The Company is currently assessing the impact, if any, of the adoption of this guidance on the consolidated financial statements.



Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

## Segment and Geographic Information

The Company’s chief operating decision maker is the Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance and allocating resources. Accordingly, the Company has determined that it currently operates in one business segment: providing cloud solutions and software based activation for connected devices globally. The Company is not organized by market and is managed and operated as one business. A single management team reports to the chief operating decision maker who comprehensively manages the entire business. The Company does not operate any separate lines of business or separate business entities with respect to its services. Accordingly, the Company does not accumulate a complete set of discrete financial information with respect to separate service lines and does not have separately reportable segments. Although the Company operates in North America, Europe and Asia Pacific a majority of the Company’s revenue and long lived assets are in the U.S.

Revenues by geography are based on the billing addresses of the Company’s customers. The following tables set forth revenues and property and equipment, net by geographic area:

	Year Ended December 31,		
	2015	2014	2013
Revenues			
Domestic	\$ 525,968	\$ 405,235	\$ 309,322
Foreign	52,863	52,079	39,725

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-K

Total	\$ 578,831	\$ 457,314	\$ 349,047
-------	------------	------------	------------

	December 31,	
	2015	2014
Property and equipment, net:		
Domestic	\$ 156,961	\$ 141,944
Foreign	11,319	9,227
Total	\$ 168,280	\$ 151,171

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Acquisition

Zentry, LLC

On December 31, 2015, the Company formed a venture with MCI Communication Services and Verizon Patent and Licensing Inc. (collectively, "Verizon"), referred to as Zentry, LLC (Zentry) with the goal of accelerating the Company's entrance into the enterprise market by adding identity management capabilities to the Synchronoss Secure Mobility Suite. The Company obtained a 67% interest in Zentry in exchange for \$48 million.

The Company and Verizon agreed to certain put and call options with regard to Verizon's interest in Zentry. Verizon will have the right to exercise a put option (the "Put Option") any time on or after December 31, 2018, to sell their interest in Zentry at a value which approximates fair value to the Company. Under the Put Option, the Company will be obligated to purchase Verizon's interest. In addition, the Company has a call option (the "Call Option") to purchase Verizon's interest in Zentry at any time on or after December 31, 2018 at a value which approximates fair value. Although the Company has the option to settle any amount in excess of \$200 million in shares of the Company's publicly traded common stock equal to the purchase price to be paid divided by the volume weighted average trading price per share during the thirty days prior to the date of such settlement, the Company's intention is to settle the entire amount in cash.

The Company determined that the Put Option is embedded within the noncontrolling interest shares that are subject to the Put Option. The redemption feature requires the classification of Verizon's minority interest in the consolidated Balance Sheets outside of equity under the caption "redeemable noncontrolling interest." The fair value of the net assets acquired approximated the purchase price. The venture was deemed not to be a VIE, as a result, the Company consolidated the venture in the consolidated financial statements according to the voting model. See Note 4.

On December 31, 2015, concurrently with the formation of the venture, Zentry, LLC entered into a non-exclusive perpetual license agreement with Verizon Sourcing, LLC, in the amount of \$23 million, for the use of software for the UIS platform. As part of the business combination accounting rules, the Company calculated the fair value of the license using an income approach, which incorporates significant estimates and assumptions made by management, which by their nature are characterized by uncertainty. Inputs used to value the license are considered Level 3 inputs.

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

	Preliminary Purchase Price Allocation	
Property, plant and equipment	\$ 2,900	
Intangible assets:		Wtd. Avg.
Technology	42,800	5 years
Customer relationships	2,300	5 years
Goodwill	24,000	
Total assets acquired	72,000	
Redeemable noncontrolling interest	24,000	
Net assets acquired	\$ 48,000	

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

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

SNCR, LLC

On November 16, 2015, the Company formed a venture with Goldman Sachs (Goldman), referred to as SNCR, LLC in order to develop and deploy the Synchronoss Secure Mobility Suite. The Company will be integrating their Synchronoss Workspace™ platform with Goldman's internally developed mobile security intellectual property to help provide a safe, secure mobile device environment that also effectively supports BYOD. The Company obtained a 67% interest in SNCR, LLC in exchange for a perpetual license for the use of Workspace.

The Company and Goldman agreed to certain put and call options with regard to Goldman's interest in SNCR, LLC. Goldman will have the right to exercise a put option (the "Put Option") in each of 2019 and 2020, from January 1 of the applicable year until April 30 of such year to sell their interest in SNCR, LLC to the Company under the Put Option at a value which approximates fair value. Under the Put Option the Company will be obligated to purchase Goldman's interest. In addition, the Company has a call option (the "Call Option") to purchase Goldman's interest in SNCR, LLC during the same period, at a value which approximates fair value. If, as of December 31, 2020, neither the Put Option or Call Option have been exercised and Goldman remains a holder of any Interest, from January 1, 2021, Goldman shall have the right (the "Special Put Right") to cause the Company to purchase all of Goldman's interest in SNCR, LLC, at a value which approximates fair value. The Company, at its sole discretion, may settle the option in cash or in shares of its publicly traded common stock equal to the purchase price to be paid divided by the volume weighted average trading price per share during the thirty days immediately up to the day of such purchase. The Company's intention is to settle the entire amount in cash.

The Company determined that the Put Option is embedded within the noncontrolling interest shares that are subject to the Put Option. The redemption feature requires the classification of Goldman's minority interest in the consolidated Balance Sheets outside of equity under the caption "Redeemable noncontrolling interest." The fair value of the net assets acquired approximated the purchase price. SNCR, LLC has been determined to be a VIE of which the Company is the primary beneficiary. See Note 4.

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

Preliminary

	Purchase Price Allocation	Wtd. Avg.
Intangible assets:		
Technology	\$ 12,780	4 years
Customer relationships	4,450	7 years
Goodwill	14,170	
Total assets acquired	31,400	
Redeemable noncontrolling interest	31,400	
Net assets acquired	—	

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

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Razorsight Corporation ("Razorsight")

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

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

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

	Purchase Price Allocation	
Cash	\$ 1,172	
Prepaid expenses and other assets	1,111	
Accounts receivable	120	
Equipment	879	
Other assets - long term	144	
Intangible assets:		Wtd. Avg.
Technology	9,200	4 years
Customer relationships	11,690	10 years
Goodwill	10,012	
Total assets acquired	34,328	
Accounts payable and accrued liabilities	2,211	
Lease obligation	284	
Deferred revenues	965	
Contingent consideration	170	
Deferred taxes	5,414	
Net assets acquired	\$ 25,284	

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

F-Secure Corporation (“F-Secure”)

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

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



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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:

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

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

## Acquisition Related Costs

Acquisition related costs recognized during the years ended December 31, 2015, 2014 and 2013 including transaction costs such as employee retention, legal, accounting, valuation and other professional services, were \$1.8 million, \$2.5 million, and \$1.7 million respectively.

## 4. Fair Value Measurements

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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following is a summary of assets and liabilities held by the Company and their related classifications under the fair value hierarchy at December 31, 2015 and 2014:

	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
<b>December 31, 2014</b>				
	Total	(Level 1)	(Level 2)	(Level 3)
<b>Assets</b>				
Cash and cash equivalents (A)	\$ 235,967	\$ 235,967	\$ —	\$ —
Securities available-for-sale (B)	54,410	—	54,410	—
Total assets	\$ 290,377	\$ 235,967	\$ 54,410	\$ —
<b>Liabilities</b>				
Contingent consideration obligation	\$ 8,000	\$ —	\$ —	\$ 8,000
Total liabilities	\$ 8,000	\$ —	\$ —	\$ 8,000

(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.

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 year ended December 31, 2015.



Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## Available-for-Sale Securities

At December 31, 2015 and 2014, the estimated fair value of investments classified as available for sale, are as follows:

	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	45,579	—	(442)	45,137
Municipal bonds	38,564	11	(44)	38,531
Total available-for-sale securities	\$ 86,472	\$ 11	\$ (491)	\$ 85,992

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Commercial papers	\$ 8,994	\$ 6	\$ —	\$ 9,000
Corporate bonds	28,916	—	(414)	28,502
Municipal bonds	16,901	13	(6)	16,908
Total available-for-sale securities	\$ 54,811	\$ 19	\$ (420)	\$ 54,410

Unrealized gains and losses are reported as a component of accumulated other comprehensive loss in stockholders' equity. The net unrealized (loss) gain net of tax was (\$54) thousand and (\$176) thousand as of December 31, 2015 and 2014, respectively. There were no sales of marketable securities during the years ended December 31, 2015 and 2014. 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 at December 31, 2015 and 2014 are temporary. In making this determination, the Company considered the financial condition, credit ratings and near term prospects of the issuers, the underlying collateral of the investments, and the magnitude of the losses as compared to the cost and the length of time the investments have been

in an unrealized loss position. Additionally, while the Company classifies the securities as available for sale, the Company does not currently intend to sell such investments and it is more likely than not to recover the carrying value prior to being required to sell such investments.

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	(442)	45,212	—	—	(442)	45,212
Municipal bonds	(43)	20,630	(1)	550	(44)	21,180
	\$ (490)	\$ 68,166	\$ (1)	\$ 550	\$ (491)	\$ 68,716

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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, 2014, are as follows:

	December 31, 2014					
	Securities in		Securities in		Total	
	unrealized loss		unrealized			
	position		loss position			
	less than 12		greater than			
	months		12 months			
					Gross	
	Unrealized	Fair	Unrealized	Fair	unrealized	Fair
	Losses	Value	Losses	Value	losses	Value
Corporate bonds	\$ (414)	\$ 28,502	\$ —	\$ —	\$ (414)	\$ 28,502
Municipal bonds	(6)	3,576	—	—	(6)	3,576
	\$ (420)	\$ 32,078	\$ —	\$ —	\$ (420)	\$ 32,078

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

	December 31, 2015	
	Amortized Fair	
	Cost	Value
Due within one year	\$ 61,164	\$ 60,911
Due after 1 year through 5 years	19,715	19,677
Total available-for-sale securities	\$ 80,879	\$ 80,588

## Contingent Consideration

The Company determined the fair value of the contingent consideration related to Razorsight using a real options approach which uses a risk-adjusted expected growth rate based on assessments of expected growth in revenue, adjusted by an appropriate factor. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The significant unobservable inputs used in the fair value measurement of the Company's contingent consideration obligation are the probabilities of achieving certain financial

targets and contractual milestones. Significant increases (decreases) in any of those probabilities in isolation may result in a higher (lower) fair value measurement.

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

No changes in valuation techniques occurred during the year ended December 31, 2015. During the year ended December 31, 2015, the Company recognized a \$760 thousand increase of the contingent consideration obligation driven by the addition of the Razorsight Earn-out.



Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The changes in fair value of the Company's Level 3 contingent consideration obligation during the year ended December 31, 2015 were as follows:

Balance at December 31, 2014	\$	8,000
Fair value adjustment to contingent consideration obligation included in net income		760
Earn-out compensation paid Strumsoft employees		(8,000)
Razorsight Earn-out		170
Balance at December 31, 2015	\$	930

## Redeemable Noncontrolling Interests

The Company recorded the noncontrolling interest at its acquisition-date 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.

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 increases or decreases in the underlying assumptions used to value the redeemable noncontrolling interest could significantly increase or decrease the fair value estimates recorded in the consolidated balance sheets.

The changes in fair value of the Company's Level 3 redeemable noncontrolling interests during the year ended December 31, 2015 were as follows:

Balance at December 31, 2014	\$	—
Issuance of redeemable noncontrolling interests		55,400

Net income attributable to redeemable noncontrolling interests	6,052
Balance at December 31, 2015	\$ 61,452

## 5. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2015	2014
Computer hardware	\$ 217,659	\$ 134,328
Computer software	39,510	28,661
Construction in-progress	4,299	37,989
Furniture and fixtures	4,040	3,669
Building	8,808	8,808
Leasehold improvements	11,922	11,533
	286,238	224,988
Less: Accumulated depreciation	(117,958)	(73,817)
	\$ 168,280	\$ 151,171

Depreciation expense was approximately \$43.5 million, \$36.1 million, and \$24.6 million for 2015, 2014, and 2013, respectively. Amortization of property and equipment recorded under capital leases are included with depreciation expense.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. Accrued Expenses

Accrued expenses consist of the following:

	December 31,	
	2015	2014
Accrued compensation and benefits	\$ 24,776	\$ 23,480
Accrued accounting fees	1,622	1,362
Accrued consulting fees	6,075	5,169
Accrued other	12,663	8,813
Accrued income tax payable	683	3,855
	\$ 45,819	\$ 42,679

7. Capital Structure

As of December 31, 2015, the Company's authorized capital stock was 110 million shares of stock with a par value of \$0.0001, of which 100 million shares were designated as common stock and 10 million shares were designated as preferred stock.

Common Stock

Each holder of common stock is entitled to vote on all matters and is entitled to one vote for each share held. Dividends on common stock will be paid when, and if, declared by the Company's Board of Directors. No dividends have ever been declared or paid by the Company.

Preferred Stock

There are no shares of preferred stock outstanding as of December 31, 2015 or 2014. The Board of Directors is authorized to issue preferred shares and has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of preferred stock.

#### Treasury Stock

On May 8, 2012, the Company's Board of Directors authorized a stock repurchase program to purchase up to \$25 million of the Company's outstanding Common Stock. The duration of the repurchase program was twelve months. Under the program, the Company was able to 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 depended on available working capital. The Company classifies Common Stock repurchased as Treasury Stock on its balance sheet. The Company repurchased all eligible shares to be repurchased under the stock repurchase plan in 2012. There were no repurchases of Common Stock under the stock repurchase program for the year ended December 31, 2013.

#### Registration Rights

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

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## 8. Stock Plans

In March 2015, the Company adopted the 2015 Equity Incentive Plan (the “2015 Plan”). The 2015 Plan replaces the Company’s prior 2000 Equity Incentive Plan (the “2000 Plan”), the 2006 Equity Incentive Plan (the “2006 Plan”) and the 2010 New Hire Equity Incentive Plan (the “2010 Plan”), (collectively, the “Plans”). Beginning March 2015, all awards were granted under the 2015 Plan. In addition, any awards that were previously granted under any prior Plans that terminate without issuance of shares, shall be eligible for issuance under the 2015 Plan.

Under the 2015 Plan, the Company may grant to its employees, outside directors and consultants awards in the form of non-qualified stock options, shares of restricted stock, stock units, or stock appreciation rights and performance shares. The Company’s Board of Directors administers the Plan and is responsible for determining the individuals to be granted options or shares, the number of options or shares each individual will receive, the price per share and the exercise period of each option. As of December 31, 2015, there were 3.8 million shares available for grant or award under the Company’s 2015 Plan.

## Stock-Based Compensation

The following table summarizes stock-based compensation expense:

	December 31,		
	2015	2014	2013
Stock options	\$ 8,495	\$ 9,992	\$ 10,035
Restricted stock awards	22,592	18,353	14,539
ESPP Plan	624	642	640
Total stock-based compensation before taxes	\$ 31,711	\$ 28,987	\$ 25,214
Tax benefit	\$ 10,130	\$ 9,939	\$ 8,380

The total stock based compensation cost related to unvested equity awards not yet recognized as an expense as of December 31, 2015 was approximately \$52.0 million. That cost is expected to be recognized over a weighted average period of approximately 2.71 years.

## Stock Options

Options that were granted under the Company's 2000, 2006 and 2015 Plans generally vest 25% on the first year anniversary of the date of grant plus an additional 1/48th for each month of continuous service thereafter.

Options that were granted under the Company's 2010 Plan generally vest 50% on the second year anniversary and an additional 1/48th for each month of continuous service thereafter.

Incentive options that were granted under the 2000 and 2006 Plans generally vest 25% on the 1st year anniversary on the date of grant and an additional 1/48th for each month of continuous service thereafter.

The Company utilizes the Black-Scholes option pricing model for determining the estimated fair value for stock option awards. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on a weighted average of the Company's historical stock information. The average expected life was determined using the Company's historical data. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The Company has never declared or paid cash dividends on its common or preferred equity and does not anticipate paying any cash dividends in the foreseeable future. Forfeitures are estimated based on voluntary termination behavior, as well as a historical analysis of actual option forfeitures. The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31,					
	2015		2014		2013	
Expected stock price volatility	47	%	57	%	66	%
Risk-free interest rate	1.27	%	1.43	%	0.87	%
Expected life of options (in years)	4.0		4.2		4.5	
Expected dividend yield	0	%	0	%	0	%
The weighted-average fair value (as of the date of grant) of the options granted	\$ 15.88		\$ 14.67		\$ 15.79	

The following table summarizes information about stock options outstanding.

Options	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options Outstanding at December 31, 2014	2,767	25.81		
Options Granted	714	41.85		
Options Exercised	(879)	22.68		
Options Cancelled	(254)	33.32		
Options Outstanding at December 31, 2015	2,348	\$ 31.04	4.47	\$ 14,517
Vested or expected to vest at December 31, 2015	2,158	\$ 30.39	4.33	\$ 14,258
Exercisable at December 31, 2015	1,181	\$ 24.97	3.06	\$ 12,197

The below table summarizes additional information related to stock options:

	December 31,		
	2015	2014	2013
Total intrinsic value for stock options exercised	18,369	18,950	17,869
Fair value of vested options	15,657	23,546	11,928

Awards of Restricted Stock and Performance Stock

Restricted stock awards (“restricted stock”) granted under the Company’s Plans generally vest 25% of the applicable shares on the first anniversary of the date of grant and thereafter an additional 1/16th for each three months of continuous service.

Performance stock awards granted under the Company’s 2006 Plan generally vest with respect to one-third of the applicable shares on the date that the performance objectives under the performance stock awards are achieved and thereafter an additional one-third for each year of continuous service.

Generally, performance stock awards granted under the Company’s 2015 Plan vest at the end of a three-year period based on service and achievement of certain performance objectives determined by the Company’s Board.

A summary of the Company’s unvested restricted stock activity and the balance at December 31, 2015, is presented below:

Non-Vested Restricted Stock	Number of Awards	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2014	1,342	\$ 31.24
Granted	966	\$ 40.19
Vested	(691)	\$ 30.44
Forfeited	(205)	\$ 38.33
Non-vested at December 31, 2015	1,412	\$ 36.80



Table of Contents

## SYNCHRONOSS TECHNOLOGIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Restricted stock awards are granted subject to other service conditions or service and performance conditions (“performance-based awards”). Restricted stock and performance-based awards are measured at the closing stock price at the date of grant and are recognized straight line over the requisite service period. During 2015, the Company issued approximately 195 thousand shares of restricted stock related to the 2014 performance share objectives. For certain executives, the 2013 and 2012 performance share grants also contained a market condition that adjusted the number of performance shares otherwise earned based on relative performance of the Company’s common stock.

## 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.

The Company utilizes the Black Scholes pricing model for determining the estimated fair value for ESPP shares. The expected life of ESPP shares is the average of the remaining purchase period under each offering period. The weighted average assumptions used to value employee stock purchase rights during December 31, 2015 were as follows:

	December 31,					
	2015		2014		2013	
Expected stock price volatility	38	%	52	%	65	%
Risk-free interest rate	0.14	%	0.60	%	1.04	%
Expected life of ESPP shares (in years)	0.5		0.5		0.5	
Expected dividend yield	0	%	0	%	0	%
The weighted-average fair value (as of the date of grant) of the ESPP shares	\$ 11.13		\$ 10.54		\$ 10.75	

## 9. 401(k) Plan

The Company has a 401(k) plan (the “Plan”) covering all eligible employees. The Plan allows for a discretionary employer match. The Company incurred and expensed \$2.3 million, \$2.0 million, and \$1.5 million for the years ended December 31, 2015, 2014 and 2013, respectively, in Plan match contributions.

## 10. Income Taxes

The components of income before income taxes are as follows:

	Year Ended December 31,		
	2015	2014	2013
Domestic	\$ 95,475	\$ 52,850	\$ 30,437
Foreign	(19,177)	7,724	4,142
Total	\$ 76,298	\$ 60,574	\$ 34,579

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The components of income tax (expense) benefit are as follows:

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	\$ (19,206)	\$ (8,673)	\$ (3,709)
State	(2,220)	(2,463)	(2,661)
Foreign	208	(2,505)	(3,076)
Deferred:			
Federal	(10,277)	(10,437)	(3,447)
State	(480)	(1,301)	(1,324)
Foreign	2,359	3,700	2,989
Income tax expense	\$ (29,616)	\$ (21,679)	\$ (11,228)

Reconciliations of the statutory tax rates and the effective tax rates for the years ended December 31, 2015, 2014 and 2013 are as follows:

	Year Ended December 31,		
	2015	2014	2013
Statutory rate	35 %	35 %	35 %
State taxes, net of federal benefit	3 %	4 %	7 %
Effect of rates different than statutory	7 %	(4) %	— %
Minority interest	(3) %	— %	— %
Non-deductible stock based compensation	— %	— %	3 %
Other permanent adjustments	2 %	1 %	1 %
Fair market value adjustment on Earn-out	— %	1 %	(6) %
Research and development credit	(3) %	(2) %	(5) %
Subpart F income	— %	2 %	— %
Change in valuation allowance	2 %	— %	(2) %
Ireland deferred tax liability - migration	(2) %	— %	— %
Customer relationship adjustment - Australia	(2) %	— %	— %
Other	— %	(1) %	(1) %
Net	39 %	36 %	32 %



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	December 31,	
	2015	2014
Deferred tax assets:		
Accrued liabilities	\$ 14	\$ 23
Deferred revenue	316	213
Bad debts reserve	184	121
Deferred compensation	11,684	11,308
Federal net operating loss carry forwards	18,637	20,089
State net operating loss carry forwards	1,691	2,120
Foreign net operating loss carry forwards	9,992	7,800
Deferred rent	570	552
Capital loss carry forward	232	98
Other	1,761	2,818
Total deferred tax assets	\$ 45,081	\$ 45,142
Deferred tax liabilities:		
Intangible assets	\$ (24,373)	\$ (26,481)
Fixed assets	(28,705)	(17,099)
Total deferred tax liabilities	(53,078)	(43,580)
Less: valuation allowance	(4,847)	(2,553)
Net deferred income tax (liabilities) assets	\$ (12,844)	\$ (991)

As of December 31, 2015, the Company has federal and state income tax net operating loss (NOL) carryforwards of \$53.2 million and \$37.3 million, respectively, which will expire at various dates from 2016 through 2035. The Company also has foreign NOL carryforwards in various jurisdictions of \$47.3 million that have indefinite carryforward periods. Such NOL carryforwards expire as follows:

2016-2020	\$ 8,161
2021-2025	15,716
2026-2035	66,641
Indefinite	47,274
	\$ 137,792

In evaluating the Company's ability to recover its deferred tax assets within the jurisdiction from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, the Company begins with historical results and incorporates assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses.

The foreign NOL carryforwards in the income tax returns filed included unrecognized tax benefits taken in prior years. The NOLs for which a deferred tax asset is recognized for financial statement purposes in accordance with ASC 740 are presented net of these unrecognized tax benefits.

As of December 31, 2014, a valuation allowance of \$2.5 million was recorded to place a full valuation allowance on all deferred tax assets within Spatial U.S. In 2015, a valuation allowance of \$249 thousand was released for the utilization of NOL for the current year income. However, the company still believes that there is no positive evidence with regards to the projections for the future income. As such, a valuation allowance of \$2.3 million has been recorded to place a full valuation allowance on all the deferred tax assets within Spatial U.S.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company continues to evaluate the ability to realize all of its net deferred tax assets at each reporting date and records a benefit for deferred tax assets to the extent it has deferred tax liabilities that provide a source of income to benefit the deferred tax asset. As a result of this analysis, the Company recorded a valuation allowance against the net deferred tax assets of certain foreign jurisdictions as the realization of these assets is not more likely than not, given uncertainty of future earnings in these jurisdictions.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2015, the Company's tax years for 2012, 2013 and 2014 are subject to examination by the tax authorities. With few exceptions, as of December 31, 2015, the Company is no longer subject to U.S. federal, state, local, or foreign examinations by tax authorities for years before 2011.

The Company finalized the New Jersey State Sales and Use Tax and Gross Income Tax audits for the tax years 2011 through 2013 in 2015 with no material changes. In addition, the Company is currently under sales and use tax examinations in New York and Pennsylvania for the tax years 2009 through 2015 and 2012 through 2015, respectively, but does not believe that the results of these audits will have a material effect on its financial position or results of operations.

The Company has provided taxes for \$3.3 million of royalty fees paid to its Ireland subsidiary as Subpart F income subject to US tax in 2014. The Company has not provided taxes for the remaining \$30.8 million of undistributed earnings of its foreign subsidiaries which the Company plans to reinvest indefinitely outside of the United States. Should the Company decide to repatriate the foreign earnings, it would need to adjust its income tax provision in the period it determined that the earnings will no longer be indefinitely invested outside the United States. Due to the timing and circumstances of repatriation of such earnings, if any, it is not practicable to determine the unrecognized deferred tax liability relating to such amounts

A reconciliation of the amounts of unrecognized tax benefits excluding interest are as follows:

Unrecognized tax benefit at December 31, 2012	\$ 511
Decreases for tax positions taken during prior year	(5)
Reduction due to lapse of applicable statute of limitations	(66)
Increases for tax positions of current period	268
Unrecognized tax benefit at December 31, 2013	708

Decreases for tax positions taken during prior year	(218)
Reduction due to lapse of applicable statute of limitations	(11)
Increases for tax positions of current period	651
Unrecognized tax benefit at December 31, 2014	1,130
Increases for tax positions taken during prior year	38
Reduction due to lapse of applicable statute of limitations	(58)
Increases for tax positions of current period	344
Unrecognized tax benefit at December 31, 2015	\$ 1,454

Included in the balance of unrecognized tax benefits as of the years ended December 31, 2015, 2014 and 2013, are \$1.5 million, \$1.1 million and \$700 thousand, respectively, of tax benefits that, if recognized, would affect the effective tax rate.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. The liability for unrecognized tax benefits excludes accrued interest of \$38 thousand, \$24 thousand and \$25 thousand as of the years ended December 31, 2015, 2014 and 2013, respectively. The Company believes that it is reasonably possible that approximately \$44 thousand of its currently unrecognized tax benefits related to research and development credits, which are individually insignificant, may be recognized by the end of 2016 as a result of a lapse of the statute of limitations.

#### 11. Commitments and Contingencies



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company leases office space, automobiles, office equipment and colocation services under non cancellable capital leases, operating leases or long-term agreements, which expire through December 2029. Aggregate annual future minimum payments under these non cancellable agreements are as follows:

Year Ending December 31:	Colocation	Operating Leases	Capital Leases
2016	\$ 25,310	\$ 7,820	\$ 2,707
2017	14,537	7,456	2,714
2018	6,037	6,898	2,582
2019	5,868	6,633	2,469
2020 and thereafter	3,714	26,454	13,023
	\$ 55,466	\$ 55,261	\$ 23,495

Rent expense for the years ended December 31, 2015, 2014 and 2013 was \$9.0 million, \$8.0 million and \$6.7 million respectively.

## 12. 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 following table shows the adjustments to goodwill during 2015 and 2014:

Balance at December 31, 2013	\$ 137,743
Acquisitions	20,624
Reclassifications, adjustments and other	(1,287)

Translation adjustments	(9,945)
Balance at December 31, 2014	\$ 147,135
Acquisitions	84,636
Reclassifications, adjustments and other	(30)
Translation adjustments	(10,470)
Balance at December 31, 2015	\$ 221,271

The reclassification, adjustments and other of \$30 thousand for the year 2015 is primarily related to a change in the Company's deferred tax asset in connection with a pre-acquisition tax loss. The reclassifications, adjustment and other of \$1.3 million for the year 2014 is primarily related to an increase in the Company's deferred taxes in connection with a foreign tax election.

#### Other Intangible Assets

The Company's intangible assets with definite lives consist primarily of trade names, technology, and customer lists and relationships. These intangible assets are being amortized on the straight line method over the estimated useful lives of the assets. Amortization expense related to currently existing intangible assets for the years ended December 31, 2015, 2014 and 2013 was \$28.6 million, \$19.8 million and \$16.1 million, respectively.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company's intangible assets consist of the following:

	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

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

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

Year ended December 31:	
2016	\$ 39,271
2017	36,483
2018	33,430
2019	26,507
2020	17,491

## 13. Restructuring Charges

In January 2015, the Company initiated the preliminary phase of a work-force reduction as part of a corporate restructuring, with reductions occurring across all levels and departments within the Company. This measure was intended to reduce costs and to align the Company's resources with its key strategic priorities. As of December 31, 2015, there were \$54 thousand of unpaid restructuring charges classified under accrued expenses on the balance sheet.

A summary of the Company's restructuring accrual at December 31, 2015, and changes during the year ended December 31, 2015, are presented below:

	Balance at December 31, 2014	Charges	Payments	Balance at December 31, 2015
Employment termination costs	\$ —	\$ 5,027	\$ (5,027)	\$ —
Facilities consolidation	—	63	(9)	54
Total	\$ —	\$ 5,090	\$ (5,036)	\$ 54

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

## 14. Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income during the year ended December 31, 2015, are as follows, net of tax:

	Foreign Currency	Unrealized Holding Gains on Available-for-Sale Securities	Net Gain (Loss) on Intra-Entity Foreign Currency Transactions	Total
Balance at December 31, 2014	\$ (16,811)	\$ (246)	\$ (2,957)	\$ (20,014)
Other comprehensive loss before reclassifications	(17,281)	(79)	(2,722)	(20,082)
Tax effect	—	25	1,387	1,412
Total other comprehensive loss	(17,281)	(54)	(1,335)	(18,670)
Balance at December 31, 2015	\$ (34,092)	\$ (300)	\$ (4,292)	\$ (38,684)

The changes in accumulated other comprehensive income during the year ended December 31, 2014, are as follows, net of tax:

	Foreign Currency	Unrealized Holding Gains on Available-for-Sale Securities	Net Gain (Loss) on Intra-Entity Foreign Currency Transactions	Total
Balance at December 31, 2013	\$ (4,072)	\$ (70)	\$ 3,419	\$ (723)
Other comprehensive loss before reclassifications	(12,739)	(284)	(2,957)	(15,980)
Tax effect	—	108	—	108
Amounts reclassified from accumulated other comprehensive loss	—	—	(3,419)	(3,419)
Total other comprehensive loss	(12,739)	(176)	(6,376)	(19,291)
Balance at December 31, 2014	\$ (16,811)	\$ (246)	\$ (2,957)	\$ (20,014)

## 15. 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. Commitment fees totaled approximately \$332 thousand and \$215 thousand during the years ended December 31, 2015 and 2014, respectively. Synchronoss has the right to request an increase in the aggregate principal amount of the Credit Facility to \$150 million.

The Credit Facility is subject to certain financial covenants. As of December 31, 2015, the Company was in compliance with all required covenants and there were no outstanding balances on the Credit Facility.

Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 million face value of the debt as a liability and capitalized approximately \$7.1 million of financing fees, related to the issuance.

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

Holder 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 2019 Notes being repurchased, plus accrued and unpaid interest, if any. As of December 31, 2015, none of these conditions existed with respect to the 2019 Notes and as a result, the 2019 Notes are classified as long term.

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

At December 31, 2015, the carrying amount of the liability and the outstanding principal of the 2019 Notes was \$230.0 million, with an effective interest rate of approximately 1.36%. The fair value of the 2019 Notes was \$229.6 million at December 31, 2015. The fair value of the liability of the 2019 Notes was determined using a discounted cash flow model based on current market interest rates available to the Company. These inputs are corroborated by observable market data for similar liabilities and therefore classified within Level 2 of the fair-value hierarchy.

The interest expense of the Company's 2019 Notes related to the contractual interest coupon was \$1.7 million and \$647 thousand for the years ended December 31, 2015 and 2014, respectively.

## 16. 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.



Table of Contents

SYNCHRONOSS TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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.

17. Subsequent Events Review

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

The Company anticipates that the timing and amount of any share repurchases will be determined by Synchronoss' management based on market conditions and in accordance with the requirements of the Securities and Exchange Commission. Once adopted, the repurchase program does not obligate Synchronoss to acquire any particular amount of common stock, and repurchases may be commenced, suspended or discontinued at any time without prior notice.

Table of Contents

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2015. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were effective as of December 31, 2015, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

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

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other

personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2015. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria).

Table of Contents

Based on the Company's assessment, management concluded that, as of December 31, 2015, its internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, its independent registered public accounting firm, as stated in their report which is included in Item 9 of this Annual Report on Form 10 K.

Inherent Limitations on Effectiveness of Controls

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

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Synchronoss Technologies, Inc.

We have audited Synchronoss Technologies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Synchronoss Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Synchronoss Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Synchronoss Technologies, Inc. as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of Synchronoss Technologies, Inc. and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Metropark, New Jersey

February 26, 2016

93

---

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

- (a) Identification of Directors. Information concerning the directors of Synchronoss is set forth under the heading “Election of Directors” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.
- (b) Audit Committee Financial Expert. Information concerning Synchronoss’ audit committee financial expert is set forth under the heading “Audit Committee” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.
- (c) Identification of the Audit Committee. Information concerning the audit committee of Synchronoss is set forth under the heading “Audit Committee” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.
- (d) Section 16(a) Beneficial Ownership Reporting Compliance. Information concerning compliance with beneficial ownership reporting requirements is set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Code of Ethics. Information concerning the Synchronoss Code of Business Conduct is set forth under the caption “Code of Business Conduct” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference. The Code of Business Conduct can also be found on our website, [www.synchronoss.com](http://www.synchronoss.com).

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is set forth under the headings “Compensation of Executive Officers” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

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

Information concerning shares of Synchronoss equity securities beneficially owned by certain beneficial owners and by management is set forth under the heading “Equity Security Ownership of Certain Beneficial Owners and

Management” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

#### Securities Authorized for Issuance Under Equity Compensation Plan

The following table provides information as of December 31, 2015 with respect to the shares of our common stock that may be issuable under our existing equity compensation plans.



Table of Contents

The following information is as of December 31, 2015:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	(b) Weighted- Average Exercise Price of Outstanding Options and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	4,291,115	\$ 34.72	3,780,385
Equity compensation plans not approved by security holders	9,358	\$ 19.32	—
Totals	4,300,473	\$ 34.69	3,780,385

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is set forth under the heading “Certain Related Party Transactions” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning fees and services of the Company’s principal accountants is set forth under the heading “Report of the Audit Committee” and “Independent Registered Public Accounting Firm’s Fees” in the Synchronoss Proxy Statement for the 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1)Financial Statements:

<u>Report of Independent Registered Public Accounting Firm</u>	52
<u>Balance Sheets</u>	53
<u>Statements of Income</u>	54
<u>Statements of Comprehensive Income</u>	55
<u>Statements of Stockholders' Equity</u>	56
<u>Statements of Cash Flows</u>	57
<u>Notes to Financial Statements</u>	58

(a)(2)Schedule for the years ended December 31, 2015, 2014, 2013:

II—Valuation and Qualifying Accounts

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

(a)(3)Exhibits:

Exhibit

No.	Description
3.1	Restated Certificate of Incorporation of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).
3.2	Amended and Restated Bylaws of the Registrant, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Amended and Restated Investors Rights Agreement, dated December 22, 2000, by and among the Registrant, certain stockholders and the investors listed on the signature pages thereto, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).
4.3	Amendment No. 1 to Synchronoss Technologies, Inc. Amended and Restated Investors Rights Agreement, dated April 27, 2001, by and among the Registrant, certain stockholders and the investors listed on the signature pages thereto, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).
4.4	Registration Rights Agreement, dated November 13, 2000, by and among the Registrant and the investors listed on the signature pages thereto, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080).
4.5	Amendment No. 1 to Synchronoss Technologies, Inc. Registration Rights Agreement, dated May 21, 2001, by and among the Registrant, certain stockholders listed on the signature pages thereto and Silicon Valley Bank, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File

No. 333 132080).

- 4.6 Form of Common Stock Certificate, incorporated by reference to Registrant's Registration Statement on Form S-1 (Commission File No. 333-132080)
- 4.7 Form of Indenture for Convertible Senior Notes, incorporated by reference to Registrant's Registration Statement on Form S-3 (Commission File No. 333-197871)
- 10.1 Form of Indemnification Agreement between the Registrant and each of its directors and executive officers, incorporated by reference to Registrant's Registration Statement on Form S 1 (Commission File No. 333 132080).
- 10.2 Synchronoss Technologies, Inc. 2000 Stock Plan and forms of agreements thereunder, incorporated by reference to Registrant's Registration Statement on Form S 1 (Commission File No. 333 132080).

96

---

Table of Contents

Exhibit

No.	Description
10.3	Amendment No. 1 to Synchronoss Technologies, Inc. 2000 Stock Plan, incorporated by reference to Registrant’s Registration Statement on Form S-1 (Commission File No. 333-132080).
10.4	2006 Equity Incentive Plan, as amended and restated, incorporated by reference to Registrant’s Schedule 14A dated April 8, 2010.
10.4.1	2010 New Hire Equity Incentive Plan, incorporated by reference to Registrant’s Registration Statement on Form S-8 (Commission File No. 333-168745).
10.5	Employee Stock Purchase Plan, incorporated by reference to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2011.
10.6	Lease Agreement between the Registrant and Triple Net Investments XXV, L.P. for the premises located at Lehigh Valley Industrial Park VII, Bethlehem, Pennsylvania, dated as of May 16, 2008, as amended, incorporated by reference to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2008.
10.7	Lease Agreement between the Registrant and Wells Reit—Bridgewater NJ, LLC for the premises located at 200 Crossing Boulevard, Bridgewater, New Jersey, dated as of October 27, 2011, incorporated by reference to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2011.
10.8	Credit Agreement dated as of September 27, 2013 between the Registrant and JPMorgan Chase Bank, N.A., as Administrative Agent, incorporated by reference to Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.
10.9‡	Cingular Mater 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*	Amendment 1 effective as of January 1, 2016 to Subordinate Material and Services Agreement No. SG021306.S.025 by and between the Registrant and AT&T Services, Inc.
10.9.2*	Order No.SG021306.S.025.S.007 effective as of January 1, 2016 by and between the Registrant and AT&T Services, Inc.
10.9.3*	Amendment No. 1 effective as of January 1, 2016 to Order No. SG021306.S.025.S.001 dated as of August 1, 2013 by and between the Registrant and AT&T Services, Inc. together with Amended and Restated Order No. SG021306.S.025.S.001.
10.9.4*	Amendment No. 4 effective as of January 1, 2016 to Order No. SG021306.S.025.S.002 dated as of August 1, 2013 by and between the Registrant and AT&T Services, Inc., together with Amended and Restated Order No. SG021306.S.025.S.002.
10.9.5*	Amendment No. 3 effective as of January 1, 2016 to Order No. SG021306.S.025.S.003 dated as of August 1, 2013 by and between the Registrant and AT&T Services, Inc.
10.9.6*	Amendment No. 4 effective as of January 1, 2016 to Order No. SG021306.S.025.S.003 dated as of August 1, 2013 by and between the Registrant and AT&T Services, Inc., together with Amended and Restated Order No. SG021306.S.025.S.003
10.9.7*	Amendment No. 5 effective as of January 1, 2016 to Order No. SG021306.S.025.S.004 dated as of August 1, 2013 by and between the Registrant and AT&T Services, Inc. together with Amended and Restated Order No. SG021306.S.025.S.004.
10.10	Form of Indenture for Convertible Senior Notes, incorporated by reference to Registrants Form S-3 (Commission File No. 333-132080).
10.11†	Employment Agreement dated as of January 1, 2015 between the Registrant and David Schuette.

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-K

- 10.17 Share Purchase Agreement dated as of December 24, 2012 by and between Synchronoss Technologies Ireland Ltd. and Research In Motion Ltd, incorporated by reference to Registrant's Annual report on Form 10 K for the year ended December 31, 2012.
- 21.1 List of subsidiaries.
- 23.1 Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm.
- 24 Power of Attorney (see signature page to this Annual Report on Form 10 K)
- 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

97

---

Table of Contents

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.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

---

†Compensation Arrangement.

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

‡Confidential treatment has been granted with respect to certain provisions of this exhibit.

(b) Exhibits.  
See (a)(3) above.

(c) Financial Statement Schedule.  
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

December 31, 2015, 2014, and 2013

	Beginning Balance	Additions	Reductions	Ending Balance
Allowance for doubtful receivables				
2015	\$ 88	\$ 3,872	\$ (931)	\$ 3,029
2014	\$ 237	\$ 418	\$ (567)	\$ 88
2013	\$ 258	\$ 1,076	\$ (1,097)	\$ 237

	Beginning Balance	Additions	Reductions	Ending Balance
(In thousands)				

Edgar Filing: SYNCHRONOSS TECHNOLOGIES INC - Form 10-K

Valuation allowance for deferred tax assets

2015	\$ 2,553	\$ 2,521	\$ (227)	\$ 4,847
2014	\$ 2,803	\$ 2,724	\$ (2,974)	\$ 2,553
2013	\$ —	\$ 3,778	\$ (975)	\$ 2,803

Table of Contents

SIGNATURES

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

SYNCHRONOSS TECHNOLOGIES, INC.  
(Registrant)

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

February 26, 2016

POWER OF ATTORNEY

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

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

	Signature
/s/ Stephen G. Waldis	Chief Executive Officer and Director (Principal Executive Officer)
Stephen G. Waldis	



/s/ Karen Chief February  
Rosenberger Financial 26, 2016  
Officer  
(Principal  
Karen L. Financial  
Rosenberger Officer)

/s/ William J. Director  
Cadogan  
William J.  
Cadogan

/s/ Charles E. Director  
Hoffman  
Charles E.  
Hoffman

/s/ Thomas J. Director  
Hopkins  
Thomas J.  
Hopkins

/s/ James M. Director  
McCormick  
James M.  
McCormick

/s/ Donnie Director  
M. Moore  
Donnie M.  
Moore