SYNCHRONOSS TECHNOLOGIES INC
Form 10-Q
November 10, 2008

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

(Mark One)

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

**For the quarterly period ended September 30, 2008**

**or**

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

**For the transition period from to**

**Commission file number 000-52049**

**SYNCHRONOSS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **06-1594540** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **750 Route 202 South, Suite 600 Bridgewater, New Jersey** | **08807** |
| (Address of principal executive offices) | (Zip Code) |

**(866) 620-3940**

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o |
| | | (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 o No þ

Shares outstanding of the Registrant s common stock:

| Class | Outstanding at October 31, 2008 |
|---|---|
| Common stock, $0.0001 par value | 30,795,024 shares |

**SYNCHRONOSS TECHNOLOGIES, INC.**
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**SYNCHRONOSS TECHNOLOGIES, INC.**
**UNAUDITED CONSOLIDATED BALANCE SHEETS**
**(In thousands, except per share data)**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 67,970 | $ 92,756 |
| Marketable securities | 1,460 | 1,891 |
| Accounts receivable, net of allowance for doubtful accounts of $238 and $448 at September 30, 2008 and December 31, 2007, respectively | 22,984 | 26,710 |
| Prepaid expenses and other assets | 6,218 | 2,949 |
| Deferred tax assets | 1,071 | 247 |
| Total current assets | 99,703 | 124,553 |
| Marketable securities | 3,856 | 1,210 |
| Property and equipment, net | 9,936 | 10,467 |
| Goodwill | 7,630 | |
| Intangible assets, net | 5,991 | |
| Deferred tax assets | 4,401 | 2,498 |
| Other assets | 595 | 290 |
| Total assets | $ 132,112 | $ 139,018 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 2,701 | $ 1,681 |
| Accrued expenses | 5,806 | 9,495 |
| Equipment loan payable | 223 | |
| Deferred revenues | 2,226 | 373 |
| Total current liabilities | 10,956 | 11,549 |
| Other liabilities | 1,453 | 678 |
| Stockholders equity: | | |
| Preferred stock, $0.0001 par value; 10,000 shares authorized, 0 shares issued and outstanding at September 30, 2008 and December 31, 2007 | | |
| Common stock, $0.0001 par value; 100,000 shares authorized, 32,795 and 32,726 shares issued; 30,795 and 32,630 outstanding at September 30, 2008 and December 31, 2007, respectively | 3 | 3 |
| Treasury stock, at cost (2,000 and 96 shares at September 30, 2008 and December 31, 2007, respectively) | (23,713) | (19) |
| Additional paid-in capital | 106,028 | 98,596 |
| Accumulated other comprehensive income (loss) | (22) | 4 |
| Retained earnings | 37,407 | 28,207 |
| Total stockholders equity | 119,703 | 126,791 |

| | | | | |
|---|---|---|---|---|
| Total liabilities and stockholders equity | $ | 132,112 | $ | 139,018 |

See Notes to Consolidated Financial Statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Net revenues | $ 26,335 | $ 34,477 | $ 79,760 | $ 87,127 |
| Costs and expenses: | | | | |
| Cost of services * | 13,547 | 15,601 | 38,819 | 39,748 |
| Research and development | 2,683 | 2,948 | 7,493 | 7,414 |
| Selling, general and administrative | 4,946 | 4,992 | 15,074 | 12,862 |
| Depreciation and amortization | 1,636 | 1,375 | 4,581 | 3,752 |
| Total costs and expenses | 22,812 | 24,916 | 65,967 | 63,776 |
| Income from operations | 3,523 | 9,561 | 13,793 | 23,351 |
| Interest income | 494 | 972 | 1,987 | 2,875 |
| Interest expense | (10) | (7) | (29) | (34) |
| Income before income tax expense | 4,007 | 10,526 | 15,751 | 26,192 |
| Income tax expense | (1,668) | (2,518) | (6,551) | (9,054) |
| Net income | $ 2,339 | $ 8,008 | $ 9,200 | $ 17,138 |
| Net income per common share: | | | | |
| Basic | $ 0.08 | $ 0.25 | $ 0.29 | $ 0.53 |
| Diluted | $ 0.07 | $ 0.24 | $ 0.28 | $ 0.51 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 31,047 | 32,264 | 31,980 | 32,161 |
| Diluted | 31,439 | 33,599 | 32,604 | 33,370 |

* Cost of services excludes depreciation which is shown separately.

See Notes to Consolidated Financial Statements

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

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|
| **Operating activities:** | | |
| Net income | $ 9,200 | $ 17,138 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 4,581 | 3,752 |
| Deferred income taxes | 163 | (16) |
| Stock-based compensation | 5,075 | 2,083 |
| Changes in operating assets and liabilities, net of acquisition: | | |
| Accounts receivable, net of allowance for doubtful accounts | 5,568 | (8,472) |
| Prepaid expenses and other current assets | (2,580) | (889) |
| Other assets | 7 | 10 |
| Accounts payable | (500) | 1,434 |
| Accrued expenses | (2,336) | 1,147 |
| Tax benefit from stock option exercise | (1,582) | |
| Other liabilities | 29 | 794 |
| Deferred revenues | 426 | (33) |
| Net cash provided by operating activities | 18,051 | 16,948 |
| **Investing activities:** | | |
| Additions to property and equipment | (1,902) | (8,797) |
| Purchases of marketable securities available for sale | (4,960) | (3,685) |
| Sale of marketable securities available for sale | 2,719 | 3,815 |
| Business acquired, net of cash | (17,357) | |
| Net cash used in investing activities | (21,500) | (8,667) |
| **Financing activities:** | | |
| Proceeds from the exercise of stock options | 775 | 1,093 |
| Excess tax benefit from stock option exercises | 1,582 | |
| Repurchase of common stock | (23,694) | |
| Repayments of equipment loan | | (500) |
| Net cash provided by (used in) financing activities | (21,337) | 593 |
| Net increase (decrease) in cash and cash equivalents | (24,786) | 8,874 |
| Cash and cash equivalents at beginning of year | 92,756 | 73,905 |
| Cash and cash equivalents at end of period | $ 67,970 | $ 82,779 |

See Notes to Consolidated Financial Statements

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

The consolidated financial statements at September 30, 2008 and for the three and nine months ended September 30, 2008 and 2007 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. They do not include all of the information and footnotes required by U.S. generally accepted accounting principles ( GAAP ) for complete financial statements and should be read in conjunction with the financial statements and notes in the Annual Report of Synchronoss Technologies, Inc. (the Company or Synchronoss ) incorporated by reference in the Company s Form 10-K for calendar year 2007. The financial statements include the accounts of the Company and its wholly owned subsidiaries, Synchronoss Technologies UK Ltd, Wisor Telecom Corporation and Wisor Telecom India Private Limited. All significant intercompany balances and transactions are eliminated in consolidation. The Company has no unconsolidated subsidiaries or investments accounted for under the equity method. The results reported in these consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year. The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

**1. Description of Business**

Synchronoss Technologies, Inc. is a leading provider of on-demand multi-channel transaction management platforms that enable communication service providers (CSPs) to automate new subscriber activation, order management and service provisioning. The Company conducts its business operations primarily in the United States of America and India, with some aspects of its operations being outsourced to entities located in India and Canada. The ActivationNow® and ConvergenceNow® platforms provide seamless integration between customer-facing applications and back-office or infrastructure-related systems and processes. The Company s CSP customers rely on the Company s internet based technology to automate the process of activating customers and to deliver additional communications services including new service offerings and ongoing customer care. Synchronoss has designed its platforms to be flexible to enable multiple communication services including wireless, Voice over Internet Protocol (VoIP), wireline and cable to be managed through multiple distribution channels including e-commerce, CSP stores and other retail outlets, etc., allowing the Company to meet the rapidly changing and converging services offered by CSPs. By simplifying the processes associated with managing the customer experience for ordering and activating services through the automation and integration of disparate systems, Synchronoss enables CSPs to acquire, retain and service customers quickly, reliably and cost-effectively. The Company enables service providers to drive growth in new and existing markets while delivering an improved customer experience at lower costs.

**2. Recent Accounting Pronouncements**

***Impact of Recently Issued Accounting Standards***

In September 2006, the FASB issued Statement 157, *Fair Value Measurement* ( Statement 157 ). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. Statement 157 also expands financial statement disclosures about fair value measurements. On February 6, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 Effective Date of Statement No. 157 which delays the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Statement 157 and FSP FAS 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has elected a partial deferral of Statement 157 under the provisions of FSP FAS 157-2 related to the measurement of fair value used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. The Company adopted SFAS No. 157 on January 1, 2008.

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

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

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

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

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

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

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Money Market Funds | $ 67,970 | $ | $ 67,970 |
| Certificates of Deposit | | 5,316 | 5,316 |
| Total | $ 67,970 | $ 5,316 | $ 73,286 |

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141 (R)), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. The Company does not currently expect SFAS No. 141(R) to have a material impact on its consolidated financial statements.

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

**3. Earnings per Common Share**

The Company calculates net income per share in accordance with SFAS No. 128, *Earnings Per Share.* 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 1,543 and 0 for the three months ended September 30, 2008 and 2007, respectively, and 761 and 0 for the nine months ended September 30, 2008 and 2007, respectively.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Numerator: | | | | |
| Net income | $ 2,339 | $ 8,008 | $ 9,200 | $ 17,138 |

| | | | | | |
|---|---|---|---|---|---|
| Denominator: | | | | | |
| Weighted average common shares outstanding | basic | 31,047 | 32,264 | 31,980 | 32,161 |
| Dilutive effect of: | | | | | |
| Options and unvested restricted shares | | 392 | 1,335 | 624 | 1,209 |
| Weighted average common shares outstanding | diluted | 31,439 | 33,599 | 32,604 | 33,370 |

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

**4. Acquisition**

**Wisor Telecom Corporation**

In September 2008, the Company acquired Wisor Telecom Corporation (Wisor) for approximately $17 million including acquisition costs of approximately $490. At September 30, 2008 the Company had approximately $800 reserved for restructuring liabilities pursuant to EITF 95-3 with respect to consolidating facilities and paying severance. The acquisition of Wisor, a provider of software products, software based host services and professional services to telecommunication service providers, expands the Company s products and services. The acquisition was accounted for as a purchase business combination in accordance with SFAS No. 141 and the results of operations of Wisor have been included in the accompanying consolidated statement of operations since the date of acquisition. The purchase price has been allocated preliminarily pending the finalization of a valuation as follows:

| At September 10, 2008 | |
|---|---|
| Current assets | $ 2,762 |
| Property, plant, and equipment | 2,060 |
| Other assets | 312 |
| Deferred tax assets | 2,890 |
| Intangible assets | 6,079 |
| Goodwill | 7,630 |
| Total assets acquired | 21,733 |
| Current liabilities | 3,369 |
| Long-term liabilities | 777 |
| Total liabilities assumed | 4,146 |
| Net assets acquired | 17,587 |

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

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

The change in the carrying amount of goodwill for the nine months ended September 30, 2008 is as follows:

| | Total |
|---|---|
| Balance at December 31, 2007 | $ |
| Acquisitions | 7,630 |
| Balance at September 30, 2008 | $ 7,630 |

Intangible assets consist of the following (in thousands):

| | Weighted-Average |
|---|---|

| | September 30, 2008 (unaudited) | Amortization Period (In Years) (unaudited) |
|---|---|---|
| Intangible assets: | | |
| Customer lists and relationships | $ 5,562 | 4.0 |
| Accumulated amortization | (81) | |
| Customer lists and relationships, net | 5,481 | |
| Acquired technology | 517 | 4.0 |
| Accumulated amortization | (7) | |
| Acquired technology, net | 510 | |
| Intangible assets, net | $ 5,991 | |

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

Amortization expense related to intangible assets, which is included in depreciation and amortization expense, was approximately $88 and $0 for the three and nine months ended September 30, 2008, respectively.

**5. Stockholders Equity**

***Stock Options***

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

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| Expected stock price volatility | .63 | .68 | .64 | .61 |
| Risk-free interest rate | 3.79% | 4.85% | 3.93% | 4.68% |
| Expected life of options (in years) | 5.13 | 6.25 | 5.24 | 6.15 |
| Expected dividend yield | 0% | 0% | 0% | 0% |

The weighted-average fair value (as of the date of grant) of the options granted was $8.20 and $20.90 per share for the three months ended September 30, 2008 and 2007, respectively, and $8.63 and $14.08 for the nine months ended September 30, 2008 and 2007, respectively. During the three and nine months ended September 30, 2008, the Company recorded total pre-tax stock-based compensation expense of $1.7 million ($1.2 million after tax or $0.04 per diluted share) and $5.1 million ($3.5 million after tax or $0.11 per diluted share), respectively, which includes both intrinsic value for equity awards issued prior to 2006 and fair value for equity awards issued after January 1, 2006. The total stock-based compensation cost related to non-vested equity awards not yet recognized as an expense as of September 30, 2008 was approximately $13.0 million. That cost is expected to be recognized over a weighted-average period of approximately 2.8 years. In May 2008, the Company amended its 2006 Equity Incentive Plan to increase the number of shares available for issuance by 2.0 million.

The following table summarizes information about stock options outstanding.

| | | Options Outstanding | | |
|---|---|---|---|---|
| | Shares Available for Grant | Number of Shares | Option Exercise Price per Share Range | Weighted-Average Exercise Price |
| Balance at December 31, 2007 | 754 | 2,831 | $ 0.29 - 42.77 | $ 15.51 |
| Options granted | (740) | 740 | $ 9.07 - 35.62 | $ 13.99 |
| Options exercised | | (160) | $ 0.29 - 15.44 | $ 4.97 |
| Options forfeited | 327 | (327) | $ 0.29 - 42.77 | $ 25.32 |
| Expansion of Pool in May 2008 | 2,000 | | | |
| Balance at September 30, 2008 | 2,341 | 3,084 | $ 0.29 - 38.62 | $ 14.66 |

A summary of the Company s non-vested restricted stock at September 30, 2008, and changes during the nine months ended September 30, 2008, is presented below:

**Number of**

| **Non-Vested Restricted Stock** | **Awards** |
|---|---|
| Non-vested at January 1, 2008 | 180 |
| Granted | 25 |
| Vested | (51) |
| Forfeited | (19) |
| Non-vested at September 30, 2008 | 135 |

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

***Treasury Stock***

On May 5, 2008, 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 is up to twelve months. Under the program, the Company may purchase shares of its common stock in the open market, through block trades or otherwise at prices deemed appropriate by the Company. The timing and amount of repurchase transactions under the program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. The stock repurchase program may be suspended or discontinued at any time. A total of 2 million shares have been repurchased under the program for an aggregate purchase price of approximately $23.7 million. The Company classifies common stock repurchased as treasury stock on its balance sheet.

**6. Legal Matters**

On September 5, 2008, September 18, 2008, and September 23, 2008, three complaints were filed against the Company and certain of its officers and directors in the United States District Court for the District of New Jersey purportedly on behalf of a class of shareholders who purchased our common stock between February 4, 2008 and June 9, 2008. The plaintiffs in each complaint assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They allege that certain of the Company s public disclosures regarding its financial prospects between February 4, 2008 and May 6, 2008 were false and/or misleading. The principal allegation set forth in each complaint is that the Company issued misleading statements concerning its business prospects relating to the activation of Apple Inc. s iPhone product. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court s discretion. The Company believes that these claims are without merit, and it intends to defend against all of the claims vigorously. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the actions at this time, and can give no assurance that these claims will not have a material adverse effect on its financial position or results of operations.

On October 23, 2008, a complaint was filed in the state court of New Jersey against certain of the Company s officers and directors, purportedly derivatively on behalf of the Company. This complaint asserts claims for breach of fiduciary duty with respect to the disclosures that also are the subject of the complaints described above. This complaint also asserts that the named officers breached their fiduciary duties when they allegedly sold the Company s securities on the basis of material non-public information in 2008. The Company is also named as a nominal defendant in this complaint, although the actions are derivative in nature and purportedly asserted on the Company s behalf. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court s discretion. The Company is in the process of evaluating the claims in this complaint. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of the action at this time, and can give no assurance that the claims in this complaint will not have a material adverse effect on the Company s financial position or results of operations.

**7. Subsequent Event-R&D Tax Credit**

On October 3, 2008, the United States Congress passed the Emergency Economic Stabilization Act of 2008. As part of this act, the R&D tax credit has been extended for 2008 and 2009. As a result, the Company expects its effective tax rate will be favorably impacted for 2008. The Company is currently evaluating the impact of this legislation on its financial statements.

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

You should read the following discussion and analysis in conjunction with the information set forth in our consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q and in our Form 10-K for the year ended December 31, 2007. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as believes, expects, anticipates, intends, p should, continues, likely or similar expressions, indicate a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. We caution investors not to place substantial reliance on the forward-looking statements included in this report. These statements speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise the statements in light of future developments. All numbers are expressed in thousands unless otherwise stated.

**Overview**

We are a leading provider of on-demand multi-channel transaction management platforms that enable communications service providers (CSPs) to automate new subscriber activation, order management and service provisioning. Our ActivationNow® and ConvergenceNow® platforms provide seamless integration between customer-facing applications and back-office or infrastructure-related systems and processes. Our CSP customers rely on our internet based technology to automate the process of activating customers and to deliver additional communications services including new service offerings and ongoing customer care. We have designed our platforms to be flexible to enable multiple communication services including wireless Voice over Internet Protocol (VoIP), wireline and cable to be managed through multiple distribution channels including e-commerce, CSP stores and other retail outlets, allowing us to meet the rapidly changing and converging services offered by CSPs. By simplifying the processes associated with managing the customer experience for ordering and activating services through the automation and integration of disparate systems, we enable CSPs to acquire, retain and service customers quickly, reliably and cost-effectively. We enable service providers to drive growth in new and existing markets while delivering an improved customer experience at lower costs.

Our industry-leading customers include wireline, wireless, VoIP and cable MSO companies including AT&T Inc., Sprint Nextel, Embarq, Vonage Holdings, British Telecom, Cablevision Systems Corporation, Global Crossing, Level 3 Communications, Charter Communications, Verizon Business Solutions, Clearwire, Time Warner Cable and Comcast. These customers use our platforms and technology and services to manage both consumer and business customers, including over 300 of the Fortune 500 companies.

***Revenues***

We generate a substantial portion of our revenues on a per-transaction basis, most of which is derived from contracts that extend up to 48 months from execution. For the three months ended September 30, 2008, we derived approximately 80% of our revenues from transactions processed. Most of the remainder of our revenues were generated by professional services.

Historically, our revenues are directly impacted by the number of transactions processed. In recent years, the fourth quarter has had the highest volume of transactions processed due to increased consumer activation activity during the holiday season. The future success of our business depends on the continued growth of consumer and business transactions and, as such, the volume of transactions that we process could fluctuate on a quarterly basis. See Current Trends Affecting Our Results of Operations for certain matters regarding future results of operations.

We currently derive a significant portion of our revenues from one customer, AT&T. For the three months ended September 30, 2008, AT&T accounted for approximately 66% of our revenues, compared to 78% for the three months ended September 30, 2007. Our five largest customers, AT&T, Vonage, Level 3 Communications, Comcast and Cablevision, accounted for approximately 89% of our revenues for the three months ended September 30, 2008, compared to 93% of our revenues for the three months ended September 30, 2007. See Risk Factors for certain matters bearing risks on our future results of operations.

*Costs and Expenses*

Our costs and expenses consist of cost of services, research and development, selling, general and administrative and depreciation and amortization.

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

Research and development costs have been expensed as incurred. Software development costs incurred prior to the establishment of technological feasibility are expensed as incurred. Research and development expense consists primarily of costs related to personnel, including salaries and other personnel-related expenses, consulting fees and the cost of facilities, computer and support services used in service technology development. We also expense costs relating to developing modifications and minor enhancements of our existing technology and services.

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

Depreciation relates to our property and equipment and includes our network infrastructure and facilities. Amortization relates to the customer lists and technology acquired from Wisor.

**Current Trends Affecting Our Results of Operations**

We have experienced increased demand for our services, which has been driven by market trends such as various forms of order provisioning, local number portability, the implementation of new technologies, subscriber growth, competitive churn, network changes and consolidations in the industry. In particular, the emergence of order provisioning of e-commerce transactions for wireless, VoIP, LNP, and other communication services surrounding the convergence of bundled services has increased the need for our services and we believe will continue to be a source of growth for our company.

In the second quarter of 2008, we were informed by AT&T that they would be changing their process of activating the iPhone product from a process that utilized our ConvergenceNow® platform to an activation process that occurs at retail stores. This change in process requires customers to activate the iPhone at AT&T or Apple stores to discourage the practice of unlocking the device for use on other networks. This activation process is a service that is currently not supported by Synchronoss for AT&T. As a result of this development, we expect our full year revenue related to activations of iPhones on AT&T s network to be approximately $30 million less for the year ended December 31, 2008 compared to December 31, 2007.

To support the growth driven by the industry trends mentioned above, we continue to look for opportunities to improve our operating efficiencies, such as the utilization of offshore technical and non-technical resources for our exception handling center management. We believe that these opportunities will continue to provide future benefits and position us to support revenue growth. In addition, we anticipate further automation of the transactions generated by our more mature customers and additional transaction types. These development efforts are expected to reduce exception handling costs. Loss of revenue related to the activation of iPhones on AT&T s network, which is a higher gross margin transaction because of higher levels of automation, caused total gross margins for the three months ended September 30, 2008 to decline compared to the same period last year. However, as transactions mature and become more automated, we expect gross margins relating to these transactions to grow in the future.

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**Critical Accounting Policies and Estimates**

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

We believe the following to be our critical accounting policies because they are important to the portrayal of our 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 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

Service Level Standards

Allowance for Doubtful Accounts

Income Taxes

Stock-Based Compensation

There were no significant changes in our critical accounting policies and estimates during the three months ended September 30, 2008. Please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2007 for a more complete discussion of our critical accounting policies and estimates.

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**Results of Operations**

***Three months ended September 30, 2008 compared to the three months ended September 30, 2007***

The following table presents an overview of our results of operations for the three months ended September 30, 2008 and 2007.

| | Three Months Ended September 30, 2008 | | Three Months Ended September 30, 2007 | | Three Months Ended September 30, 2008 vs. 2007 | |
|---|---|---|---|---|---|---|
| | $ | % of Revenue | $ | % of Revenue | $ Change | % Change |
| | (in thousands) | | | | | |
| Net revenue | $ 26,335 | 100.0% | $ 34,477 | 100.0% | $ (8,142) | (23.6)% |
| Cost of services* | 13,547 | 51.4% | 15,601 | 45.3% | (2,054) | (13.2)% |
| Research and development | 2,683 | 10.2% | 2,948 | 8.6% | (265) | (9.0)% |
| Selling, general and administrative | 4,946 | 18.8% | 4,992 | 14.5% | (46) | (0.9)% |
| Depreciation and amortization | 1,636 | 6.2% | 1,375 | 4.0% | 261 | 19.0% |
| | 22,812 | 86.6% | 24,916 | 72.3% | (2,104) | (8.4)% |
| Income from operations | $ 3,523 | 13.4% | $ 9,561 | 27.7% | $ (6,038) | (63.2)% |

* Cost of services excludes depreciation which is shown separately.

***Net Revenue.*** Net revenues decreased $8.1 million to $26.3 million for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. This decline was due primarily to decreased revenues associated with the activation of iPhones on AT&T s network; net revenues related to AT&T decreased $9.4 million to $17.4 million for the three months ended September 30, 2008 compared to the same period in 2007. AT&T represented 66% and 78% of our revenues for the three months ended September 30, 2008 and 2007, respectively. Net revenues outside of AT&T generated $8.9 million of our revenues during the three months ended September 30, 2008 as compared to $7.7 million during the three months ended September 30, 2007. Net revenues outside of AT&T represented 34% and 22% of our revenues during the three months ended September 30, 2008 and 2007, respectively. Transaction revenues recognized for the three months ended September 30, 2008 and 2007 represented 80% or $21.0 million and 88% or $30.5 million of net revenues, respectively. This reduction in transactional revenue is primarily attributed to a decrease in revenues related to activations of iPhones on AT&T s network. Professional service revenues increased as a percentage of sales to 18% or $4.7 million for the three months ended September 30, 2008, compared to 11% or $3.7 million for the previous three months ended September 30, 2007. This percentage increase is principally due to a lower total revenue base as transaction revenue declined while professional services increased by $1.0 million.

***Expense***

***Cost of Services.*** Cost of services decreased $2.1 million to $13.5 million for the three months ended September 30, 2008, compared to the three months ended September 30, 2007, due primarily to a decrease of $2.2 million in personnel and related costs and third party consulting service costs required to support transaction volumes submitted to us by our customers. This decrease in cost of services corresponds to the decrease in revenue for the period due primarily to declining volume associated with activation of iPhones on AT&T s network. This decrease was partially offset by $142 in additional stock-based compensation expense. Cost of services as a percentage of revenues increased to 51.4% for the three months ended September 30, 2008, as compared to 45.3% for the three months ended September 30, 2007, due to a decline in transaction revenue associated with activation of iPhones on AT&T s network and lower automation rates experienced as we add new customer business.

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***Research and Development.*** Research and development expense decreased $265 to $2.7 million for the three months ended September 30, 2008, compared to the three months ended September 30, 2007, due to a reduced use of outside consultants. Research and development expense as a percentage of revenues increased to 10.2% for the three months ended September 30, 2008, as compared to 8.6% for the three months ended September 30, 2007 due to a lower revenue base for comparative purposes.

***Selling, General and Administrative.*** Selling, general and administrative expense decreased $46 to $4.9 million for the three months ended September 30, 2008, compared to the three months ended September 30, 2007. Selling, general and administrative expense as a percentage of revenues increased to 18.8% for the three months ended September 30, 2008, as compared to 14.5% for the three months ended September 30, 2007 due to a lower revenue base for comparative purposes and primarily due to increases in stock-based compensation expense of $637, partially offset by a decrease in personnel and related costs of $504.

***Depreciation and amortization.*** Depreciation and amortization expense increased $261 to $1.6 million for the three months ended September 30, 2008, compared to the same period in 2007, due to continued growth in the invested value of our infrastructure and amortization of intangibles related to Wisor acquisition of $88. Depreciation and amortization expense as a percentage of revenues increased to 6.2% for the three months ended September 30, 2008, as compared to 4.0% for the same period in 2007.

***Income from Operations***. Income from operations decreased $6.0 million to $3.5 million for the three months ended September 30, 2008, compared to the same period in 2007. Income from operations decreased as a percentage of revenues to 13.4% for the three months ended September 30, 2008, as compared to 27.7% for the three months ended September 30, 2007. This decrease was primarily due to lower gross margin due to a decline in transaction revenue and lower automation rates.

***Income Tax.*** Our effective tax rate was approximately 41.6% and approximately 23.9% during the three months ended September 30, 2008 and 2007, respectively. Our effective rate was lower last year due to the recognition of a net cumulative R&D tax credit of approximately $1.2 million during the three months ended September 30, 2007. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. During the three months ended September 30, 2008 and 2007, we recognized approximately $1.7 million and $2.5 million in related tax expense, respectively. As a result of the recent passage of the Emergency Economic Stabilization Act of 2008, we expect our effective tax rate will be favorably impacted for the remainder of 2008. We are currently evaluating the impact of this legislation on our financial statements.

***Nine months ended September 30, 2008, compared to the nine months ended September 30, 2007***

The following table presents an overview of our results of operations for the nine months ended September 30, 2008 and 2007.

| | Nine Months Ended September 30, 2008 | | Nine Months Ended September 30, 2007 | | Nine Months Ended September 30, 2008 vs 2007 | |
|---|---|---|---|---|---|---|
| | **$** | **% of Revenue** | **$** | **% of Revenue** | **$ Change** | **% Change** |
| | | | (in thousands) | | | |
| Net revenue | $ 79,760 | 100.0% | $ 87,127 | 100.0% | $ (7,367) | (8.5)% |
| Cost of services* | 38,819 | 48.7% | 39,748 | 45.6% | (929) | (2.3)% |
| Research and development | 7,493 | 9.4% | 7,414 | 8.5% | 79 | 1.1% |
| Selling, general and administrative | 15,074 | 18.9% | 12,862 | 14.8% | 2,212 | 17.2% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Depreciation and amortization | 4,581 | 5.7% | 3,752 | 4.3% | 829 | 22.1% |
| | 65,967 | 82.7% | 63,776 | 73.2% | 2,191 | 3.4% |
| Income from operations | $ 13,793 | 17.3% | $ 23,351 | 26.8% | $ (9,558) | (40.9)% |

* Cost of services excludes depreciation which is shown separately.

***Net Revenue.*** Net revenues decreased $7.4 million to $79.8 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. This decline was due primarily to decreased revenues associated with the activation of iPhones on AT&T s network. Net revenues related to AT&T decreased $12.0 million to $54.7 million for the nine months ended September 30, 2008 compared to the same period in 2007. AT&T represented 69% and 77% of our revenues for the nine months ended September 30, 2008 and 2007, respectively. Net revenues outside of AT&T generated $25.0 million of our revenues during the nine months ended September 30, 2008 as compared to $20.4 million during the nine months ended September 30, 2007. Net revenues outside of AT&T represented 31% and 24% of our revenues during the nine months ended September 30, 2008 and 2007, respectively. Transaction revenues recognized for the nine months ended September 30, 2008 and 2007 represented 82% or $65.4 million and 85% or $74.4 million of net revenues, respectively. Professional service revenues as a percentage of sales were 16% or $13.1 million for the nine months ended September 30, 2008, compared to 14% or $12.0 million for the nine months ended September 30, 2007.

***Expense***

***Cost of Services.*** Cost of services decreased $929 to $38.8 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. Personnel and related costs and third party consulting service costs for management of exception handling decreased $2.1 million partially offset by an increase in stock-based compensation expense of $513. Also, additional telecommunication and maintenance expense in our data facilities contributed approximately $454 to the increase in cost of services. Cost of services as a percentage of revenues increased to 48.7% for the nine months ended September 30, 2008, as compared to 45.6% for the nine months ended September 30, 2007, due to a decline in higher margin for the revenue associated with the activation of iPhones on AT&T s network, and a decrease in automation rates experienced as we add new customer business.

***Research and Development.*** Research and development expense increased $79 to $7.5 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, due to increases in stock compensation partially offset by a reduced use of outside consultants. Research and development expense as a percentage of revenues increased to 9.4% for the nine months ended September 30, 2008, as compared to 8.5% for the nine months ended September 30, 2007.

***Selling, General and Administrative.*** Selling, general and administrative expense increased $2.2 million to $15.1 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, due primarily to increased stock-based compensation expense of $2.1 million. Selling, general and administrative expense as a percentage of revenues increased to 18.9% for the nine months ended September 30, 2008, as compared to 14.8% for the nine months ended September 30, 2007.

***Depreciation and Amortization.*** Depreciation and amortization expense increased $829 to $4.6 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, due to continued growth in the invested value of our infrastructure. Depreciation and amortization expense as a percentage of revenues increased to 5.7% for the nine months ended September 30, 2008, as compared to 4.3% for the nine months ended September 30, 2007.

***Income from Operations***. Income from operations decreased $9.6 million to $13.8 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. Income from operations decreased as a percentage of revenues to 17.3% for the nine months ended September 30, 2008, as compared to 26.8% for the nine months ended September 30, 2007. This decrease was primarily due to lower revenues and gross profits.

***Income Tax.*** Our effective tax rate was approximately 41.6% and approximately 34.6% during the nine months ended September 30, 2008 and 2007, respectively. Our effective rate was lower last year due to the recognition of a net cumulative R&D tax credit of approximately $1.2 million during the third quarter. We review the expected annual effective income tax rate and make changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change. During the nine months ended September 30, 2008 and 2007, we recognized approximately $6.6 million and $9.1 million in related tax expense, respectively. As a result of the recent passage of the Emergency Economic Stabilization Act of 2008, we expect our effective tax rate will be favorably impacted for the remainder of 2008. We are currently evaluating the impact of this legislation on our financial statements.

**Liquidity and Capital Resources**

Our principal source of liquidity has been cash provided by operations and cash provided from our initial public offering (IPO) which was completed on June 20, 2006. The net proceeds from our IPO and the exercise of the over-allotment option by our IPO underwriters were approximately $52.8 million, which enabled us to strengthen our balance sheet. Our cash, cash equivalents and marketable securities balance was $73.3 million at September 30, 2008, a decrease of $22.6 million as compared to the end of 2007. This decrease was due primarily to the repurchase of $23.7 million of our common stock and the acquisition of Wisor for net cash of approximately $17 million partially offset by $18.1 million of cash provided by operating activities for the nine months ended September 30, 2008. 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 to expand our customer base internationally. Uses of cash will also include facility expansion, capital expenditures and working capital.

On May 5, 2008, our board of directors authorized a stock repurchase program to purchase up to $25 million of our outstanding common stock. The duration of the repurchase program is up to twelve months. Under the program, we may purchase shares of our common stock in the open market, through block trades or otherwise at prices deemed appropriate by us. The timing and amount of repurchase transactions under the program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. The stock repurchase program may be suspended or discontinued at any time. Under the program, we have repurchased a total of 2 million shares for an aggregate purchase price of approximately $23.7 million.

**Discussion of Cash Flows**

*Cash flows from operations.* Net cash provided by operating activities for the nine months ended September 30, 2008 was $18.1 million compared to $16.9 million for the nine months September 30, 2007. The increase of $1.1 million is primarily due to a decrease to accounts receivable of $14.0 million due to lower revenue during the nine months ended September 30, 2008 compared to the same period in 2007 partially offset by a decrease to accrued expenses of $3.5 million, a decrease to accounts payable of $1.9 million and a decrease to net income of $7.9 million from September 30, 2007.

*Cash flows from investing.* Net cash used in investing activities for the nine months ended September 30, 2008 was $21.5 million compared to $8.7 million for the nine months September 30, 2007. The increase of $12.8 million was primarily due to the $17.4 million net cash outflow for the acquisition of Wisor , partially offset by decreased purchases of fixed assets of $6.9 million offset by a net change in investments of marketable securities of $2.4 million. Expenditures related to fixed assets in 2007 were higher than 2008 due to increased spending to support customer initiatives that required a higher volume of transactions.

*Cash flows from financing.* Net cash used in financing activities for the nine months ended September 30, 2008 was $21.4 million compared to cash provided by financing activities of $593 for the nine months ended September 30, 2007. In May 2008, we initiated a stock repurchase program and have repurchased 2 million shares for an aggregate purchase price of approximately $23.7 million. The remaining difference was due to decreased net proceeds from the issuance of common stock of $318 through the exercise of stock options, increased tax benefits received from the exercise of stock options of $1.6 million and decreased repayments of an equipment loan of $500.

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

**Effect of Inflation**

Although inflation generally affects us by increasing our cost of labor and equipment, we do not believe that inflation has had any material effect on our results of operations for the three months ended September 30, 2008 and 2007.

**Impact of Recently Issued Accounting Standards**

In September 2006, the FASB issued Statement 157, *Fair Value Measurement* ( Statement 157 ). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. Statement 157 also expands financial statement disclosures about fair value measurements. On February 6, 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 Effective Date of Statement No. 157 which delays the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Statement 157 and FSP FAS 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We have elected a partial deferral of Statement 157 under the provisions of FSP FAS 157-2 related to the measurement of fair value used when evaluating goodwill, other intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. We adopted SFAS No. 157 effective January 1, 2008.

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

In December 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141(R), *Business Combinations*, or SFAS No. 141 (R), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. We do not currently expect SFAS No. 141(R) to have a material impact on our consolidated financial statements.

**Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of September 30, 2008 and December 31, 2007.

**ITEM 3. 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 high-quality financial instruments, primarily money market funds 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 debt securities. Our cash and cash equivalents at September 30, 2008 and December 31, 2007 were invested in liquid money market accounts. All market-risk sensitive instruments were entered into for non-trading purposes. We do not expect the current rate of inflation to have a material impact on our business.

The recent decline in the market value of certain securities backed by residential mortgage loans has led to a large liquidity crisis affecting the broader U.S. housing market, the financial services industry and global financial markets. Investors in many industry sectors have experienced substantial decreases in asset valuations and uncertain market liquidity. Furthermore, credit rating authorities have, in many cases, been slow to respond to the rapid changes in the underlying value of certain securities and pervasive market illiquidity, regarding these securities.

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As a result, this credit crisis may have a potential impact on the determination of the fair value of financial instruments or possibly require impairments in the future should the value of certain investments suffer a decline in value which is determined to be other than temporary. We currently do not believe any change in the market value of our money market funds or other investments to be material or warrant a change in valuation.

## ITEM 4. CONTROLS AND PROCEDURES

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2008. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2008, the end of the period covered by this quarterly report, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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

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

***Inherent Limitations on Effectiveness of Controls***

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our 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 our 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.

# PART II OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On September 5, 2008, September 18, 2008, and September 23, 2008, three complaints were filed against us and certain of our officers and directors in the United States District Court for the District of New Jersey purportedly on behalf of a class of shareholders who purchased our common stock between February 4, 2008 and June 9, 2008. The plaintiffs in each complaint assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. They allege that certain of our public disclosures regarding our financial prospects between February 4, 2008 and May 6, 2008 were false and/or misleading. The principal allegation set forth in each complaint is that we issued misleading statements concerning our business prospects relating to the activation of Apple Inc. s iPhone product. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court s discretion. We believe that these

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claims are without merit, and we intend to defend against all of the claims vigorously. Due to the inherent uncertainties of litigation, we cannot predict the outcome of the actions at this time, and can give no assurance that these claims will not have a material adverse effect on our financial position or results of operations.

On October 23, 2008, a complaint was filed in the state court of New Jersey against certain of our officers and directors, purportedly derivatively on behalf of us. This complaint asserts claims for breach of fiduciary duty with respect to the disclosures that also are the subject of the complaints described above. This complaint also asserts that the named officers breached their fiduciary duties when they allegedly sold our securities on the basis of material non public information in 2008. We are also named as a nominal defendant in this complaint, although the actions are derivative in nature and purportedly asserted on our behalf. The plaintiffs seek compensatory damages, costs, fees, and other relief within the Court s discretion. We are in the process of evaluating the claims in the complaint. Due to the inherent uncertainties of litigation, we cannot predict the outcome of the action at this time, and can give no assurance that the claims in this complaint will not have a material adverse effect on our financial position or results of operations.

We are not currently subject to any other 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.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part II, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

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

On May 5, 2008, our board of directors authorized a stock repurchase program to purchase up to $25 million of our outstanding common stock. The duration of the repurchase program is up to twelve months. Under the program, we may purchase shares of our common stock in the open market, through block trades or otherwise at prices deemed appropriate under our program. The timing and amount of repurchase transactions under our program will depend on market conditions and corporate and regulatory considerations. The purchases will be funded from available working capital. The stock repurchase program may be suspended or discontinued at any time. As of September 30, 2008, a total of 2,000 shares of our common stock have been repurchased for an aggregate purchase price of approximately $23.7 million. We classify common stock repurchased as treasury stock on our balance sheet.

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The following table provides information with respect to our stock repurchases during the third quarter of 2008:

| | Total Number of Shares Purchased | Average Price Paid Per Share (1) | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value That May Yet be Purchased under the Program |
|---|---|---|---|---|
| July 1, 2008 to July 31, 2008 | 500,000 | $ 10.38 | 500,000 | $9,365,060 |
| August 1, 2008 to August 31, 2008 | 500,000 | 12.86 | 500,000 | $2,933,934 |
| September 1, 2008 to September 30, 2008 | 125,000 | 13.17 | 125,000 | $1,287,146 |
| Total | 1,125,000 | $ 11.86 | 1,125,000 | |

(1) Average price paid per share includes commissions paid in connection with our publicly announced share repurchase program and is rounded to the nearest two decimal places.

***Use of Proceeds***

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

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| **Exhibit No.** | **Description** |
|---|---|
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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

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## SIGNATURES

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

Synchronoss Technologies, Inc.

/s/ Stephen G. Waldis
**Stephen G. Waldis**
**President and Chief Executive Officer**
**(Principal executive officer)**

November 10, 2008